

NN INC
Form 10-K
March 15, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2012

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)

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Delaware
(State or other jurisdiction of
incorporation or organization)

62-1096725
(I.R.S. Employer
Identification No.)

2000 Waters Edge Drive
Johnson City, Tennessee
(Address of principal executive offices)

37604
(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
Common Stock, par value \$.01	The NASDAQ Stock Market LLC

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

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 No

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

Indicate by check mark 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.

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

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The aggregate market value of the voting stock held by non-affiliates of the registrant at June 30, 2012, based on the closing price on the NASDAQ Stock Market LLC on that date was approximately \$172,000,000.

The number of shares of the registrant's common stock outstanding on March 8, 2013 was 17,044,132

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement with respect to the 2013 Annual Meeting of Stockholders are incorporated by reference in Part III, Items 10 to 14 of this Annual Report on Form 10-K as indicated herein.

PART I

Forward-Looking Statements

We wish to caution readers that this report contains, and our future filings, press releases and oral statements made by our 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. Our actual results could differ materially from those expressed in such forward-looking statements due to important factors bearing on our business, many of which already have been discussed in this filing and in our prior filings. The differences could be caused by a number of factors or combination of factors including the risk factors discussed in Item 1A Risk Factors of this Annual Report on Form 10-K.

Item 1. Business Overview

NN, Inc. has three operating segments, the Metal Bearing Components Segment, the Plastic and Rubber Components Segment, and the Precision Metal Components Segment. As used in this Annual Report on Form 10-K, the terms NN, the Company, we, our, or us mean NN, Inc. and its subsidiaries.

Within the Metal Bearing Components Segment, we manufacture and supply high precision bearing components, consisting of balls, cylindrical rollers, tapered rollers, and metal retainers, for leading bearing and CV-joint manufacturers on a global basis. We are a leading independent manufacturer of precision steel bearing balls and rollers for the North American, European and Asian markets. In 2012, Metal Bearing Components accounted for 68% of total NN, Inc. sales. Sales of balls and rollers accounted for approximately 64% of our total net sales with 46% of sales from balls and 18% of sales from rollers. Sales of metal bearing retainers accounted for 4% of net sales. Through a series of acquisitions and plant expansions, we have built upon our strong core ball business and expanded our bearing component product offering. Today, we offer one of the industry's most complete lines of commercially available bearing components. We emphasize engineered products that take advantage of our competencies in product design and tight tolerance manufacturing processes. Our customers use our components in fully assembled ball and roller bearings and CV-joints, which serve a wide variety of industrial applications in the automotive, electrical, agricultural, construction, machinery, and mining markets.

Within the Plastic and Rubber Components Segment, we manufacture high precision rubber seals and plastic retainers for leading bearing manufacturers on a global basis. In addition, we manufacture specialized plastic products including automotive components, electronic instrument cases and other molded components used in a variety of industrial and consumer applications. Finally, we also manufacture rubber seals for use in various automotive, industrial and mining applications. In 2012, plastic products accounted for 8% of net sales and rubber seals accounted for 3% of net sales.

Our Precision Metal Components Segment is comprised of the Whirlaway Corporation (Whirlaway). Whirlaway is a manufacturer of highly engineered, difficult to manufacture precision metal components and subassemblies for the automotive, HVAC, fluid power and diesel engine markets. Our entry into the precision metal components market in 2006 is part of our strategy to serve markets and customers we view as adjacent to bearing components that utilize our core manufacturing competencies. These products accounted for 21% of net sales in 2012.

The three business segments are composed of the following manufacturing operations:

Metal Bearing Components Segment

Erwin, Tennessee Ball and Roller Plant (Erwin Plant)

Mountain City, Tennessee Ball Plant (Mountain City Plant)

Pinerolo, Italy Ball Plant (Pinerolo Plant)

Veenendaal, The Netherlands Roller and Stamped Metal Parts Plant (Veenendaal Plant)

Kysucke Nove Mesto, Slovakia Ball Plant (Kysucke Plant)

Kunshan, China Ball Plant (Kunshan Plant)

Plastic and Rubber Components Segment

Delta Rubber Company, Danielson, Connecticut Rubber Seal Plant (Danielson Plant)

Industrial Molding Corporation, Inc. Lubbock, Texas Plastic Injection Molding Plant (Lubbock Plant)

Precision Metal Components Segment

Whirlaway Corporation, Wellington, Ohio Metal Components Plant 1 (Wellington Plant 1)

Whirlaway Corporation, Wellington, Ohio Metal Components Plant 2 (Wellington Plant 2)

Financial information about the segments is set forth in Note 12 of the Notes to Consolidated Financial Statements.

Corporate Information

NN, originally organized in October 1980, is incorporated in Delaware. Our principal executive offices are located at 2000 Waters Edge Drive, Johnson City, Tennessee, and our telephone number is (423) 743-9151. Our website address is www.nnbr.com. Information contained on our website is not part of this Annual Report. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and related amendments are available via a link to SEC.gov on our website under Investor Relations. Additionally, all required interactive data pursuant to Item 405 of Regulation S-T is posted on our website.

Products

Metal Bearing Components Segment

Precision Steel Balls. At our Metal Bearing Components Segment facilities (with the exception of our Veenendaal Plant), we manufacture and sell high quality, precision steel balls in sizes ranging in diameter from 5/32 of an inch (3.969 mm) to 2 5/8 inches (66.675 mm). We produce and sell balls in grades ranging from grade 3 to grade 1000, according to international standards endorsed by the American Bearing Manufacturers Association. The grade number for a ball, in addition to defining allowable dimensional variation within production batches, indicates the degree of spherical precision of the ball; for example, grade 3 balls are manufactured to within three-millionths of an inch of roundness. Our steel balls are used primarily by manufacturers of anti-friction bearings and constant velocity joints where precise spherical, tolerance and surface finish accuracies are required. Sales of precision steel balls accounted for approximately 67%, 67%, and 69% of the Metal Bearing Components Segment net sales in 2012, 2011, and 2010, respectively.

Steel Rollers. We manufacture tapered rollers at our Veenendaal and Erwin Plants and cylindrical rollers at our Erwin Plant. Rollers are an alternative rolling element used instead of balls in anti-friction bearings that typically have heavier loading or different speed requirements. Our roller products are used primarily for applications similar to those of our precision steel ball product line, plus certain non-bearing applications such as hydraulic pumps and motors. Tapered rollers are a component in tapered roller bearings that are used in a variety of applications including automotive gearbox applications, automotive wheel bearings and a wide variety of industrial applications. Most cylindrical rollers are made to specific customer requirements for diameter and length and are used in a variety of industrial applications. Tapered rollers accounted for approximately 21%, 21%, and 14% of the Metal Bearing Components Segment net sales in 2012, 2011 and 2010, respectively. Cylindrical rollers accounted for approximately 5%, 5% and 4% of the Metal Bearing Components Segment net sales in 2012, 2011, and 2010, respectively.

Metal Retainers. We manufacture and sell precision metal retainers for roller bearings used in a wide variety of industrial applications. Retainers are used to separate and space the rolling elements (rollers) within a fully assembled bearing. We manufacture metal retainers at our Veenendaal Plant.

Plastic and Rubber Components Segment

Bearing Seals. At our Danielson Plant, we manufacture and sell a wide range of precision bearing seals produced through a variety of compression and injection molding processes and adhesion technologies to create rubber-to-metal bonded bearing seals. The seals are used in applications for automotive, industrial, agricultural and mining markets.

Plastic Retainers. At our Lubbock Plant, we manufacture and sell precision plastic retainers for ball and roller bearings used in a wide variety of industrial applications. Retainers are used to separate and space the rolling elements (balls or rollers) within a fully assembled bearing.

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

Precision Metal Components Segment

Precision Metal Components. We sell a wide range of highly engineered precision metal components and subassemblies. The precision metal components offered include highly engineered shafts, mechanical components, fluid system components and complex precision assembled and tested parts. The products are used in the following end markets: automotive, HVAC, fluid power and diesel engine.

Research and Development

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

Customers

Our products are supplied primarily to bearing manufacturers and automotive and industrial parts manufacturers for use in a broad range of industrial applications, including automotive, electrical, agricultural, construction, machinery and mining. Additionally, we supply precision metal, rubber, and plastic components to automotive and industrial companies that are not used in bearing assemblies. We supply approximately 400 customers; however, our top ten customers account for approximately 74% of our revenue. Sales to each of these top ten customers are made to multiple customer locations and divisions throughout the world. Only one of these customers, AB SKF (SKF), had sales levels that were over 10% of total net sales. Sales to various U.S. and foreign divisions of SKF accounted for approximately 34% of net sales in 2012. In 2012, 47% of our products were sold to customers in North America, 38% to customers in Europe, 11% to customers in Asia and the remaining 4% to customers in South America.

We sell our products to most of our largest customers under either sales contracts or agreed upon commercial terms. In general, we pass through material cost fluctuations when incurred to our customers in the form of changes in selling prices. We ordinarily ship our products directly to customers within 60 days, and in many cases, during the same calendar month, of the date on which a sales order is placed. Accordingly, we generally have an insignificant amount of open (backlog) orders from customers at month end. At the U.S. operations of our Metal Bearing Components Segment, we maintain a computerized, bar coded inventory management system with certain of our major customers that enables us to determine on a day-to-day basis the amount of these components remaining in a customer's inventory. When such inventories fall below certain levels, additional product is automatically shipped.

During 2012, the Metal Bearing Components Segment sold products to approximately 250 customers located in 30 different countries. Approximately 84% of the net sales in 2012 were to customers outside the United States. Approximately 55% of net sales in 2012 were to customers within Europe. Sales to the segment's top ten customers accounted for approximately 84% of the net segment sales in 2012.

During 2012, the Plastic and Rubber Components Segment sold its products to over 80 customers located principally in North America. Approximately 25% of the Plastic and Rubber Components Segment's net sales were to customers outside the United States, with the majority of those sales to customers in Mexico, Canada & Asia. Sales to the segment's top ten customers accounted for approximately 57% of the segment's net sales in 2012.

During 2012, the Precision Metal Components Segment sold its products to 16 customers located in four countries. Approximately 95% of all sales were to customers located within the United States. Sales to the segment's top ten customers accounted for approximately 97% of the segment's net sales in 2012.

In both the foreign and domestic markets, we principally sell our products directly to manufacturers and do not sell significant amounts through distributors or dealers.

See Note 12 of the Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations for additional Segment financial information.

The following table presents a breakdown of our net sales for fiscal years 2012, 2011 and 2010:

<i>(In Thousands)</i>	2012	2011	2010
Metal Bearing Components Segment	\$ 252,241	\$ 308,883	\$ 271,339
Percentage of Total Sales	68.2%	72.7%	74.3%
Precision Metal Components Segment	76,746	72,272	54,913
Percentage of Total Sales	20.7%	17.0%	15.0%
Plastic and Rubber Components Segment	41,097	43,536	39,117
Percentage of Total Sales	11.1%	10.3%	10.7%
Total	\$ 370,084	\$ 424,691	\$ 365,369
Percentage of Total Sales	100%	100%	100%

The change in value of Euro denominated sales when converted to U.S. Dollars resulted in net sales decreasing \$11.7 million in 2012 compared to 2011 and increasing \$11.1 million in 2011 compared to 2010.

Sales and Marketing

A primary emphasis of our marketing strategy is to expand key customer relationships by offering high quality, high precision products with the value of a single supply chain partner for a wide variety of components. Due to the technical nature of many of our products, our engineers and manufacturing management personnel also provide technical sales support functions, while internal sales employees handle customer orders and other general sales support activities. For the Precision Metal Components Segment and the Plastics and Rubber Components Segment, the current sales structure consists of using a direct sales force supported by senior segment management and engineering involvement with manufacturers' representatives utilized to supplement our direct sales force.

Our Metal Bearing Components Segment marketing strategy focuses on increasing our outsourcing relationships with global bearing manufacturers that maintain captive (in house) bearing component manufacturing operations. Our marketing strategy for the Plastic and Rubber Components Segment and the Precision Metal Components Segment is to offer custom manufactured, high quality, precision products to markets with high value-added characteristics at competitive price levels. This strategy focuses on relationships with key customers that require the production of technically difficult parts and assemblies, enabling us to take advantage of our strengths in custom product development, equipment and tool design, component assembly and machining processes.

Our arrangements with both our U.S. and European customers typically provide that payments are due within 30 to 60 days following the date of shipment of goods. With respect to export customers of both our U.S. and European businesses, payments generally are due within 60 to 120 days following the date of shipment in order to allow for additional freight time and customs clearance. For some customers that participate in our inventory management program, sales are recorded when the customer uses the product. See Business Customers and Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.

Manufacturing Process

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

The key to our high quality production of seals and retainers is the incorporation of customized engineering into our manufacturing processes, metal to rubber bonding competencies and experience with a broad range of engineered resins and custom polymers. This design process includes the testing and quality assessment of each product.

Within the precision metal components industry, we are well positioned in the market by virtue of our focus on highly engineered, difficult to manufacture critical components, product development and component subassemblies.

Employees

As of December 31, 2012, we employed a total of 1,781 full-time employees and 61 full time equivalent temporary workers. The following numbers are for full time employees only. Our Metal Bearing Components Segment employed 285 in the U.S., 671 in Europe and 117 in China; our Plastic and Rubber Components Segment employed 257, all in the U.S.; and our Precision Metal Components Segment employed 445, all in the U.S. In addition, there were six employees at our corporate headquarters. Of our total employment, 17% are management/staff employees and 83% are production employees. The employees at the Pinerolo and Veenendaal Plants are unionized. We have excellent employee relations throughout NN and we have never experienced any significant involuntary work stoppages.

Competition

The Metal Bearing Components Segment of our business is intensely competitive. Our primary domestic competitor is Hoover Precision Products, Inc., a wholly owned U.S. subsidiary of Tsubaki Nakashima Co., LTD. Our primary foreign competitors are Amatsuji Steel Ball Manufacturing Company, Ltd. (Japan), a wholly owned division of NSK LTD., Tsubaki Nakashima Co., LTD (Japan) and Jiangsu General Ball and Roller Co., LTD (China). Additionally, we compete with bearing manufacturers in house (captive) production.

We believe that competition within the Metal Bearing Components Segment is based principally on quality, price and the ability to consistently meet customer delivery requirements. Management believes that our competitive strengths are our precision manufacturing capabilities, our wide product assortment, our reputation for consistent quality and reliability, our global manufacturing footprint and the productivity of our workforce.

The markets for the Plastic and Rubber Components Segment's products are also intensely competitive. Since the plastic injection molding industry is currently very fragmented, we must compete with numerous companies in each industry market segment. Many of these companies have substantially greater financial resources than we do and many currently offer competing products nationally and internationally. Our primary competitor in the plastic bearing retainer market is Nakanishi Manufacturing Corporation. Domestically, Nypro, Inc. and C&J Industries are among the main competitors in the precision plastic components markets.

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

While intensely competitive, the markets for our rubber seal products are less fragmented than our plastic injection molding products. The bearing seal market is comprised of approximately six major competitors that range from small privately held companies to large global enterprises. Bearing seal manufacturers compete on design, service, quality and price. Our primary competitors in the U.S. bearing seal market are Freudenberg-NOK, Trelleborg, Trostel, and Uchiyama.

In the Precision Metal Components Segment market, internal production of components by our customers can impact our business as the customers weigh the risk of outsourcing strategically critical components or producing in-house. Our primary outside competitors are Linamar, Stanadyne, A. Berger, C&A Tool, American Turned Products, Camcraft and Autocam. We generally win new business on the basis of technical competence and our proven track record of successful product development.

Raw Materials

The primary raw material used in our core ball and roller business of the Metal Bearing Components Segment is 52100 Steel, which is high quality chromium steel. Our other steel requirements include metal strip, stainless steel, and type S2 rock bit steel.

The Metal Bearing Components Segment businesses purchase substantially all of their 52100 Steel requirements from suppliers in Europe and Japan and all of their metal strip requirements from European suppliers and traders. The principal suppliers of 52100 Steel for our U.S. businesses are Daido Steel, Kobe Steel, Ascometal and Ovako. The principal suppliers of 52100 Steel for our European businesses are Ascometal, Ovako, Kobe Steel and Daido Steel while the principal suppliers of metal strip are Thyssen and Theis. If any of our current suppliers were unable to supply 52100 Steel to us, we cannot provide assurances that we would not face higher costs or production interruptions as a result of obtaining 52100 Steel from alternate sources.

We purchase steel on the basis of composition, quality, availability and price. For precision steel balls, the pricing arrangements with our suppliers are typically subject to adjustment every three to six months in the U.S. and contractually adjusted on an annual basis within the European locations for the base steel price and quarterly for surcharge adjustments. In general, we do not enter into written supply agreements with suppliers or commit to maintain minimum monthly purchases of steel except for the year to year supply arrangement between Ascometal and the European operations of our Metal Bearing Components Segment.

Because 52100 Steel is principally produced by non-U.S. manufacturers, our operating results would be negatively affected in the event that the U.S. or European governments impose any significant quotas, tariffs or other duties or restrictions on the import of such steel, if the U.S. Dollar decreases in value relative to foreign currencies or if supplies available to us would significantly decrease. The value of the U.S. Dollar factors into the steel price as the suppliers' base currencies are the Euro and Japanese Yen.

The Metal Bearing Components Segment has historically been affected by upward price pressure on steel principally due to general increases in global demand and due to global increased consumption of steel. In general, we pass through material cost fluctuations to our customers in the form of changes in selling price.

For the Plastic and Rubber Components Segment, we base purchase decisions on quality, service and price. Generally, we do not enter into written supply contracts with our suppliers or commit to maintain minimum monthly purchases of resins, rubber compounds or metal stampings.

The primary raw materials used by the Plastic and Rubber Components Segment are engineered resins, injection grade nylon and proprietary rubber compounds. We purchase substantially all of our resin requirements from domestic manufacturers and suppliers. The majority of these suppliers are international companies with resin manufacturing facilities located throughout the world. We use certified vendors to provide a custom mix of proprietary rubber compounds. This segment also procures metal stampings from several domestic and foreign suppliers.

The Precision Metal Components Segment produces products from a wide variety of metals in various forms from various sources primarily located in the U.S. Basic types include hot rolled steel, cold rolled steel (both carbon and alloy), stainless, extruded aluminum, die cast aluminum, gray and ductile iron castings, hot and cold forgings and mechanical tubing. Some material is purchased directly under contracts, some is consigned by the customer, and some is purchased directly from the steel mills.

Patents, Trademarks and Licenses

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

Seasonal Nature of Business

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

Environmental Compliance

Our operations and products are subject to extensive federal, state and local regulatory requirements both domestically and abroad relating to pollution control and protection of the environment. We maintain a compliance program to assist in preventing and, if necessary, correcting environmental problems. In the Metal Bearing Components Segment, the Kysucke Plant, the Veenendaal Plant, the Pinerolo Plant and Kunshan Plant are ISO 14000 or 14001 certified and all received the EPD (Environmental Product Declaration), except for the Veenendaal Plant's stamped metal parts business. Based on information compiled to date, management believes that our current operations are in substantial compliance with applicable environmental laws and regulations, the violation of which

could have a material adverse effect on our business and financial condition. We have assessed conditional asset retirement obligations and have found them to be immaterial to the consolidated financial statements. We cannot assure that currently unknown matters, new laws and regulations, or stricter interpretations of existing laws and regulations will not materially affect our business or operations in the future. More specifically, although we believe that we dispose of waste in material compliance with applicable environmental laws and regulations, we cannot be certain that we will not incur significant liabilities in the future in connection with the clean-up of waste disposal sites. We maintain long-term environmental insurance covering the four manufacturing locations purchased with the Whirlaway acquisition (two of which have ceased operations). We are currently a potentially responsible party of a remedial action at a former waste recycling facility used by us. See Item 3 and Note 15 of the Notes to Consolidated Financial Statements.

Executive Officers of the Registrant

Our executive officers are:

Name	Age	Position
Roderick R. Baty	59	Chairman of the Board, Chief Executive Officer and President
Frank T. Gentry, III	57	Senior Vice President Managing Director, Metal Bearing Components
James H. Dorton	56	Senior Vice President Corporate Development and Chief Financial Officer, General Manager Plastic and Rubber Components
Thomas C. Burwell	44	Vice President Chief Accounting Officer and Corporate Controller
William C. Kelly, Jr.	54	Vice President Chief Administrative Officer, Secretary, and Treasurer
Jeffrey H. Hodge	51	Vice President General Manager, U.S. Ball and Roller and NN Asia Divisions
James R. Widders	56	Vice President General Manager, Precision Metal Components Division

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

On September 4, 2012, the Board of Directors announced that Chairman and Chief Executive Officer, Roderick R. Baty has informed the Board that he will retire by the Company's next annual meeting of stockholders to be held in May 2013. Mr. Baty will also step down from the Board at that time. As part of an existing written succession plan, the Board has formed a search committee and has engaged a firm to assist the committee in leading a comprehensive search to determine Mr. Baty's successor. As of the date of this report, that process is still ongoing. Mr. Baty will work with the Board to assure a smooth and successful transition.

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

Frank T. Gentry, III, was appointed Vice President Managing Director Metal Bearing Components Division in April 2009 and promoted to Senior Vice President in May 2010. Prior to that, Mr. Gentry was Vice President General Manager U.S. Ball and Roller Division from August 1995. Mr. Gentry joined NN in 1981 and held various manufacturing management positions within NN from 1981 to August 1995.

James H. Dorton joined NN as Vice President of Corporate Development and Chief Financial Officer in June 2005. In May 2010, he was promoted to Senior Vice President. In January 2012, Mr. Dorton assumed the additional responsibility of General Manager of the Plastic and Rubber Components Segment of NN. Prior to joining NN, Mr. Dorton served as Executive Vice President and Chief Financial Officer of Specialty Foods Group, Inc. from 2003 to 2004, Vice President Corporate Development and Strategy and Vice President Treasurer of Bowater Incorporated from 1996 to 2002 and as Treasurer of Intergraph Corporation from 1989 to 1996. Mr. Dorton is a Certified Public Accountant.

Thomas C. Burwell joined NN as Corporate Controller in September 2005. He was promoted to Vice President Chief Accounting Officer and Corporate Controller in 2011. Prior to joining NN, Mr. Burwell held various positions at Coats, PLC from 1997 to 2005 ultimately becoming the Vice President of Finance for the U.S. Industrial Division. From 1992 to 1997, Mr. Burwell held various positions at the international accounting firm BDO Seidman, LLP. Mr. Burwell is a Certified Public Accountant.

William C. Kelly, Jr. was named Vice President and Chief Administrative Officer in June 2005. In March, 2003, Mr. Kelly was elected to serve as Chief Administrative Officer. In March 1999, he was elected Secretary of NN and still serves in that capacity as well as that of Treasurer. In February 1995, Mr. Kelly was elected Treasurer and Assistant Secretary. He joined NN in 1993 as Assistant Treasurer and Manager of Investor Relations. In July 1994, Mr. Kelly was elected to serve as NN's Chief Accounting Officer, and served in that capacity through March 2003. Prior to joining NN, Mr. Kelly served from 1988 to 1993 as a Staff Accountant and as a Senior Auditor with the accounting firm of PricewaterhouseCoopers LLP.

Jeffrey H. Hodge joined NN in 1989 and has served various roles including Operations Manager, Plant Manager and Corporate Manager of Level 3 (Lean Enterprise, Six Sigma, TPM) from 2003 to 2009 before accepting his current role in 2009 as Vice President and General Manager of U.S. Ball & Roller and NN Asia Divisions. Prior to joining NN, Mr. Hodge was a member of the U.S. military from 1985 to 1989.

James R. Widders was named Vice President and General Manager of the Precision Metal Components Division on December 15, 2010. Mr. Widders had 13 years of service at Whirlaway prior to its acquisition by NN. Prior to joining NN, he served as Vice President and General Manager at Technifab, Inc. a manufacturer of molded foam components for the Aerospace industry and in various management positions with GE Superabrasives, a division of General Electric.

Item 1A. Risk Factors

The following are risk factors that affect our business, financial condition, results of operations, and cash flows, some of which are beyond our control. These risk factors should be considered in connection with evaluating the forward-looking statements contained in this Annual Report on Form 10-K. If any of the events described below were to actually occur, our business, financial condition, results of operations or cash flows could be adversely affected and results could differ materially from expected and historical results.

A large portion of our capital structure is in the form of debt. As such, we continue to heavily rely on our current lenders as a major source of long term capital.

We are dependent on the continued provision of financing from our revolving credit lenders and our fixed rate notes lenders for a major portion of our capital structure. As such we must continually meet our existing financial and non-financial covenants or risk potential default. In the event of default, the degree to which our current lenders and/or potential future lenders will continue to lend to us will depend in large part on our results from operations and near term business prospects at the time of the default.

A recession impacting both U.S. and European automotive and industrial markets once again could have a material adverse effect on our ability to finance our operations and implement our growth strategy.

During the three month period ended December 31, 2008 and the year ended December 31, 2009, we experienced a sudden and significant reduction in customer orders driven by reductions in automotive and industrial end market demand across all our businesses. Additionally, during the latter part of 2011 and all of 2012, we experienced the impacts of a European recession in our European businesses. Prior to this time, our company had never been affected by a recession that had impacted both of our key geographic markets of the U.S. and Europe simultaneously. If we are impacted by a global recession in the future, this could have a material adverse effect on our financial condition, results of operations and cash flows from operations and could lead to additional restructuring and/or impairment charges being incurred. However, we believe we would be in a much better position to weather any recession or economic downturn given the actions taken to permanently reduce our cost base including closing or ceasing operations at four former manufacturing locations.

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

The end markets for fully assembled bearings and other industrial and automotive components are cyclical and tend to decline in response to overall declines in industrial and automotive production. As a result, the market for bearing components and precision metal, plastic, and rubber products is also cyclical and impacted by overall levels of industrial and automotive production. Our sales in the past have been negatively affected, and in the future will be negatively affected, by adverse conditions in the industrial and/or automotive production sectors of the economy or by adverse global or national economic conditions generally. Additionally, inflation in oil and the resulting higher gasoline prices could have a negative impact on demand for our products as a result of consumer and corporate spending reductions.

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

The steel that we use to manufacture our metal bearing components is of an extremely high quality and is available from a limited number of producers on a global basis. Due to quality constraints in the U.S. steel industry, we obtain substantially all of the steel used in our U.S. operations of our Metal Bearing Components Segment from non-U.S. suppliers. In addition, we obtain most of the steel used in our European operations from a single European source. If we had to obtain steel from sources other than our current suppliers, we could face higher prices and transportation costs, increased duties or taxes, and shortages of steel. Problems in obtaining steel, particularly 52100 chrome steel in the quantities that we require on commercially reasonable terms could increase our costs, adversely impacting our ability to operate our business efficiently and have a material adverse effect on our revenues and operating and financial results.

Increases in the market demand for steel can have the impact of increasing scrap surcharges we pay in procuring our steel in the form of higher unit prices and could adversely impact the availability of steel. Our commercial terms with key customers allow us to pass along steel price fluctuations through changing the customers' selling prices.

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

Sales to various U.S. and foreign divisions of SKF, one of the largest bearing manufacturers in the world, accounted for approximately 34% of consolidated net sales in 2012. No other customers accounted for more than 10% of sales. During 2012, sales to various U.S. and foreign divisions of our ten largest customers accounted for approximately 74% of our consolidated net sales. The loss of all or a substantial portion of sales to these customers would cause us to lose a substantial portion of our revenue and would lower our operating profit margin and cash flows from operations.

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

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

adverse foreign currency fluctuations;

changes in trade, monetary and fiscal policies, laws and regulations, and other activities of governments, agencies and similar organizations;

the imposition of trade restrictions or prohibitions;

a U.S. Federal Tax code that discourages the repatriation of funds to the U.S.;

the imposition of import or other duties or taxes; and

unstable governments or legal systems in countries in which our suppliers, manufacturing operations, and customers are located.

We do not have a hedging program in place associated with consolidating the operating results of our foreign businesses into U.S. Dollars. An increase in the value of the U.S. Dollar and/or the Euro relative to other currencies may adversely affect our ability to compete with our foreign-based competitors for international, as well as domestic, sales. Also, a change in the value of the Euro relative to the U.S. Dollar can negatively impact our consolidated financial results, which are denominated in U.S. Dollars.

In addition, due to the typical slower summer manufacturing season in Europe, we expect that revenues in the third fiscal quarter of each year will be lower than in the other quarters of the year.

Failure of our product could result in a product recall.

The majority of our products go into bearings used in the automotive industry and other critical industrial manufacturing applications. A failure of our components could lead to a product recall. If a recall were to happen as a result of our components failing, we could bear a substantial part of the cost of correction. In addition to the cost of fixing the parts affected by the component, a recall could result in the loss of a portion of or all of the customers' business. To partially mitigate these risks, we carry limited product recall insurance and have invested heavily in the TS16949 quality program.

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

We cannot assure you that any future acquisition will enhance our financial performance. Acquiring companies involves inherent risk in the areas of environmental and legal issues, information technology, cultural and regulatory matters, product/supplier issues, and financial risk. Our ability to effectively integrate any future acquisitions will depend on, among other things, the adequacy of our implementation plans, the ability of our management to oversee and operate effectively the combined operations and our ability to achieve desired operating efficiencies and sales goals. The integration of any acquired businesses might cause us to incur unforeseen costs, which would lower our profit margin and future earnings and would prevent us from realizing the expected benefits of these acquisitions.

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

Acquiring businesses that complement or expand our operations has been and continues to be an important element of our business strategy. This strategy calls for growth through acquisitions constituting a portion of our future growth objectives, with the remainder resulting from organic growth and increased market penetration. We cannot assure you that we will be successful in identifying attractive acquisition candidates or completing acquisitions on favorable terms in the future. In addition, we may borrow funds to acquire other businesses, increasing our interest expense and debt levels. Our inability to acquire businesses, or to operate them profitably once acquired, could have a material adverse effect on our business, financial position, results of operations and cash flows. Our borrowing agreements limit our ability to complete acquisitions without prior approval of our lenders.

Our growth strategy depends in part on companies outsourcing critical components, and if outsourcing does not continue, our business could be adversely affected.

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

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

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

Our production capacity has been expanded geographically in recent years to operate in the same markets as our customers.

We have expanded our metal bearing components production facilities and capacity over the last several years. Historically, metal bearing component production facilities have not always operated at full capacity. Over the past several years, we have undertaken steps to address a portion of the capacity risk including closing or ceasing

operations at certain plants and downsizing employment levels at others. As such, the risk exists that our customers may exit the geographic markets in which our production capacity is located and/or develop vendors in lower cost countries in which we do not have production capacity.

The price of our common stock may be volatile.

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

economic recession or other macro-economic factors;

our operating and financial performance and prospects;

quarterly variations in the rate of growth of our financial indicators, such as earnings (loss) per share, net income (loss) and revenues;

changes in revenue or earnings estimates or publication of research reports by analysts;

loss of any member of our senior management team;

speculation in the press or investment community;

strategic actions by us or our competitors, such as acquisitions or restructurings;

sales of our common stock by stockholders;

general market conditions;

domestic and international economic, legal and regulatory factors unrelated to our performance;

loss of a major customer; and

ability to declare and pay a dividend.

The stock markets in general have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock. In addition, due to the market capitalization of our stock, our stock tends to be more volatile than large capitalization stocks that comprise the Dow Jones Industrial Average or Standard and Poor's 500 Index.

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

Our certificate of incorporation and bylaws, as well as Delaware corporate law, contain provisions that could delay or prevent a change of control or changes in our management that a stockholder might consider favorable and may prevent shareholders from receiving a takeover

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premium for their shares. These provisions include, for example, a classified board of directors and the authorization of our board of directors to issue up to 5.0 million preferred shares without a stockholder vote. In addition, our restated certificate of incorporation provides that stockholders may not call a special meeting.

We are a Delaware corporation subject to the provisions of Section 203 of the Delaware General Corporation Law, an anti-takeover law. Generally, this statute prohibits a publicly-held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which such person became an interested stockholder, unless the business combination is approved in a prescribed manner. A business combination includes a merger, asset sale or other transaction resulting in a financial benefit to the stockholder. We anticipate that the provisions of Section 203 may encourage parties interested in acquiring us to

negotiate in advance with our board of directors, because the stockholder approval requirement would be avoided if a majority of the directors then in office approve either the business combination or the transaction that results in the stockholder becoming an interested stockholder.

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

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The manufacturing plants for each of our segments are listed below. In addition, we lease a portion of a small office building in Johnson City, Tennessee which serves as our corporate offices.

Metal Bearing Components Segment

Manufacturing Operation	Country	Approximate Sq. Feet	Owned or Leased
Erwin Plant	U.S.A.	155,000	Owned
Mountain City Plant	U.S.A.	86,000	Owned
Kilkenny Plant (non-operating)	Ireland	125,000	Owned
Pinerolo Plant	Italy	330,000	Owned
Kysucke Plant	Slovakia	135,000	Owned
Veenendaal Plant	The Netherlands	159,000	Owned
Kunshan Plant Phase I	China	110,000	Leased
Kunshan Plant Phase II (not yet in operation)	China	75,000	Leased

The Kunshan Plant leases are accounted for as a capital lease and we have an option to purchase the facilities at various points in the future. Production at the Kilkenny Plant ceased on February 6, 2009 and was moved to other European Metal Bearing Components operations. The Kilkenny property is being made ready for sale with any expected sale to occur later than a year from the date of this report. As such, the property is still considered to be held and used for which the carrying value at December 31, 2012 approximates its fair value.

Plastic and Rubber Components Segment

Manufacturing Operation	Country	Approximate Sq. Feet	Owned or Leased
Danielson Plant	U.S.A.	50,000	Owned
Lubbock Plant	U.S.A.	228,000	Owned

Precision Metal Components Segment

Manufacturing Operation	Country	Approximate Sq. Feet	Owned or Leased
Wellington Plant 1	U.S.A.	86,000	Leased
Wellington Plant 2	U.S.A.	132,000	Leased

For more information, please see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Item 3. Legal Proceedings

During 2012, we were named in a lawsuit from a former independent sales agent claiming amounts due with regard to sales made after termination of our relationship. We believe that the claim is not substantiated by the facts and we are defending it aggressively. While the company is unable to predict the outcome of this matter, we do not believe, based on currently available facts, that it will have a material adverse effect on our business, financial condition, results of operations, or cash flows.

Due to the impacts of the global economic recession and the resulting reduction in revenue and operating losses, our wholly owned German subsidiary Kugelfertigung Eltmann GbmH (Eltmann or Eltmann Plant) sustained a significant weakening of its financial condition. As a result, it became technically insolvent at which point it was required to file for bankruptcy under German bankruptcy law. The filing was made in the bankruptcy court in Germany on January 20, 2011. As of this date, NN lost the ability to control or manage Eltmann as a result of the bankruptcy court trustee taking over effective control and day to day management of this subsidiary. As a result of loss of control of this subsidiary, NN deconsolidated the assets and liabilities of Eltmann on our Consolidated Financial Statements effective January 20, 2011. The ultimate impact on NN of Eltmann filing for bankruptcy will depend on the findings of the bankruptcy court. However, until such court proceedings are finalized, we will not be able to determine what liabilities and contingent obligations, if any, might remain as the responsibility of NN. (See Note 1 of Notes to Consolidated Financial Statements).

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

Item 4. Mine Safety Disclosures

Not applicable

Part II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on The NASDAQ Stock Market LLC (NASDAQ) under the trading symbol NNBR. As of March 8, 2013, there were approximately 3,500 holders of record of our common stock and the closing per share stock price as reported by NASDAQ was \$9.37.

The following table sets forth the high and low closing sales prices of the common stock, as reported by NASDAQ. We did not pay any dividends on the common stock during 2012 and 2011.

	Close Price	
	High	Low
<u>2012</u>		
First Quarter	\$ 10.16	\$ 5.68
Second Quarter	10.21	7.39
Third Quarter	10.80	8.11
Fourth Quarter	9.28	7.26
<u>2011</u>		
First Quarter	\$ 18.53	\$ 11.81
Second Quarter	19.01	12.62
Third Quarter	16.16	5.05
Fourth Quarter	9.06	4.71

The following graph compares the cumulative total shareholder return on our common stock (consisting of stock price performance and reinvested dividends) from December 31, 2007 with the cumulative total return (assuming reinvestment of all dividends) of (i) the Value Line Machinery Index (Machinery) and (ii) the Standard & Poor's 500 Stock Index, for the period December 31, 2007 through December 31, 2012. The Machinery index is an industry index comprised of 49 companies engaged in manufacturing of machinery and machine parts, a list of which is available from the Company. The comparison assumes \$100 was invested in our common stock and in each of the foregoing indices on December 31, 2007. We cannot assure you that the performance of the common stock will continue in the future with the same or similar trend depicted on the graph.

Comparison of Five-Year Cumulative Total Return*

NN, Inc., Standard & Poors 500 and Value Line Machinery Index

(Performance Results Through 12/31/12)

* Cumulative total return assumes reinvestment of dividends.

	Cumulative Return				
	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
NN, Inc.	24.77	42.84	133.71	64.91	99.09
Standard & Poors 500	63.00	79.67	91.67	93.60	108.58
Machinery	58.01	91.24	151.73	172.71	226.21

The declaration and payment of dividends are subject to the sole discretion of our Board of Directors and depend upon our profitability, financial condition, capital needs, credit agreement restrictions, future prospects and other factors deemed relevant by the Board of Directors. During the fourth quarter of 2008, we suspended our historic quarterly dividend in order to enhance our liquidity due to the global recession. As of the date of this report, no dividend has been reinstated by our Board of Directors.

See Part III, Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters of this 2012 Annual Report on Form 10-K for information required by Item 201 (d) of Regulation S-K.

Item 6. Selected Financial Data

The following selected financial data has been derived from our audited financial statements. The selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the audited consolidated financial statements, including notes thereto.

<i>(In Thousands, Except Per Share Data)</i>	Year ended December 31,				
	2012	2011	2010	2009	2008
Statement of Income Data:					
Net sales	\$ 370,084	\$ 424,691	\$ 365,369	\$ 259,383	\$ 424,837
Cost of products sold (exclusive of depreciation shown separately below)	294,859	347,622	296,422	235,466	344,685
Selling, general and administrative	31,561	30,657	30,407	27,273	36,068
Depreciation and amortization	17,643	17,016	19,195	22,186	27,981
(Gain) loss on disposal of assets	(17)	(36)	808	493	(4,138)
Impairment of goodwill					30,029
Restructuring and impairment charges, excluding goodwill impairment	967		2,289	4,977	12,036
Income (loss) from operations	25,071	29,432	16,248	(31,012)	(21,824)
Interest expense	3,878	4,715	6,815	6,359	5,203
Write-off of unamortized debt issuance cost			130	604	
Other expense (income), net	852	(1,388)	(1,682)	(351)	(850)
Income (loss) before provision (benefit) for income taxes	20,341	26,105	10,985	(37,624)	(26,177)
Provision (benefit) for income taxes	(3,927)	5,168	4,569	(2,290)	(8,535)
Net income (loss)	\$ 24,268	\$ 20,937	\$ 6,416	\$ (35,334)	\$ (17,642)
Basic income (loss) per share:					
Net income (loss)	\$ 1.43	\$ 1.24	\$ 0.39	\$ (2.17)	\$ (1.11)
Diluted income (loss) per share:					
Net income (loss)	\$ 1.42	\$ 1.24	\$ 0.39	\$ (2.17)	\$ (1.11)
Dividends declared	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.24
Weighted average number of shares outstanding Basic	17,009	16,817	16,455	16,268	15,895
Weighted average number of shares outstanding Diluted	17,114	16,953	16,570	16,268	15,895

<i>(In Thousands)</i>	As of December 31,				
	2012	2011	2010	2009	2008
Balance Sheet Data:					
Current assets	\$ 127,296	\$ 124,025	\$ 115,670	\$ 98,283	\$ 124,621
Current liabilities	58,758	73,041	83,587	68,489	63,355
Total assets	265,343	259,461	248,555	242,652	284,040
Long-term debt	63,715	71,629	67,643	77,558	90,172
Stockholders' equity	128,560	99,676	78,107	76,803	109,759

During the year ended December 31, 2012, the results were impacted by a favorable tax benefit of a net \$7.3 million from removing valuation allowances on deferred tax assets in the U.S. Additionally, year ended December 31, 2012, results were negatively impacted by impairments of \$1.0 million and after tax foreign exchange losses of \$1.1 million related to intercompany notes. See Management's Discussion and Analysis of Financial Condition and Results of Operations for more information.

During the year ended December 31, 2011, the results were impacted by certain items including \$5.0 million in additional start-up costs from new multi-year sales programs (all in our Precision Metals Components Segment) and \$0.8 million in a one-time tax benefit from removing valuation allowances on certain deferred tax assets in Europe. See Management's Discussion and Analysis of Financial Condition and Results of Operations for more information.

During the year ended December 31, 2010, the results were impacted by certain items including \$4.5 million from NN ceasing operations at the Tempe plant, \$3.0 million in start-up costs from new multi-year sales programs (both in our Precision Metals Components Segment) and \$1.1 million in costs related to the elimination of certain senior management positions. See Management's Discussion and Analysis of Financial Condition and Results of Operations for more information.

For the year ended December 31, 2009, the operating results were significantly impacted by the effects of the global recession and related destocking by our customers as our sales decreased 37%, excluding foreign exchange effects, from the year ended December 31, 2008. Additionally, we incurred \$5.0 million in restructuring and impairment charges related to two plant closures and a reduction in force at another manufacturing location.

For the year ended December 31, 2008, goodwill, certain intangible assets, and certain tangible assets were subject to impairment charges of \$38,371 (\$24,402 after tax). In addition, restructuring charges of \$2,247 (\$2,247 after tax) and impairment charges of \$1,447 (\$1,447 after tax) on long lived assets were recorded related to the closure of the Kilkenny Plant. Finally, 2008 benefited from the sale of excess land resulting in a gain of \$4,018 (\$2,995 after tax).

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 and Management Focus

Our strategy and management focus is based upon the following long-term objectives:

Growth from taking over the in-house (captive) production of components from our global customers by providing a competitive and attractive outsourcing alternative

Organic and acquisitive growth of our precision metal components platform

Global expansion of our manufacturing base to better address the global requirements of our customers

Management generally focuses on these trends and relevant market indicators:

Global industrial growth and economics

Global automotive production rates

Costs subject to the global inflationary environment, including, but not limited to:

Raw material

Wages and benefits, including health care costs

Regulatory compliance

Energy

Raw material availability

Trends related to the geographic migration of competitive manufacturing

Regulatory environment for United States public companies

Currency and exchange rate movements and trends

Interest rate levels and expectations

Management generally focuses on the following key indicators of operating performance:

Sales growth

Cost of products sold

Selling, general and administrative expense

Net income (loss)

Cash flow from operations and capital spending

Customer service reliability

External and internal quality indicators

Employee development

Critical Accounting Policies

Our significant accounting policies, including the assumptions and judgment underlying them, are disclosed in Note 1 of the Notes to Consolidated Financial Statements. These policies have been consistently applied in all material respects and address such matters as revenue recognition, inventory valuation, asset impairment recognition, and business combination accounting. Due to the estimation processes involved, management considers the following summarized accounting policies and their application to be critical to understanding our business operations, financial condition and results of operations. We cannot assure you that actual results will not significantly differ from the estimates used in these critical accounting policies.

Revenue Recognition. We recognize revenues based on the stated shipping terms with the customer when these terms are satisfied and the risks of ownership are transferred to the customer. We have an inventory management program for certain major Metal Bearing Components Segment customers whereby revenue is recognized when products are used by the customer from consigned stock, rather than at the time of shipment. Under both circumstances, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the sellers' price is determinable and collectability is reasonably assured.

Accounts Receivable. Accounts receivable are recorded upon recognition of a sale of goods and ownership and risk of loss is assumed by the customer. Substantially all of our accounts receivables are due primarily from the core served markets. In establishing allowances for doubtful accounts, we perform credit evaluations of our 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. Accounts receivable are written off or reserves established when considered to be uncollectible or at risk of being uncollectible. We believe that adequate allowances for doubtful accounts have been provided in the Consolidated Financial Statements. However, it is possible that we 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. Inventory valuations are developed using normalized production capacities for each of our manufacturing locations. Abnormal variances from excess capacity or under-utilization of fixed production overheads are expensed in the period incurred. Our inventories are not generally subject to obsolescence due to spoilage or expiring product life cycles. We assess inventory obsolescence routinely and record a reserve when inventory items are deemed non recoverable in future periods. We operate generally as a make-to-order business; however, we also stock 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, we could experience additional inventory write-downs in the future.

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

Goodwill is tested for impairment on an annual basis as of October 1 and between annual tests if a triggering event occurs. The impairment procedures are performed at the reporting unit level for the one unit that still has goodwill. In September 2011, the FASB issued a revised accounting standard, which is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a qualitative

assessment to determine whether further impairment testing is necessary. Specifically, an entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. This standard was effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 with early adoption permitted. The decision to perform a qualitative assessment or perform a complete step 1 analysis is an annual decision made by management based on several factors including budget to actual performance, economic, market and industry considerations such as automotive production rates in the geographic markets we serve and cash flow from operations.

If the qualitative assessment indicates it is more likely than not that the fair value is less than the carrying value, U.S. GAAP prescribes a two-step process for testing for goodwill impairments. The first step is to determine if the carrying value of the reporting unit with goodwill is less than the related fair value of the reporting unit. We determine the fair value of the reporting unit through use of discounted cash flow methods and market based multiples of earning and sales methods obtained from a grouping of comparable publicly trading companies. We believe this methodology of valuation is consistent with how market participants would value reporting units. The discount rate and market based multiples used are specifically developed for the units tested regarding the level of risk and end markets served. Even though we do use other observable inputs (Level 2 inputs under the US GAAP hierarchy) the calculation of fair value for goodwill would be most consistent with Level 3 under the US GAAP hierarchy.

If the carrying value of the reporting unit is less than fair value of the reporting unit, the goodwill is not considered impaired. If the carrying value is greater than fair value then the potential for impairment of goodwill exists. The potential impairment is determined by allocating the fair value of the reporting unit among the assets and liabilities based on a purchase price allocation methodology as if the reporting unit was acquired in a business combination. The fair value of the goodwill is implied from this allocation and compared to the carrying value with an impairment loss recognized if the carrying value is greater than the implied fair value.

Our indefinite lived intangible asset is accounted for similarly to goodwill. This asset is tested for impairment at least annually by comparing the fair value to the carrying value, using the relief from royalty rate method, and if the fair value is less than the carrying value, an impairment charge is recognized for the difference. We elected to use Step 1 testing even though a qualitative approach was available to us.

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 carry forwards. 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.

The calculation of tax assets, liabilities, and expenses under U.S. GAAP is largely dependent on management judgment of the current and future deductibility and utilization of taxable expenses and benefits using a more likely than not threshold. Specifically, the realization of deferred tax assets and the certainty of tax positions taken are largely dependent upon management weighting the current positive and negative evidence for recording tax benefits and expenses. Additionally, many of our positions are based on future estimates of taxable income and deductibility of tax positions. Particularly, our assertion of permanent reinvestment of foreign undistributed earnings is largely based on management's future estimates of domestic and foreign cash flows and current strategic foreign investment plans. In the event that the actual outcome from future tax consequences differs from management estimates and assumptions or management plans and positions are amended, the resulting change to the provision for income taxes could have a material impact on the consolidated results of operations and statement of financial position. (See Notes 1 and 13 of the Notes to Consolidated Financial Statements).

Impairment of Long-Lived Assets. Our long-lived assets include property, plant and equipment. The recoverability of the long-term assets is dependent on the performance of the companies which we have acquired or built, as well as the performance of the markets in which these companies operate. In assessing potential impairment for these assets, we will consider these factors as well as forecasted financial performance based, in large part, on management business plans and projected financial information which are subject to a high degree of management judgment and complexity. Future adverse changes in market conditions or adverse operating results of the underlying assets could result in having to record additional impairment charges not previously recognized. (See Note 6 of the Notes to Consolidated Financial Statements).

Results of Operations

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

	As a Percentage of Net Sales		
	Year ended December 31,		
	2012	2011	2010
Net sales	100.0%	100.0%	100.0%
Cost of product sold (exclusive of depreciation and amortization shown separately below)	79.7	81.9	81.1
Selling, general and administrative expenses	8.5	7.2	8.3
Depreciation and amortization	4.8	4.0	5.3
(Gain) loss on disposal of assets	0.0	0.0	0.2
Restructuring and impairment charges	0.3	0.0	0.6
Income from operations	6.7	6.9	4.5
Interest expense	1.0	1.1	1.9
Other (income) expense, net	0.2	(0.3)	(0.5)
Income before provision for income taxes	5.5	6.1	3.1
Provision for income taxes	(1.1)	1.2	1.3
Net income	6.6%	4.9%	1.8%

Sales Concentration

Sales to various U.S. and foreign divisions of SKF, one of the largest bearing manufacturers in the world, accounted for approximately 34% of consolidated net sales in 2012. During 2012, sales to various U.S. and foreign divisions of our ten largest customers accounted for approximately 74% of our consolidated net sales. None of our other customers individually accounted for more than 10% of our consolidated net sales for 2012. The loss of all or a substantial portion of sales to these customers would cause us to lose a substantial portion of our revenue and have a corresponding negative impact on our operating profit margin due to the operational leverage these customers provide. This could lead to sales volumes not being high enough to cover our current cost structure or to provide adequate operating cash flows or cause us to incur additional restructuring and/or impairment costs. Due to a limit on the amount of excess bearing component production capacity in the markets we serve, we believe it would be difficult for any of our top ten customers to take a significant portion of our business away in the short term.

Year Ended December 31, 2012 Compared to the Year Ended December 31, 2011.

OVERALL RESULTS

<i>(In Thousands of Dollars)</i>	2012	Consolidated NN, Inc. 2011	Change
Net sales	\$ 370,084	\$ 424,691	\$ (54,607)
<i>Foreign exchange effects</i>			(11,726)
<i>Volume</i>			(46,022)
<i>Price</i>			715
<i>Mix</i>			1,345
<i>Material inflation pass-through</i>			1,081
Cost of products sold (exclusive of depreciation and amortization shown separately below)	294,859	347,622	(52,763)
<i>Foreign exchange effects</i>			(9,357)
<i>Volume</i>			(31,130)
<i>Cost reduction projects and other cost changes</i>			(14,985)
<i>Mix</i>			59
<i>Inflation</i>			2,650
Selling, general and administrative	31,561	30,657	904
<i>Foreign exchange effects</i>			(639)
<i>Increase in spending</i>			1,543
Depreciation and amortization	17,643	17,016	627
<i>Foreign exchange effects</i>			(531)
<i>Net Increase in depreciation expense</i>			1,158
Restructuring and impairment charges	967		967
Interest expense	3,878	4,715	(837)
(Gain)/Loss on disposal of assets	(17)	(36)	19
Other expense (income), net	852	(1,388)	2,240
Income before provision (benefit) for income taxes	20,341	26,105	(5,764)
Provision (benefit) for income taxes	(3,927)	5,168	(9,095)
Net income	\$ 24,268	\$ 20,937	\$ 3,331

Non-recurring benefits/expense. Included in the year ended December 31, 2012, net income were two items that we do not expect to recur and as such impact the overall analysis of the 2012 income statement in comparison to 2011 and future periods. The first item was net \$7.3 million in favorable tax benefits from removing valuation allowances on deferred tax assets at our U.S. entities at December 31, 2012, partially offset by taxes on an international distribution. Additionally, in the year ended December 31, 2012, net income was negatively impacted by the \$1.0 million impairment charge, net of tax, related to our former manufacturing facility in Kilkenny, Ireland.

Net Sales. Net sales decreased in 2012 from 2011 primarily due to volume reductions experienced at the European operating units of our Metal Bearing Components Segment and to a lesser extent at our U.S. unit of the segment, which exports into Europe, and at our Asian unit of the segment. These effects were partially offset by increased sales volume at our Precision Metal Components Segment. The reduction of sales volumes in our Metal Bearings Components Segment was due in part to macro-economic issues within the European Union, slowing Asian macro-economic growth and overall lower automotive demand in Europe. Additionally, we believe demand for our products was affected by our customers and their customers adjusting inventory levels during 2012, as our sales volume reductions were greater than the reductions in actual end market demand within the markets we serve. Finally, sales were reduced as the strengthening of the US Dollar in 2012 versus 2011 caused a lower translated value of Euro denominated sales.

Cost of Products Sold (exclusive of depreciation and amortization). The majority of the decrease was from the lower sales volumes discussed above and the related reductions in production costs at the units of the Metal Bearing Components Segment. Additionally, 2012 cost of products sold was lower in comparison to 2011, as the \$6 million in start-up costs incurred during 2011 for new multi-year sales programs at our Precision Metal Components Segment did not repeat during 2012. The 2012 cost of products sold was further reduced by benefits from specific continuous improvement projects undertaken through our Level 3 program during 2012. The Level 3 continuous improvement activities were at historically high levels during 2012. Finally, cost of products sold was reduced as the strengthening of the US Dollar in 2012 versus 2011 caused a lower translated value of Euro denominated costs.

Selling, General and Administrative. The increase in spending in selling, general and administrative expenses was primarily due to higher incentive based compensation costs and from the addition of certain key positions at our Precision Metal Components Segment to support growth in this business.

Depreciation and Amortization. The increase was due to the carryover effects of depreciation expense generated by 2011 capital expenditures placed in service throughout 2011 and by 2012 capital expenditures placed in service during 2012.

Restructuring and impairment charges. The year ended December 31, 2012, included \$1.0 of non-cash impairment charges related to the impairment of our former production facility in Kilkenny, Ireland.

Other expense (income), net. Included in other expense (income), net, during 2012, was \$1.2 million related to foreign exchange losses on inter-company loans. During 2011, inter-company loans generated foreign exchange gains of \$0.9 million. The gains and losses are a function of the appreciation or depreciation of the Euro versus the U.S. Dollar. Additionally, 2012 included \$0.2 million in gains realized with receipt of the final payment of a note receivable.

Provision for income taxes. The main cause of the year ended December 31, 2012 tax benefit was the net \$7.3 million tax benefit posted in the fourth quarter of 2012 related to the removal of valuation allowances on the deferred tax assets of our U.S. units at December 31, 2012, partially offset by taxes related to an international distribution. This net benefit plus lower pre-tax income during 2012, related to lower sales volumes discussed above, account for the variance in tax expense from 2011 to 2012. (See Note 13 of the Notes to Consolidated Financial Statements).

RESULTS BY SEGMENT

METAL BEARING COMPONENTS SEGMENT

<i>(In Thousands of Dollars)</i>	2012	2011	Year ended December 31, Change
Net sales	\$ 252,241	\$ 308,883	\$ (56,642)
Foreign exchange effects			(11,726)
Volume			(47,107)
Price			175
Mix			1,006
Material inflation pass-through			1,010
Segment net income	\$ 20,980	\$ 30,360	\$ (9,380)

The decrease in sales during 2012 was driven mainly by volume reductions at our European units of this segment and to a lesser extent at the U.S. unit due to lower exports into Europe and at our Asian unit. The reductions were due to European macro-economic issues, slowing Asian macro-economic growth, much lower automotive demand in Europe and, we believe, overall reductions of inventory levels in the supply chains we serve. Additionally, sales were reduced as the strengthening of the US Dollar caused a lower translated value of Euro denominated sales. Partially offsetting the reductions were increased sales from targeted price increases, favorable product mix and material inflation pass-through. The favorable mix occurred as a portion of the reduction in sales volumes experienced were in lower priced products.

The segment net income in 2012 was negatively impacted by lost profits from lower sales volumes and related production inefficiencies from lower production levels. These reductions were driven by much lower demand for our products at our European operating units of this segment, at the U.S. unit that exports into Europe and at our Asian unit, as discussed above. Partially offsetting the volume effects were benefits from specific continuous improvement

projects undertaken through our Level 3 program in 2012 and from good overall cost control at our European units during this very difficult operating environment. Additionally, targeted price increases and favorable sales mix helped offset some of negative sales volume effects.

PRECISION METAL COMPONENTS SEGMENT

<i>(In Thousands of Dollars)</i>	2012	2011	Year ended December 31, Change
Net sales	\$ 76,746	\$ 72,272	\$ 4,474
Volume			4,078
Price/Mix			396
Segment net income (loss)	\$ 8,040	\$ (3,143)	\$ 11,183

The majority of the increase in sales at this segment was due to fulfilling sales orders, at the full year run rate, for a new sales program to a new customer started in 2011. This new sales program had not reached the full year run rate during 2011.

The segment improved from a net loss to a net income due to profits from increased sales volumes and from the elimination of start-up costs on the new multi-year sales programs incurred during 2011. During 2011, this segment incurred \$6 million of operational inefficiencies and additional costs related to ramping up production for new large multi-year sales programs which did not repeat during 2012. Beyond eliminating the start-up costs, this segment has improved operationally by reducing scrap, labor, and expediting costs. Finally, 2012 net income included \$1.8 million of net tax benefits related to the reversal of valuation allowances on segment deferred tax assets.

PLASTIC AND RUBBER COMPONENTS SEGMENT

<i>(In Thousands of Dollars)</i>	2012	2011	Year ended December 31, Change
Net sales	\$ 41,097	\$ 43,536	\$ (2,439)
Volume			(2,993)
Price/Mix			554
Segment net income	\$ 2,961	\$ 1,919	\$ 1,042

Lower sales volumes were due to expirations of sales programs with certain customers. 2012 segment net income was impacted by \$2.2 million of net tax benefits related to the reversal of valuation allowances on segment deferred tax assets. Excluding the tax benefit, net income was actually down \$1.2 million due to the lower sales volumes partially offset by price increases and favorable sales mix.

Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010.

OVERALL RESULTS

<i>(In Thousands of Dollars)</i>	2011	Consolidated NN, Inc. 2010	Change
Net sales	\$ 424,691	\$ 365,369	\$ 59,322
<i>Foreign exchange effects</i>			11,066
<i>Volume</i>			34,886
<i>Price</i>			5,376
<i>Mix</i>			(4,157)
<i>Material inflation pass-through</i>			12,151
Cost of products sold (exclusive of depreciation and amortization shown separately below)	347,622	296,422	51,200
<i>Foreign exchange effects</i>			8,714
<i>Volume</i>			24,023
<i>Cost reduction projects</i>			(9,331)
<i>Mix</i>			1,121
<i>Inflation</i>			14,908
<i>New sales program start-up costs and other specific costs</i>			11,765
Selling, general and administrative	30,657	30,407	250
<i>Foreign exchange effects</i>			562
<i>Increase in spending</i>			935
<i>Severance costs incurred during 2010</i>			(1,247)
Depreciation and amortization	17,016	19,195	(2,179)
<i>Foreign exchange effects</i>			436
<i>Accelerated depreciation incurred during 2010</i>			(1,000)
<i>Elimination of depreciation expense on fully depreciated assets, net of new assets placed in Service</i>			(1,615)
Restructuring and impairment charges		2,289	(2,289)
Interest expense	4,715	6,815	(2,100)
(Gain)/Loss on disposal of assets	(36)	808	(844)
Write off of unamortized debt issue cost		130	(130)
Other income, net	(1,388)	(1,682)	294
Income before provision for income taxes	26,105	10,985	15,120
Provision for income taxes	5,168	4,569	599
Net income	\$ 20,937	\$ 6,416	\$ 14,521

Net Sales. Net sales increased from 2011 to 2010 due primarily to sales growth in the customer end markets we serve. Both automotive and industrial end markets have experienced strong year over year sales growth due to the overall macro-economic growth and higher consumer demand. Additionally, sales increased due to the appreciation in value of Euro denominated sales. The increase in sales due to price was the result of targeted price increases to our customers across all businesses and product lines. The increase in sales from material inflation pass-through was due to increasing sales prices to our customers to recover actual material inflation incurred during 2011.

Cost of Products Sold (exclusive of depreciation and amortization). A large portion of the increase was due to the same sales volume increases discussed above. Cost of products sold was impacted more so by inflation on material, labor and manufacturing supplies in 2011 than in 2010 due to increased global demand. Additionally, cost of products sold increased from the appreciation in value of Euro denominated costs. Cost of products sold increased \$5.0 million due to additional production inefficiencies and incurred costs, over those levels experienced in 2010, from starting up production on new multi-year sales programs at our Precision Metal Components Segment (discussed below).

Additionally, cost of products sold increased due to specific costs added during 2011 for incentive compensation and compensation related costs (especially medical and workers compensation costs), and from higher levels of spending on scheduled repairs and maintenance and for manufacturing supplies. During 2010, spending was depressed in these areas due to the global recession. Finally, there were various one time benefits during 2010 related to labor concessions and credits from a material supplier in Europe that did not repeat in 2011.

Selling, General and Administrative. Selling, general and administrative expenses increased in part due to the appreciation in value of Euro denominated costs as compared to 2010. The increase in spending in selling, general and administrative expenses was due to the addition of incentive compensation that was not in place during 2010 and from the addition of certain key positions at our Precision Metal Components Segment to support growth in this business. Finally, during 2010, we incurred \$1.2 million in severance costs, which did not repeat in 2011, related to permanent administrative cost savings.

Depreciation and Amortization. A large portion of the decrease in depreciation and amortization expense was due to the accelerated depreciation of \$1.0 million during 2010 on certain fixed assets at our Tempe Plant, which did not repeat during 2011, and the elimination of the Tempe Plant depreciation from the 2011 expense due to ceasing operations in August 2010. Depreciation expense was further reduced due to certain assets, which are still in use, at our Pinerolo Plant becoming fully depreciated from the second quarter of 2010 onward. Finally, the elimination of the Eltmann Plant depreciation due to deconsolidation of that unit and no longer incurring amortization expense on a customer contract intangible asset after 2010 further reduced the 2011 expense. Partially offsetting these favorable effects was the impact on depreciation of capital expenditures that were placed in service during 2011.

Interest expense. Interest expense was lower primarily due to decreases in the interest rate spread charged on our LIBOR credit facility and our fixed rate notes partially offset by higher overall debt levels during 2011. These savings were achieved under the new credit agreements entered into on December 21, 2010 and September 30, 2011.

Restructuring and impairment charges. During the year ended December 31, 2010, we incurred \$2.0 million in restructuring charges related to ceasing operations at our Tempe Plant and \$0.3 million in impairment charges related to the production equipment at our Eltmann Plant. These charges did not repeat during 2011. (See Note 2 of the Notes to Consolidated Financial Statements).

Other income, net. Included in other income, net, during 2011, was \$0.9 million related to foreign exchange gains on inter-company loans which was lower than the \$1.4 million in foreign exchange gains on inter-company loans incurred in 2010. The gains are a function of the change in valuation of the Euro versus the U.S. Dollar.

Provision for income taxes. For the twelve months ended December 31, 2011 and 2010, the difference between the effective tax rates of 20% and 42%, respectively, was mainly due to not recognizing tax benefits on the Tempe Plant closure costs and other incurred losses in the U.S. due to existing deferred tax valuation allowances in 2010. Additionally, in 2011 we recognized tax benefits related to the Eltmann deconsolidation of \$0.6 million and income tax expense was lowered by the elimination of valuation allowances on certain deferred tax assets totaling \$0.8 million in Europe. (See Note 13 of the Notes to Consolidated Financial Statements).

RESULTS BY SEGMENT

METAL BEARING COMPONENTS SEGMENT

<i>(In Thousands of Dollars)</i>	Year ended December 31,			
	2011	2010	Change	
Net sales	\$ 308,883	\$ 271,339	\$ 37,544	
Foreign exchange effects				11,066
Volume				16,664
Price				3,451
Mix				(4,156)
Material inflation pass-through				10,519
Segment net income	\$ 30,360	\$ 24,910	\$ 5,450	

The sales volume increase in our Metal Bearings Components Segment has been in our U.S. and Asian based businesses. Sales volumes were more robust in the first half of 2011 with the second half witnessing sales reductions due to softening demand in Europe during the last six months of 2011. Additionally, sales increased due to the appreciation in value of Euro denominated sales.

The segment net income was impacted primarily by the increase in sales volume and the related production efficiencies and leveraging of fixed production costs. Additionally, the achieved price increases in 2011 had a significant impact on segment net income. Finally, the segment results were favorably impacted by the implementation of planned cost reduction projects. The 2010 segment net income included \$1.2 million in after-tax foreign exchange gains on certain inter-company loans as discussed above that were not included in 2011 segment net income.

PRECISION METAL COMPONENTS SEGMENT

<i>(In Thousands of Dollars)</i>	Year ended December 31,		
	2011	2010	Change
Net sales	\$ 72,272	\$ 54,913	\$ 17,359
Volume			15,671
Price/Mix			1,310
Material inflation pass-through			378
Segment net loss	\$ (3,143)	\$ (8,922)	\$ 5,779

The majority of the increase in sales at this segment was due to the addition of new multi-year sales programs with four new customers in 2011. Partially offsetting the volume increases from the new sales programs was volume lost due to ceasing operations at the Tempe Plant during the third quarter of 2010. The price/mix increases were related to targeted price increases and favorable sales mix of certain higher priced products.

The segment net loss was lower in 2011 due to benefits from increased sales volumes and price increases during 2011. Additionally, \$4.5 million in Tempe plant closure related costs that were incurred in 2010 did not repeat during 2011. Partially offsetting these favorable effects was \$5.0 million in additional operational inefficiencies and incurred costs during 2011, over those levels experienced in 2010, related to ramping up production for new large multi-year sales programs. During the third and fourth quarters of 2011, we achieved reductions in start-up costs on the major sales programs from the levels experienced during the fourth quarter of 2010 and first half of 2011.

PLASTIC AND RUBBER COMPONENTS SEGMENT

<i>(In Thousands of Dollars)</i>	Year ended December 31,		
	2011	2010	Change
Net sales	\$ 43,536	\$ 39,117	\$ 4,419
Volume			2,550
Price/Mix			615
Material inflation pass-thru			1,254
Segment net income	\$ 1,919	\$ 2,504	\$ (585)

The volume increase for this segment was related to increased U.S. automotive end market demand as the economy and consumer demand has returned to more normalized levels. The majority of the increases in price are from passing through material inflation to customers which provided minimal impact to net income.

The decrease in segment net income was from operational inefficiencies due to starting-up a new sales program which more than offset the favorable benefit that resulted from the increase in sales volume.

Changes in Financial Condition from December 31, 2011 to December 31, 2012.

From December 31, 2011 to December 31, 2012, our total assets increased \$5.9 million and our current assets increased \$3.3 million. The appreciation in the value of Euro denominated account balances and Chinese Yuan denominated account balances, relative to the U.S. Dollar, caused total assets and current assets to increase approximately \$2.5 million and \$1.3 million, respectively, from December 31, 2011.

Excluding the foreign exchange effects, accounts receivable decreased by \$15.4 million due primarily to the 20% decrease in sales volume in December and November of 2012 from sales levels in December and November of 2011. Additionally, the days sales outstanding have decreased 2.2 days as of December 31, 2012 due to timing of certain customer receipts and improved collection efforts in our Precision Metal Components Segment.

Excluding the foreign exchange effects, inventories decreased by \$0.2 million from December 31, 2011, primarily due to reducing raw materials in line with production partially offset by increasing finished goods for customer service. The increased levels of finished goods were planned to better facilitate customer service when seasonal demand increases in the first and second quarter of 2013.

Excluding the foreign exchange effects, property, plant and equipment decreased \$2.3 million as year to date capital spending was \$0.6 million lower than depreciation, the net book value of our former Kilkenny Plant was impaired by \$1.0 million, and we sold assets with a net book value of \$0.3 million.

From December 31, 2011 to December 31, 2012, our total liabilities decreased \$23.0 million. The appreciation in the value of Euro and Chinese Yuan denominated account balances, relative to the U.S. Dollar, caused total liabilities to increase approximately \$0.7 million from December 31, 2011. Accounts payable decreased \$11.6 million due the reduction in sales and production volumes experienced during the fourth quarter of 2012 versus the fourth quarter of 2011. Additionally, total liabilities decreased as we were able to pay down \$8.6 million in debt from current year cash flows.

Working capital, which consists principally of cash, accounts receivable and inventories offset by accounts payable and current maturities of long-term debt, was \$68.5 million at December 31, 2012 as compared to \$51.0 million at December 31, 2011. The ratio of current assets to current liabilities increased from 1.70:1 at December 31, 2011 to 2.17:1 at December 31, 2012. The increase in working capital was due primarily to movements in accounts payable discussed above and increases in the cash balance from current year cash flows. These increases were partially offset by a reduction in accounts receivable, as discussed above.

Cash flow provided by operations was \$37.4 million for 2012 compared with \$15.0 million for 2011. The favorable variance in cash flow provided by operations was principally due to increasing net working capital at a much lower rate in 2012 versus in 2011 from the lower sales and production volumes experienced in Q4 2012 versus Q4 2011.

Cash used by investing activities was \$14.8 million in 2012 compared with cash used by investing activities of \$21.1 million in 2011. The decrease was primarily due to \$3.2 million in lower spending on acquisitions of property plant and equipment in 2012 as planned and receipt of \$1.9 million for the pay-off of a note receivable in 2012.

Cash used by financing activities was \$9.6 million for 2012 compared with cash provided by financing activities of \$6.6 million in 2011. The decrease was primarily due to the net repayment of short-term and long-term debt in 2012 versus net borrowings of short-term and long-term debt in 2011. The net repayment of debt in 2012 was driven by the additional \$22.4 million of cash provided by operations in 2012 over 2011, as discussed above.

Liquidity and Capital Resources

Amounts outstanding under our \$100 million credit facility and our fixed rate notes as of December 31, 2012 were \$38.1 million (including \$0.1 million under our swing line of credit) and \$31.4 million, respectively. As of December 31, 2012, we can borrow up to an additional \$61.2 million under the \$100 million credit facility, including \$9.9 million under our swing line of credit, subject to limitations based on existing financial covenants. The \$61.2 million of availability is net of \$0.7 million of outstanding letters of credit at December 31, 2012 which are considered as usage of the facility.

We were in compliance with all covenants related to the \$100 million credit facility and the fixed rate notes agreements as of December 31, 2012.

The table below summarizes the financial covenants of the two credit agreements as of December 31, 2012:

Financial Covenants	Required Covenant Level	Actual Level Achieved
Interest coverage ratio	Not to be less than 3.00 to 1.00 as of the last day of any fiscal quarter	8.21 to 1.00
Fixed charge coverage	Not to be less than 1.00 to 1.00 as of the last day of any fiscal quarter	1.32 to 1.00
Leverage ratio	Not to exceed 2.75 to 1.00 for the most recently completed four fiscal quarters	1.72 to 1.00
Capital expenditures	Not to invest more than \$25,524 during the fiscal year 2012	\$17,089

On October 26, 2012, we amended our \$100 million revolving credit facility agented by KeyBank and our fixed rate notes with Prudential Capital in order to take advantage of lower interest rates, to extend the maturity of the revolving credit facility to October 26, 2017, and to remove certain restrictions on acquisitions, payments of dividends and stock repurchases. The amended interest rates on our revolving credit facility are LIBOR plus an applicable margin of 1.25% to 2.25% (depending on the level of debt to earnings before taxes, interest and depreciation (EBITDA)). Prior to the October 26, 2012 amendment, the \$100 million revolving credit facility interest rates were LIBOR plus a margin of 2.50% to 3.50% (depending on the level of debt to EBITDA). The interest rate on our \$40 million aggregate fixed rate notes, of which \$11,429 was outstanding as of December 31, 2012, was reduced from 5.39% to 4.89%. The amended agreements allow us to undertake acquisitions, pay dividends, and repurchase stock provided we are in compliance with specified covenants. Additionally, the minimum fixed charge coverage ratio will remain at not to be less than 1.00 to 1.00 as of the last day of any fiscal quarter for the full terms of the amended agreements.

On December 20, 2011, we borrowed an additional \$20 million in seven-year fixed rate notes from Prudential Capital at a rate of 4.64% (all of which was outstanding as of December 31, 2012). These notes, which mature on December 20, 2018, are interest-only for the first two years followed by five equal annual principal payments. The proceeds were used to repay existing revolving credit bank debt and to fund growth capital projects. Prudential Capital also agreed to reduce the rate on our existing \$17.1 million of fixed rate notes due in 2014 from 6.50% to 5.39%.

Our arrangements with our domestic customers typically provide that payments are due within 30 to 60 days following the date of our shipment of goods, while arrangements with foreign customers of our domestic business (other than foreign customers that have entered into an inventory management program with us) generally provide that payments are due within 60 to 120 days following the date of shipment to allow for additional transit time and customs clearance. Under the Metal Bearing Components Segment's inventory management program with certain customers, payments typically are due within 30 days after the customer uses the product. Our arrangements with European customers regarding due dates vary from 30 to 90 days following date of sale for European based customers and 60 to 120 days from customers outside of Europe to allow for additional transit time and customs clearance. Our sales and receivables can be influenced by seasonality due to our relative percentage of European business coupled with many foreign customers slowing production during the month of August. For information concerning our quarterly results of operations for the years ended December 31, 2012 and 2011, see Note 16 of the Notes to Consolidated Financial Statements.

We invoice and receive payment from many of our customers in Euro as well as other currencies. Additionally, we are party to various third party and intercompany loans, payables and receivables denominated in currencies other than the U.S. Dollar. In 2012, the fluctuation of the Euro against the U.S. Dollar negatively impacted sales and net income. As a result of these sales, loans, payables and receivables, our foreign exchange transaction and translation risk has increased. Various strategies to manage this risk are available to management including producing and selling in local currencies and hedging programs. As of December 31, 2012, no currency hedges were in place. In addition, a strengthening of the U.S. Dollar and/or Euro against foreign currencies could impair our ability to compete with international competitors for foreign as well as domestic sales.

We have made planned capital expenditures totaling \$17.1 million during the year ended December 31, 2012. During 2013, we expect to spend approximately \$17 million on capital expenditures, the majority of which relate to new or expanded business. We believe that funds generated from operations and borrowings from the credit facilities will be sufficient to finance our capital expenditures and working capital needs through December 2013. We base this assertion on our current availability for borrowing of up to \$61.2 million and our forecasted positive cash flow from operations for the year ending December 31, 2013.

The table below sets forth our contractual obligations and commercial commitments as of December 31, 2012 (in thousands):

Certain	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Contractual Obligations					
Long-term debt including current portion	\$ 69,516	\$ 5,801	\$ 13,715	\$ 46,000	\$ 4,000
Expected interest payments	7,386	1,956	3,098	2,149	183
Operating leases	8,101	2,152	3,542	2,092	315
Capital leases	7,250	479	958	958	4,855
Total contractual cash obligations	\$ 92,253	\$ 10,388	\$ 21,313	\$ 51,199	\$ 9,353

There are \$6.9 million of long-term post-employment benefits, the payment of which depends on various factors including at which point employees leave the Company. Based on the best available information, we believe the vast majority of these payments will be made after 5 years.

We have approximately \$1.8 million in unrecognized tax benefits and related penalties and interest accrued within the liabilities section of our balance sheet. We are unsure when or if at all these amounts might be paid to U.S. and/or foreign taxing authorities. Accordingly, these amounts have been excluded from the table above. (See Note 13 of the Notes to Consolidated Financial Statements).

Due to the impacts of the global economic recession and the resulting reduction in revenue and operating losses, our wholly owned German subsidiary Kugelfertigung Eltmann GbmH (Eltmann or Eltmann Plant) sustained a significant weakening of its financial condition. As a result, it became technically insolvent at which point it was required to file for bankruptcy under German bankruptcy law. The filing was made in the bankruptcy court in Germany on January 20, 2011. As of this date, NN lost the ability to control or manage Eltmann as a result of the bankruptcy court trustee taking over effective control and day to day management of this subsidiary. As a result of loss of control of this subsidiary, NN deconsolidated the assets and liabilities of Eltmann from our Consolidated Financial Statements effective January 20, 2011 (See Note 1 of Notes to Consolidated Financial Statements). The ultimate impact on NN of Eltmann filing for bankruptcy will depend on the findings of the bankruptcy court. However, until such court proceedings are finalized, we will not be able to determine what liabilities and contingent obligations, if any, might remain as the responsibility of NN. Under advice from legal counsel, NN does not expect any further significant impacts on our consolidated financial statements as a result of the liquidation of this subsidiary.

Functional Currencies

We currently have operations in Slovakia, Italy and The Netherlands, all of which are Euro participating countries. Each of our European facilities sell product to customers in many of the Euro participating countries. The Euro has been adopted as the functional currency at all NN locations in Europe. The functional currency of NN Asia is the Chinese Yuan.

Seasonality and Fluctuation in Quarterly Results

Our net sales historically have been seasonal in nature, due to a significant portion of our sales being to European customers that significantly slow production during the month of August. For information concerning our quarterly results of operations for the years ended December 31, 2012 and 2011. (See Note 16 of the Notes to Consolidated Financial Statements).

Inflation and Changes in Prices

The cost base of our operations has been materially affected by steel inflation during recent years. Due to the ability to pass on this steel inflation to our customers the overall financial impact has been minimized. The prices for steel, engineered resins and other raw materials which we purchase are subject to material change. Our typical pricing arrangements with steel suppliers are subject to adjustment every three to six months in the U.S. and annually in Europe for base prices but quarterly for scrap surcharge adjustments. In the past, we have been able to minimize the impact on our operations resulting from the steel price fluctuations by adjusting selling prices to our customers periodically in the event of changes in our raw material costs.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to changes in financial market conditions in the normal course of our business due to our outstanding debt balances as well as from transacting in various foreign currencies. To mitigate our exposure to these market risks, we have established policies, procedures and internal processes governing our management of financial market risks. We are exposed to changes in interest rates primarily as a result of our borrowing activities. At December 31, 2012, we had \$31.4 million of fixed rate notes outstanding and \$38.1 million outstanding under the variable rate revolving credit facilities. At December 31, 2012, a one-percent increase in the interest rate charged on our outstanding variable rate borrowings would result in interest expense increasing annually by approximately \$0.4 million. The nature and amount of our borrowings may vary as a result of future business requirements, market conditions and other factors.

Translation of our operating cash flows denominated in foreign currencies is impacted by changes in foreign exchange rates. Our Metal Bearing Component Segment invoices and receives payment in currencies other than the U.S. Dollar including the Euro. Additionally, we participate in various third party and intercompany loans, payables and receivables denominated in currencies other than the U.S. Dollar. In 2012, the fluctuation of the Euro against the U.S. Dollar negatively impacted revenue and net income but increased assets and liabilities. To help reduce exposure to foreign currency fluctuation, we have incurred debt in Euros in the past and have, from time to time, used foreign currency hedges to hedge currency exposures when these exposures meet certain discretionary levels. We did not use any currency hedges in 2012, nor did we hold a position in any foreign currency hedging instruments as of December 31, 2012.

Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income (loss) and comprehensive income (loss), of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of NN, Inc. and its subsidiaries at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/S/ PricewaterhouseCoopers LLP

Charlotte, North Carolina

March 15, 2013

NN, Inc.

Consolidated Balance Sheets

December 31, 2012 and 2011

(In thousands, except per share data)

	2012	2011
Assets		
Current assets:		
Cash	\$ 18,990	\$ 4,536
Accounts receivable, net	51,628	66,707
Inventories	46,150	46,023
Income tax receivable	2,112	949
Current deferred tax assets	2,104	
Other current assets	6,312	5,810
Total current assets	127,296	124,025
Property, plant and equipment, net	119,687	120,528
Goodwill, net	8,254	8,039
Intangible assets, net	900	900
Non-current deferred tax assets	6,065	1,062
Other non-current assets	3,141	4,907
Total assets	\$ 265,343	\$ 259,461
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 37,000	\$ 48,217
Accrued salaries, wages and benefits	10,174	11,697
Income taxes payable	543	1,858
Current maturities of long-term debt	5,801	6,503
Current portion of obligation under capital lease	479	472
Other current liabilities	4,761	4,294
Total current liabilities	58,758	73,041
Non-current deferred tax liabilities	3,850	3,810
Long-term debt, net of current portion	63,715	71,629
Accrued post-employment benefits	6,930	7,705
Obligation under capital lease, net of current portion	3,530	3,600
Total liabilities	136,783	159,785
Commitments and Contingencies (Note 15)		
Stockholders' equity:		
Common stock \$0.01 par value, authorized 45,000 shares, issued and outstanding 17,044 in 2012 and 16,949 in 2011.	170	169
Additional paid-in capital	56,880	55,071
Retained earnings	51,880	27,612
Accumulated other comprehensive income	19,630	16,824
Total stockholders' equity	128,560	99,676
Total liabilities and stockholders' equity	\$ 265,343	\$ 259,461

See accompanying notes to consolidated financial statements

NN, Inc.

Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31, 2012, 2011 and 2010

(In thousands, except per share data)

	2012	2011	2010
Net sales	\$ 370,084	\$ 424,691	\$ 365,369
Cost of products sold (exclusive of depreciation and amortization shown separately below)	294,859	347,622	296,422
Selling, general and administrative	31,561	30,657	30,407
Depreciation and amortization	17,643	17,016	19,195
(Gain) loss on disposal of assets	(17)	(36)	808
Restructuring and impairment charges	967		2,289
Income from operations	25,071	29,432	16,248
Interest expense	3,878	4,715	6,815
Write-off of unamortized debt issuance cost			130
Other expense (income), net	852	(1,388)	(1,682)
Income before provision (benefit) for income taxes	20,341	26,105	10,985
Provision (benefit) for income taxes	(3,927)	5,168	4,569
Net income	\$ 24,268	\$ 20,937	\$ 6,416
Other comprehensive income (loss):			
Actuarial loss recognized in change of projected benefit obligation (net of tax of \$0, \$0 and \$0, respectively)			(392)
Foreign currency translation gain (loss)	2,806	(2,578)	(6,726)
Comprehensive income (loss)	\$ 27,074	\$ 18,359	\$ (702)
Basic income per share:			
Net income	\$ 1.43	\$ 1.24	\$ 0.39
Weighted average shares outstanding	17,009	16,817	16,455
Diluted income per share:			
Net income	\$ 1.42	\$ 1.24	\$ 0.39
Weighted average shares outstanding	17,114	16,953	16,570

See accompanying notes to consolidated financial statements

NN, Inc.

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2012, 2011 and 2010

(In thousands)

	Common Stock			Retained Earnings	Accumulated	Total
	Number of Shares	Par Value	Additional paid in capital		Other Comprehensive Income	
Balance, December 31, 2009	16,268	\$ 163	\$ 49,861	\$ 259	\$ 26,520	\$ 76,803
Net income				6,416		6,416
Stock option expense			152			152
Shares issued for options	103	1	752			753
Actuarial loss recognized in change of projected benefit obligation (net of tax \$0)					(392)	(392)
Stock compensation expense	249	3	1,098			1,101
Foreign currency translation loss					(6,726)	(6,726)
Balance, December 31, 2010	16,620	\$ 167	\$ 51,863	\$ 6,675	\$ 19,402	\$ 78,107
Net income				20,937		20,937
Stock option expense			480			480
Shares issued for options	254	2	2,380			2,382
Restricted stock compensation expense	75		348			348
Foreign currency translation loss					(2,578)	(2,578)
Balance, December 31, 2011	16,949	\$ 169	\$ 55,071	\$ 27,612	\$ 16,824	\$ 99,676
Net income				24,268		24,268
Stock option expense			1,093			1,093
Shares issued for options	17		22			22
Restricted stock compensation expense	78	1	694			695
Foreign currency translation gain					2,806	2,806
Balance, December 31, 2012	17,044	\$ 170	\$ 56,880	\$ 51,880	\$ 19,630	\$ 128,560

See accompanying notes to consolidated financial statements

NN, Inc.

Consolidated Statements of Cash Flows

Years ended December 31, 2012, 2011 and 2010

(In thousands)

	2012	2011	2010
Cash flows from operating activities:			
Net income	\$ 24,268	\$ 20,937	\$ 6,416
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	17,643	17,016	19,195
Amortization of debt issue costs	824	809	1,415
(Gain) loss on disposals of property, plant and equipment	(17)	(36)	808
Allowance for doubtful accounts	98	140	97
Compensation expense from issuance of restricted stock and incentive stock options	1,788	828	1,253
Deferred income tax expense (benefit)	(7,067)	(968)	418
Capitalized interest and non-cash interest	(173)	(210)	
Non-cash restructuring and impairment charges	967		308
Write-off of unamortized debt issue costs			130
Changes in operating assets and liabilities:			
Accounts receivable	15,330	(7,539)	(15,459)
Inventories	238	(7,079)	(10,253)
Income tax receivable	(1,163)	(419)	2,393
Other current assets	(405)	(1,658)	740
Other non-current assets	(21)	7	(1,403)
Accounts payable	(11,630)	(4,790)	19,165
Other liabilities	(3,322)	(2,083)	2,637
Net cash provided by operating activities	37,358	14,955	27,860
Cash flows from investing activities:			
Acquisition of property, plant and equipment	(17,089)	(20,329)	(15,249)
Proceeds from disposals of property, plant and equipment	366	255	79
Cash lost in deconsolidation of Eltmann		(979)	
Proceeds received from long-term note receivable	1,945		711
Net cash used by investing activities	(14,778)	(21,053)	(14,459)
Cash flows from financing activities:			
Debt issue costs paid	(862)	(453)	(1,395)
Proceeds from long-term debt, net		20,000	
Repayment of long-term debt, net	(7,914)	(16,014)	(9,914)
Proceeds (repayment) of short-term debt, net	(701)	789	(3,691)
Proceeds from issuance of stock and exercise of stock options	22	2,382	753
Principal payments on capital lease	(119)	(66)	(57)
Net cash provided by (used by) financing activities	(9,574)	6,638	(14,304)
Effect of exchange rate changes on cash flows	1,448	(1,560)	(2,285)
Net change in cash and cash equivalents	14,454	(1,020)	(3,188)
Cash and cash equivalents at beginning of year	4,536	5,556	8,744
Cash and cash equivalents at end of year	\$ 18,990	\$ 4,536	\$ 5,556

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Supplemental schedule of non-cash investing and financing activities:

Compensation expense for stock awards, (\$695 in 2012, \$348 in 2011, and \$1,101 in 2010) and stock option expense (\$1,093 in 2012, \$480 in 2011, and \$152 in 2010) included in stockholders equity	\$ 1,788	\$ 828	\$ 1,253
Acquired land and building through a 20 year capital lease not included in investing activities above	\$	\$ 1,948	\$
Sale of \$2,230 in property, plant and equipment for a note receivable with an aggregate carrying value of \$1,562 in 2010.	\$	\$	\$ 668

Certain amounts were deconsolidated from the Balance Sheet of NN due to the bankruptcy of a subsidiary on January 20, 2011 and are not reflected in the 2011 cash flow statement above (See Note 1 of Notes to Consolidated Financial Statements)

Cash paid for interest and income taxes was as follows:

Interest	\$ 3,130	\$ 3,869	\$ 4,825
Income taxes	\$ 5,882	\$ 6,516	\$ 1,419
Income tax refunds received from taxing authorities	\$ 757	\$ 149	\$ 2,393

See accompanying notes to consolidated financial statements

NN, Inc.

Notes to Consolidated Financial Statements

December 31, 2012, 2011 and 2010

(In thousands, except per share data)

1) Summary of Significant Accounting Policies and Practices

a) Description of Business

NN, Inc. (NN , the Company , we , our or us) is a manufacturer of precision balls, cylindrical and tapered rollers, bearing retainers, plastic injection molded products, precision bearing seals and precision metal components. Our balls, rollers, retainers, and bearing seals are used primarily in the domestic and international anti-friction bearing industry. Our plastic injection molded products are used in the bearing components, automotive components, electronic instrument cases and other molded components used in a variety of applications. The precision metal components products are used in the HVAC, automotive, fluid power and diesel engine industries.

b) Cash

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. Our policy is to expense abnormal amounts of idle facility expense, freight, handling cost, and waste. In addition, we allocate fixed production overheads based on the normal production capacity of our facilities. Inventory valuations were developed using normalized production capacities for each of our manufacturing locations and the costs from excess capacity or under-utilization of fixed production overheads were expensed in the period incurred and are not included as a component of inventory valuation.

Inventories also include tools, molds and dies in progress that we are producing and will ultimately sell to our customers. This activity is principally related to our Plastic and Rubber Components and Precision Metal Components Segments. These inventories are carried at the lower of cost or market.

d) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Assets to be disposed of are stated at lower of depreciated cost or fair market value less estimated selling costs. Expenditures for maintenance and repairs are charged to expense as incurred. Major renewals and betterments are capitalized. When a property item is retired, its cost and related accumulated depreciation are removed from the property accounts and any gain or loss is recorded in the statements of comprehensive income (loss). We review 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. Property, plant and equipment includes tools, molds and dies principally used in our Plastic and Rubber Components and Precision Metal Components Segments that are our property.

Depreciation is provided on the straight-line method over the estimated useful lives of the depreciable assets for financial reporting purposes. For leasehold improvements and buildings under capital lease, we depreciate these over the shorter of useful lives or the lease term. In the event we abandon and cease to use certain property, plant, and equipment, depreciation estimates are revised and, in most cases, depreciation expense will be accelerated to reflect the shortened useful life of the asset.

e) Revenue Recognition

We recognize revenues based on the stated shipping terms with customers when these terms are satisfied and the risks of ownership are transferred to the customers. We have an inventory management program for certain Metal Bearing Components Segment customers whereby revenue is recognized when products are used by customers from consigned stock, rather than at the time of shipment. Under both circumstances, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the sellers price is fixed and determinable and collectability is reasonably assured.

NN, Inc.

Notes to Consolidated Financial Statements

December 31, 2012, 2011 and 2010

(In thousands, except per share data)

f) Accounts Receivable

Accounts receivable are recorded upon recognition of a sale of goods and ownership and risk of loss is assumed by the customer. Substantially all of our accounts receivable are due primarily from the core served markets. In establishing allowances for doubtful accounts, we perform credit evaluations of our 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. Accounts receivable are written off or allowances established when considered to be uncollectible or at risk of being uncollectible, respectively.

g) 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 carry forwards. 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.

During the year ended December 31, 2012, we reversed the full valuation allowances against the net deferred tax assets of all of our U.S. operations. This decision was based on the much improved financial performance of our U.S. based units in 2012 and the resulting utilization of a significant portion of our U.S. net operating losses during 2012. The Consolidated Financial Statements for the years ended December 31, 2011 and 2010, reflected full valuation allowances against the net deferred tax assets of all our U.S. operations. Based upon the negative financial performance for our combined U.S. locations during the years ended December 31, 2009 and 2010, we determined that there was a likelihood at that time these locations would be unable to generate sufficient profits in the near future to allow realization of existing deferred tax assets.

We recognize income tax positions that meet the more likely than not threshold and accrue interest and potential penalties related to unrecognized income tax positions which are recorded as a component of the income tax provision.

h) Net Income Per Common Share

Basic income per share reflects reported earnings divided by the weighted average number of common shares outstanding. Diluted income per share include the effect of dilutive stock options, unvested restricted stock (if any) and the respective tax benefits, unless inclusion would not be dilutive.

i) Share Based Compensation

The cost of stock options and stock awards are expensed as compensation expense over the vesting periods based on the fair value at the grant date. (See Note 9 of the Notes to the Consolidated Financial Statements) We use the Black Scholes financial pricing model to determine the fair value of our stock options as our options are not traded in open markets.

We account for stock awards by recognizing compensation expense ratably over the vesting period as specified in the award. Compensation expense to be recognized is based on the stock price at date of grant.

j) Principles of Consolidation

Our consolidated financial statements include the accounts of NN, Inc. and its subsidiaries. All of our subsidiaries are 100% owned and all are included in the consolidated financial statements for the years end December 31, 2012, 2011, and 2010 with the exception of our German subsidiary, as discussed below. All significant inter-company profits, transactions, and balances have been eliminated in consolidation.

NN, Inc.

Notes to Consolidated Financial Statements

December 31, 2012, 2011 and 2010

(In thousands, except per share data)

Due to the impacts of the global economic recession and the resulting reduction in revenue and operating losses, our wholly owned German subsidiary, Kugelfertigung Eltmann GbmH (Eltmann or Eltmann Plant), sustained a significant weakening of its financial condition. As a result, it became insolvent at which point it was required to file for bankruptcy under German bankruptcy law. The filing was made in the bankruptcy court in Germany on January 20, 2011. As of this date, NN lost the ability to control or manage Eltmann as a result of the bankruptcy court trustee taking over effective control and day to day management of this subsidiary. As a result of loss of control of this subsidiary, NN deconsolidated the assets and liabilities of Eltmann from our Consolidated Financial Statements effective January 20, 2011.

We were informed that in early April 2011, the bankruptcy trustee sold the majority of the production assets of Eltmann to a non-affiliated manufacturing company. It is our understanding that the remaining assets and liabilities of Eltmann will be liquidated sometime in the future by the bankruptcy court. NN does not expect any further significant impact on our consolidated financial statements as a result of the liquidation of this subsidiary.

The following table summarizes the effects of the deconsolidation of Eltmann effective January 20, 2011 on the Consolidated Balance Sheets:

Cash	\$ (979)
Accounts receivable	(3,388)
Inventory	(2,407)
Other assets	(193)
Property, plant and equipment	(1,343)
Reduction of total assets	\$ (8,310)
Accounts payable	(1,738)
Accrued salaries	(1,500)
Accrued pension	(5,623)
Accumulated other comprehensive income	551
Reduction of total liabilities and stockholders equity	\$ (8,310)
Net impact from deconsolidation of bankrupt subsidiary	\$

The deconsolidation of the amounts above were not reflected in the Consolidated Statements of Cash Flows for the year ended December 31, 2011.

k) Foreign Currency Translation

Assets and liabilities of our foreign subsidiaries are translated at current exchange rates, while revenue, costs and expenses are translated at average rates prevailing during each reporting period. Translation adjustments arising from the translation of foreign subsidiary financial statements are reported as a component of other comprehensive income (loss) and accumulated other comprehensive income within stockholders equity. In addition, transactions denominated in foreign currencies, including intercompany transactions, are initially recorded at the current exchange rate at the date of the transaction. The balances are adjusted to the current exchange rate as of each balance sheet date and as of the date when the transaction is consummated. Transaction gains or losses, excluding intercompany loan transactions, are expensed in either cost of products sold or selling, general and administrative lines in the Consolidated Statements of Comprehensive Income (Loss) as incurred and were immaterial to the years ended December 31, 2012, 2011 and 2010. Transaction gains or losses on intercompany loan transactions are recognized

in the other income, net line in the Consolidated Statements of Comprehensive Income (Loss) as incurred.

l) Goodwill and Other Indefinite Lived Intangible Assets

We recognize the excess of the purchase price of an acquired entity over the fair value of the net identifiable assets as goodwill. Goodwill is tested for impairment on an annual basis as of October 1 and between annual tests if a triggering event occurs. The impairment procedures are performed at the reporting unit level for the one reporting unit that still has goodwill. In September 2011, the FASB issued a revised accounting standard, intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an

NN, Inc.

Notes to Consolidated Financial Statements

December 31, 2012, 2011 and 2010

(In thousands, except per share data)

option to perform a qualitative assessment to determine whether further impairment testing is necessary. Specifically, an entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. This standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 with early adoption permitted. We adopted this standard in the fourth quarter of 2011 concurrent with our annual impairment test. In assessing the qualitative factors, we consider the impact of the following key factors and their effect on the reporting unit, budget to actual performance, economic, market and industry considerations such as automotive production rates in the geographic markets we serve, earnings multiples and cash flow from operations. For the year ended December 31, 2011, based on the qualitative assessment considering prior year results and current operating performance we determined it was more likely than not that the fair value of the reporting unit exceeded the carrying value of the reporting unit. For the year ended, December 31, 2012, we determined it was more appropriate to perform a full step 1 goodwill test, as discussed below. This decision was based on the current economic conditions in Europe and length of time since last step 1 test. The decision to perform a qualitative assessment or a complete step 1 analysis is an annual decision made by management based on several factors including those key factors considered in the qualitative assessment discussed above. Based on the result of the step 1 analysis fair value of the reporting unit exceeded the carrying value of the reporting unit at December 31, 2012.

If the qualitative assessment indicates it is more likely than not that the fair value is less than the carrying value, U.S. GAAP prescribes a two-step process for testing for goodwill impairments. The first step is to determine if the carrying value of the reporting unit with goodwill is less than the related fair value of the reporting unit. The fair value of the reporting unit is determined through use of discounted cash flow methods and market based multiples of earning and sales methods obtained from a grouping of comparable publicly trading companies. We believe this methodology of valuation is consistent with how market participants would value reporting units. The discount rate and market based multiples used are specifically developed for the units tested regarding the level of risk and end markets served. Even though we do use other observable inputs (Level 2 inputs) the calculation of fair value for goodwill would be most consistent with Level 3 inputs.

If the carrying value of the reporting unit including goodwill is less than fair value of the reporting unit, the goodwill is not considered impaired. If the carrying value is greater than fair value then the potential for impairment of goodwill exists. The potential impairment is determined by allocating the fair value of the reporting unit among the assets and liabilities based on a purchase price allocation methodology as if the reporting unit was acquired in a business combination. The fair value of the goodwill is implied from this allocation and compared to the carrying value with an impairment loss recognized if the carrying value is greater than the implied fair value.

We base our fair value estimates, in large part, on management business plans and projected financial information which are subject to a high degree of management judgment and complexity. Actual results may differ from these projections and the differences may be material.

Our indefinite lived intangible asset is accounted for similarly to goodwill. This asset is tested for impairment at least annually by comparing the fair value to the carrying value, using the relief from royalty rate method, and if the fair value is less than the carrying value, an impairment charge is recognized for the difference. We elected to use Step 1 testing even though a qualitative approach was available to us.

m) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

Long-lived tangible and intangible assets subject to amortization are tested for recoverability when changes in circumstances indicate the carrying value of these assets may not be recoverable. A test for recoverability is also performed when management has committed to a plan to dispose of a reporting unit or asset group. Assets to be held and used are tested for recoverability when indications of impairment are evident. Recoverability of a long-lived tangible and intangible asset is evaluated by comparing its carrying value to the future estimated undiscounted cash flows expected to be generated by the asset or asset group. If the asset is not recoverable the asset is considered impaired and adjusted to fair value which is then depreciated/amortized over its remaining useful live. Assets to be disposed of are carried at the lesser of carrying value or fair value less costs of disposal. (See Note 2 of the Notes to Consolidated Financial Statements).

NN, Inc.

Notes to Consolidated Financial Statements

December 31, 2012, 2011 and 2010

(In thousands, except per share data)

n) Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

o) Fair Value Measurements

Fair value principles prioritize valuation inputs across three broad levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the our assumptions used to measure assets and liabilities at fair value. An asset or liability's classification within the various levels is determined based on the lowest level input that is significant to the fair value measurement.

p) Recently Issued Accounting Standards

In June 2011, the FASB issued amended accounting guidance related to presentation of comprehensive income. The standards update is intended to help financial statement users better understand the causes of an entity's change in financial position and results of operation. It is effective for reporting periods beginning after December 15, 2011. We adopted this guidance during the first quarter of 2012. Since this new guidance affected disclosure requirements only, it did not have a material impact on our financial position or results of operations.

In July 2012, the FASB issued amended accounting guidance allowing companies to first assess qualitative factors to determine whether it is more-likely-than-not an indefinite-lived intangible asset is impaired. If the conclusion is more-likely-than-not the indefinite-lived intangible asset is not impaired, then further action is not required. However, if the conclusion is otherwise, a quantitative impairment test described in ASC Topic 350 is required. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements.

2) Restructuring and Impairment Charges

Restructuring Activity

There were no restructuring charges incurred during the years ended December 31, 2012 and December 31, 2011.

During the first quarter of 2010, we announced the closure of the Tempe Plant. We ceased operations at this location on August 31, 2010. This closure impacted approximately 130 employees. Current economic conditions coupled with the long-term manufacturing strategy for our Whirlaway business necessitated a consolidation of our manufacturing resources into existing facilities in Ohio. We incurred cash charges of approximately \$1,518 in severance costs during 2010. The severance costs were recognized pro-rata over the period from the announcement date until the employees' termination date as continued employment was a requirement to receive severance payments. Additionally, during the year ended December 31, 2010, we incurred \$506 of site closure and other associated costs. These restructuring costs were recorded in the Restructuring and Impairment Charges line as a component of income from operations. In the first quarter of 2010, we incurred \$1,000 of accelerated depreciation related to certain fixed assets that were expected to be abandoned due to ceasing operations at the Tempe Plant. The majority of the fixed assets and inventory that ceased to be used were sold on August 31, 2010. The accelerated depreciation was reported in the depreciation and amortization expense line as a component of income from operations.

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(In thousands, except per share data)

Impairments of Goodwill and Other Long-Lived Tangible and Intangible Assets

For the year ended December 31, 2012, we recorded \$967 of non-cash charges related to the further impairment of our former production facility in Kilkenny, Ireland. Based on updated market based information related to commercial property valuation in Ireland, management determined the market value of the building was less than book value and the book value was adjusted accordingly. This impairment charge was reported in the Restructuring and Impairment Charges line as a component of income from operations in 2012.

For the year ended December 31, 2010, we recorded \$308 of non-cash charges related to the impairment of production machinery at the Eltmann Plant as this subsidiary was legally required to file for bankruptcy in January 2011. This impairment charge was reported in the Restructuring and Impairment Charges line as a component of income from operations in 2010. (See Notes 1 and 15 of the Notes to Consolidated Financial Statements).

3) Accounts Receivable and Sales Concentrations

	December 31,	
	2012	2011
Trade	\$ 51,939	\$ 67,145
Less allowance for doubtful accounts	311	438
Accounts receivable, net	\$ 51,628	\$ 66,707

Activity in the allowance for doubtful accounts is as follows:

Description	Balance at Beginning of Year	Additions	Write- offs	Currency Impacts	Balance at End of Year
December 31, 2012					
Allowance for doubtful accounts	\$ 438	\$ 98	\$ (224)	\$ (1)	\$ 311
December 31, 2011					
Allowance for doubtful accounts	\$ 478	\$ 140	\$ (178)	\$ (2)	\$ 438
December 31, 2010					
Allowance for doubtful accounts	\$ 473	\$ 97	\$ (81)	\$ (11)	\$ 478

For the years ended December 31, 2012, 2011 and 2010, sales to SKF amounted to \$124,349, \$159,668, and \$139,242, respectively, or 34%, 38%, and 38% of consolidated revenues, respectively. None of our other customers accounted for more than 10% of our net sales in 2012, 2011 or 2010. SKF was the only customer with accounts receivable concentration in excess of 10% in 2012. SKF and SNR Roulements (SNR) were the only customers with accounts receivable concentrations in excess of 10% in 2011. The outstanding balance as of December 31, 2012 and 2011 for SKF was \$15,433 and \$22,572, respectively. The outstanding balance as of December 31, 2011 for SNR was \$6,796. All revenues and receivables related to SKF are in the Metal Bearing Components and Plastic and Rubber Components Segments. All revenues and receivables related to SNR are in the Metal Bearing Components Segment.

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4) Long Term Note Receivable

Certain property, plant and equipment of the Tempe Plant was sold on August 31, 2010, the day the Tempe Plant ceased operations, to a newly formed company not affiliated with NN in exchange for a promissory note. This note had an original face value of \$2,500, a 60 month term, a 7% interest rate, interest only payments for 24 months, principal and interest payments totaling \$40 per month for the next 36 months followed by a balloon payment of \$1,525. On March 31, 2012, we accepted a \$1,945 cash payment to settle the note and relieved the debtor of all future liability for the note. The estimated fair value and carrying value of note prior to the payment was \$1,772.

5) Inventories

	December 31,	
	2012	2011
Raw materials	\$ 13,013	\$ 13,855
Work in process	8,561	8,425
Finished goods	24,576	23,743
Inventories	\$ 46,150	\$ 46,023

Inventory on consignment at customers sites at December 31, 2012 and 2011 was approximately \$2,644 and \$4,156, respectively.

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

6) Property, Plant and Equipment

	Estimated Useful Life	December 31,	
		2012	2011
Land owned		\$ 5,937	\$ 5,851
Land under capital lease		1,396	1,378
Buildings and improvements owned	15-40 years	43,751	42,634
Buildings under capital lease	20 years	3,082	3,039
Machinery and equipment	3-12 years	244,138	237,051
Construction in process		20,283	8,434
		318,587	298,387
Less accumulated depreciation		198,900	177,859
Property, plant and equipment, net		\$ 119,687	\$ 120,528

For the years ended December 31, 2012, 2011, and 2010, depreciation expense was \$17,601, 16,996 and 18,627, respectively.

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During the first quarter of 2011, we reduced machinery and equipment by \$11,102 and accumulated depreciation by \$9,759 for a net reduction in property, plant and equipment of \$1,343 related to the Eltmann Plant deconsolidation. (See Note 1 of the Notes to Consolidated Financial Statements).

During the fourth quarter of 2011, property, plant and equipment increased for the addition of land and building totaling \$1,948 acquired through a 20 year capital lease obligation at our Kunshan Plant effective October 1, 2011. (See Note 7 of the Notes to Consolidated Financial Statements).

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7) Debt

Long-term debt at December 31, 2012 and 2011 consisted of the following:

	2012	2011
Borrowings under our \$100,000 revolving credit facility bearing interest at a floating rate equal to LIBOR (0.25% at December 31, 2012) plus an applicable margin of 1.50%, expiring October 26, 2017.	\$ 38,087	\$ 40,989
Borrowings under our \$40,000 aggregate principal amount notes bearing interest at a fixed rate of 4.89% maturing on April 26, 2014. Annual principal payments of \$5,714 began on April 26, 2008 and extend through the date of maturity.	11,429	17,143
Borrowings under our \$20,000 aggregate principal amount notes bearing interest at a fixed rate of 4.64% maturing on December 20, 2018. Annual principal payments of \$4,000 will begin on December 22, 2014 and extend through the date of maturity.	20,000	20,000
Total long-term debt	69,516	78,132
Less current maturities of long-term debt	5,801	6,503
Long-term debt, excluding current maturities	\$ 63,715	\$ 71,629

On October 26, 2012, we amended our \$100,000 revolving credit facility agented by KeyBank and our fixed rate notes with Prudential Capital in order to take advantage of lower interest rates, to extend the maturity of the revolving credit facility to October 26, 2017, and to remove certain restrictions on acquisitions, payments of dividends and stock repurchases. The amended interest rates on our revolving credit facility are LIBOR plus an applicable margin ranging from 1.25% to 2.25% (depending on the level of debt to earnings before taxes, interest and depreciation (EBITDA)). Prior to the October 26, 2012 amendment, the \$100 million revolving credit facility interest rates were LIBOR plus a margin ranging from 2.50% to 3.50% (depending on the level of debt to EBITDA). The interest rate on our \$40,000 aggregate fixed rate notes, of which \$11,429 was outstanding as of December 31, 2012, was reduced from 5.39% to 4.89%. The amended agreements allow us to undertake acquisitions, pay dividends, and repurchase stock provided we are in compliance with specified covenants. Additionally, the minimum fixed charge coverage ratio will remain at not to be less than 1.00 to 1.00 as of the last day of any fiscal quarter for the full terms of the amended agreements.

On December 20, 2011, we borrowed an additional \$20,000 in seven-year fixed rate notes from Prudential Capital at a rate of 4.64%. These notes, which mature on December 20, 2018, are interest-only for the first two years followed by five equal annual principal payments. The proceeds were used to repay existing revolving credit bank debt and to fund growth capital projects.

The \$100,000 revolving credit facility may be expanded upon our request with approval of the lenders by up to \$35,000 under the same terms and conditions. The loan agreement contains customary restrictions on, among other things, additional indebtedness, liens on our assets, sales or transfers of assets, investments, issuance of equity securities, and merger, acquisition and other fundamental changes in our business including a material adverse change clause, which if triggered would accelerate the maturity of the debt. The facility has a \$10,000 swing line feature to meet short term cash flow needs. Any borrowings under this swing line are considered short term. Costs associated with entering into the revolving credit facility and the subsequent amendments were capitalized and will be amortized into interest expense over the life of the facility. As of December 31, 2012 and 2011, \$2,012 and \$1,761, respectively, of net capitalized loan origination costs related to the revolving credit facility were recorded on the consolidated balance sheet within other non-current assets.

NN, Inc.
Notes to Consolidated Financial Statements**December 31, 2012, 2011 and 2010****(In thousands, except per share data)**

The \$40,000 and \$20,000 fixed rate agreements contain customary restrictions on, among other things, additional indebtedness, liens on our assets, sales or transfers of assets, investments, issuance of equity securities, and mergers, acquisitions and other fundamental changes in our business including a material adverse change clause, which if triggered would accelerate the maturity of the debt. We incurred costs as a result of issuing these notes and the subsequent amendments which have been recorded as a component of other non-current assets and are being amortized over the term of the notes. The unamortized balance at December 31, 2012 and 2011 was \$157 and \$290, respectively.

The aggregate maturities of long-term debt including current portion for each of the five years subsequent to December 31, 2012 are as follows:

	Year ending December 31,
2013	\$ 5,801
2014	9,715
2015	4,000
2016	4,000
2017	42,000
Thereafter	4,000
Total	\$ 69,516

On June 1, 2004, our wholly owned subsidiary, NN Asia, entered into a twenty year lease agreement with Kunshan Tian Li Steel Structure Co. LTD for the lease of land and building (approximately 110,000 square feet) in the Kunshan Economic and Technology Development Zone, Jiangsu, The People's Republic of China. The fair value of the land and building were estimated to be approximately \$520 and \$1,930 (at current exchange rates), respectively and undiscounted annual lease payments are approximately \$287 (approximately \$5,700 aggregate non-discounted lease payments over the twenty year term). The lease is cancelable after the fifth, ninth, and fourteenth years without payment or penalty by us. In addition, after the end of year five and each succeeding year we can buy the land for a preset price per square meter value and the building for actual cost less depreciation.

On October 1, 2011, our wholly owned subsidiary, NN Asia, entered into a twenty year lease agreement with Kunshan Tian Li Steel Structure Co. LTD for the lease of land and building adjacent to the current leased facility (approximately 75,000 square feet) in the Kunshan Economic and Technology Development Zone, Jiangsu, The People's Republic of China. This lease was entered into to expand the production capacity of our current leased facility. The fair value of the land and building were estimated to be approximately \$854 and \$1,107 (at current exchange rates), respectively and undiscounted annual lease payments are approximately \$185 (approximately \$3,700 aggregate non-discounted lease payments over the twenty year term). The lease is cancelable after the fifth, ninth, and fourteenth years without payment or penalty by us. In addition, after the end of year five and each succeeding year we can buy the land for a preset price per square meter value and the building for actual cost less depreciation.

Below are the minimum future lease payments under both capital leases together with the present value of the net minimum lease payments as of December 31, 2012:

	Year ending December 31,
2013	\$ 479
2014	479
2015	479
2016	479

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2017	479
Thereafter	4,855
Total minimum lease payments	7,250
Less interest included in payments above	(3,241)
Present value of minimum lease payments	\$ 4,009

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8) Employee Benefit Plans

We have defined contribution 401(k) profit sharing plans covering substantially all U.S. employees. All employees are eligible for the plans on the first day of the month following their employment date. A participant may elect to contribute between 1% and 60% of their compensation to the plans, subject to Internal Revenue Service (IRS) dollar limitations. Participants age 50 and older may defer an additional amount up to the applicable IRS Catch Up Provision Limit. We provide a matching contribution which is determined on an individual, participating company basis. All participant contributions are immediately vested at 100%. Contributions for all U.S. employees were \$335, \$334 and \$282 in 2012, 2011, and 2010, respectively.

Prior to January 20, 2011, we had a defined benefit pension plan covering our Eltmann Plant. The benefits were based on the expected years of service. The plan was unfunded. Effective January 20, 2011, the defined benefit pension plan covering the employees at our Eltmann Plant is under control of the bankruptcy trustee and has been or will be taken over by the German government's pension security fund. The plan is no longer a responsibility of NN, resulting in a reduction of accrued pension liabilities of \$5,623 on January 20, 2011. We have no remaining pension obligations under this plan. (See Note 1 of the Notes to Consolidated Financial Statements).

Post-Employment Benefit Liabilities

We provide certain post-employment benefits to employees at our Pinerolo and Veenendaal plants that are either required by law or are local labor practice. There is a plan at our Pinerolo Plant and at our Veenendaal Plant which are described below.

In accordance with Italian law, the Company has an unfunded severance plan under which all Italian employees are entitled to receive severance indemnities (Trattamento di Fine Rapporto or TFR) upon termination of their employment.

Effective January 1, 2007, the amount payable based on salary paid is remitted to a pension fund managed by a third party. The severance indemnities paid to the pension fund accrue approximately at the rate of 1/13.5 of the gross salaries paid during the year. The amounts accrued become payable upon termination of the individual employee, for any reason, e.g., retirement, dismissal or reduction in work force. Employees are fully vested in TFR benefits after their first year of service.

We have a plan that covers our Veenendaal Plant employees that provides an award for employees who achieve 25 or 40 years of service and an award for employees upon retirement. The plan is unfunded and the benefits are based on years of service and rate of compensation at the time the award is paid.

The amounts shown in the table below represent the actual liabilities at December 31, 2012 and 2011 reported under accrued post-employment benefits in the Consolidated Balance Sheets for both plans combined.

	2012	2011
Beginning balance	\$ 7,705	\$ 7,864
Amounts accrued	574	1,279
Payments to employees/government managed plan	(1,477)	(1,233)
Foreign currency impacts	128	(205)
Ending balance	\$ 6,930	\$ 7,705

9) Stock Based Compensation

We recognize compensation expense of all employee and non-employee director share-based compensation awards in the financial statements based upon the fair value of the awards over the requisite service or vesting period, less anticipated forfeitures. We account for stock awards by recognizing the fair value of the awarded stock at the grant date as compensation expense over the vesting period, less anticipated forfeitures.

In the years ended December 31, 2012, 2011, and 2010, approximately \$1,788, \$828, and \$1,253, respectively of compensation expense was recognized in selling, general and administrative expense for all share-based awards. The compensation expense recognized in the years ended December 31, 2012, 2011 and 2010 related to stock options was \$1,093, \$480, and \$152, respectively. The compensation expense related to stock awards in the years ended December 31, 2012, 2011 and 2010 was \$695, \$348, and \$1,101, respectively.

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During the year ended December 31, 2011, our shareholders approved a new stock based compensation plan totaling 2,500 shares that can be issued in the form of stock options, stock appreciation rights and/or other stock based awards. Any options issued count as the equivalent of one share under the plan. Any stock appreciation rights and/or other stock based awards count as the equivalent one and a half shares under the new plan. As of December 31, 2012, we have approximately 1,858 maximum shares that can be issued as options, stock appreciation rights, and/or other stock based awards. Under our previously approved plan, we still have 32 options available for issuance.

Stock Option Awards

Option awards are typically granted to non-employee directors and key employees on an annual basis. A single option grant is typically awarded to eligible employees and non-employee directors each year if and when granted by the Compensation Committee of the Board of Directors and occasionally individual grants are awarded to eligible employees. All employee and non-employee directors are awarded options at an exercise price equal to the closing price of our stock on the date of grant. The term life of options is ten years with vesting periods of generally three years for key employees and one year for non-employee directors. The fair value of our options cannot be determined by market value as they are not traded in an open market. Accordingly, a financial pricing model is utilized to determine fair value. We utilize the Black Scholes model which relies on certain assumptions to estimate an option's fair value.

During 2012, 2011 and 2010, we granted 285, 216, and 33 options, respectively, to certain key employees and non-employee directors. The weighted average grant date fair value of the options granted during the years ended December 31, 2012, 2011 and 2010 was \$4.27, \$5.98, and \$2.64, respectively. Upon exercise of stock options, new shares of our stock are issued. The weighted average assumptions relevant to determining the fair value at the dates of grant are below:

	2012	2011	2010
Term	6 years	6 years	6 years
Risk free interest rate	1.16%	1.72%	2.37%
Dividend yield	0.00%	0.00%	0.00%
Expected volatility	50.51%	42.10%	63.90%
Expected forfeiture rate	3.00%	5.00%	6.20%

The expected volatility rate is derived from our actual common stock historical volatility over the same time period as the expected term. The volatility rate is derived by mathematical formula utilizing daily closing price data.

The expected dividend yield is derived by a mathematical formula which uses the expected annual dividends over the expected term divided by the fair market value of our common stock at the grant date.

The average risk-free interest rate is derived from United States Department of Treasury published interest rates of daily yield curves for the same time period as the expected term.

The forfeiture rate is determined from examining the historical pre-vesting forfeiture patterns of past option issuances to key employees. The forfeiture rate is estimated to be 0% for non-employee directors. While the forfeiture rate is not an input of the Black Scholes model for determining the fair value of the options, it is an important determinant of stock option compensation expense to be recorded.

The term is derived from using the Simplified Method of determining stock option terms as described under the Securities and Exchange Commission's Staff Accounting Bulletin 107.

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The following table provides a reconciliation of option activity for the year ended December 31, 2012:

Options	Shares (000 s)	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000)
Outstanding at January 1, 2012	1,141	\$ 10.12		
Granted	285	\$ 8.85		
Exercised	(17)	\$ 1.30		
Forfeited or expired	(25)	\$ 11.42		
Outstanding at December 31, 2012	1,384	\$ 9.94	5.6	\$ 1,580 ⁽¹⁾
Exercisable at December 31, 2012	985	\$ 9.79	4.2	\$ 1,468 ⁽¹⁾

⁽¹⁾ The intrinsic value is the amount by which the market price of our stock was greater than the exercise price of any individual option grant at December 31, 2012.

As of December 31, 2012, there was approximately \$800 and \$545 of unrecognized compensation costs for stock options and restricted stock, respectively, to be recognized over approximately two years.

Cash proceeds from the exercise of options in the years ended December 31, 2012, 2011, and 2010 totaled approximately \$22, \$2,382, and \$753, respectively. For the years ended December 31, 2012, 2011 and 2010, proceeds from stock options were presented inclusive of tax benefits of \$0, \$0, and \$0, respectively, in the Financing Activities section of the Consolidated Statements of Cash Flows. The total intrinsic value of options exercised during the years ended December 31, 2012, 2011 and 2010 was \$107, \$1,283, and \$89, respectively.

Stock Awards

During the year ended December 31, 2012, 2011 and 2010, we issued 78, 75 and 249 shares, respectively, of our common stock as awards to key employees and non-executive directors. The fair value of the shares issued was determined by using the grant date price of our common stock. The recognized compensation expense for stock awards in the years ended December 31, 2012, 2011, and 2010 was approximately \$695, \$348, and \$1,101, respectively. The shares issued in 2012 and 2011 vest over three years. For the 2010 grant, we incurred \$1,101 of compensation expense, the entire fair value of the grant, at the grant date due to the shares being fully vested at that date.

10) Goodwill, Net

As of December 31, 2012, we have recorded goodwill at only one site, the Pinerolo Plant reporting unit of the Metal Bearing Components Segment. We completed our annual goodwill impairment review during the fourth quarters of 2012, 2011, and 2010. For the years ended December 31, 2012, 2011 and 2010, we concluded that there were no indicators of impairment at the Pinerolo Plant reporting unit.

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The changes in the carrying amount of goodwill for the years ended December 31, 2012, 2011 and 2010 are as follows:

<i>(In thousands)</i>	Metal Bearing Components Segment
Balance as of January 1, 2010	\$ 9,278
Currency impacts	(882)
Balance as of December 31, 2010	\$ 8,396
Currency impacts	(357)
Balance as of December 31, 2011	\$ 8,039
Currency impacts	215
Balance as of December 31, 2012	\$ 8,254

The cumulative accumulated impairment charges included in the reported goodwill balances at December 31, 2012, 2011 and 2010 were \$40,045 all of which were posted during the years ended December 31, 2008 and 2007.

11) Intangible Assets, Net

The Precision Metal Components Segment has an intangible asset not subject to amortization of \$900 related to the value of the trade names of Whirlaway. This indefinite lived intangible asset was tested for impairment as of December 31, 2012 and the fair value of this intangible asset exceeded its book value. We elected to use Step 1 testing even though a qualitative approach was available to us.

During the year ended December 31, 2010, we fully amortized our contract intangible within the Metal Bearing Components Segment and there are no finite lived intangible assets remaining at December 31, 2012. This intangible asset was subject to amortization over approximately five years starting in 2006 and amortization expense was approximately \$550 a year. For the year ended December 31, 2010 the amortization expense totaled \$562.

12) Segment Information

We determined our reportable segments under the provisions of U.S. GAAP related to disclosures about segments of an enterprise. Our three reportable segments are based on differences in product lines and are as follows:

Metal Bearing Components Segment

Erwin Plant

Mountain City Plant

Pinerolo Plant

Veenendaal Plant

Kysucke Plant

Kunshan Plant

Plastic and Rubber Components Segment

Danielson Plant

Lubbock Plant

Precision Metal Components Segment

Wellington Plant 1

Wellington Plant 2

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Note: The segment information below includes the following former facilities. The Eltmann Plant was deconsolidated from NN on January 20, 2011. The Tempe plant ceased operations August 31, 2010.

All of the facilities in the Metal Bearing Components Segment are engaged in the production of precision steel balls, steel rollers, and metal retainers and automotive specialty products used primarily in the bearing industry. The Plastic and Rubber Components Segment facilities are engaged in the production of plastic retainers for bearing components, automotive components, electronic instrument cases and other molded components used in a variety of industrial and consumer applications and precision rubber bearing seals for the bearing, automotive, industrial, agricultural, and aerospace markets. The Precision Metal Components Segment is engaged in the production of highly engineered precision metal components and subassemblies including, highly engineered shafts, mechanical components, complex precision assembled and tested parts and fluid system components for the automotive, HVAC, fluid power, and diesel engine industries.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. We evaluate segment performance based on segment net income (loss) after income tax expense (benefit). We account for inter-segment sales and transfers at current market prices. We did not have any individually material inter-segment transactions during 2012, 2011, or 2010.

	Metal Bearing Components Segment	Precision Metal Components Segment	Plastic and Rubber Components Segment	Corporate and Consolidations	Total
December 31, 2012					
Net sales	\$ 252,241	\$ 76,746	\$ 41,097	\$	\$ 370,084
Interest expense	387	1,070	960	1,461	3,878
Depreciation and amortization	12,060	4,243	1,366	(26)	17,643
Income tax (benefit) expense	2,819	(1,811)	(2,244)	(2,691)	(3,927)
Net income (loss)	20,980	8,040	2,961	(7,713)	24,268
Assets	198,770	40,727	19,232	6,614	265,343
Expenditures for long-lived assets	14,875	1,511	703		17,089
December 31, 2011					
Net sales	\$ 308,883	\$ 72,272	\$ 43,536	\$	\$ 424,691
Interest expense	214	1,279	960	2,262	4,715
Depreciation and amortization	12,295	3,346	1,371	4	17,016
Income tax (benefit) expense	4,785			383	5,168
Net income (loss)	30,360	(3,143)	1,919	(8,199)	20,937
Assets	188,872	47,027	19,740	3,822	259,461
Expenditures for long-lived assets	11,791	7,194	1,344		20,329
December 31, 2010					
Net sales	\$ 271,339	\$ 54,913	\$ 39,117	\$	\$ 365,369
Interest expense	660	1,629	960	3,566	6,815
Depreciation and amortization	13,522	4,230	1,439	4	19,195
Income tax expense (benefit)	4,687			(118)	4,569
Net income (loss)	24,910	(8,922)	2,504	(12,076)	6,416
Assets	190,700	34,839	18,871	4,145	248,555
Expenditures for long-lived assets	5,450	9,015	784		15,249

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Due to the large number of countries in which we sell our products, sales to external customers and long-lived assets utilized by us are reported in the following geographical regions:

	December 31, 2012		December 31, 2011		December 31, 2010	
	Net Sales	Property, Plant and Equipment, Net	Net Sales	Property, Plant and Equipment, Net	Net Sales	Property, Plant and Equipment, Net
United States	\$ 144,375	\$ 42,884	\$ 140,492	\$ 46,959	\$ 120,576	\$ 41,906
Europe	140,208	54,768	193,948	56,442	162,438	61,813
Asia	39,576	22,035	42,591	17,127	41,616	14,769
Canada	7,464		6,172		3,909	
Mexico	24,030		23,024		18,032	
S. America	14,431		18,464		18,798	
All foreign countries	225,709	76,803	284,199	73,569	244,793	76,582
Total	\$ 370,084	\$ 119,687	\$ 424,691	\$ 120,528	\$ 365,369	\$ 118,488

13) Income Taxes

As of December 31, 2011 and 2010, we had full valuation allowances against all the deferred tax assets of our U.S. units totaling \$12,066 and \$16,604, respectively, as we determined that it was more likely than not the U.S. locations would be unable to generate sufficient profits in the near future to allow realization of existing deferred tax assets at those period ends. The determination to place a valuation allowance on the tax benefits incurred by our U.S. based operations was made during 2009 due to the 2009 results of these entities being much more unfavorable than originally forecasted during the global economic recession of 2009. During the year ended December 31, 2010, we continued to place a valuation allowance on all of the deferred tax assets of our U.S. locations, based on the incurred net losses during the year ended December 31, 2010 at the U.S. Consolidated entities due to the restructuring at the Tempe Plant and the losses from operations at the Wellington Plants. During the year ended December 31, 2011, we continued to place a valuation allowance on all the deferred tax assets at our U.S. locations due to the uncertainty of realization of those deferred tax assets. While our U.S. entities generated pre-tax income of approximately \$1,600 during the year ended December 31, 2011, the substantial cumulative losses in 2009 and 2010 outweighed the positive evidence of the 2011 taxable income.

For the year ended 2012, the pretax profit of our U.S. based companies increased to approximately \$7,400 due in large part to the operational improvements in our Precision Metal Components Segment. This brings the combined 2012 and 2011 pre-tax incomes to approximately \$9,000. Additionally, during the fourth quarter of 2012, we utilized approximately \$9,000 of net operating losses to offset tax expense related to certain previously earned income of our foreign holding company, as discussed below. This positive evidence coupled with estimates within our U.S. based businesses of fully utilizing our net operating losses within the next two years provided enough positive evidence, in the opinion of management, to overcome the negative evidence of the cumulative pre-tax losses in 2009 and 2010. Accordingly, after considering all relevant factors and objectively verifiable evidence having an impact on the likelihood of future realization of our U.S. companies' deferred tax assets, as of December 31, 2012, management concluded that it is more likely than not that the majority of our deferred tax assets will be realized in future years. Accordingly, we reversed \$8,512 of the amount of the valuation allowance on our tax effected deferred tax assets, with a credit to the provision for income taxes of \$8,512 in our Consolidated Statements of Comprehensive Income (Loss).

A valuation allowance of \$2,252 will remain offsetting certain deferred tax assets as of December 31, 2012. These assets represent the portion of our previously recognized foreign tax credits which management estimates will not be realized in the future due to their relatively short

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remaining carry-forward periods. During the year ended December 31, 2012, we reduced the valuation allowance against these credits by \$1,302 as we believe it is more likely than not these credits will be utilized before their carry forward period expires.

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The following tables reflect the effects of full valuation allowances on the net deferred tax assets of all U.S. based entities for the years ended December 31, 2011 and 2010 and the removal of \$9,814 of these valuation allowances for the year ended December 31, 2012.

Income (loss) before provision (benefit) for income taxes for the years ended December 31, 2012, 2011 and 2010 was as follows:

	Year ended December 31,		
	2012	2011	2010
Income (loss) before provision (benefit) for income taxes:			
United States	\$ 7,385	\$ 1,633	\$ (9,528)
Foreign	12,956	24,472	20,513
Total	\$ 20,341	\$ 26,105	\$ 10,985

Total income tax expense (benefit) for the years ended December 31, 2012, 2011, and 2010 was as follows:

	Year ended December 31,		
	2012	2011	2010
Current:			
U.S. Federal	\$ (115)	\$	\$
State	345	113	183
Non-U.S.	2,910	6,023	3,968
Total current expense (benefit)	3,140	6,136	4,151
Deferred:			
U.S. Federal	2,789	534	(2,732)
State	12	170	(160)
U.S. deferred tax valuation allowance	(9,814)	(704)	2,892
Non-U.S.	(54)	(968)	418
Total deferred expense (benefit)	(7,067)	(968)	418
Total expense (benefit)	\$ (3,927)	\$ 5,168	\$ 4,569

A reconciliation of income taxes based on the U.S. federal statutory rate of 34% for each of the years ended December 31, 2012, 2011 and 2010 is summarized as follows:

	Year ended December 31,		
	2012	2011	2010
Income taxes at the federal statutory rate	\$ 6,916	\$ 8,876	\$ 3,735

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Impact of incentive stock options	371	163	52
Increase (decrease) in U.S. valuation allowance	(12,740)	(704)	2,892
Decrease in foreign valuation allowance		(1,219)	(937)
Capital gain on return of basis	3,079		
State income taxes, net of federal taxes	334	75	54
Non-U.S. earnings taxed at different rates	(1,606)	(2,116)	(1,650)
Change in uncertain tax positions	(115)		
Other permanent differences, net	(166)	93	423
	\$ (3,927)	\$ 5,168	\$ 4,569

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In conjunction with the periodic evaluation of the valuation allowance and the resulting reversal of the majority of it in the fourth quarter of 2012, we performed a comprehensive review of all domestic temporary differences. As a result of that review, our schedule of deferred tax assets reflects an increase in net deferred tax assets, prior to the effects on the valuation allowance, of approximately \$2,926, which is included with the effect of the reversal of the valuation allowance in the above reconciliation table. Any portion of this correction attributable to prior years would have been offset by an equivalent change in the valuation allowance and therefore would have had no effect on comprehensive income (loss) or our financial position.

During the year ended December 31, 2011, the decrease in the foreign valuation allowance was due to utilizing the net operating losses at certain foreign jurisdictions and to eliminating the valuation allowance on deferred tax assets at our Kysucke (Slovakia) Plant.

The tax effects of the temporary differences as of December 31, 2012, 2011 and 2010 are as follows:

	2012	December 31, 2011	2010
Deferred income tax liabilities:			
Tax in excess of book depreciation	\$ 6,670	\$ 5,099	\$ 5,208
Goodwill	1,987	1,821	2,209
Allowance for bad debts		18	62
Other deferred tax liabilities	112	843	387
Gross deferred income tax liabilities	8,769	7,781	7,866
Deferred income tax assets:			
Goodwill	4,141	4,846	5,754
Inventories	768	167	84
Pension/Personnel accruals	921	503	1,084
Deductions for uncollectible Eltmann receivables		310	
Net operating loss carry forwards	3,682	7,526	10,150
Foreign tax credits	3,844	3,326	3,326
Guarantee claim deduction	1,141		
Accruals and reserves	293		
Other deferred tax assets	550	421	356
Gross deferred income tax assets	15,340	17,099	20,754
Valuation allowance on deferred tax assets	(2,252)	(12,066)	(16,604)
Net deferred income tax assets	13,088	5,033	4,150
Net deferred income tax assets (liabilities)	\$ 4,319	\$ (2,748)	\$ (3,716)

As realization of certain deferred tax assets is not assured, management has placed valuation allowances against deferred tax assets it believes are not recoverable, as discussed above. For the remainder, management believes it is more likely than not that those net deferred tax assets will be realized. However, the amount of the deferred tax assets considered realizable could be reduced based on changing conditions. Below is a summary of the activity in the total valuation allowances during the years ended December 31, 2012, 2011 and 2010:

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	Balance at Beginning of Year	Total Valuation Allowance Activity			Balance at End of Year
		Additions	Recoveries	Deconsolidation of Eltmann subsidiary	
2012	\$ 12,066	\$	\$ (9,814)	\$	\$ 2,252
2011	\$ 16,604	\$	\$ (2,425)	\$ (2,113)	\$ 12,066
2010	\$ 14,649	\$ 2,892	\$ (937)		\$ 16,604

The net operating loss carry forwards as of December 31, 2012, are composed of net operating losses at our U.S. operations during 2010, 2009 and 2008. The 2010 balance of net operating losses above includes \$2,035 from our former Eltmann Plant which was deconsolidated on January 20, 2011. The losses of the U.S. based entities can be carried forward 20 years.

The foreign tax credits relate to profits of certain foreign subsidiaries that were taxed as deemed dividends. These credits represent the foreign taxes paid by these subsidiaries at higher effective rates that will be used to offset future foreign source income. A full valuation allowance was placed against these credits as of December 31, 2008, based on estimates, at that time, of future levels of U.S. income tax and foreign source income to be generated that these credits could be used to offset. The valuation allowance will be periodically reviewed as our estimates of future foreign source income are revised based on actual foreign source income recognized in our tax returns and future changes in foreign source income. As of December 31, 2012 and 2011, management believed it was more likely than not we would only utilize \$1,302 and \$0, respectively, of these credits in the near future and placed a valuation allowance on the remaining \$2,252 and \$3,554, respectively.

As of December 31, 2006, all of the Company's foreign earnings had been previously taxed in the U.S. due to the application of IRC Sec. 956. Accordingly, no deferred taxes have been provided for undistributed earnings up to that time.

On December 27, 2012, our foreign holding company declared a distribution of approximately \$48,000 to its U.S. parent company NN, Inc. The vast majority of this distribution was a proportional return of investment basis in our Western European subsidiaries. Approximately \$9,000 of the distribution pertained to earnings and profits earned by this holding company in previous years. The approximately \$9,000 of earnings and profits was included in our computation of year ended 2012 taxes and the tax rate resulting in an impact of \$3,079. There were two main factors influencing our decision to consider this return of basis. First, there was a desire to reduce the amount of basis in our European subsidiaries recorded on the U.S. parent company's financial statements considering the downsizing of our European production capacity over the last few years. The second factor was proposed federal tax legislation which, if enacted, could significantly increase the tax cost of returning this basis after 2012. Because there had been no change in our long term international expansion plans as of December 31, 2012, our intent to indefinitely reinvest foreign earnings accumulated through the year ended December 31, 2012 was not changed by these factors. As of the year ended December 31, 2012, we intend to keep indefinitely reinvesting our foreign earnings. We base this assertion on two factors. First, our intention to invest in foreign countries that are strategically important to our Metal Bearing Components Segment business and its customers. Second, we have sufficient access to funds in the U.S. through projected free cash flows and the availability of our credit facilities to fund currently anticipated domestic operational and investment needs.

As such, we do not expect unrepatriated foreign earnings to become subject to U.S. taxation in the foreseeable future. If such earnings were distributed beyond the amount for which taxes have been provided, foreign tax credits would substantially offset the incremental U.S. tax liability. A deferred tax liability will be recognized should we expect we will recover these undistributed earnings in a taxable manner, such as through the receipt of dividends or sale of the investments. As we presently plan to permanently reinvest foreign undistributed earnings, we have not provided for U.S. income tax liabilities that would be payable if such earnings were not reinvested indefinitely.

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A reconciliation of the beginning and ending amounts of unrecognized tax benefits, excluding interest and penalties for the years ended December 31, 2012, 2011 and 2010 is as follows:

	2012	2011	2010
Beginning balance	\$ 988	\$ 953	\$ 988
Additions for tax positions of prior years	428	35	
Reductions for tax positions of prior years	(543)		(35)
Ending balance	\$ 873	\$ 988	\$ 953

As of December 31, 2012, the \$873 of unrecognized tax benefits would, if recognized, impact our effective tax rate.

Interest and penalties related to federal, state, and foreign income tax matters are recorded as a component of the provision for income taxes in our statements of income. During 2010, we accrued \$30 in foreign interest and penalties and removed \$15 in interest and penalties for closed tax years as the previous uncertain tax accruals are no longer required. During 2011, we had a net reduction in foreign interest and penalties of \$43 as older uncertain items were eliminated and newer uncertain items added. During 2012, we had an increase in foreign interest and penalties of \$443 and a decrease in federal and state interest and penalties of \$245 as older uncertain items were eliminated due to the tax years being closed or risk being mitigated. As of December 31, 2012, the total amount accrued for interest and penalties was \$910.

We or our subsidiaries file income tax returns in the U.S. federal jurisdiction, and in various states and foreign jurisdictions. With few exceptions, we are no longer subject to federal, state and local income tax examinations by tax authorities for years before 2009. We are no longer subject to non-U.S. income tax examinations within various European Union countries for years before 2007. We do not foresee any significant changes to our unrecognized tax benefits within the next twelve months.

14) Reconciliation of Net Income Per Share

	Year ended December 31,		
	2012	2011	2010
Net income	\$ 24,268	\$ 20,937	\$ 6,416
Weighted average shares outstanding	17,009	16,817	16,455
Effective of dilutive stock options	105	136	115
Diluted shares outstanding	17,114	16,953	16,570
Basic net income per share	\$ 1.43	\$ 1.24	\$ 0.39
Diluted net income per share	\$ 1.42	\$ 1.24	\$ 0.39

Excluded from the dilutive shares outstanding for the years ended December 31, 2012, 2011, and 2010 were 1,187, 792, and 962 of anti-dilutive options, respectively, which had per share exercise prices ranging from of \$8.54 to \$14.13 for the year ended December 31, 2012, \$11.50 to \$14.13 for the year ended December 31, 2011 and \$8.09 to \$12.62 for the year ended December 31, 2010.

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15) Commitments and Contingencies

We have operating lease commitments for machinery, office equipment, vehicles, manufacturing and office space which expire on varying dates. Rent expense for 2012, 2011 and 2010 was \$2,375, \$3,181, and \$4,153, respectively. The following is a schedule by year of future minimum lease payments as of December 31, 2012 under operating leases that have initial or remaining non-cancelable lease terms in excess of one year.

	Year ending December 31,
2013	\$ 2,152
2014	1,878
2015	1,664
2016	1,359
2017	733
Thereafter	315
Total minimum lease payments	\$ 8,101

During 2012, we were named in a lawsuit from a former independent sales agent claiming amounts due with regard to sales made after termination of our relationship. We believe that the claim is not substantiated by the facts and we are defending it aggressively. While the company is unable to predict the outcome of this matter, we do not believe, based on currently available facts, that it will have a material adverse effect on our business, financial condition, results of operations, or cash flows.

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

Due to the impacts of the global economic recession and the resulting reduction in revenue and operating losses, our wholly owned German subsidiary Kugelfertigung Eltmann GmbH (Eltmann or Eltmann Plant) sustained a significant weakening of its financial condition and as a result, became technically insolvent at which point it was required to file for bankruptcy under German bankruptcy law. The filing was made in the bankruptcy court in Germany on January 20, 2011. As of this date, NN lost the ability to control or manage Eltmann as a result of the bankruptcy court trustee taking over effective control and day to day management of this subsidiary. As a result of loss of control of this subsidiary, NN deconsolidated the assets and liabilities of Eltmann from our Consolidated Financial Statements effective January 20, 2011 (See Note 1 of Notes to Consolidated Financial Statements). The ultimate impact on NN of Eltmann filing for bankruptcy will depend on the findings of the bankruptcy court. However, until such court proceedings are finalized, we will not be able to determine what liabilities and contingent obligations, if any, might remain as the responsibility of NN. Under advice from legal counsel, NN does not expect any further significant impacts on our consolidated financial statements as a result of the liquidation of this subsidiary.

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16) Quarterly Results of Operations (Unaudited)

The following summarizes the unaudited quarterly results of operations for the years ended December 31, 2012 and 2011.

	Year ended December 31, 2012			
	March 31	June 30	Sept. 30	Dec. 31
Net sales	\$ 104,519	\$ 98,824	\$ 86,586	\$ 80,155
Income from operations	9,033	8,275		