NN INC
Form 10-K/A
April 01, 2002

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, 2001
OR
|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 0-23486

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

Delaware	**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|

The number of shares of the registrant's common stock outstanding on March 25, 2002 was 15,340,806.

The aggregate market value of the voting stock held by non-affiliates of the registrant at March 25, 2002, based on the closing price on the NASDAQ National Market System on that date was approximately $158,010,302.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement with respect to the 2002 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

Part 1

Item 1. Business

Overview

NN, Inc. (the "Company") is an independent manufacturer and supplier of high quality, precision components to domestic and international anti-friction bearing manufacturers, other original equipment manufactures, the automotive industry, and other aftermarkets. The Company supplies high quality, precision steel balls and rollers, both directly and indirectly through its sales to bearing manufacturers, to automotive original equipment manufacturers ("OEMs") and the automotive aftermarket, to the gas and mining industries, and to producers of water, gas and oil well drilling bits and stainless steel valves and pumps. Precision steel balls and rollers are critical moving parts of anti-friction bearings, which in turn, are integral components of machines with moving parts. In addition to balls and rollers, the Company 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. With the acquisition of The Delta Rubber Co. ("Delta") on February 16, 2001 the Company now also provides precision bearing seals and other precision molded rubber products to the bearing, automotive, industrial, agricultural, and aerospace markets.

The Company was organized in October 1980 by a group of senior managers of the ball and roller division of Hoover Precision Products, Inc. (formerly Hoover Universal, Inc.), led by Richard Ennen, the Company's former Chairman. The Company was founded in order to meet the bearings industry's need for a dependable source of high quality, precision balls and rollers. During 2001, the Company sold its products to over 500 customers located in over 24 different countries. Its primary customers include AB SKF ("SKF"), FAG Kugelfisher Georg Shafer AG ("FAG"), SNR Roulements, and the Torrington Company.

On July 4, 1999, the Company acquired substantially all of the assets of Earsley Capital Corporation, formerly known as Industrial Molding Corporation ("IMC"). The Company currently operates the business under the name Industrial Molding Corporation. 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.

On July 31, 2000, the Company formed a majority owned stand-alone company in Europe, NN Euroball ApS ("Euroball"), for the manufacture and sale of chrome steel balls used for ball bearings and other products. The Company owns 54% of Euroball. AB SKF and FAG Kugelfisher Georg Shafer AG, the parent companies of SKF and FAG respectively each own 23%. As part of the transaction, Euroball acquired the ball factories located in Pinerolo, Italy (previously owned by SKF), Eltmann, Germany (previously owned by FAG), and Kilkenny, Ireland (previously owned by the Company).

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 a 100% ownership interest in NN Arte, a manufacturer of plastic components located in Guadalajara, Mexico.

On February 16, 2001, the Company acquired of all of the outstanding stock of The Delta Rubber Company ("Delta"), a Connecticut corporation, for $22.5 million in cash. Delta provides high quality engineered bearing seals and other precision-molded rubber products to bearing and other original equipment manufacturers. Delta operates two facilities in Danielson, Connecticut.

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 and roller manufacturing facilities located in Erwin and Mountain City, Tennessee. The Company recorded before tax charges associated with the closing of $1.9 million. 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. 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, 2001. These assets have an

aggregate net book value of $4.3 million. The financial results of this operation have been reflected in the Balls and Rollers Segment. See Note 10 of the Notes to Consolidated Financial Statements for additional financial information.

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. The notes are due on December 21, 2006 with annual installments of $0.2 million. The notes bear interest at average LIBOR (1.88% at December 31, 2001) plus 1.5%. In 2001, the Company recorded a non-cash after-tax loss on sale of the investment in this joint venture of $144,000.

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 "Plastics Segment" which consists of IMC, Delta Rubber and NN Arte.

Products

At its ball and roller facilities in Erwin, Tennessee and Mountain

City, Tennessee, the Company produces and sells high quality, precision steel balls in sizes ranging in diameter from 3/16 of an inch to 2 1/2 inches and rollers in a limited variety of sizes. At its Euroball facilities, the Company produces and sells high quality steel balls in sizes ranging from 1/8 of an inch to 12 1/2 inches in diameter. The Company produces and sells balls in a variety of grades ranging from grade 3 to grade 1000 and rollers in a variety of grades ranging from grade 50 to grade 1000. 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. At its Domestic Ball and Roller Segment, sales of steel balls accounted for approximately 92%, 92% and 89% of the segment's net sales in 1999, 2000 and 2001, respectively. Sales of rollers accounted for the balance of the segment's sales in these years.

Precision Steel Balls. The Company manufactures high quality, precision balls in three different types of steel: 52100 steel, 440C stainless steel and S2 rock bit steel. Each of the different types of steel has unique characteristics that make it suitable for particular applications.

During 2001, approximately 98% of the balls produced by the Company's domestic ball and roller operations were made from 52100 steel ("52100 Steel"). 100% of the balls produced by the Company's Euroball joint venture were made from 52100 Steel. See also "Business--Raw Materials." The 52100 Steel balls have a high degree of hardness and provide excellent resistance to wear and deformation. The 52100 Steel balls are used primarily by manufacturers of anti-friction ball bearings where precise spherical and tolerance accuracy are required. The Company produces and sells 52100 Steel balls in eleven grades ranging from grade 1000 to grade 3 (highest precision), and in sizes ranging in diameter from 1/8 of an inch to 12 1/2 inches. The primary grades of the 52100 Steel balls are grade 16, grade 10, and grade 5 and grade 3.

Precision Steel Rollers. The Company manufactures rollers at its Erwin, Tennessee facility in three types of steel: 52100 Steel, 440C stainless steel and S2 rock bit steel. Rollers are the primary components of anti-friction bearings, which are subjected to heavy load conditions. The Company's roller products are used primarily for applications similar to those of its ball product lines, plus hydraulic pumps and motors.

Bearing Seals. Delta manufactures and sells a wide range of precision bearing seals. Delta utilizes a variety of compression, transfer 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. In 2001, 45% of Delta's sales were to the automotive industry.

Precision Plastic Components. IMC manufactures and sells a wide range of plastic molded products through its two facilities in Lubbock, Texas. IMC's products can be classified into three primary market segments - bearing retainers, automotive under the hood components and other precision components which include automotive components, electronic instrument cases and precision electronic connectors and lenses as well as a variety of other specialized parts.

Bearing Retainers. IMC manufactures and sells high precision plastic retainers for ball and roller bearings used in a wide variety of applications, including industrial automotive products. During 2001, sales of bearing retainers accounted for approximately 38% of IMC's sales.

Automotive Components. IMC manufacturers and sells high precision plastic automotive under the hood parts. These parts utilize high performance engineered polymers that draw upon IMC's ability to mold highly technical dimension parts. These components include hydraulic cylinders, clutch systems, seat belts, gears and transmission components. During 2001, sales of automotive parts accounted for approximately 33% of IMC's sales.

Other. IMC also manufactures and sells a variety of high precision molded parts including plastic instrument cases, precision end connectors and lenses for fiber optics as well as other specialized parts. During 2001, sales for these items accounted for 29% of IMC's sales.

NN Arté manufactures and sells a variety of precision and molded components including gearing, gearing assemblies and automotive components to office automation manufacturers and the automotive industry.

Sales and Marketing

The Company markets balls and rollers in the United States and abroad primarily through seven salaried sales employees. Additional internal sales employees handle customer orders and provide sales support.

The Plastics Segment markets its products through commissioned sales representatives or directly through salaried marketing and sales employees. Additional internal customer service employees handle customer orders and provide sales and design support. Additionally, certain engineers and manufacturing employees provide sales and design support due to the technical nature of the products.

The following table presents a breakdown of the Company's net sales for fiscal years 1999 through 2001:

(In Thousands)	2001	2000	1999
Domestic Ball and Roller Segment	$52,692	$67,637	$67,736
	29.3%	51.2%	79.4%
Euroball Segment	86,719	33,988	--
	48.1%	25.7%	--
Plastics Segment	40,740	30,504	17,558
	22.6%	23.1%	20.6%
Total	$ 180,151	$ 132,129	$85,294
	100%	100%	100%

The Company's marketing strategy relative to the Domestic Ball and Roller Segment is to increase its share of the domestic and international market for bearing components by offering a wide variety of high quality, precision balls and rollers to existing and prospective customers on a timely basis and in a cost-effective manner. In marketing its products, the Company has focused its efforts on bearing manufacturers with their own ball and/or roller manufacturing capabilities. The Company's sales staff traditionally emphasizes the potential quality advantages and cost savings associated with the outsourcing of such bearing manufacturers' needs by purchasing precision components from the Company instead of manufacturing such components internally.

The Plastics Segment's marketing strategy is to increase its share of the market by offering custom manufactured, high quality, precision parts in a cost-effective manner. This strategy focuses on relationships with key customers that require technically difficult parts, which enable the Plastics Segment to take advantage of its strengths in product development, tool design and tight tolerance molding processes. The Plastics Segment has historically focused on the North American market. However, management believes certain synergies exist between its various segments that will allow the Company to further penetrate the North American market as well as broaden its European and Asian presence by working with the Company's global customer base.

The Company's arrangements with its domestic customers typically provide that payments are due within 30 days following the date of shipment of goods. With respect to foreign customers (other than foreign customers that participate in the Company's inventory management program), 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 the Company's inventory management program, sales are recorded when the customer uses the product, and payments typically

are due 30 days thereafter. See "Business -- Customers" and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

Customers

During 2001, the Company's ten largest customers accounted for approximately 73% of its consolidated net sales. Sales to various U.S. and foreign divisions of SKF, which is one of the largest bearing manufacturers in the world, accounted for approximately 35% of net sales in 2001 and sales to FAG accounted for approximately 19% of net sales in 2001. None of the Company's other customers accounted for more than 5% of its net sales in 2001.

During 2001, the Domestic Ball and Roller Segment sold its products to more than 500 customers located in more than 20 different countries. Approximately 50% of ball and roller net sales in 2001 were to customers outside the United States. Sales to the Domestic Ball & Roller Segment's top ten customers accounted for approximately 74% of the segments' net sales in 2001. Sales to SKF and FAG accounted for approximately 35% and 14% of the segment's net sales in 2001 respectively. Sales to SKF and FAG are made pursuant to the terms of the sales agreements which expire in 2006.

During 2001, the Euroball Segment sold its products to more than 40 customers located in 28 different countries. Approximately 87% of its net sales in 2001 were to customers within Europe. Sales to the segment's top ten customers accounted for approximately 94% of the segment's net sales in 2001. Sales to SKF and FAG accounted for approximately 49% and 27% of the segment's net sales in 2001, respectively. Sales to SKF and FAG are made pursuant to the terms of sales agreements which expire in 2006.

During 2001, the Plastics Segment sold its products to more than 100 customers located in more than 10 different countries. Approximately 8% of plastic net sales were to customers outside the United States. Sales to the segment's top ten customers accounted for approximately 74% of the segments' net sales in 2001. See Note 4 of the Notes to Consolidated Financial statements for additional financial information.

See Note 10 of the Notes to 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.

The Company ordinarily ships its 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, the Company generally has an insignificant amount of open (backlog) orders from customers at month end. Certain of the Company's customers have entered into contracts with the Company pursuant to which they have agreed to purchase all of their requirements of specified balls and rollers and plastic molded products from the Company, but under which they are not obligated to purchase any specific amounts. While firm orders generally are received only monthly, the Company normally is aware of reasonably anticipated future orders well in advance of the placement of a firm order. Certain agreements are in effect with some of the Company's largest customers, which provide for targeted, annual cost adjustments that may be offset by material cost fluctuations. The Company has installed a computerized, bar coded inventory management system with most of its major ball and roller customers pursuant to which the Company, through a direct computer link, automatically monitors the customer's ball and roller inventories. This system permits the Company to determine on a day-to-day basis the amount of balls and/or rollers remaining in a customer's inventory. When such inventories fall below certain levels, the Company automatically ships additional goods. The Company follows industry practice in handling its inventory, which is a first in, first out policy.

Employees

As of December 31, 2001, the Company had 1,316 full-time employees of whom 1,173 were engaged in production/maintenance. Of these 1,316 employees, 235 were employed at the Domestic Ball and Roller Segment facilities, 677 at the Euroball Segment, 399 at the Plastics Segment and 5 are considered Corporate. The Company believes that relations with its employees are good.

Competition

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

The Company believes 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 the Company's competitive strengths are its precision manufacturing capabilities, its reputation for consistent quality and reliability, and the productivity of its workforce.

The markets for IMC's and NN Arte's products are intensely competitive. Since the 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 the Company 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 suppliers in Mexico.

The Company believes 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 and fabrication and tight tolerance molding processes, as well as its reputation in the marketplace as a quality producer of technically difficult products.

The markets for Delta's products are also intensely competitive. 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 Freindenburg-NOK, Chicago Rawhide Industries and Trostel, LTD.

Raw Materials

The primary raw material used by the Company in its Domestic Ball and Roller Segment and Euroball Segment is 52100 Steel. During 2001, approximately 98% and 100% of the steel used by these two segments, respectively, was 52100 Steel. The Company's 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 because of the lack of domestic producers of such steel at the quality level required by the Company. The Euroball Segment purchases all of its 52100 Steel requirements from European mills. The other steel requirements of the Company also are purchased principally from foreign steel manufacturers.

The Company allocates its steel purchases among suppliers on the basis of price and quality. Generally, the Domestic Ball & Roller Segment does not enter into written supply agreements among its suppliers or commit itself to maintain minimum monthly purchases of steel, except for the consignment arrangements among Ascometal and Euroball (see Note 14). The Company's pricing arrangements with its suppliers typically are subject to adjustment once every six months.

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 United States 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. The Company continues to evaluate the impacts of this legislation, but believes at this time, any impact to the Company's operations or financial conditions will be immaterial.

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. The Company purchases substantially all of its resin requirements from domestic manufacturers and suppliers. The majority of these suppliers are international companies with resin manufacturing facilities located throughout the world.

Delta uses certified vendors to provide a customer mix of proprietary rubber compounds. Delta also procures metal stampings from several domestic suppliers.

The Company bases purchase decisions on price, quality and service. Generally, the Company does not enter into written supply contracts with its suppliers or commit itself to maintain minimum monthly purchases of resins. The pricing arrangements with its suppliers typically can be adjusted at anytime.

Patents, Trademarks and Licenses

The Company does not own any U.S. or foreign patents, trademarks or licenses that are material to its business. The Company does rely on certain data and processes, including trade secrets and know-how, and the success of its business depends, to some extent, on such information remaining confidential. Each executive officer of the Company 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 foreign customers, seasonality has been a factor for the Company in that some foreign customers typically cease their production activities during the month of August.

Environmental Compliance

The Company's 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. The Company maintains a compliance program to assist in preventing and, if necessary, correcting environmental problems. Based on information compiled to date, management believes that the Company's current operations are in substantial compliance with applicable environmental laws and regulations, the violation of which would have a material adverse effect on the Company. 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 the Company's business or operations in the future. More specifically, although management believes that the Company disposes of its wastes in material compliance with applicable environmental laws and regulations, there can be no assurance that the Company will not incur significant liabilities in the future in connection with the clean-up of waste disposal sites.

In the past, the Company has 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 its ball and roller facilities. The remediation project is now complete, but the Company has certain ongoing monitoring responsibilities. The amounts expended by the Company in connection with this remediation project have not been material, and based upon information currently available to the Company, management does not believe that the future costs associated with the project will have a material adverse effect on the Company's results of operations or financial condition.

Executive Officers of the Registrant

The executive officers of the Company consist of the following persons:

Name	Age	Position
Roderick R. Baty	48	Chairman of the Board, Chief Executive Officer, President and Director
Frank T. Gentry, III	46	Vice President - Manufacturing

Robert R. Sams	44	Vice President - Market Services
David L. Dyckman	37	Vice President - Corporate Development and Chief Financial Officer
William C. Kelly, Jr.	43	Treasurer, Secretary and Chief Accounting Officer

Biographical Information. Set forth below is certain additional information with respect to each executive officer of the Company.

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 the Company in July 1995 as Vice President and Chief Financial Officer and was elected to the Board of Directors in 1995. Prior to joining the Company, 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 Precision Products 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 the Company in 1981 and held various production control positions within the Company from 1981 to August 1995.

Robert R. Sams joined the Company 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 the Company, 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 the Company, 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 the Company in 1993 as Assistant Treasurer and Manager of Investor Relations. In July 1994, Mr. Kelly was elected to serve as the Company's Chief Accounting Officer, and in February 1995, was elected Treasurer and Assistant Secretary. In March 1999 he was elected Secretary of the Company. Prior to joining the Company, 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 only produced at the Erwin, Tennessee facility. Production began in early 1996 at the

Mountain City facility. During December 2001, the Company ceased production and closed its facility in Walterboro, South Carolina. The Walterboro, South Carolina facility is classified as held for sale at December 31, 2001.

The Erwin and Mountain City plants currently have approximately 125,000 and 58,000 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 8 acre tract of land owned by the Company.

Through Euroball the Company manufactures 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 9 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 6.5 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 2.5 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 2001, 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

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

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

No matters were submitted for a vote of stockholders during the fourth quarter of 2001.

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 25, 2002, there were approximately 1,750 holders of record 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 2000 and 2001.

	Price		
	High	**Low**	**Dividend**
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
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

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. 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, 2001 and for the periods ended December 31, 2001 and December 31, 2000 have been derived from the Consolidated Financial Statements of the Company 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 for the periods ended December 31, 1999, 1998 and 1997 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 December	
	2001	**2000**	**1999**	**1998**
Statement of Income Data:				
Net sales	$180,151	$132,129	$85,294	$73,0
Cost of products sold	137,591	93,926	59,967	50,3

Gross profit	42,560	38,203	25,327	22,6
Selling, general and administrative expenses	16,382	11,571	6,854	5,8
Depreciation and amortization	13,340	9,165	6,131	4,5
Restructuring and impairment costs	2,312	--	--	
Income from operations	10,526	17,467	12,342	12,2
Interest expense	4,006	1,773	523	
Equity in earnings of unconsolidated affiliate	--	(48)	--	
Net gain on involuntary conversion	(3,901)	(728)	--	
Other income	(186)	(136)	--	
Income before provision for income taxes	10,607	16,606	11,819	12,1
Provision for income taxes	4,094	5,959	4,060	4,4
Minority interest in income of consolidated subsidiary	1,753	660	--	
Income before cumulative effect of change in accounting principle	4,760	9,987	7,759	7,6
Cumulative effect of change in accounting principle, net of income tax benefit of $112 and related minority interest impact of $84	98	--	--	
Net income	$4,662	$9,987	$7,759	$7,6
Basic income per share:				
Income before cumulative effect of change in accounting principle	$ 0.31	$0.66	$0.52	$0.
Cumulative effect of change in accounting principle	(0.01)	--	--	
Net income	$0.31	$0.66	$0.52	$0.
Diluted income per share:				
Income before cumulative effect of change in accounting principle	$0.31	$0.64	$0.52	$0.
Cumulative effect of change in accounting principle	(0.01)	--	--	
Net income	$0.30	$0.64	$0.52	$0.
Operating income per share	$0.69	$1.15	$0.82	$0.
Dividends declared	$0.32	$0.32	$0.32	$0.
Weighted average number of shares outstanding - Basic	15,259	15,247	15,021	14,8
Weighted average number of shares outstanding - Diluted	15,540	15,531	15,038	14,8

(In Thousands, Except Per Share Data)

Year Ended December 31,

	2001	2000	1999	1998	1997
Balance Sheet Data:					
Current assets	$ 55,617	$ 63,866	$ 34,397	$ 28,571	$ 26,185
Current liabilities	37,736	33,840	10,478	7,638	7,471
Total assets	188,135	187,808	91,363	66,860	63,273
Long-term debt	47,661	50,515	17,151	--	--
Stockholders' equity	62,039	65,246	60,128	56,242	52,971

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. 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.

Overview

The Company's core business is the manufacture and sale of high quality, precision steel balls and rollers. In 2001, sales of balls and rollers accounted for approximately 77% of the Company's total net sales with 74% and 3% of sales from balls and rollers, respectively. Sales of precision molded plastic and rubber parts accounted for the remaining 23%. See Note 10 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. As a result, sales of high precision balls produced by the Company for use in quiet bearing applications has grown to approximately 85% of total net ball sales. 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 implemented an extensive long-term growth strategy involving its core business and complementary opportunities that are built upon the Company's strengths and culture enabling the Company 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 2001, 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. The Company owns 54% of Euroball. AB SKF and FAG Kugelfisher Georg Shafer AG, the parent companies of SKF and FAG respectively each own 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. 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. Goodwill arising from this acquisition is being amortized since formation on a straight-line basis over 20 years. Under the terms of the Shareholder Agreement among the Company, SKF, and FAG both SKF and FAG have the right, beginning January 2003, to exercise their respective put option regarding their interest in Euroball to the Company on a formula buy-out.

On August 31, 2000, the Company acquired a 51% ownership interest in NN Mexico, LLC ("NN Mexico"), a Delaware limited liability company. NN Mexico holds as its sole investment a 100% ownership interest in NN Arte, a manufacturer of plastic components located in Guadalajara, Mexico. 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 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. The Company recorded before tax charges associated with the closing of $1.9 million. 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. 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, 2001. These assets have an aggregate carrying value of $4.3 million. The financial results of this operation have been reflected in the Domestic Ball and Roller Segment. See Note 10 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

NN, Inc.'s (the "Company") critical accounting policies, including the assumptions and judgment underlying them, are disclosed in the Notes to the Consolidated Financial Statements. These policies have been consistently applied in all material respects and address such matters as revenue recognition, useful lives of depreciable assets, 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 $1,668 of bad debt expense during 2001 versus $0 during 2000. 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

The Company's business acquisitions typically result in goodwill which may effect the amount of future period amortization expense and possible impairment expense that we may incur. The determination of the value of such intangible assets and goodwill as well as the determination of their useful lives require that management make estimates that effect our consolidated financial statements.

Impairment of Long-Lived Assets

The Company's long-lived assets include property, plant and equipment and goodwill. The recoverability of the long-term investments 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 investments the Company will consider these factors as well as forecasted financial performance. Future adverse changes in market conditions or adverse operating results of the underlying investments could result in the Company having to record additional impairment charges not previously recognized.

Pension and Postretirement Obligations

The Company utilizes significant assumptions in determining its periodic pension and postretirement 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 utilizes a qualified actuary to calculate the periodic pension and postretirement expense and obligations based upon these assumptions and actual employee census data.

Useful Lives of Depreciable Assets

The Company utilizes judgment in determining the estimated useful lives of its depreciable long-lived assets which are included in the consolidated financial statements. The estimate of useful lives is determined by the Company's historical experience with the type of asset purchased which is impacted by the Company's preventative maintenance programs. The Company begins depreciation on its long-lived assets when they are substantially put into service.

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,		
	2001	2000	1999
Net sales	100.0%	100.0%	100.0
Cost of product sold	76.4	71.1	70.
Gross profit	23.6	28.9	29.
Selling, general and administrative expenses	9.1	8.8	8.
Depreciation and amortization	7.4	6.9	7.
Restructuring and impairment costs	1.3	--	-
Income from operations	5.9	13.2	14.
Interest expense	2.2	1.3	0.
Equity in earnings of unconsolidated affiliates	--	--	-
Net gain on involuntary conversion	(2.2)	(0.6)	-
Other income	0.1	(0.1)	-
Income before provision for income taxes	5.9	12.6	13.
Provision for income taxes	2.3	4.5	4.
Minority interest in income of consolidated subsidiary	1.0	0.5	-
Income before cumulative effect of change in accounting	2.6	7.6	9.

principle			
Cumulative effect of change in accounting principle, net of income tax benefit of $112 and related minority interest impact of $84	--	--	-
Net income	2.6%	7.6%	9.1

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 also due to decreased sales to one customer.

Gross Profit. Gross profit increased by $4.4 million, or 11.4% from $38.2 million in 2000 to $42.6 million in 2001. Adjusting for the performance of the Ireland facility, the Euroball joint venture contributed an additional $10.1 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 23.6% 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 $4.8 million, or 41.6% from $11.6 million in 2000 to $16.4 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 primarily related 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 9.1% in 2001.

Depreciation and Amortization. Depreciation and amortization expenses increased $4.2 million, or 45.6% from $9.2 million in 2000 to $13.3 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 7.4% in 2001.

Interest Expense. Interest expense increased by $2.2 million from $1.8 million in 2000 to $4.0 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 $1.0 million of the increase. As a percentage of net sales, interest expense increased from 1.3% in 2000 to 2.2% 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 $48,000 from $48,000 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 $622,000 and notes of $3,305,000. 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 3 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.

Net Income. Net income decreased $5.2 million, or 52.3%, 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.

Year Ended December 31, 2000 Compared to the Year Ended December 31, 1999

Net Sales. The Company's net sales increased $46.8 million or 54.9%, from $85.3 million in 1999 to $132.1 million in 2000. The formation of Euroball in August of 2000 contributed $30.4 million of the increase, adjusting for the third and fourth quarter sales of the Ireland facility, which were consolidated into the results of the Company prior to the formation of Euroball. Additionally the inclusion of a full year of IMC's net sales contributed $12.9 million. The Company acquired IMC on July 4, 1999, thus six months of IMC's results were included in the Company's 1999 results. The remainder of the increase is due to increased ball and roller sales in the first half of the year, offset by slowing domestic demand for balls and rollers in the second half of the year. The Company experienced decreased sales in the second half of the year for the Plastics Segment due primarily to decreased sales to one customer.

Gross Profit. Gross profit increased by $12.9 million, or 50.8% from $25.3 million in 1999 to $38.2 million in 2000. Adjusting for the Ireland facility's third and fourth quarter gross profit, the Euroball joint venture accounted for $7.5 million of the increase. The inclusion of a full year of IMC's gross profit contributed an additional $4.0 million in gross profit. The remainder of the increase is primarily attributed to increased sales at the Domestic Ball and Roller Segment. To a lesser degree, decreased costs as a percentage of sales at the Domestic Ball and Roller Segment contributed to the increase in gross profit. This was due mainly to inventory builds during the fourth quarter of 2000. As a percentage of net sales, gross profit decreased from 29.7% in 1999 to 28.9% in 2000.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by $4.7 million, or 68.8% from $6.9 million in 1999 to $11.6 million in 2000. The Euroball Segment, adjusting for the Ireland facility, accounted for $2.4 million of the increase. The inclusion of a full year of IMC's results accounted for $1.6 million of the increase. The remainder of the increase is primarily attributed to increased administrative expenses associated with the Company's business development activity during the year. As a percentage of net sales, selling, general and administrative expenses increased from 8.0% in 1999 to 8.8% in 2000.

Depreciation and Amortization. Depreciation and amortization expenses increased $3.0 million, or 49.5% from $6.1 million in 1999 to $9.2 million in 2000. The addition of Euroball, adjusting for the Ireland facility, accounted for $2.4 million of the increase. The inclusion of a full year of IMC's results accounted for the remainder of the increase. As a percentage of net sales, depreciation and amortization decreased from 7.2% in 1999 to 6.9% in 2000.

Interest Expense. Interest expense increased by $1.3 million from $523,000 in 1999 to $1.8 million in 2000. Interest expense related to the debt incurred by Euroball to finance the joint venture transaction accounted for $622,000 of the increase. Additionally, the inclusion of a full year of interest expense related to the purchase of the IMC business accounted for approximately $500,000 of the increase. The remainder of the increase is due to increased expenditures associated with the Company's business development activity during 2000. Additionally, the timing of expenditures associated with the March 12, 2000 fire and the reimbursement of insurance proceeds caused an increase in the levels outstanding under the Company's domestic line of credit. As a percentage of net sales, interest expense increased from 0.6% in 1999 to 1.3% in 2000. 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 increased $48,000 from $0 in 1999 to $48,000. The increase is due to the Company's share of earnings from the NN General joint venture with General Bearing Corporation. Earnings from this venture were offset by losses incurred from the start-up of the marketing arm of this venture and losses sustained from start-up expenses from the investment in NN Mexico LLC.

Net Gain on Involuntary Conversion. The Company had a gain on involuntary conversion of $728,000 in 2000 related to the excess of insurance proceeds over the net book value of assets destroyed and direct costs incurred as a result of the March 12, 2000 fire at the Erwin facility.

Minority Interest in Consolidated Subsidiary. Minority interest of consolidated subsidiary increased $660,000 from $0 in 1999 to $660,000 in 2000. This increase is due entirely to the Euroball joint venture. The Company is required to consolidate Euroball due to its ability to exercise control over the operations. 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 earnings of the minority partners.

Net Income. Net income increased $2.2 million, or 28.7%, from $7.8 million in 1999 to $10.0 million in 2000. As a percentage of net sales, net income decreased from 9.1% in 1999 to 7.6% in 2000.

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 5,000,000, expiring on July 15, 2006 and a senior secured term loan of Euro 36,000,000, expiring on July 15, 2006. On July 31, 2000, upon closing of the joint venture, NN Euroball ApS borrowed a total of Euro 31,500,000 against these facilities for acquisition financing. Additional working capital and capital expenditure financing are provided for under the facility. Amounts outstanding under the facilities accrue interest at a floating rate equal to EURIBOR (3.30% at December 31, 2001) plus an applicable margin of between 1.175% 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. Euroball, as of December 31, 2001, was in compliance with all such covenants. At December 31, 2001, Euro 34,953,000 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. This credit facility replaces the $25 million revolving credit facility that was temporarily extended and restated in February of 2001 to $50 million and the additional $2 million of availability extended in March of 2001. Amounts outstanding under the revolving facility and the term loan facility bear interest at a floating rate equal to LIBOR (1.88% at December 31,2001) plus an applicable margin of 0.75% to 2.00% based upon calculated financial ratio. The loan agreement contains customary financial and non-financial covenants. Restrictive covenants specify, among other things, restrictions on the incurrence of indebtedness , payment of dividends, capital expenditures, and the maintenance of certain financial ratios. The Company, as of December 31, 2001 was in compliance with all such covenants. At December 31, 2001, $15.2 million was available to the Company under these facilities.

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 Company's inventory management program, payments typically are due within 30 days after the product is used by the customer. 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, 2001 and 2000, see Note 14 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 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, 2001 no currency hedges were in place. In addition, a strengthening of the U.S. dollar against foreign currencies could impair the ability of the Company to compete with international competitors for foreign as well as domestic sales.

Working capital, which consists principally of accounts receivable and inventories, was $17.9 million at December 31, 2001 as compared to $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 1.47:1 at December 31, 2001. Cash flow from operations decreased to $24.6 million during 2001 from $26.9 million during 2000.

During 2002, the Company plans to spend approximately $6.8 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 the credit facilities described above. The Company believes that funds generated from operations and borrowings from the credit facility will be sufficient to finance the Company's working capital needs and projected capital expenditure requirements through December 2002.

Beginning in January 2003 FAG and SKF may each exercise their right under the Shareholders Agreement to cause the Company to purchase their respective 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 cash flow, the exact amount of the put cannot be determined until the put right is exercised.

The Euro

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

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

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 foreign 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, 2001 and 2000, see Note 14 of the Notes to Consolidated Financial Statements.

Inflation and Changes in Prices

While the Company's operations have not been affected by inflation during recent years, prices for 52100 Steel, engineered resins and other raw materials purchased by the Company are materially subject to change. For example, during 1995, due to an increase in worldwide demand for 52100 Steel and the decrease in the value of the United States dollar relative to foreign currencies, the Company experienced an increase in the price of 52100 Steel and some difficulty in obtaining an adequate supply of 52100 Steel from its existing suppliers. Domestically, the Company's pricing arrangements with its 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. Certain sales agreements are in effect with SKF and FAG, which provide for minimum purchase quantities and specified, annual sales price ajustments that may be modified up or down for changes in material costs. These agreements expire during 2006. The Company has been able to minimize the impact on its operations resulting from the 52100 Steel price fluctuations by taking such measures.

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

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

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

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

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

Rapid Growth. The Company has significantly expanded its ball and roller production facilities and capacity over the last several years. During 1997, the Company purchased an additional manufacturing plant in Kilkenny, Ireland. The

Company continued this expansion in 2000 through its 54% ownership of Euroball with SKF and FAG. The Company's Ball and Roller Segment currently is not operating at full capacity and faces risks of further under-utilization or inefficient utilization of its production facilities in future years. The Company also faces risks associated with start-up expenses, inefficiencies, delays and increased depreciation costs associated with these joint ventures and expansions.

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

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

Dependence on Major Customers. During 2001, the Company's ten largest customers accounted for approximately 73% of its net sales. Sales to various US and foreign divisions of SKF, which is one of the largest bearing manufacturers in the world, accounted for approximately 35% of net sales in 2001, and sales to FAG accounted for approximately 19% of net sales. None of the Company's other customers accounted for more than 5% of its net sales in 2001. The loss of all or a substantial portion of sales to these customers would have a material adverse effect on the Company's business.

Acquisitions. The Company's growth strategy includes growth through acquisitions. In 1999, the Company acquired the IMC businesses as part of that strategy. In 2000, the Company formed Euroball with SKF and FAG and began operating two new ball manufacturing facilities. Additionally, in 2000, the Company formed the NN Arte joint venture and began operations in Mexico during 2001. In 2001, the Company acquired Delta as a continuation of that strategy.

Although the Company believes that it will be able to continue to integrate the operations of IMC, NN Euroball, Delta and other companies acquired in the future into its operations without substantial cost, delays or other problems, its ability to do so will depend on, among other things, the adequacy of its implementation plans, the ability of its management to effectively oversee and operate the combined operations of the Company and the acquired businesses and its ability to achieve desired operating efficiencies and sales goals. If the Company is not able to successfully integrate the operations of acquired companies into its business, its future earnings and profitability could be materially and adversely affected.

Recently Issued Accounting Standards

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 all 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 July 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 for intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. Statement No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment. The effective date of Statement No. 142 is January 1, 2002. As of the date of adoption, the Company expects to have unamortized goodwill of approximately $39.8 million, which will be subject to the provisions of Statement No. 142. Amortization expense related to goodwill was $1.8 million, $0.9 million, and $0.4 million for the years ended December 31, 2001, 2000, and 1999 respectively. The Company is currently evaluating the impact of adoption of Statement No. 142.

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. The Company is currently evaluating the impact of adoption of Statement 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 Company is currently evaluating the impact of Statement No. 144.

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 $31.5 million floating rate, unsecured term loan and a $25 million floating rate revolving credit facility which are used to maintain liquidity and fund its business operations domestically. In Europe, Euroball has a 5 million euro floating rate credit facility, and a 36.0 million euro floating rate secured term loan. At December 31, 2001, the Company had $41.3 million outstanding under the domestic revolving credit facility and Euroball had $13.4 million 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 $54

during 2001 and $564,000 during 2000. In connection with a variable EURIBOR rate debt financing in July 2000 the Company's 54% owned subsidiary, NN Euroball ApS entered into an interest rate swap with a notional amount of Euro 12.5 million for the purpose of fixing the interest rate on a portion of their debt financing. The interest rate swap provides for the Company to receive variable Euribor interest payments and pay 5.51% fixed interest. The interest rate swap agreement expires in July 2006 and the notional amount amortizes in relation to principal payments on the underlying debt over the life of the swap. The nature and amount of the Company's borrowings may vary as a result of future business requirements, market conditions and other factors.

The Company's operating cash flows denominated in foreign currencies are exposed to 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 of fluctuation, management has implemented a foreign currency hedging program. This program allows 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, 2001.

Item 8. Financial Statements and Supplementary Data

Index to 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, 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 of the years then ended. 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, 2001 and 2000 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for derivative instruments and hedging activities in 2001.

/s/ KPMG LLP
Charlotte, North Carolina
February 28, 2002

Report of Independent Accountants

To the Board of Directors and Stockholders of NN, Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of NN, Inc. (formerly known as NN Ball & Roller, Inc.) and its subsidiaries at December 31, 1999, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion.

/s/ PriceWaterhouseCoopers LLP
PriceWaterhouseCoopers LLP
Charlotte, North Carolina
February 4, 2000

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

Assets	**2001**	**2000**
Current assets:		
Cash and cash equivalents	$ 3,024	$ 8,273
Accounts receivable, net	24,832	29,549
Inventories, net	23,418	23,742
Other current assets	3,034	1,512
Current deferred tax asset	1,309	790
Total current assets	55,617	63,866
Property, plant and equipment, net	82,770	91,693
Assets held for sale	4,348	--
Goodwill, net of accumulated amortization of $3,009 in 2001 and $1,297 in 2000	39,805	27,865
Other non-current assets	4,862	4,212
Non-current deferred tax asset	733	172
Total assets	$ 188,135	$ 187,808
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 15,829	$ 16,883
Bank overdraft	1,141	454
Accrued salaries, wages and benefits	3,813	2,248
Income taxes payable	2,074	1,341
Payable to affiliates	1,277	1,762
Short-term loans	--	2,000
Short term portion of long term debt	7,000	--
Other liabilities	6,552	9,038
Current deferred tax liability	50	114
Total current liabilities	37,736	33,840
Minority interest in consolidated subsidiaries	30,932	30,257
Non-current deferred tax liability	6,499	5,239
Long-term debt	47,661	50,515
Accrued Pension	2,390	2,133
Other	878	578

Total liabilities	126,096	122,562
Stockholders' equity:		
Common stock - $0.01 par value, authorized 45,000 shares, issued and outstanding 15,317 shares in 2001 and 15,247 shares in 2000	154	153
Additional paid-in capital	30,841	30,414
Retained earnings	36,139	36,364
Accumulated other comprehensive loss	(5,095)	(1,685)
Total stockholders' equity	62,039	65,246
Total liabilities and stockholders' equity	$ 188,135	$ 187,808

See accompanying notes to consolidated financial statements

NN, Inc.
Consolidated Statements of Income and Comprehensive Income
Years ended December 31, 2001, 2000 and 1999
(In thousands, except per share data)

	2001	2000	1999
Net sales	$ 180,151	$ 132,129	$ 85,294
Cost of products sold	137,591	93,926	59,967
Gross profit	42,560	38,203	25,327
Selling, general and administrative	16,382	11,571	6,854
Depreciation and amortization	13,340	9,165	6,131
Restructuring and impairment costs	2,312	--	--
Income from operations	10,526	17,467	12,342
Interest expense	4,006	1,773	523
Equity in earnings of unconsolidated affiliates	--	(48)	--
Net gain on involuntary conversion	(3,901)	(728)	--
Other income	(186)	(136)	--
Income before provision for income taxes	10,607	16,606	11,819
Provision for income taxes	4,094	5,959	4,060
Minority interest in consolidated subsidiaries	1,753	660	--
Income before cumulative effect of change in accounting principle	4,760	9,987	7,759
Cumulative effect of change in accounting principle, net of income tax benefit of $112 and related minority interest impact of $84	98	--	--
Net income	4,662	9,987	7,759
Other comprehensive income (loss):			
Additional minimum pension liability, net of tax of $31	(53)	--	--
Foreign currency translation	(3,357)	(7)	(1,563)

Comprehensive income	$ 1,252	$ 9,980	$ 6,196
Basic income per share:			
Income before cumulative effect of change in accounting principle	$ 0.31	$ 0.66	$ 0.52
Cumulative effect of change in accounting principle	(0.01)	--	--
Net income	$ 0.31	$ 0.66	$ 0.52
Weighted average shares outstanding	15,259	15,247	15,021
Diluted income per share:			
Income before cumulative effect of change in accounting principle	$ 0.31	$ 0.64	$ 0.52
Cumulative effect of change in accounting principle	(0.01)	--	--
Net income	$ 0.30	$ 0.64	$ 0.52
Weighted average shares outstanding	15,540	15,531	15,038

See accompanying notes to consolidated financial statements

NN, Inc.
Consolidated Statements of Changes in Stockholders' Eq
Years ended December 31, 2001, 2000 and 1999
(In thousands)

	Common Stock				
	Number of shares	Par Value	Additional Paid-In Capital	Retained Earnings	Accumulat Other Comprehen Loss
Balance at December 31, 1998	14,804	$ 149	$ 27,902	$ 28,306	$ (11
Shares Issued	440	4	2,496	--	--
Net income	--	--	--	7,759	--
Dividends paid	--	--	--	(4,810)	--
Cumulative translation loss	--	--	--	--	(1,56
Balance, December 31, 1999	15,244	$ 153	$ 30,398	$ 31,255	$ (1,67
Shares Issued	3	--	16	--	--
Net income	--	--	--	9,987	--
Dividends paid	--	--	--	(4,878)	--
Cumulative translation loss	--	--	--	--	(
Balance, December 31, 2000	15,247	$ 153	$ 30,414	$ 36,364	$ (1,68
Shares Issued	70	1	427	--	--
Net income	--	--	--	4,662	--
Dividends paid	--	--	--	(4,887)	--

Additional minimum pension liability	--	--	--	--	(5
Cumulative translation loss	--	--	--	--	(3,35
Balance, December 31, 2001	15,317	$ 154	$ 30,841	$ 36,139	$ (5,09

See accompanying notes to consolidated financial statements

NN, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2001, 2000 and 1999
(In Thousands)

	2001	2000
Cash flows from operating activities:		
Net Income	$ 4,662	$ 9,98
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,340	9,16
Cumulative effect of change in accounting principle	98	--
Loss on disposals of property, plant and equipment	--	1,19
Loss on sale of NNG	222	--
Equity in earnings of unconsolidated affiliates	--	(4
Deferred income tax	433	1,18
Interest income on receivable from unconsolidated affiliates	(104)	(15
Minority interest in consolidated subsidiary	1,753	66
Restructuring costs and impairment costs	2,312	--
Changes in operating assets and liabilities:		
Accounts receivable	6,838	1,95
Inventories	1,175	(3,02
Other current assets	(1,461)	(10
Other assets	(618)	(1,71
Accounts payable	(2,846)	5,54
Other liabilities	(1,187)	2,22
Net cash provided by operating activities	24,617	26,86
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(23,496)	(57,78
Acquisition of property, plant and equipment	(6,314)	(17,91
Sale of NNG	622	--
Long-term note receivable	--	(3,44
Investment in unconsolidated affiliates	--	(17
Proceeds from disposals of property, plant and equipment	106	--
Net cash used by investing activities	(29,082)	(79,31
Cash flows from financing activities:		
Net proceeds under revolving line of credit	--	7,54
Minority shareholders contributions	--	29,60

Proceeds from long-term debt	71,430	25,81
Bank overdrafts	687	(78
Repayment of long-term debt	(65,946)	--
Proceeds (repayment) of short-term debt	(2,000)	2,00
Proceeds from issuance of stock	428	1
Cash dividends	(4,887)	(4,87
Net cash provided (used) by financing activities	(288)	59,31
Effect of exchange rate changes	(496)	(
Net change in cash and cash equivalents	(5,249)	6,86
Cash and cash equivalents at beginning of period	8,273	1,40
Cash and cash equivalents at end of period	$ 3,024	$ 8,27
Supplemental schedule of non-cash investing and financing activities:		
Note received related to sale of NNG	$ 3,300	$ --
Stock issued related to acquisition of IMC	$ --	$ --

See accompanying notes to consolidated financial statements

NN, Inc.
Notes to Consolidated Financial Statements
December 31, 2001, 2000 and 1999
(In thousands, except per share data)

(1) Summary of Significant Accounting Policies and Practices

(a) Description of Business

The Company is a manufacturer of precision balls, rollers, plastic injection molded products, and precision bearing seals. The Company's balls, rollers, and bearing seals are used primarily in the domestic and international anti-friction bearing industry. The Company's plastic injection molded products are used in the bearing, automotive, instrumentation and fiber optic industries. The Domestic Ball and Roller Segment is comprised of two manufacturing facilities located in the eastern United States. The Company's Euroball Segment, which was acquired in July 2000, (see Note 2) is comprised of manufacturing facilities located in Kilkenny, Ireland, Eltmann, Germany, and Pinerolo, Italy. All of the facilities in the Euroball Segment are engaged in the production of precision balls and rollers. The Plastics Segment consists of IMC, acquired in July 1999, NN Arte, formed in August 2000 and Delta Rubber, acquired in February 2001. IMC has two production facilities in Texas, NN Arte has one production facility in Guadalajara, Mexico and Delta Rubber has two production facilities in Connecticut (see Note 2). All of the Company's segments sell to foreign and domestic customers.

(b) *Cash and Cash Equivalents*

The Company considers all highly liquid investments with an original maturity of three months or less as cash equivalents.

(c) *Inventories*

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

(d) *Property, Plant and Equipment*

Property, plant and equipment are stated at cost less accumulated depreciation. Assets held for sale are stated at lower of cost or fair market value less selling cost. Expenditures for maintenance and repairs are charged to expense as incurred. Major renewals and betterments are capitalized. When a major property item is retired, its cost and related accumulated depreciation or amortization are removed from the property accounts and any

(Continued)

gain or loss is recorded in income or expense, respectively. The Company reviews the carrying values of long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. During the year ended December 31, 2001, the Company incurred an impairment charge of $1,083 to write-down the land and building at the Walterboro, SC production facility to its net realizable value, which was based upon fair market value appraisals. The carrying value of this land and building of $1,692 has been classified as a component of assets held for sale in the accompanying financial statements. During the year ended December 31, 2000, the Company did not incur any impairment charges.

Depreciation is provided principally on the straight-line method over the estimated useful lives of the depreciable assets for financial reporting purposes. Accelerated depreciation methods are used for income tax purposes.

(e) *Revenue Recognition*

The Company generally recognizes a sale when goods are shipped and ownership is assumed by the customer. The Company has an inventory management program for certain major ball and roller customers whereby sales are recognized when products are used by the customer from consigned stock, rather than at the time of shipment.

(f) *Income Taxes*

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(g) *Net Income Per Common Share*

Basic earnings per share reflect reported earnings divided by the weighted average number of common shares outstanding. Diluted earnings per share include the effect of dilutive stock options outstanding during the year.

(h) *Stock Incentive Plan*

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations including Financial Accounting Standards Board (FASB) Interpretation No. 44, "Accounting for Certain Transactions involving Stock Compensation (an interpretation of APB Opinion No. 25)" issued in March 2000, to account for its fixed plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. The Company also applies the provision of APB Opinion No. 25 to its variable stock options. Compensation expense is recognized for these awards if the current market price of the underlying stock exceeds $10.50. Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123.

(i) *Principles of Consolidation*

The Company's consolidated financial statements include the accounts of NN, Inc. and subsidiaries in which the Company owns more than 50% voting interest. Unconsolidated subsidiaries and investments where ownership is between 20% and 50% are accounted for under the equity method. All significant intercompany profits, transactions, and balances have been eliminated in consolidation. The ownership interests of other

(Continued)

shareholders in companies that are more than 50% owned, but less than 100% owned, are reflected as minority interests. Minority interest represents the minority shareholders interest of NN Euroball ApS and NN Arte.

(j) *Foreign Currency Translation*

Assets and liabilities of the Company's foreign subsidiary are translated at current exchange rates, while revenue and expenses are translated at average rates prevailing during the year. Translation adjustments are reported as a component of other comprehensive income.

(k) *Goodwill*

Goodwill, which represents the excess of purchase price over the fair value of net assets acquired, is amortized on a straight-line basis over the expected periods to be benefited, generally 20 years. The Company assesses the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operation. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds.

(l) *Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of*

The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(m) *Use of Estimates in the Preparation of Financial Statements*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(n) *Reclassifications*

Certain 2000 and 1999 amounts have been reclassified to conform with the 2001 presentation.

(o) *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 all 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 July 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 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

(Continued)

with indefinite useful lives no longer be amortized, but instead tested for impairment. The effective date of Statement No. 142 is January 1, 2002. As of the date of adoption, the Company expects to have unamortized goodwill of approximately $39.8 million, which will be subject to the provisions of Statement No. 142. Amortization expense related to goodwill was $1.8 million, $0.9 million and $0.4 million for the years ended December 31, 2001, 2000 and 1999, respectively. The Company is currently evaluating the impact of adoption of Statement No. 142.

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. The Company is currently evaluating the impact of adoption of Statement 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 Company is currently evaluating the impact of Statement No. 144.

(q) *Derivative Financial Instruments*

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 all 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.

The Company has an interest rate swap accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Company adopted SFAS No. 133 on January 1, 2001, which establishes accounting and reporting standards for derivative instruments and for hedging activities. The Standard requires the recognition of all derivative instruments on the balance sheet at fair value. The Standard allows for hedge accounting if certain requirements are met including documentation of the hedging relationship at inception and upon adoption of the Standard.

In connection with a variable EURIBOR rate debt financing in July 2000 the Company's 54% owned subsidiary, NN Euroball ApS entered into an interest rate swap with a notional amount of Euro 12.5 million for the purpose of fixing the interest rate on a portion of their debt financing. The interest rate swap provides for the Company to receive variable Euribor interest payments and pay 5.51% fixed interest. The interest rate swap agreement expires in July 2006 and the notional amount amortizes in relation to principal payments on the underlying debt over the life of the swap.

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

As of December 31, 2001, the fair value of the swap is a before tax loss of approximately $374 which is recorded in other non-current liabilities. The change in fair value during the year ended December 31, 2001 was a loss of approximately $80 which has been included as a component of other (income) expense.

(2) Acquisitions

On February 16, 2001, the Company completed the acquisition of all of the outstanding stock of The Delta Rubber Company, ("Delta") a Connecticut corporation for $22,500 in cash, of which $500 was to be held in escrow for one year from the date of closing. Delta provides high quality engineered bearing seals and other precision-molded rubber products to original equipment manufacturers. The Company plans to continue the operation of the Delta business, which operates a manufacturing facility in Danielson, Connecticut. The excess of the purchase price over the fair value of the net identifiable

(Continued)

NN, Inc.
Notes to Consolidated Financial Statements
December 31, 2001, 2000 and 1999
(In thousands, except per share data)

assets acquired of $14,107 has been recorded as goodwill and is being amortized on a straight-line basis over twenty years.

Effective July 31, 2000, the Company completed its Euroball transaction. Completion of the transaction required the Company to start a majority owned stand-alone company in Europe, NN Euroball ApS, for the manufacture and sale of precision steel balls used for ball bearings and other products. The Company owns 54% of the shares of NN Euroball, ApS, AB SKF (SKF), a Swedish Company, and FAG Kugelfischer Georg Schager AG (FAG), a German Company, own 23% each. NN Euroball ApS subsequently acquired the steel ball manufacturing facilities located in Pinerolo, Italy (previously owned by SKF), Eltmann, Germany (previously owned by FAG) and Kilkenny, Ireland (previously owned by the Company). NN Euroball ApS paid approximately $57,788 for the net assets acquired from SKF and FAG. The acquisitions of the Pinerolo, Italy and Eltmann, Germany ball manufacturing facilities have been accounted for by the purchase method of accounting and, accordingly, the results of operations of Euroball have been included in the Company's consolidated financial statements from July 31, 2000. The excess of the purchase price over the fair value of the net identifiable assets acquired of $15,507 has been recorded as goodwill and is being amortized on a straight-line basis over twenty years.

Under the terms of a Shareholder Agreement between the Company, SKF and FAG, at any time after December 31, 2002, SKF and FAG can require the Company to purchase their shares of NN Euroball ApS. The purchase price of the shares is to be calculated using a purchase price formula specified in the Shareholder Agreement.

The following unaudited pro forma summary presents the financial information as if the Company's Euroball transaction and Delta acquisition had occurred on January 1, 2001 and 2000. These proforma results have been prepared for comparative purposes and do not purport to be indicative of what would have occurred had the acquisitions been made on January 1, 2001 and 2000, nor is it indicative of future results.

	(Unaudited) December 31, 2001	**(Unaudited) December 31, 2000**
Net sales	$ 182,700	$ 200,500
Net income	4,800	11,800
Basic earnings per share	0.31	0.77
Diluted earnings per share	0.31	0.76

Effective July 4, 1999, the Company acquired substantially all of the assets and assumed certain liabilities of Earsley Capital Corporation, a Nevada corporation and successor to and formerly known as Industrial Molding Corporation ("IMC"). IMC, located in Lubbock, Texas, operates as a premier full-service designer and manufacturer of precision plastic injection molded components. The Company paid consideration of approximately $30,000, consisting of $27,500 in cash and 440 shares of its common stock, for the net assets acquired from IMC. The Company has accounted for the IMC acquisition using the purchase method of accounting and, accordingly, the results of operations of IMC have been included in the Company's consolidated financial statements from July 4, 1999. The excess of the purchase price over the fair value of the net identifiable assets acquired of $13,200 has been recorded as goodwill, which is being amortized, on a straight-line basis over twenty years.

(In thousands, except per share data)

(Continued)

The following unaudited pro forma summary presents the financial information as if the Company's acquisition of IMC had occurred on January 1, 1999. This unaudited pro forma summary does not include Euroball or Delta. These proforma results have been prepared for comparative purposes and do not purport to be indicative of what would have occurred had the acquisition been made on January 1, 1999, nor is it indicative of future results.

	(Unaudited) December 31, 1999
Net sales	$ 101,562
Net income	7,558
Basic earnings per share	0.50
Dilutive earnings per share	0.50

(3) Restructuring and Impairment Charges

In September 2001, the Company announced the closure of its Walterboro, South Carolina ball manufacturing facility as a part of its ongoing strategy to locate manufacturing capacity in closer proximity to its customers. This facility is included in the Company's Domestic Ball and Roller Segment (see Note 10). The closure was substantially completed by December 31, 2001.

Prior to December 31, 2001, production capacity and certain machinery and equipment was transferred from the Walterboro facility to the Company's two domestic ball facilities in Erwin, Tennessee and Mountain City, Tennessee. The plant closing resulted in the termination of approximately 80 full time hourly and salaried employees located at the Walterboro facility. The Company has recorded restructuring costs of $750 during the year ended December 31, 2001 for the severance payments. Additionally, prior to December 31, 2001, the Company decided to sell the Walterboro land, building and certain machinery. The Company incurred an impairment charge of $1,083 during 2001 to write-down the land and building at the Walterboro facility to its net realizable value of $1,697, which was based upon fair market value appraisals. The remaining equipment with a historical net book value of $2,656 is also held for sale. The amounts the Company will ultimately realize upon disposition of these assets could differ materially from the amounts assumed in arriving at the 2001 impairment loss. The Company anticipates selling the land, building and machinery during 2002. Approximately $290 of the severance payments were paid in 2001 and the remaining is expected to be paid in 2002.

(In thousands, except per share data)

Accrued restructuring costs of $460 are included in other current liabilities as of December 31, 2001. The Company has charged expenses for moving machinery, equipment and inventory to other production facilities and other costs to close the facility, which will benefit future operations in the period they are incurred.

In addition to this restructuring charge, the Company's Euroball subsidiary incurred restructuring charges of $479 for severance payments as a result of the termination of 15 hourly employees and 3 salaried employees at its Italy production facility. Approximately $426 of the severance payments were paid during 2001 and remaining accrued restructuring costs of $53 are included in other current liabilities as of December 31, 2001.

The following summarizes the 2001 restructurings:

	Charges	Non-Cash Writedowns	Paid in 2001	Reserve Balance at 12/31/01
Asset impairments	$1,083	$1,083	$ --	$ --
Severance and other employee costs	1,229	--	716	513
Total	$2,312	$1,083	$ 716	$ 513

(Continued)

(4) Investments in Affiliated Companies

Investments in affiliated companies at December 31, 2000 consist of 50% of the member interest of NN General, LLC. NN General, LLC was formed in March 2000 between the Company and General Bearing Corporation. NN General, LLC owns 60% of the Jiangsu General Ball and Roller, Company, Ltd., a Chinese precision ball and roller manufacturer located in Rugao City, Jiangsu, Province, China. The Company's investment in NN General, LLC includes $215 of member equity and a note receivable of $3,440 at December 31, 2000 which are included in other non-current assets in the accompanying consolidated balance sheet. The note receivable bears interest at variable rates (6.24% at December 31, 2000) and is due December 31, 2020. Accrued interest income on this note is $159 at December 31, 2000 and is included in other current assets in the accompanying consolidated balance sheet.

Effective December 21, 2001, the Company sold its 50% ownership in NN General, LLC to its partner, General Bearing Corporation for cash of $622 and notes of $3,300. The notes are due in annual installments of

(In thousands, except per share data)

$200 with the balance due on December 21, 2006. The notes bear interest at an average LIBOR (1.88% at December 31, 2001) plus 1.5%. In 2001, the Company recorded a non-cash loss on the sale of its investment in this joint venture of $144.

(5) Accounts Receivable

	December 31, 2001	December 31, 2000
Trade	$26,613	$29,028
Other	10	1,297
	26,623	30,325
Less - Allowance for doubtful accounts	1,791	776
	$24,832	$29,549

Allowance for doubtful accounts is as follows:

Description	Balance at beginning of year	Additions	Write-offs	Balance at end of year
December 31, 1999				
Allowance for doubtful accounts	$ 586	$ 320	$ --	$ 906
December 31, 2000				
Allowance for doubtful accounts	$ 906	$ --	$ 130	$ 776
December 31, 2001				
Allowance for doubtful accounts	$ 776	$ 1,668	$ 653	$1,791

(Continued)

On November 6, 2001, a customer of IMC filed for voluntary Chapter 7 bankruptcy. As of December 31, 2001, the Company had a trade accounts receivable balance of approximately $829 with this customer. For the year ended December 31, 2001, the Company recorded sales of approximately $1,900 to this customer. As of December 31, 2001, the Company has increased its allowance for doubtful accounts by approximately $829 as a result of this bankruptcy filing.

(6) Inventories

	December 31, 2001	December 31, 2000
Raw materials	$ 5,494	$ 4,431
Work in process	5,016	5,265
Finished goods	13,065	14,106
Less-inventory reserve	(157)	(60)
	$ 23,418	$ 23,742

Inventory on consignment at December 31, 2001 and 2000 was approximately $ 2,908 and $4,083, respectively.

(7) Property, Plant and Equipment

	Estimated Useful Life	December 31, 2001	December 31, 2000
Land		$ 1,830	$ 2,202
Buildings and improvements	10-25 years	20,286	26,463
Machinery and equipment	3-10 years	103,363	92,810
Construction in process		1,577	6,138
		127,056	127,613
Less - accumulated depreciation		44,286	35,920
		$ 82,770	$ 91,693

On September 11, 2001, the Company announced the closing of its Walterboro, South Carolina ball manufacturing facility effective December 2001. As a result of that closing land and building with a carrying value of $1,692 and certain machinery and equipment with a carrying value of $2,656 are held for sale as of December 31, 2001.

(8) Debt

(a) Short Term

At December 31, 2000, the Company had outstanding $2,000 of unsecured notes payable to banks bearing interest at 7.29%. These notes were repaid during 2001.

(Continued)

(In thousands, except per share data)

(b) Long-Term

Long-term debt at December 31, 2001 and 2000 consists of the following:

	2001	2000
Borrowings under a revolving credit facility bearing interest at variable rates (3.24% - 4.75% at December 31, 2001) due July 25, 2003	$ 9,805	$ --
Borrowings under a revolving credit facility bearing interest a variable rates (7.29% at December 31, 2000) due July 25, 2003. Repaid in July 2001	--	24,698
Termloan bearing interest at variable rates (3.24% at December 31, 2001) payable in quarterly installments of $1,750 beginning September 19, 2001 through July 1, 2006	31,500	--
Borrowings under a Euro revolving credit facility bearing interest at variable rates (4.55% at December 31, 2001 and 6.63% at December 31, 2000) due July 15, 2006	--	942
Euroterm loans bearing interest at variable rates (4.55% at December 31, 2001and 6.63% at December 31, 2000) payable in quarterly installments of $1,781 beginning March 15, 2002 through June 15, 2006	13,356	24,875
Total long-term debt	54,661	50,515
Less current maturities	7,000	--
Long-term debt, excluding current installments	$47,661	$50,515

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 $25,000, expiring on July 25, 2003 and a senior non-secured term loan for $35,000 expiring on July 1, 2006. These facilities include certain negative pledges. This credit facility replaces the $25,000 revolving credit facility that was temporarily extended and restated in February 2001 to $50,000 and the additional $2,000 of availability extended in March of 2001. Amounts outstanding under the revolving facility and term loan facility bear interest at a floating rate equal to LIBOR (1.88% at December 31, 2001) plus an applicable margin of 0.75% to 2.00% based upon calculated financial ratios. The loan agreement contains restrictive covenants which specify, among other things, restrictions on the incurrence of indebtedness, payment of dividends, capital expenditures, and the maintenance of certain financial ratios. The Company, as of December 31, 2001, was in compliance with all such covenants.

In connection with the Euroball transaction (see Note 2) the Company and NN Euroball ApS, entered into a Facility Agreement with a bank to provide up to Euro 36,000 in Term Loans and Euro 5,000 in revolving credit loans. The Company borrowed Euro 30,500

(In thousands, except per share data)

($28,755) under the term loan facility and Euro 1,000 ($943) under the revolving credit facility. Amounts outstanding under the Facility Agreement are secured by inventory

(Continued)

and accounts receivable and bear interest at EURIBOR (3.30% at December 31, 2001) plus an applicable margin between 1.125% and 2.25% based upon financial ratios. The shareholders of NN Euroball ApS have provided guarantees for the Facility Agreement. The Facility Agreement contains restrictive covenants, which specify, among other things, restrictions on the incurrence of indebtedness and the maintenance of certain financial ratios. Euroball was in compliance with all such covenants at December 31, 2001.

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2001 are as follows:

2002	$ 7,000
2003	23,893
2004	13,268
2005	7,000
2006	3,500
Total	$54,661

Interest paid during 2001, 2000 and 1999 was $3,596, $1,917 and $519, respectively.

(9) Employee Benefit Plans

The Company has three defined contribution 401(k) profit sharing plans covering substantially all employees of the Domestic Ball and Roller and Plastics Segments. The plan in place for the Domestic Ball and Roller Segment covers all employees who have one year of service, have attained age twenty-one and have elected to participate in the plan. A participant may elect to contribute from 1% to 20% of his or her compensation to the Plan, subject to a maximum deferral set forth in the Internal Revenue Code. The Company provides a matching contribution of the higher of $500 or 50% of the first 4% of eligible compensation per participant. The employer matching contribution is fully vested at all times. The contributions by the Company for the Domestic Ball and Roller Segment plan were $152, $106 and $120 in 2001, 2000 and 1999, respectively.

The plan in place for IMC covers all employees who have completed six months of service and have elected to participate in the plan. A participant may elect to contribute from 1% to 15% of his or her compensation to the plan, subject to a maximum deferral set forth in the Internal Revenue Code. The Company matches 25% of the first 6% of each employee's contribution to the plan and provides for a discretionary contribution at the end of each plan year. The contributions by the Company for IMC plan since acquisition in July 1999 were $58 in 2001, $70 in 2000 and $196 in 1999. Vesting occurs in equal increments over a period of five years.

(In thousands, except per share data)

The plan in place for Delta covers all employees who have one year of service, have attained age twenty-one and have elected to participate in the plan. A participant may elect to contribute from 1% to 20% of his or her compensation to the Plan, subject to a maximum deferral set forth in the Internal Revenue Code. The Company matches 50% of the first 6% of each employee's contribution to the plan. The employee has 100% immediate vesting on all contributions made to his or her account. The contributions by the Company for the Delta plan since acquisition in February 2001 were $67. Vesting occurs in equal increments over a period of five years.

(Continued)

The Company has a defined benefit pension plan covering its Eltmann, Germany facility employees (a Euroball division). The benefits are based on the expected years of service including the rate of compensation increase. The plan is unfunded.

Following is a summary of the changes in the projected benefit obligation for the defined benefit pension plan during 2001 and 2000:

	2001	**2000**
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 2,133	$ 1,886
Service cost	77	33
Interest cost	116	62
Benefits paid	(5)	--
Effect of currency translation	(196)	--
Actuarial loss	265	152
Benefit obligation at December 31	$ 2,390	$ 2,133

	2001	**2000**
Weighted-average assumptions as of December 31:		
Discount rate	5.5%	6.0%
Rate of compensation increase	1.5% - 2.1	2.0%

(In thousands, except per share data)

	2001	2000
Components of net periodic benefit cost:		
Service cost	$ 77	$ 33
Interest cost on projected benefit obligation	116	62
Net periodic pension cost	$193	$ 95

Amounts recognized in the Consolidated Balance Sheets consist of:

	2001	
Accrued benefit liability	$2,390	
Accumulated other comprehensive loss, net of tax	(53)	
Net amount recognized	$2,337	

(10) Stock Incentive Plan

Effective March 2, 1994, the Company adopted the NN, Inc. Stock Incentive Plan under which 1,125 shares of the Company's Common Stock were reserved for issuance to officers and key employees of the Company. During 1999 and 2000, the plan was amended to increase the number of shares available for issuance pursuant to awards made under the plan from 1,125 to 1,625. Awards or grants under the plan may be made in the form of incentive and nonqualified stock options, stock appreciation rights and restricted stock. The stock options and stock appreciation rights must be issued with an exercise price not less than the fair market value of the Common Stock on the date of

(Continued)

grant. The awards or grants under the plan may have various vesting and expiration periods as determined at the discretion of the committee administering the plan.

A summary of the status of the Company's stock option plan as described above as of December 31, 2001, 2000 and 1999, and changes during the years ending on those dates is presented below:

2001		2000		
Shares	Weighted-average exercise price	Shares	Weighted-average exercise price	Sha

Outstanding at beginning of year	1,091	$ 6.87	1,049	$ 8.53	5
Granted	396	8.09	555	7.63	5
Exercised	(70)	6.09	(2)	5.87	
Forfeited	(44)	6.78	(511)	10.95	
Outstanding at end of year	1,373	7.25	1,091	6.87	1
Options exercisable at year-end	528	$ 6.59	290	$ 6.09	

The following table summarizes information about stock options outstanding at December 31, 2001:

	Options outstanding			**Op**	
Range of exercise prices	**Number outstanding at 12/31/2001**	**Weighted-average remaining contractual life**	**Weighted-average exercise price**	**Number exercisable at 12/31/2001**	**a**
$5.94 - $6.50	431	7.5 years	$ 6.84	341	
$7.63 - $8.09	942	9.2 years	$ 10.38	187	

On December 7, 1998, the Company granted a total of 20 options to the members of its Board of Directors. These options carry an exercise price equal to the market price on the date of issuance and vest equally over a period of three years, beginning one year from date of grant. The maximum term of these options is 10 years. On July 4, 1999, the Company granted and additional 20 options to the members of its Board of Directors. These options carry an exercise price equal to the market price on the date of issuance and vest six months from the date of grant. The maximum term of these options is 10 years. On October 10, 2000, the Company granted an additional 15 options to the members of its Board of Directors. These options carry an exercise price equal to the market price on the date of issuance and vest 100% one year from date of grant. The maximum term of these options is 10 years. On September 17, 2001, the Company granted an additional 50 options to the members of the Board of Directors. These options carry an exercise price equal to the market price on the date of issuance and vest 100% one year from date of grant. The maximum term of these options is 10 years.

On August 4, 1998 the Company's Board of Directors authorized the repurchase of up to 740 shares of its Common Stock, equaling 5% of the company's issued and outstanding shares as of August 4, 1998. The program may be

(Continued)

Notes to Consolidated Financial Statements
December 31, 2001, 2000 and 1999
(In thousands, except per share data)

extended or discontinued at any time, and there is no assurance that the Company will purchase any or all of the full amount authorized. The Company has not repurchased any shares under this program through December 31, 2001.

All options granted in the period January 1, 1999 through December 31, 2001, except those granted to the Company's Board of Directors as described above, vest ratably over three years, beginning one year from date of grant. The exercise price of each option equals the market price of the Company's stock on the date of grant, and an option's maximum term is 10 years. All options granted in the period January 1, 1995 through December 31, 1998, except those granted to the Company's Board of Directors as described above, vest 20% - 33% annually beginning one year from date of grant. The exercise price of each option equals the market price of the Company's stock on the date of grant, and an option's maximum term is 10 years. Certain options granted in July 1999 were deemed to be repriced options under the applicable accounting requirements. These options, which were fully vested as of the effective date of FASB Interpretation No. 44, are treated under variable accounting. Accordingly, compensation expense will be recognized, to the extent the market price of the Company's stock exceeds $10.50. The Company recognized compensation expense of $108 during 2001 related to these options.

The Company has adopted the provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). SFAS 123 encourages but does not require a fair value based method of accounting for stock compensation plans. The Company has elected to continue accounting for its stock compensation plan using the intrinsic value based method under APB Opinion No. 25 and, accordingly, has not recorded compensation expense for each of the three years ended December 31, 2001, except as discussed above. Had compensation cost for the Company's stock compensation plan been determined based on the fair value at the option grant dates, the Company's net income and earnings per share would have been reduced to the proforma amounts indicated below:

		Year ended December 31,		
		2001	**2000**	**1999**
Net income	As reported	$ 4,662	$ 9,987	$ 7,7
	Proforma	4,347	9,804	7,6
Earnings per share	As reported	$ 0.31	$ 0.66	$ 0.
	Proforma	0.28	0.64	0.
Earnings per share-assuming dilution	As reported	$ 0.30	$ 0.64	$ 0.
	Proforma	0.28	0.63	0.

The fair value of each option grant was estimated based on actual information available through December 31, 2001, 2000 and 1999 using the Black Scholes option-pricing model with the following assumptions:

Term	Vesting Period

(In thousands, except per share data)

Risk free interest rate	4.75%, 5.1% and 6.5% for 2001, 2000 and 1999, respectively
Dividend yield	2.8%, 3.6%, and 4.4% annually for 2001, 2000 and 1999, respectively
Volatility	40.7%, 39.5% and 39.5% for 2001, 2000 and 1999, respectively

(11) Segment Information

The Company adopted the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," effective with its December 31, 1998 reporting and identified its reportable segments based upon the geographic location of its business units. During 2001, the Company's reportable segments are based on differences in product lines and geographic locations and are divided among Domestic Ball and Roller, Euroball and Plastics. The Domestic Ball and Roller Segment is comprised of two manufacturing facilities in the eastern United States. The Euroball Segment acquired in July 2000, is comprised of manufacturing facilities located in Kilkenny, Ireland, Eltmann, Germany and Pinerolo, Italy. All of the facilities in the Domestic Ball and Roller and Euroball Segments are engaged in the production of precision balls and rollers used primarily in the bearing industry. The Plastics Segment

(Continued)

is compromised of five facilities: two located in Lubbock, Texas, which represents the IMC business acquired in July 1999; two facilities located in Danielson, Connecticut, which represents the Delta business acquired in February 2001, and one facility located in Guadalajara, Mexico, which represents the NN-Arte business. These facilities are engaged in the production of plastic injection molded products for the bearing, automotive, instrumentation and fiber optic markets and precision rubber bearing seals for the bearing, automotive, industrial, agricultural and aerospace markets.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates segment performance based on profit or loss from operations after income taxes not including nonrecurring gains and losses. The Company accounts for intersegment sales and transfers at current market prices; however, the Company did not have any material intersegment transactions during 2001, 2000 or 1999.

	December 31, 2001			**December 31, 2000**			
	DomesticBall and Roller	**Euroball**	**Plastics**	**DomesticBall and Roller**	**Euroball**	**Plastics**	
Net sales	$ 52,692	$ 86,719	$ 40,74	$ 67,637	$ 33,988	$ 30,504	$
Interest expense	237	1,574	2,194	385	622	766	
Depreciation & amortization	4,439	5,426	3 475	4,796	2,123	2,246	
Income tax expense	2,435	2,474	(815)	4,284	1,408	267	
Segment profit			,				

(loss)	4,498	1,962	(1 798)	8,314	775	898
Segment assets	62,978	68,288	55,721	62,574	91,392	33,842
Expenditures for long- lived assets	1,117	3,537	1 660	9,319	3,737	4,854

Sales to external customers and long-lived assets utilized by the Company were concentrated in the following geographical regions:

	December 31, 2001		December 31, 2000		December 31	
	Sales	Long-lived assets	Sales	Long-lived assets	Sales	Lo
United States	$ 59,813	$ 38,900	$ 62,094	$ 44,137	$ 52,907	$
Europe	88,649	42,799	46,697	46,216	21,064	
Canada	8,278	--	6,449	--	5,918	
Latin/S.America	8,157	1,071	6,100	1,340	2,903	
Other export	15,254	--	10,789	--	2,502	
All foreign countries	120,338	43,870	70,035	47,556	32,387	
Total	$180,151	$ 82,770	$132,129	$ 91,693	$ 85,294	$

Two customers comprised 49%, 49% and 46% of the Domestic Ball and Roller Segments sales during the years ended December 31, 2001, 2000, and 1999, respectively (see Note 18). Two customers comprised 76% of the

(Continued)

NN, Inc.
Notes to Consolidated Financial Statements
December 31, 2001, 2000 and 1999
(In thousands, except per share data)

Euroball Segments sales during the year ended December 31, 2001. One customer comprised 5% and 20% of IMC's sales for the years ended December 31, 2001 and 2000, respectively. Accounts receivable concentrations as of December 31, 2001 are generally reflective of sales concentrations during 2001.

(12) Income Taxes

Total income taxes (benefits) for the years ended December 31, 2001, 2000, and 1999 are allocated as follows:

	Year ended December 31,		
	2001	2000	

Income from continuing operations:	$ 4,094	$ 5,959	
Cumulative effect of change in accounting principle	(112)	--	
Accumulated other comprehensive income	(31)	--	
	$ 3,951	$ 5,959	

Income tax expense attributable to income from continuing operations consists of:

	Year ended December 31, 2001	2000	1999
Current:			
U.S. Federal	$ 1,025	$ 3,496	$ 3,960
State	146	452	469
Non-U.S	2,490	826	--
	3,661	4,774	4,429
Deferred:			
U.S. Federal	557	496	(335)
State	57	63	(34)
Non-U.S	(181)	626	--
Total deferred expense	433	1,185	(369)
	$ 4,094	$ 5,959	$ 4,060

(Continued)

NN, Inc.
Notes to Consolidated Financial Statements
December 31, 2001, 2000 and 1999
(In thousands, except per share data)

A reconciliation of taxes based on the U.S. federal statutory rate of 34% for the years ended December 31, 2001, 2000 and 1999 is summarized as follows:

	Year ended December 31, 2001	2000	1999
Income taxes at the federal statutory rate	$ 3,606	$ 5,646	$ 4,006
State income taxes, net of federal benefit	134	340	289
Foreign sales corporation benefit, net of liability	(95)	(183)	(256)
Non-US earnings taxed at different rates	395	337	(182)
Other, net	54	(181)	203

	$ 4,094	$ 5,959	$ 4,060

The tax effects of the temporary differences are as follows:

	Year ended December 31, 2001	**2000**
Deferred income tax liability		
Tax in excess of book depreciation	$5,692	$5,050
Duty drawback receivable	37	69
Goodwill	493	210
Other deferred tax liabilities	112	123
Gross deferred income tax liability	6,334	5,452
Deferred income tax assets		
Inventories	337	182
Allowance for bad debts	632	279
Vacation accrual	264	287
Health insurance accrual	103	83
Other working capital accruals	358	230
Euroball net operating loss carryforward	133	--
Gross deferred income tax assets	1,827	1,061
Net deferred income tax liability	$4,507	$4,391

Deferred income tax expense differs from the change in the net deferred income tax liability due to the following:

	2001	2000
Change in net deferred income tax liability	$ 116	$ 1,780
Other comprehensive income adjustment	31	--
Acquisition of deferred tax asset (liability) under purchase accounting	229	(595)
Effect of currency translation	(55)	--
Deferred income tax expense	$ 433	$ 1,185

(Continued)

NN, Inc.
Notes to Consolidated Financial Statements
December 31, 2001, 2000 and 1999
(In thousands, except per share data)

Although realization of deferred tax assets is not assured, management believes that it is more likely than not that all of the deferred tax assets will be realized. However, the amount of the deferred tax assets considered realizable could be reduced based on changing conditions.

The Company has not recognized a deferred tax liability for the undistributed earnings of its non-U.S. subsidiaries and non-U.S.

(In thousands, except per share data)

corporate joint ventures. The Company expects to reinvest these undistributed earnings indefinitely and does not expect such earnings to become subject to U.S. taxation in the foreseeable future. A deferred tax liability will be recognized when the Company expects that it will recover these undistributed earnings in a taxable manner, such as through the receipt of dividends or sale of the investments. It is not practicable to determine the U.S. income tax liability, if any, that would be payable if such earnings were not reinvested indefinitely.

At December 31, 2001, the Company has net operating loss carryforwards for foreign income tax purposes of approximately $1,500, which are available to offset future foreign taxable income indefinitely.

Income tax payments were approximately $2,845, $5,207 and $3,123 in 2001, 2000, 1999, respectively.

(13) Reconciliation of Net Income Per Share

	Year ended December 31,		
	2001	2000	1999
Net income	$ 4,662	$ 9,987	$ 7,759
Weighted average shares outstanding	15,259	15,247	15,021
Effective of dilutive stock options	281	284	17
Dilutive shares outstanding	15,540	15,531	15,038
Basic net income per share	$ 0.31	$ 0.66	$ 0.52
Diluted net income per share	$ 0.30	$ 0.64	$ 0.52

Excluded from the shares outstanding for the years ended December 31, 2001, 2000 and 1999 were 0, 10 and 525 antidilutive options, respectively, which had exercise prices ranging from $9.75 to $11.50, during 2000 and $6.38 to $15.50 during 1999.

The Company has declared a dividend of $ 0.32 per share in each of the years ended December 31, 2001, 2000 and 1999.

(Continued)

(14) Commitments and Contingencies

The Company has operating lease commitments for machinery, office equipment, manufacturing and office space which expire on varying dates. Rent expense for 2001, 2000 and 1999 was $1,650, $767 and $376, respectively. The following is a schedule by year of future minimum lease payments as of December 31, 2001 under operating leases that have initial or remaining noncancelable lease terms in excess of one year.

(In thousands, except per share data)

Year ended December 31,	
2002	$ 1,473
2003	1,345
2004	1,311
2005	1,280
2006	1,204
Thereafter	12,005
Total minimum lease payments	$ 18,619

The Kilkenny operation of the Euroball Segment has received certain grants from the Ireland government. These grants are based upon the Kilkenny facility hiring and retaining certain employment levels. At December 31, 2001, actual employment levels are less than those required by certain grant covenants. As of December 31, 2001, the Company anticipates the grant agreement and employment level thresholds will be restructured.

The Euroball Segment has entered into certain consignment arrangements with Ascometals for the purchase of steel for ball production, whereby the Euroball Kilkenny operation maintains steel on a consignment basis for a period of up to three months.

Beginning in January 2003, FAG and SKF may each exercise their right under The Shareholders Agreement to cause the Company to purchase their respective 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 cash flow, the exact amount of the put cannot be determined until the put right is exercised.

(Continued)

(15) Quarterly Results of Operations (Unaudited)

The following summarizes the unaudited quarterly results of operations for the years ended December 31, 2001 and 2000.

	Year ended December 31, 2001			
	March 31	**June 30**	**Sept. 30**	**Dec. 31**

(In thousands, except per share data)

Net sales	$ 50,227	$ 47,350	$ 42,576	$ 39,998
Gross profit	12,043	12,030	9,687	8,800
Net income (loss)	1,448	3,506	744	(1,036)
Basic net income (loss) per share	0.10	0.23	0.05	(0.07)
Dilutive net income (loss) per share	0.09	0.23	0.05	(0.07)
Weighted average shares outstanding:				
Basic number of shares	15,247	15,253	15,286	15,302
Effect of dilutive stock options	149	279	298	377
Diluted number of shares	15,396	15,532	15,584	15,679

	Year ended December 31, 2000			
	March 31	**June 30**	**Sept. 30**	**Dec. 31**
Net sales	$28,002	$25,643	$37,075	$41,409
Gross profit	7,656	7,678	10,972	11,898
Net income	2,110	2,242	2,443	3,192
Basic net income per share	0.14	0.15	0.16	0.21
Dilutive net income per share	0.14	0.15	0.16	0.21
Weighted average shares outstanding:				
Basic number of shares	15,244	15,244	15,245	15,247
Effect of dilutive stock options	214	192	179	235
Diluted number of shares	15,458	15,436	15,424	15,482

Fourth quarter results in 2001 include pre-tax charges of $1,405 ($913 after-tax) related to $1,086 of asset write downs on the Company's Walterboro, SC production facility and $319 of NN Arte minority interest losses absorbed by the Company. Without these nonrecurring charges, the fourth quarter 2001 loss per share would have been ($.01) rather than ($.07).

(Continued)

(16) Fair Value of Financial Instruments

Management believes the fair value of financial instruments approximate their carrying value due to the short maturity of these instruments or in the case of the Company's notes receivable and debt, due to the variable interest rates. The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2001 and 2000:

	2001		2000	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets:				
Cash and cash equivalents	$ 3,024	$ 3,024	$ 8,273	$ 8,273
Accounts receivable, net	24,832	24,832	29,549	29,549
Other current assets	3,034	3,034	1,512	1,512
Other non-current assets	4,862	4,862	4,212	4,212
Financial liabilities:				
Accounts payable and bank overdraft	16,970	16,970	17,337	17,337
Accrued expenses and other payables	13,716	13,716	14,839	14,839
Short-term loan	7,000	7,000	2,000	2,000
Long-term debt	47,661	47,661	50,515	50,515
Interest rate swap liability	374	374	--	280

(17) Involuntary Conversion

On March 12, 2000, a fire damaged a portion of the Company's manufacturing plant in Erwin, Tennessee. The fire was contained to approximately 30% of the productions area and did not result in serious injury to any employee. Affected production was shifted to the Company's other facilities as possible as well as the use of other certain suppliers to protect product supply to customers. Insurance coverage for the loss provided for reimbursement of the replacement value of property and equipment damaged in the fire. As of December 31, 2001 the Company has settled the insurance claim. For the years ended December 31, 2001 and 2000, the net gain on involuntary conversion of $3,901 and $728, respectively, represents insurance proceeds received in excess of costs incurred.

(18) Related Party Transactions

The minority shareholders of NN Euroball ApS, SKF and FAG, are significant customers of the Company. For the years ended December 31, 2001 and 2000, combined sales to SKF and FAG amounted to $97,270 and $64,064, respectively. At December 31, 2001 and 2000, accounts receivable from SKF and FAG amounted to $11,360 and $4,983, respectively.

In connection with the Euroball transaction described in note 2, SKF and FAG provided administrative services to NN Euroball ApS. Charges for these services amounted to approximately $2,262 and $1,150 for the years ended December 31, 2001 and 2000, respectively. At December 31, 2001 and 2000, amounts payable to SKF and FAG amounted to $1,277 and $1,762, respectively.

Certain sales agreements are in effect with SKF and 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.

The Company leases the Eltmann, Germany facility, of the Euroball division, from FAG. Annual minimum lease payments are Euro 944 ($885). The lease expires in 2020.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The firm of KPMG LLP has been selected by the Board of Directors as the Company's outside auditors for 2002. On November 27, 2000, the Company retained the services of KPMG LLP as its principle accountant to audit the Company's consolidated financial statements, replacing PricewaterhouseCoopers LLP. The decision to retain KPMG was based on a reevaluation by the Company of its current professional relationships and was approved by the Company's Board of Directors at the recommendation of the Company's Audit Committee. Although it is not required to do so, the Board has determined that it is desirable to seek stockholders' ratification of the selection of KPMG LLP.

During the Company's most recent fiscal year and through November 27, 2000, there have been no disagreements with PricewaterhouseCoopers LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure. PricewaterhouseCoopers LLP reports on the financial statements of the Company during 1999 contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles.

During the Company's most recent fiscal year and since November 27, 2000, there have been no disagreements with KPMG LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure. KPMG LLP reports on the financial statements of the Company for the past two years contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles.

Part III

Item 10. Directors and Executive Officers of the Registrant

Directors. The information required by Item 401 of Regulation S-K concerning the Company's directors is contained in the section entitled "Election of Directors -- Information about the Directors" of the Company's definitive Proxy Statement (to be filed with the Securities and Exchange Commission within 120 days after December 31, 2001, in accordance with General Instruction G to Form 10-K, is hereby incorporated herein by reference.

Executive Officers. Information required by Item 401 of Regulation S-K concerning the Company's executive officers is set forth in Item 1 hereof under the caption "Executive Officers of the Registrant."

Compliance with Section 16(a) of the Securities Exchange Act. The information required by Item 405 of Regulation S-K concerning compliance with Section 16(a) of the Securities Exchange Act by the Company's directors and executive officers and any 10% beneficial owners is contained in the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" of the Company's definitive Proxy Statement and, in accordance with General Instruction G to Form 10-K, is hereby incorporated herein by reference.

Item 11. Executive Compensation

The information required by Item 402 of Regulation S-K is contained in the sections entitled "Information about the Election of Directors -- Compensation of Directors" and "Executive Compensation" of the Company's definitive Proxy Statement and, in accordance with General Instruction G to Form 10-K, is hereby incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by Item 403 of Regulation S-K is contained in the section entitled "Beneficial Ownership of Common Stock" of the Company's definitive Proxy Statement and, in accordance with General Instruction G to Form 10-K, is hereby incorporated herein by reference.

Item 13. Related Party Relationships

None.

Part IV

Item 14. Exhibits Financial Statement Schedules, and Reports on Form 8-K

(a)1. Financial Statements

The financial statements of the Company filed as part of this Annual Report on Form 10-K begin on the following pages hereof:

(a)2. Exhibits Required by Item 601 of Regulation S-K

3.1 Certificate of Incorporation of the Company, as amended (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1--File No. 33-74694).

3.2 Bylaws of the Company, as amended (incorporated by reference to Exhibit 3.2 to the Company's registration Statement on Form S-1 - File No. 33-74694).

4.1 Form of Common Stock certificate (incorporated by reference to Exhibit 4 to the Company's Registration Statement on Form S-1 - File No. 33-74694).

10.1* NN Ball & Roller, Inc. Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on

Form S-1 - File No. 33-74694).

10.3* $1.2 million Life Insurance Policy purchased by Mr. Ennen, the premiums of which are paid for by the Company (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1-File No. 33-74694).

10.5 Form of Confidentiality and Non-Compete Agreements for Executive Officers of the Company (incorporated by reference to Exhibit 10.17 to the Company's Registration Statement on Form S-1 - File No. 33-74694).

10.6 Stockholder Agreement dated February 22, 1994, among certain stockholders of the Company (incorporated by reference to Exhibit 10.18 to the Company's Registration Statement on Form S-1 - File No. 33-74694).

10.7 Form of Indemnification Agreement for officers and directors of the Company (incorporated by reference to Exhibit 10.19 to the Company's Registration Statement on Form S-1 - File No. 33-74694).

10.8 Lease, dated as of September 5, 1995, between the Company and the State of Tennessee Department of Economic and Community Development and the County of Johnson County, Tennessee (incorporated by reference to Exhibit 10.9 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995).

10.9 Lease, dated as of March 22, 1996, between the Company and the State of Tennessee Department of Economic and Community Development and the County of Johnson County, Tennessee (incorporated by reference to Exhibit 10.10 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995).

10.10* Stock Option Agreement, dated as of July 3, 1995, between the Company and Roderick R. Baty (incorporated by reference to Exhibit 10.11 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995).

10.11 Loan Agreement, dated as of July 25, 1997, between the Company and First American National Bank (incorporated by reference to Exhibit 10.13 of the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997).

10.12* Employment Agreement, dated August 1, 1997, between the Company and Roderick R. Baty (incorporated by reference to Exhibit 10.14 of the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1997).

10.13* Employment Agreement, dated May 7, 1998, between the Company and Frank T. Gentry.

10.14* Form of Stock Option Agreement, dated December 7, 1998, between the Company and the non-employee directors of the Company (incorporated by reference to Exhibit 10.15 of the Company's Quarterly Report on Form 10-K for the fiscal year ended December 31, 1999).

10.15* Elective Deferred Compensation Plan, dated February 26, 1999 (incorporated by reference to Exhibit 10.16 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999).

10.16* Amendment No. 1 dated January 21, 2002, to Employment Agreement between the Company and Frank T. Gentry.

10.17* Change of Control and Noncompetition Agreement, dated January 21, 2002, between the Company and Frank T. Gentry.

10.18* Amendment No. 1 dated January 21, 2002, to Employment Agreement between the Company and Roderick R. Baty.

10.19* Change of Control and Noncompetition Agreement, dated January 21, 2002, between the Company and Roderick R. Baty.

10.20* Employment Agreement dated January 21, 2002, between the Company and Robert R. Sams.

10.21* Change of Control and Noncompetition Agreement, dated January 21, 2002, between the Company and Robert R. Sams.

10.22* Employment Agreement dated January 21, 2002, between the Company and William C. Kelly.

10.23* Change of Control and Noncompetition Agreement, dated January 21, 2002, between the Company and William C. Kelly.

10.24* Employment Agreement dated January 21, 2002, between the Company and David L. Dyckman.

10.25* Change of Control and Noncompetition Agreement, dated January 21, 2002, between the Company and David L. Dyckman.

10.26 NN Euroball, ApS Shareholder Agreement dated April 6, 2000 among NN, Inc., AB SKF and FAG Kugelfishcher Georg Schafer AG.

23.1 Consent of PricewaterhouseCoopers LLP (filed herewith).

23.2 Consent of KPMG LLP (filed herewith).

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* Management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K

The Company filed a Form 8-K on July 25, 2001 announcing its second quarter earnings and its new long term financing arrangement.

The Company filed a Form 8-K on September 5, 2001 announcing its Board of Directors has named Roderick (Rock) R. Baty as the Chairman of the Board of Directors.

The Company filed a Form 8-K on September 11, 2001 announcing its decision to close its plant located in Walterboro, South Carolina.

The Company filed a Form 8-K on November 14, 2001 announcing that, due to the voluntary bankruptcy of one of its customers, the Company will need to record a third quarter 2001 reserve for approximately $400,000 pre-tax.

(c) Exhibits See Index to Exhibits (attached hereto).
The Company will provide without charge to any person, upon the written

request of such person, a copy of any of the Exhibits to this Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

By: /S/ RODERICK R. BATY

Roderick R. Baty
Chairman and Director

Dated: March 29, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Name and Signature	Title	Date
/S/ RODERICK R. BATY Roderick R. Baty	Chairman, Chief Executive Officer, President and Director (Principal Executive Officer)	March 29, 2002
/S/ WILLIAM C. KELLY, JR. William C. Kelly, Jr.	Treasurer, Secretary and Chief Accounting Officer (Principal Accounting Officer)	March 29, 2002
/S/ DAVID L. DYCKMAN David L. Dyckman	Vice President - Business Development and Chief Financial Officer (Principal Financial Officer)	March 29, 2002
/S/ RICHARD D. ENNEN Richard D. Ennen	Director	March 29, 2002
/S/ MICHAEL D. HUFF Michael D. Huff	Director	March 29, 2002
/S/ G. RONALD MORRIS G. Ronald Morris	Director	March 29, 2002
/S/ MICHAEL E. WERNER Michael E. Werner	Director	March 29, 2002

/S/ STEVEN T. WARSHAW ------------------------------ Steven T. Warshaw	Director	March 29, 2002
/S/ JAMES L. EARSLEY ------------------------------ James L. Earsley	Director	March 29, 2002

Index to Exhibits

23.1	Consent of PricewaterhouseCoopers LLP
23.2	Consent of KPMG LLP