

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

FORM 10-Q

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

For the quarterly period ended June 30, 2003

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-23486

**NN, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware** **62-1096725**  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

**2000 Waters Edge Drive**  
**Building C, Suite 12**  
**Johnson City, Tennessee 37604**  
(Address of principal executive offices, including zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of August 13, 2003 there were 16,652,407 shares of the registrant's common stock, par value \$0.01 per share, outstanding.

**NN, Inc.**  
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(Unaudited)

Thousands of Dollars, Except Per Share Data	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net sales	\$ 64,194	\$ 49,186	\$ 121,803	\$ 96,386
Cost of goods sold	49,721	36,139	92,464	71,670
Gross profit	14,473	13,047	29,339	24,716
Selling, general and administrative	5,771	4,777	10,403	9,317
Depreciation and amortization	3,482	2,767	6,560	5,620
Restructuring and impairment costs	2,723	--	2,723	78
Income from operations	2,497	5,503	9,653	9,701
Interest expense, net	759	609	1,343	1,140
Gain on purchase of minority interest	(6,600)	--	(6,600)	--
Other (income) expense	389	(141)	310	(496)
Income before provision for income taxes	7,949	5,035	14,600	9,057
Provision for income taxes	512	1,840	2,985	3,345
Minority interest in consolidated subsidiaries	140	787	675	1,454
Net income	7,297	2,408	10,940	4,258
Other comprehensive income:				
Foreign currency translation	1,837	1,413	3,226	1,333
Comprehensive income	\$ 9,134	\$ 3,821	\$ 14,166	\$ 5,591
Basic income per common share:	\$ 0.46	\$ 0.16	\$ 0.70	\$ 0.28
Weighted average shares outstanding	16,015	15,359	15,561	15,336
Diluted income per common share:	\$ 0.44	\$ 0.15	\$ 0.69	\$ 0.27
Weighted average shares outstanding	16,465	15,868	15,892	15,798

See accompanying notes.

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NN, Inc.  
Condensed Consolidated Balance Sheets  
(Unaudited)

Thousands of Dollars	June 30, 2003	December 31, 2002
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,641	\$ 5,144
Accounts receivable, net	44,542	28,965
Inventories, net	33,825	23,402
Other current assets	6,779	3,901
Total current assets	89,787	61,412
Property, plant and equipment, net	105,007	88,199
Assets held for sale	1,805	2,214
Goodwill, net	53,681	42,166
Other assets	4,602	4,016
Total assets	\$ 254,882	\$ 198,007
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$33,826	\$ 22,983
Bank overdraft	2,813	37
Accrued salaries and wages	11,608	6,354
Income taxes payable	1,019	620
Current maturities of long-term debt	9,066	7,000
Other current liabilities	4,399	3,240
Total current liabilities	62,371	40,234
Minority interest in consolidated subsidiaries	--	19,706
Non-current deferred tax liability	9,688	9,334
Long-term debt	75,344	46,135
Accrued pension and other	10,130	9,319
Total liabilities	157,893	124,728
Total stockholders' equity	96,989	73,279
Total liabilities and stockholders' equity	\$254,882	\$198,007

See accompanying notes.

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

Thousands of Dollars and Shares	Common Stock			Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Number of Shares	Par Value	Additional paid in capital			
Balance, January 1, 2002	15,317	\$154	\$ 30,841	\$ 36,139	\$ (5,095)	\$ 62,039
Shares issued	50	--	329	--	--	329
Net income	--	--	--	4,258	--	4,258
Dividends declared	--	--	--	(2,457)	--	(2,457)
Other comprehensive income	--	--	--	--	1,333	1,333
Balance, June 30, 2002	15,367	\$154	\$ 31,170	\$ 37,940	\$ (3,762)	\$ 65,502
Balance, January 1, 2003	15,370	\$154	\$ 31,187	\$ 44,888	\$ (2,950)	\$ 73,279
Shares issued	1,280	13	12,093	--	--	12,106
Net income	--	--	--	10,940	--	10,940
Dividends declared	--	--	--	(2,562)	--	(2,562)
Other comprehensive income	--	--	--	--	3,226	3,226
Balance, June 30, 2003	16,650	\$167	\$ 43,280	\$ 53,266	\$ 276	\$ 96,989

See accompanying notes.

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

Thousands of Dollars	Six Months Ended June 30,	
	2003	2002
<b>Operating Activities:</b>		
Net income	\$ 10,940	\$ 4,258
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	6,560	5,620
Gain on purchase of minority interest	(6,600)	--
(Gain) loss on disposals of property, plant and equipment	--	(7)
Minority interest in consolidated subsidiary	675	1,454
Restructuring and impairment costs	3,047	78
Changes in operating assets and liabilities:		
Accounts receivable	(14,043)	(5,959)
Inventories	(3,717)	2,714
Other current assets	(1,352)	(316)
Other assets	(3,216)	5
Accounts payable	11,030	3,153
Income taxes payable	1,019	1,044
Other liabilities	(645)	2,974
Net cash provided by operating activities	3,698	15,018
<b>Investing Activities:</b>		
Acquisition of Veenendaal, The Netherlands	(17,777)	--
Purchase of minority interest	(15,583)	--
Acquisition of property, plant, and equipment	(4,333)	(1,829)
Proceeds from disposals of property, plant and equipment	--	10
Net cash used by investing activities	(37,693)	(1,819)
<b>Financing Activities:</b>		
Proceeds from long-term debt	89,560	--
Bank overdraft	363	(83)
Repayment of long-term debt	(59,408)	(10,683)
Repayment of short-term debt	--	--
Proceeds from issuance of stock	5,168	329
Dividends paid	(2,562)	(2,457)
Net cash provided (used) by financing activities	33,121	(12,894)
Effect of exchange rate changes	371	381
<b>Net Change in Cash and Cash Equivalents</b>	(503)	686
<b>Cash and Cash Equivalents at Beginning of Period</b>	5,144	3,024
<b>Cash and Cash Equivalents at End of Period</b>	\$ 4,641	\$ 3,710
Supplemental schedule of non-cash investing and financing activities:		
Stock issued related to acquisition of Veenendaal	\$ 6,937	\$ --

See accompanying notes.

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**NN, Inc.**  
**Notes To Consolidated Financial Statements**  
**(unaudited)**

**Note 1. Interim Financial Statements**

The accompanying consolidated financial statements of NN, Inc. (the "Company") have not been audited by independent accountants, except that the balance sheet at December 31, 2002 is derived from the Company's audited financial statements. In the opinion of the Company's management, the financial statements reflect all adjustments necessary to present fairly the results of operations for the three

and six month periods ended June 30, 2003 and 2002, the Company's financial position at June 30, 2003 and December 31, 2002, and the cash flows for the six month periods ended June 30, 2003 and 2002. These adjustments are of a normal recurring nature and are, in the opinion of management, necessary for fair presentation of the financial position and operating results for the interim periods. As used in this Quarterly Report on Form 10-Q, the terms "NN", "the Company", "we", "our", or "us" mean NN, Inc. and its subsidiaries.

Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted from the interim financial statements presented in this Quarterly Report on Form 10-Q. These Condensed, Consolidated, Unaudited Financial Statements should be read in conjunction with our audited Consolidated Financial Statements and the Notes thereto included in our most recent report on Form 10-K which we filed with the Commission on March 31, 2003.

The results for the first and second quarters of 2003 are not necessarily indicative of future results.

Certain 2002 amounts have been reclassified to conform with the 2003 presentation.

#### Note 2. Derivative Financial Instruments

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

In connection with a variable Euribor rate debt financing in July 2000, our subsidiary, NN Euroball APs entered into an interest rate swap with a notional amount of Euro 12.5 million for the purpose of fixing the interest rate on a portion of its debt financing. The interest rate swap provides for the Company to receive variable Euribor interest payments and pay 5.51% fixed interest. The interest rate swap agreement expires in July 2006 and the notional amount amortizes in relation to initially established principal payments on the underlying debt over the life of the swap. This original debt was repaid in May 2003, however, the swap remains pursuant to its original terms.

As of June 30, 2003, the fair value of the swap was approximately \$522,000, which is recorded in other non-current liabilities. The change in fair value during the six month period ended June 30, 2003 and 2002 was a loss of approximately \$128,000 and a gain of approximately \$97,000, respectively, which have been included as a component of other (income) expense.

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#### Note 3. Inventories

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

Inventories are comprised of the following (in thousands):

	June 30, 2003 (Unaudited)	Dec. 31, 2002
Raw materials	\$ 7,363	\$ 5,400
Work in process	7,132	5,139
Finished goods	19,587	13,065
Less inventory reserves	(257)	(202)
	-----	-----
	\$ 33,825	\$ 23,402
	=====	=====

Inventories on consignment at customer locations as of June 30, 2003 and December 31, 2002 were \$2,344 and \$3,093, respectively.

#### Note 4. Net Income Per Share

Thousands of Dollars, Except Share and Per Share	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Data				
Net income	\$7,297	\$2,408	\$10,941	\$4,258
Adjustments to net income	--	--	--	--
Net income	----- \$7,297	----- \$2,408	----- \$10,941	----- \$4,258
Weighted average basic shares	16,015,347	15,359,173	15,560,647	15,336,368
Effect of dilutive stock options	449,466	508,815	331,737	461,916
Weighted average dilutive shares outstanding	----- 16,464,840	----- 15,867,988	----- 15,892,284	----- 15,798,284
Basic net income per share	----- \$0.46	----- \$0.16	----- \$0.70	----- \$0.28
Diluted net income per share	----- \$0.44	----- \$0.15	----- \$0.69	----- \$0.27

Excluded from the shares outstanding for each of the six month periods ended June 30, 2003 and 2002 were 54,000 and 0 antidilutive options, respectively, which had exercise prices ranging from \$10.26 to \$10.67 as of June 30, 2003.

#### Note 5. Segment Information

During 2003 and 2002, the Company's reportable segments are based on differences in product lines and geographic locations and are divided among Domestic Ball and Roller, European operations ("NN Europe") and Plastic and Rubber Components. The Domestic Ball and Roller Segment is comprised of two manufacturing facilities in the eastern United States. The NN Europe Segment is comprised of precision ball manufacturing facilities located in Kilkenny, Ireland, Eltman, Germany and Pinerolo, Italy acquired in July 2000 and Veenendaal, The Netherlands ("Veenendaal") a tapered roller and metal cage manufacturing operation acquired in May 2003. See Note 6, "Acquisitions and Joint Ventures". All of the facilities in the Domestic Ball and Roller Segment are engaged in the production of precision balls and rollers used primarily in the bearing industry. All of the facilities in the NN Europe Segment are engaged in the

production of precision balls used primarily in the bearing industry except for Veenendaal which is engaged in the production of tapered rollers and cages for use primarily in the bearing industry. The Plastic and Rubber Components Segment is comprised of the Industrial Molding Corporation ("IMC") business, located in Lubbock, Texas, which was acquired in July 1999, NN Arte ("Arte") formed in August of 2000 (see Note 7), located in Guadalajara, Mexico and The Delta Rubber Company ("Delta") business, located in Danielson, Connecticut, which was acquired in February 2001. IMC and Arte are engaged in the

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production of plastic injection molded products for the bearing, automotive, instrumentation, fiber optic and consumer hardware markets. Delta is engaged principally in the production of engineered bearing seals used principally in automotive, industrial, agricultural, mining and aerospace applications. The Plastic and Rubber Components Segment's name has been changed from the Plastics Segment effective with the March 31, 2003 quarterly report on Form 10-Q. The businesses and methods of calculation comprising this segment have not changed.

The NN Europe Segment, prior to the filing of this June 30, 2003 quarterly report on Form 10-Q and as a result of the acquisition of Veenendaal, was referred to as the Euroball Segment and was comprised only of the manufacturing facilities located in Kilkenny, Ireland, Eltmann, Germany, and Pinerolo, Italy.

The accounting policies of each segment are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 including those policies as discussed in Note 1. We evaluate segment performance based on profit or loss from operations before income taxes and minority interest not including nonrecurring gains and losses. We account for inter-segment sales and transfers at current market prices; however, we did not have any material inter-segment transactions during the three or six month periods ended June 30, 2003 and 2002.

Thousands of Dollars	2003			2002		
	Domestic Ball & Roller	NN Europe	Plastic and Rubber Components	Domestic Ball & Roller	NN Europe	Plastic and Rubber Components
Revenues from external customers	\$ 13,925	\$ 38,210	\$ 12,059	\$ 13,721	\$ 23,179	\$ 12,286
Segment pretax profit (loss)	6,999	3,245	(2,295)	1,434	2,709	892
Segment assets	51,322	147,350	56,210	62,552	78,460	55,826

Thousands of Dollars	2003			2002		
	Domestic Ball & Roller	NN Europe	Plastic and Rubber Components	Domestic Ball & Roller	NN Europe	Plastic and Rubber Components
Revenues from external customers	\$ 28,174	\$ 67,045	\$ 26,584	\$ 26,925	\$ 44,905	\$ 24,556
Segment pretax profit	8,979	6,974	(1,353)	2,432	5,059	1,566
Segment assets	51,322	147,350	56,210	62,552	78,460	55,826

#### Note 6. Acquisitions and Joint Ventures

On December 20, 2002, we acquired the 23 percent interest in NN Euroball, ApS ("Euroball") held by INA/FAG. INA/FAG is a global bearing manufacturer and one of our largest customers. We paid approximately 13.4 million Euros (\$13.8 million) for INA/FAG's interest in Euroball.

On May 2, 2003 we acquired the 23 percent interest in NN Euroball, ApS ("Euroball") held by SKF. We paid approximately 13.8 million Euros (\$15.6 million) for SKF's interest in Euroball. Euroball was formed in 2000 by the Company, FAG Kugelfischer George Schaefer AG, which was subsequently acquired by INA - Schaeffler KG ("INA/FAG"), and AB SKF ("SKF"). Upon consummation of this transaction, we became the sole owner of Euroball.

On May 2, 2003 we acquired 100 percent of the tapered roller and metal cage manufacturing operations of SKF in Veenendaal, The Netherlands. The results of Veenendaal's operations have been included in the consolidated financial statements since that date. We paid consideration of approximately 23.0 million Euros (\$25.7 million) and incurred other costs of approximately \$0.9 million, for the Veenendaal net assets acquired from SKF. The Veenendaal operation manufactures rollers for tapered roller bearings and metal cages for both tapered roller and spherical roller bearings allowing us to expand our bearing component offering. The results of the Veenendaal operation are included in the NN Europe Segment.

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In connection with the acquisition of SKF's Veenendaal, The Netherlands operations, SKF purchased 700,000 shares of our common stock from us for an aggregate fair value of approximately \$6.9 million which was applied to the purchase of SKF's Veenendaal, The Netherlands operations. For purposes of valuing the 700,000 common shares issued in our Consolidated Financial Statements, the value was determined based on the average market price of NN, Inc.'s common shares over the two-day period before, the day of, and the two-day period after the terms of the acquisition were agreed to, April 14, 2003.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The purchase price is subject to adjustment due to working capital changes. We are in the process of obtaining third-party valuations of certain tangible and intangible assets; thus, the allocation of the purchase price is subject to refinement.

	In thousands At May 2, 2003
Current assets	\$ 6,081
Property, plant and equipment	14,747
Goodwill and other intangible assets	11,460
Total assets acquired	32,288
Current liabilities	5,628
Net assets acquired	\$ 26,660

The full amount assigned to goodwill is expected to be deductible for tax purposes.

The following unaudited pro forma summary presents the financial information for the three and six month periods ended June 30, 2003 and 2002 as if our Veenendaal acquisition had occurred as of the beginning of each of the periods presented. These pro forma results have been prepared for comparative purposes and do not purport to be indicative of what would have occurred had the acquisition been made as of the beginning of each of the periods presented nor are they indicative of future results.

(In thousands, except per share data)

	Three months ended June 30, 2003 (unaudited)	Six months ended June 30, 2003 (unaudited)
Net sales	\$ 68,841	\$ 140,391
Net income	7,342	11,121
Basic earnings per share	0.46	0.71
Diluted earnings per share	0.45	0.70

(In thousands, except per share data)

	Three months ended June 30, 2002 (unaudited)	Six months ended June 30, 2002 (unaudited)
Net sales	\$ 63,128	\$ 124,369
Net income	2,543	4,528
Basic earnings per share	0.17	0.30
Diluted earnings per share	0.16	0.29

On April 1, 2003, we exercised our call right and purchased the remaining 49 percent interest in NN Mexico, LLC. Based on the purchase price formula contained in the principal agreement between the parties, the purchase price for such interest was zero.

#### Note 7. Restructuring and Impairment Charges

In May 2003, we decided to close our Guadalajara, Mexico plastic injection molding facility. This operation was started in September of 2000 to supply certain Mexican operations of multi-national manufacturers of office automation equipment. Several of these customers have recently shifted their manufacturing operations to other geographic regions in the world. The closure is expected to be substantially completed during the third quarter of 2003. The financial results of this operation have been included in the Plastic and Rubber Components Segment.

The plant closing is expected to result in the termination of approximately 42 full time hourly and salary employees located at the Guadalajara facility. We have recorded restructuring costs of approximately \$282,000 during the three month period ended June 30, 2003 related to severance payments for the affected employees.

As a result of the closing, we have performed a test of the recoverability of the goodwill asset associated with the Guadalajara, Mexico operation. This test was pursuant to the provisions of Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" which require that interim tests of the recoverability of goodwill be performed under certain circumstances. As a result, we have recorded an impairment charge of approximately \$1.3 million to fully write-off the goodwill asset.

We have decided to sell substantially all of the machinery and equipment with certain pieces of machinery and equipment to be transferred and utilized by our Industrial Molding facility in Lubbock, Texas. Pursuant to the provisions of Statement of Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-lived Assets" we have recorded an impairment charge of approximately \$1.1 million to write-down the machinery and equipment to its estimated fair market value.

Additionally, we have recorded impairment charges of \$107,000 and \$324,000 to write-down the accounts receivable and inventory assets to their estimated fair market values, respectively. The \$324,000 inventory write down has been recorded as a component of cost of goods sold.

The amounts we will ultimately realize upon disposition of these assets could differ materially from the amounts assumed in arriving at the impairment losses recorded during the three months ended June 30, 2003.

The following summarizes the 2003 restructuring and impairment charges:

In thousands	Charges	Non-Cash Write-downs	Paid in 2003	Reserve Balance At 6/30/03
Asset impairments	\$2,765	\$2,765	\$ --	\$ --
Severance and other employee costs	282	--	--	282
Total	\$3,047	\$2,765	\$ --	\$ 282

In September of 2001, we announced that we would close our Walterboro, South Carolina ball manufacturing facility as part of our ongoing strategy to locate manufacturing capacity in closer proximity to customers. The closure was substantially completed by December 31, 2001. Current plans are to sell the land and building. The plant closing resulted in the termination of approximately 80 full time hourly and salaried employees in 2001.

Prior to December 31, 2001, production capacity and certain machinery and equipment were transferred from the Walterboro facility to our two domestic ball facilities in Erwin, Tennessee and Mountain City, Tennessee. We recorded restructuring costs of \$62,000 for additional severance payments during the six months ended June 30, 2002. There were no restructuring costs recorded for the six months ended June 30, 2003.

Our Euroball subsidiary incurred restructuring charges of \$16,000 for the six months ended June 30, 2002 for additional severance payments as a result of the termination of 15 hourly employees and 3 salaried

employees at its Italy production facility. Approximately \$69,000 of the severance payments recorded during 2001 and 2002 were paid during the six months ended June 30, 2002 and there are no remaining accrued restructuring costs included in other current liabilities as of June 30, 2002 and June 30, 2003 related to Euroball.

#### Note 8. New Accounting Pronouncements

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations" (Statement No. 141), and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (Statement No. 142). Statement No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Statement No. 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. Statement No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but rather, periodically tested for impairment. The effective date of Statement No. 142 is January 1, 2002. As of the date of adoption, we had unamortized goodwill of approximately \$40.3 million, which is subject to the provisions of Statement No. 142.

As a result of adopting these new standards, our accounting policies for goodwill and other intangibles changed on January 1, 2002, as described below:

**Goodwill:** We recognized the excess of the purchase price of an acquired entity over the fair value of the net identifiable assets as goodwill. Goodwill is tested for impairment on an annual basis and between annual tests in certain circumstances. Impairment losses are recognized whenever the implied fair value of goodwill is less than its carrying value. Prior to January 1, 2002, goodwill was amortized over a twenty-year period using the straight-line method. Beginning January 1, 2002, goodwill is no longer amortized.

**Other Acquired Intangibles:** We recognize an acquired intangible asset apart from goodwill whenever the asset arises from contractual or other legal rights, or whenever it is capable of being divided or separated from the acquired entity or sold, transferred, licensed, rented, or exchanged, whether individually or in combination with a related contract, asset or liability. An intangible asset other than goodwill is amortized over its estimated useful life unless that life is determined to be indefinite. We will review the lives of intangible assets each reporting period and, if necessary, recognize impairment losses if the carrying amount of an intangible asset subject to amortization is not recoverable from expected future cash flows and its carrying amount exceeds its fair value.

We completed the transitional goodwill impairment reviews required by the new standards during the first six months of 2002 and the annually required goodwill impairment review during the fourth quarter of 2002. In performing the impairment reviews, we estimated the fair values of the reporting units using a method that incorporates valuations derived from earnings before interest expense, taxes, depreciation and amortization ("EBITDA") multiples based upon market multiples and recent capital market transactions and also incorporates valuations determined by each segment's discounted future cash flows. As of January 1, 2002, the transition date and as of October 1, 2002, the most recent annual review date, there was no impairment to goodwill as the fair values exceeded the carrying values of the reporting units.

The changes in the carrying amount of goodwill for the six month period ended June 30, 2003 are as follows:

	Plastic and Rubber Components Segment	NN Europe Segment	Total
In thousands			
Balance as of January 1, 2003	\$26,712	\$15,454	\$42,166
Goodwill acquired	--	11,628	11,628
Impairment losses	(1,285)	--	(1,285)
Currency impacts	--	1,172	1,172
Balance as of June 30, 2003	\$25,427	\$28,254	\$53,681

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting For Asset Retirement Obligations." This Statement requires capitalizing any retirement costs as part of the total cost of the related long-lived asset and subsequently allocating the total expense to future periods using a systematic and rational method. Adoption of the Statement is required for fiscal years beginning after June 15, 2002. We adopted SFAS No. 143 on January 1, 2003 and this adoption did not have a material impact on the financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". SFAS No. 4 had required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. SFAS No. 145 rescinds SFAS No. 4 and the related required classifications gains and losses from extinguishment of debt as extraordinary items. Additionally, the SFAS No. 145 amends SFAS No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. SFAS No. 145 is applicable for us at the beginning of fiscal year 2003, with the provisions related to SFAS No. 13 for transactions occurring after May 15, 2002. We adopted SFAS No. 145 effective January 1, 2003 and this adoption did not have a material impact on the financial statements.

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

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123". SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148, which was effective for the year ending December 31, 2002, amends the disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We have adopted the

provisions of SFAS 123, which encourages but does not require a fair value based method of accounting for stock compensation plans. We have elected to continue accounting for its stock compensation plan using the intrinsic value based method under Auditing Practices Board ("APB") Opinion No. 25 and, accordingly, has not recorded compensation expense for each of the three and six month periods ended June 30, 2003 and June 30, 2002. Had compensation cost for our stock compensation plan been determined based on the fair value at the option grant dates, our net income and earnings per share would have been reduced to the proforma amounts indicated below:

(In thousands, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Net income - as reported	\$7,297	\$2,408	\$10,940	\$4,258
Stock based compensation costs, net of income tax, included in net income as reported	205	166	205	150
Stock based compensation costs, net of income tax, that would have been included in net income if the fair value method had been applied	--	--	2	62
Net income - proforma	\$ 7,502	\$2,574	\$ 11,143	\$4,346
Basic earnings per share - as reported	\$ 0.46	\$ 0.16	\$ 0.70	\$ 0.28
Stock based compensation costs, net of income tax, included in net income as reported	0.01	0.02	0.01	--
Stock based compensation costs, net of income tax, that would have been included in net income if the fair value method had been applied	--	--	--	--
Basic earnings per share - proforma	\$ 0.47	\$ 0.18	\$ 0.72	\$ 0.28

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Earnings per share-assuming dilution - as reported	\$ 0.44	\$ 0.15	\$ 0.69	\$ 0.27
Stock based compensation costs, net of income tax, included in net income as reported	0.02	0.01	0.01	0.01
Stock based compensation costs, net of income tax, that would have been included in net income if the fair value method had been applied	--	--	--	--
Earnings per share - assuming dilution-proforma	\$ 0.46	\$ 0.16	\$ 0.70	\$ 0.28

The fair value of each option grant was estimated based on actual information available through June 30, 2003 and 2002 using the Black Scholes option-pricing model with the following assumptions:

Term	Vesting period
Risk free interest rate	3.28% and 3.28% at June 30, 2003 and 2002, respectively
Dividend yield	2.53% and 2.50% at June 30, 2003 and 2002, respectively
Volatility	50.11% and 40.2% at June 30, 2003 and 2002, respectively

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34. This interpretation elaborates the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002 and are not expected to have a material effect on the Company's consolidated results of operations, financial position or cash flows.

In April, 2003, the FASB issued SFAS No. 149, "Derivative Instruments and Hedging Activities". SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 149 requires that contracts with comparable characteristics be accounted for similarly and is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003.

In May, 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted SFAS No. 150 on July 1, 2003 and this adoption did not have a material impact on the financial statements.

#### Note 9. Long-Term Debt

On May 1, 2003 in connection with the purchase of SKF's Veenendaal component manufacturing operations and SKF's 23 percent interest in Euroball, we entered into a new \$90 million syndicated credit facility with AmSouth Bank ("AmSouth") as the administrative agent and Suntrust Bank as the Euro loan agent for the lenders under which we borrowed \$60.4 million and 26.3 million Euros (\$29.6 million). This new financing arrangement replaces our prior credit facility with AmSouth and Hypo Vereinsbank Luxembourg, S.A. The credit facility consists of a \$30.0 million revolver expiring on March 1, 2005, bearing interest at a floating rate equal to LIBOR (1.12% at June 30, 2003) plus an applicable margin of 1.25 to 2.0, a \$30.4 million term loan expiring on May 1, 2008, bearing interest at a floating rate equal to

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LIBOR (1.12% at June 30, 2003) plus an applicable margin of 1.25 to 2.0 and a 26.3 million (\$29.6 million) Euros term loan expiring on May 1, 2008 which bears interest at a floating rate equal to Euro LIBOR (2.14% at June 30, 2003) plus an applicable margin of 1.25 to 2.0. The loan agreement contains customary financial and non-financial covenants. Such covenants specify that we must maintain certain liquidity measures. The loan agreement also contains customary



restrictions on, among other things, additional indebtedness, liens on our assets, sales or transfers of assets, investments, restricted payments (including payment of dividends and stock repurchases), issuance of equity securities, and mergers, acquisitions and other fundamental changes in the Company's business. The credit agreement is un-collateralized except for the pledge of stock of certain foreign subsidiaries. We were in compliance with all such covenants as of June 30, 2003. In connection with this refinancing, capitalized costs in the amount of \$455,000 associated with the paid-off credit facilities were written-off and are included as a component of Other (income) expense.

#### **Note 10. Sale of Common Stock**

During May, 2003, we completed a public offering of 3.6 million shares of our stock by a group of selling shareholders. We did not receive any proceeds from the sale of the shares previously held by the group of selling shareholders, however, the underwriters did exercise their over-allotment option of 533,600 shares, which were offered by us. Net proceeds received by us in connection with the exercise of the over-allotment option were approximately \$5.1 million.

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### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

#### **Results of Operations**

##### **Three Months Ended June 30, 2003 Compared to the Three Months Ended June 30, 2002**

*Net Sales.* Net sales increased by approximately \$15.0 million or 30.5% from \$49.2 million for the second quarter of 2002 to \$64.2 million for the second quarter of 2003. By segment, sales increased \$0.2 million, and \$15.0 million for the Domestic Ball and Roller Segment and the NN Europe Segment, respectively. Net sales for the Plastic and Rubber Components Segment decreased by \$0.2 million. Within the NN Europe Segment, \$9.3 million of the increase is related to our May 2, 2003 acquisition of Veenendaal and the inclusion of two months of its operations. The remaining \$5.4 million of the increase is related to the impact of currency exchange rates. Net sales decreased by \$0.2 million for the Plastic and Rubber Components Segment.

*Gross Profit.* Gross profit increased by \$1.4 million or 10.9% from \$13.0 million for the second quarter of 2002 to \$14.5 million for the second quarter of 2003. By segment, gross profit increased \$2.6 million for the NN Europe Segment. Within the NN Europe Segment, \$1.4 million of the increase is related to the two months of Veenendaal results included in our results due to the May 2, 2003 acquisition and \$1.3 million is related to currency impacts. Gross profit decreased by \$0.4 million and \$0.8 million for the Domestic Ball and Roller Segment and the Plastic and Rubber Components Segment, respectively. Within the Domestic Ball and Roller Segment, the decrease resulted principally from labor inefficiencies associated with implementing lean manufacturing techniques. Within the Plastic and Rubber Components Segment, \$0.3 million of the decrease is related to an impairment charge on the inventory of our Guadalajara, Mexico facility and decreased demand. As a percentage of net sales, gross profit decreased from 26.5% for the second quarter of 2002 to 22.6% for the second quarter of 2003.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased by \$1.0 million, or 19.8%, from \$4.8 million in the second quarter of 2002 to \$5.8 million in the second quarter of 2003. The inclusion of two months of Veenendaal results due to the May 2, 2003 acquisition contributed \$0.6 million of the increase. The impact of currency exchange rates in the NN Europe Segment resulted in a \$0.4 million increase. As a percentage of net sales, selling, general and administrative expenses decreased from 9.7% in the second quarter of 2002 to 9.0% in the second quarter of 2003.

*Depreciation and Amortization.* Depreciation and amortization expenses increased by \$0.7 million, or 25.8%, from \$2.8 million in the second quarter of 2002 to \$3.5 million in the second quarter of 2003. The inclusion of two months of Veenendaal results due to the May 2, 2003 acquisition contributed \$0.4 million of the increase. Currency impacts in the NN Europe Segment resulted in a \$0.3 million increase. As a percentage of net sales, depreciation and amortization decreased from 5.6% in the second quarter of 2002 to 5.4% in the second quarter of 2003.

*Restructuring and Impairment Costs.* Restructuring and impairment costs increased by \$2.7 million from \$0 during the second quarter of 2002 to \$2.7 million for the second quarter of 2003. The increase is related to the restructuring and impairment charges recorded in the second quarter of 2003 due to the planned closure of our Guadalajara, Mexico injection molding facility. The charges consist of \$2.4 million related to asset write-downs to their estimated fair market values, including \$1.3 million related to goodwill, \$1.0 million related to property, plant and equipment, and \$0.1 million related to accounts receivable. In addition, a \$0.3 million charge related to employee severance costs has been recorded. Restructuring and impairment charges were 0.0% of net sales in the second quarter of 2002 and 4.2% of net sales in the second quarter of 2003.

*Interest Expense.* Interest expense increased by \$0.2 million from \$0.6 million in the second quarter of 2002 to \$0.8 million in the second quarter of 2003. The increase is attributed to increased debt levels due to the previously announced acquisition of Veenendaal during May 2003, and the previously announced purchase of the 23% interest in Euroball held by INA/FAG during December 2002, and the previously

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announced purchase of the 23% interest in Euroball held by SKF during May 2003. As a percentage of net sales, interest expense was unchanged at 1.2% of net sales for both the second quarter of 2002 and the second quarter of 2003.

*Gain on Purchase of Minority Interest.* We recorded a net non-taxable gain on purchase of minority interest in the second quarter of 2003 of \$6.6 million related to the purchase of SKF's 23% interest in Euroball during May 2003.

*Minority Interest in Consolidated Subsidiary.* Minority interest of consolidated subsidiary decreased \$0.7 million from \$0.8 million in the second quarter of 2002 to \$0.1 million in the second quarter of 2003. This decrease is due entirely to the Euroball joint venture, which the Company has been required to consolidate since its formation on August 1, 2000. During the second quarter of 2002, minority interest in consolidated subsidiary represented the 46% of the

shares of the joint venture held by the minority partners. During the second quarter of 2003, minority interest in consolidated subsidiary represents the 23% of the shares of the joint venture held by the remaining minority partner through May 2, 2003. On May 2, 2003 we purchased the 23% interest held by SKF. As previously announced, we purchased the 23% interest in Euroball held by INA/FAG on December 20, 2002. Effective May 2, 2003 and as of June 30, 2003, we own 100% of the shares of Euroball. Minority interest in consolidated subsidiary represents the combined interest in Euroball's earnings of the minority partner and the 49% interest in Arte's earnings of the minority partner (the 49% interest in NN Arte's earnings is zero in the second quarter of 2002).

*Net Income.* Net income increased by \$4.9 million, or 203.1%, from \$2.4 million in the second quarter of 2002 to \$7.3 million in the second quarter of 2003. As a percentage of net sales, net income increased from 4.9% in the second quarter of 2002 to 11.4% in the second quarter of 2003.

#### **Six Months Ended June 30, 2003 Compared to the Six Months Ended June 30, 2002**

*Net Sales.* Net sales increased by approximately \$25.4 million or 26.4% from \$96.4 million for the first six months of 2002 to \$121.8 million for the first six months of 2003. By segment, net sales increased \$22.1 million, \$2.0 million and \$1.3 million for the NN Europe Segment, the Plastic and Rubber Components Segment and the Domestic Ball and Roller Segment, respectively. Within the NN Europe Segment, \$9.3 million of the increase is related to the inclusion of two months of Veenendaal results which we acquired on May 2, 2003, \$10.7 million is related to currency impacts and \$2.1 million is related to increases in demand. Within the Plastic and Rubber Components Segment and Domestic Ball and Roller Segment the increase is principally related to increases in demand and new programs within the Plastic and Rubber Components Segment.

*Gross Profit.* Gross profit increased approximately \$4.6 million, or 18.7%, from \$24.7 million for the first six months of 2002 to \$29.3 million for the first six months of 2003. By segment, gross profit increased by \$0.6 million for the Domestic Ball and Roller Segment and \$4.7 million for the NN Europe Segment. Within the NN Europe Segment, \$1.4 million of the increase is related to the inclusion of two months of Veenendaal results due to the May 2, 2003 acquisition, \$2.7 million is related to currency impacts and \$0.6 million is related to increases in product demand. Offsetting these increases was a decrease in the Plastic and Rubber Components Segment of approximately \$0.7 million. Within the Plastic and Rubber Components Segment, \$0.3 million of the decrease is related to an impairment charge on the inventory of our Guadalajara, Mexico facility and \$0.3 million of the decrease is related to decreased demand. As a percentage of sales, gross profit decreased from 25.6% for the first six months of 2002 to 24.1% for the first six months of 2003.

*Selling, General and Administrative.* Selling, general and administrative expenses increased by approximately \$1.1 million, or 11.7%, from \$9.3 million for the first six months of 2002 to \$10.4 million for the first six months of 2003. By segment, selling general and administrative expenses decreased \$0.2 million for both the Domestic Ball and Roller Segment and the Plastic and Rubber Components Segment. For the NN Europe Segment, selling, general and administrative expenses increased \$1.4 million. Within the NN Europe Segment, \$0.6 million of the increase is related to the inclusion of two months of Veenendaal results which we acquired on May 2, 2003 and \$0.8 million of the increase is related to currency impacts. As a percentage of sales, selling, general and administrative expenses decreased from 9.7% for the first six months of 2002 to 8.5% for the first six months of 2003.

*Depreciation and Amortization.* Depreciation and amortization expenses increased by \$1.0 million, or 16.7%, from \$5.6 million in the first six months of 2002 to \$6.6 million for the first six months of 2003. \$0.4 million of the increase is related to the inclusion of two months of Veenendaal results due to the May 2, 2003 acquisition and \$0.5 million of the increase is related to currency impacts. As a percentage of sales, depreciation and amortization expenses decreased from 5.8% for the first six months of 2002 to 5.4% for the first six months of 2003.

*Restructuring and Impairment Costs.* Restructuring and impairment costs increased by \$2.6 million from \$0.1 million for the first six months of 2002 to \$2.7 million for the first six months of 2003. The increase is related to the restructuring and impairment charges recorded in the second quarter of 2003 due to the planned closure of our Guadalajara, Mexico injection molding facility. The charges consist of \$2.4 million related to asset write-downs to their estimated fair market values, including \$1.3 million related to goodwill, \$1.0 million related to property, plant and equipment, and \$0.1 million related to accounts receivable. In addition, a \$0.3 million charge related to employee severance costs has been recorded. Restructuring and impairment charges were 0.1% of net sales in the first six months of 2002 and 2.2% of net sales for the first six months of 2003.

*Interest Expense.* Interest expense increased by \$0.2 million from \$1.1 million for the first six months of 2002 to \$1.3 million for the first six months of 2003. The increase is attributed to increased debt levels due to the previously announced acquisition of Veenendaal during May 2003, the previously announced purchase of the 23% interest in Euroball held by INA/FAG during December 2002, and the previously announced purchase of the 23% interest in Euroball held by SKF during May 2003. As a percentage of net sales, interest expense decreased 0.1% from 1.2% of net sales for the first six months of 2002 to 1.1% for the first six months of 2003.

*Gain on Purchase of Minority Interest.* We recorded a net non-taxable gain on purchase of minority interest in the second quarter of 2003 of \$6.6 million related to the purchase of SKF's 23% interest in Euroball during May 2003.

*Minority Interest in Consolidated Subsidiary.* Minority interest of consolidated subsidiary decreased \$0.8 million from \$1.5 million for the first six months of 2002 to \$0.7 million for the first six months of 2003. This decrease is due entirely to the Euroball joint venture, which the Company has been required to consolidate since its formation on August 1, 2000. During the first six months of 2002, minority interest in consolidated subsidiary represented the 46% of the shares of the joint venture held by the minority partners. During the second quarter of 2003, minority interest in consolidated subsidiary represents the 23% of the shares of the joint venture held by the remaining minority partner through May 2, 2003. On May 2, 2003 we purchased the 23% interest held by SKF. As previously announced, we purchased the 23% interest in Euroball held by INA/FAG on December 20, 2002. Effective May 2, 2003 and as of June 30, 2003, we own 100% of the shares of Euroball. Minority interest in consolidated subsidiary represents the combined interest in Euroball's earnings of the minority partner and the 49% interest in NN Arte's earnings of the minority partner (the 49% interest in NN Arte's earnings is zero in the first six months of 2002).

*Net Income.* Net income increased by \$6.7 million, or 157.0%, from \$4.3 million in the first six months of 2002 to \$10.9 million in the first six months of 2003. As a percentage of net sales, net income increased from 4.4% in the first six months of 2002 to 9.0% in the first six months of 2003.

#### Recent Developments

During May 2003, we completed a public offering of 3.6 million shares of our stock by a group of selling shareholders. We did not receive any proceeds from the sale of the shares previously held by the group of selling shareholders, however, the underwriters did exercise their over-allotment option of 533,600 shares. Net proceeds received by us in connection with the exercise of the over-allotment were approximately \$5.1 million.

On May 2, 2003, we acquired the 23 percent interest in NN Euroball, ApS ("Euroball") held by SKF. We paid approximately 13.8 million Euros (\$15.6 million). Euroball was formed in 2000 by the Company, FAG Kugelfischer George Shaefler AG, which was subsequently acquired by INA - Schaeffler KG

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("INA/FAG"), and AB SKF ("SKF"). Upon consummation of this transaction, we became the sole owner of Euroball.

On May 2, 2003, we acquired the tapered roller and metal cage manufacturing operations of SKF in Veenendaal, The Netherlands. We paid consideration of approximately 23.0 million Euros (\$25.7 million) and incurred costs of approximately \$0.9 million, for the Veenendaal net assets acquired from SKF. The Veenendaal operation manufactures rollers for tapered roller bearings and metal cages for both tapered roller and spherical roller bearings.

In connection with the acquisition of SKF's Veenendaal operations, SKF purchased 700,000 shares of our common stock from us for an aggregate fair value of approximately \$6.9 million which was applied to the purchase of SKF's Veenendaal, The Netherlands operations. For purposes of valuing the 700,000 common shares issued, the value was determined based on the average market price of NN, Inc.'s common shares over the two-day period before, the day of, and the two-day period after the terms of the acquisition were agreed to, April 14, 2003.

Refer to Liquidity and Capital Resources

#### Liquidity and Capital Resources

On May 1, 2003 in connection with the purchase of SKF's Veenendaal component manufacturing operations and SKF's 23 percent interest in Euroball, we entered into a new \$90 million syndicated credit facility with AmSouth Bank ("AmSouth") as the administrative agent and Suntrust Bank as the Euro loan agent for the lenders under which we borrowed \$60.4 million and 26.3 million Euros (\$29.6 million). This new financing arrangement replaces our prior credit facility with AmSouth and Euroball's credit facility with Hypo Vereinsbank Luxembourg, S.A. The credit facility consists of a \$30.0 million revolver expiring on March 1, 2005, bearing interest at a floating rate equal to LIBOR (1.12% at June 30, 2003) plus an applicable margin of 1.25 to 2.0, a \$30.4 million term loan expiring on May 1, 2008, bearing interest at a floating rate equal to LIBOR (1.12% at June 30, 2003) plus an applicable margin of 1.25 to 2.0 and a 26.3 million (\$29.6 million) Euros term loan expiring on May 1, 2008 which bears interest at a floating rate equal to Euro LIBOR (2.14% at June 30, 2003) plus an applicable margin of 1.25 to 2.0. The loan agreement contains customary financial and non-financial covenants. Such covenants specify that we must maintain certain liquidity measures. The loan agreement also contains customary restrictions on, among other things, additional indebtedness, liens on our assets, sales or transfers of assets, investments, restricted payments (including payment of dividends and stock repurchases), issuance of equity securities, and mergers, acquisitions and other fundamental changes in our business. The credit facility is un-collateralized except for the pledge of stock of certain foreign subsidiaries. We were in compliance with all such covenants as of June 30, 2003.

From July 20, 2001 until May 1, 2003, the date that this loan agreement was paid off, we had a syndicated loan agreement with AmSouth as the administrative agent for the lenders, for a senior non-secured revolving credit facility of up to \$25.0 million, expiring on July 25, 2003 and a senior non-secured term loan for \$35.0 million expiring on July 1, 2006. On July 12, 2002, we amended this credit facility to convert the term loan portion into a reducing revolving credit line providing initial availability equivalent to the balance of the term loan prior to the amendment. Amounts available for borrowing under this facility were to be reduced by \$ 7.0 million per annum and the facility was to expire on July 1, 2006. Additionally, on July 31, 2002, we amended the credit facility again to extend the \$25 million senior non-secured revolving credit facility to July 25, 2004. Amounts outstanding under the revolving facility and term loan facility bore interest at a floating rate equal to LIBOR (1.12% at June 30, 2003) plus an applicable margin of 0.75% to 2.00% based upon calculated financial ratios. The loan agreement contained customary financial and non-financial covenants. Such covenants specified that we had to maintain certain liquidity measures and limited the amount of capital expenditures we could make in any fiscal year. The loan agreement also contained customary restrictions on, among other things, additional indebtedness, liens on our assets, sales or transfers of assets, investments, restricted payments (including payment of dividends and stock repurchases), issuance of equity securities, and mergers, acquisitions and other fundamental changes in our business. Additionally, the terms of this loan agreement restricted the declaration and payment of dividends in excess of \$5.5 million in any fiscal year. Our ownership in NN Euroball ApS had been pledged as collateral.

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In connection with the Euroball transaction we and Euroball, entered into a Facility Agreement with a bank to provide up to Euro 36.0 million in Term Loans and Euro 5.0 million in revolving credit loans. We borrowed Euro 30.5 million (\$28.8 million) under the term loan facility and Euro 1.0 million (\$0.9 million) under the revolving credit facility. Amounts outstanding under the Facility Agreement bore interest at EURIBOR (2.14% at June 30, 2003) plus an applicable margin between 0.8% and 2.25% based upon financial ratios. The shareholders of Euroball provided guarantees for the Facility Agreement. The Facility Agreement contained restrictive covenants, which specified, among other things, restrictions on the incurrence of indebtedness and the maintenance of certain financial ratios. Amounts outstanding under the Facility Agreement were secured by the stock in certain subsidiaries, inventory and accounts receivable of Euroball. This loan agreement was paid off on May 1, 2003.

Our arrangements with our domestic customers typically provide that payments are due within 30 days following the date of shipment of goods by us, while arrangements with certain export customers (other than export customers that have entered into an inventory management program with the Company) generally provide that payments are due within either 90 or 120 days following the date of shipment. Our net sales have historically been of a seasonal nature due to our relative percentage of European business coupled with slower European production during the month of August.

We bill and receive payment from some of our foreign customers in Euro as well

as other currencies. To date, we have not been materially adversely affected by currency fluctuations. Nonetheless, as a result of these sales, our foreign exchange transaction and translation risk has increased. Various strategies to manage this risk are available to management including producing and selling in local currencies and hedging programs. As of June 30, 2003, no currency hedges were in place. In addition, a strengthening of the U.S. dollar and/or Euro against foreign currencies could impair our ability to compete with international competitors for foreign as well as domestic sales.

Working capital, which consists principally of accounts receivable and inventories, was \$27.4 million at June 30, 2003 as compared to \$21.2 million at December 31, 2002. The ratio of current assets to current liabilities decreased from 1.53:1 at December 31, 2002 to 1.44:1 at June 30, 2003. Cash flow from operations decreased to \$3.7 million during the first six months of 2003 from \$15.0 million during the first six months of 2002.

During 2003, we plan to spend approximately \$9.0 million to \$10.0 million on capital expenditures (of which approximately \$4.3 million has been spent through June 30, 2003) including the purchase of additional machinery and equipment for all of our domestic facilities as well as four European facilities. We intend to finance these activities with cash generated from operations and funds available under the credit facilities described above. We believe that funds generated from operations and borrowings from the credit facilities will be sufficient to finance our working capital needs and projected capital expenditure requirements through December 2003.

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## The Euro

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

## Seasonality and Fluctuation in Quarterly Results

Our net sales historically have been of a seasonal nature due to a significant portion of our sales to European customers that cease or significantly slow production during the month of August.

## Inflation and Changes in Prices

While the Company's operations have not been materially affected by inflation during recent years, prices for 52100 Steel, engineered resins and other raw materials purchased by the Company are subject to material change. For example, during 1995, due to an increase in worldwide demand for 52100 Steel and the decrease in the value of the United States Dollar relative to foreign currencies, the Company experienced an increase in the price of 52100 Steel and some difficulty in obtaining an adequate supply of 52100 Steel from its existing suppliers. In the Company's U.S. operations our typical pricing arrangements with steel suppliers are subject to adjustment once every six months. The Company's NN Europe Segment has entered into long term agreements with its primary steel supplier, which provide for standard terms and conditions and annual pricing adjustments to offset material price fluctuations in steel. The Company typically reserves the right to increase product prices periodically in the event of increases in its raw material costs. In the past, the Company has been able to minimize the impact on its operations resulting from the 52100 Steel price fluctuations by taking such measures. Certain sales agreements are in effect with SKF and INA/FAG, which provide for minimum purchase quantities and specified, annual sales price reductions that may be modified up or down for changes in material costs. These agreements expire during 2006 and 2008.

## Critical Accounting Policies

Our significant accounting policies, including the assumptions and judgments underlying them, are disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 including those policies as discussed in Note 1. These policies have been consistently applied in all material respects and address such matters as revenue recognition, inventory valuation, asset impairment recognition, business combination accounting and pension and postretirement benefits. Due to the estimation processes involved, management considers the following summarized accounting policies and their application to be critical to understanding the Company's business operations, financial condition and results of operations. There can be no assurance that actual results will not significantly differ from the estimates used in these critical accounting policies.

**Accounts Receivable.** Substantially all of the Company's accounts receivable are due primarily from the served markets: bearing manufacturers, automotive industry, electronics, industrial, agricultural and aerospace. In establishing allowances for doubtful accounts, the Company continuously performs credit evaluations of its customers, considering numerous inputs when available including the customers' financial position, past payment history, relevant industry trends, cash flows, management capability, historical loss experience and economic conditions and prospects. While management believes that adequate allowances for doubtful accounts have been provided in the Consolidated Financial Statements, it is possible that the Company could experience additional unexpected credit losses.

**Inventories.** Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. The Company's inventories are not generally subject to obsolescence due to spoilage or expiring product life cycles. The Company operates generally as a make-to-order business; however, the Company also stocks products for certain customers in order to meet delivery schedules. While management believes that adequate write-downs for inventory obsolescence have been made in the Consolidated Financial Statements, the Company could experience additional inventory write-downs in the future.

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

**Impairment of Long-Lived Assets.** The Company's long-lived assets include

property, plant and equipment. The recoverability of the long-term assets is dependent on the performance of the companies which the Company has acquired, as well as volatility inherent in the external markets for these acquisitions. In assessing potential impairment for these assets the Company will consider these factors as well as forecasted financial performance. For assets held for sale, appraisals are relied upon to assess the fair market value of those assets. Future adverse changes in market conditions or adverse operating results of the underlying assets could result in the Company having to record additional impairment charges not previously recognized.

**Pension and Post-Retirement Obligations.** The Company uses several assumptions in determining its periodic pension and post-retirement expense and obligations which are included in the Consolidated Financial Statements. These assumptions include determining an appropriate discount rate, rate of compensation increase as well as the remaining service period of active employees. The Company uses an independent actuary to calculate the periodic pension and post-retirement expense and obligations based upon these assumptions and actual employee census data.

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

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

*You should carefully consider the following risks and uncertainties, and all other information contained in or incorporated by reference in this quarterly report on Form 10-Q, before making an investment in our common stock. Any of the following risks could have a material adverse effect on our business, financial condition or operating results. In such case, the trading price of our common stock could decline and you may lose all or part of your investment.*

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

The end markets for fully assembled bearings are cyclical and tend to decline in response to overall declines in industrial production. As a result, the market for bearing components is also cyclical and impacted by overall levels of industrial production. Our sales in the past have been negatively affected, and in the future will be negatively affected, by adverse conditions in the industrial production sector of the economy or by adverse global or national economic conditions generally.

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

The steel that we use to manufacture precision balls and rollers is of an extremely high quality and is available from a limited number of producers on a global basis. Due to quality constraints in the U.S. steel industry, we obtain substantially all of the steel used in our U.S. ball and roller production from overseas suppliers. In addition, we obtain substantially all of the steel used in our European ball production from a single European source. If we had to obtain steel from sources other than our current suppliers, particularly in the case of our European operations, we could face higher prices and transportation costs, increased duties or taxes, and shortages of steel. Problems in obtaining steel, and particularly 52100 chrome steel, in the quantities that we require and on commercially reasonable terms, could increase our costs, negatively impact our ability to operate our business efficiently and have a material adverse effect on the operating and financial results of our Company.

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

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

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- o adverse foreign currency fluctuations;
  - o changes in trade, monetary and fiscal policies, laws and regulations, and other activities of governments, agencies and similar organizations;
  - o the imposition of trade restrictions or prohibitions;
  - o high tax rates that discourage the repatriation of funds to the U.S.;
  - o the imposition of import or other duties or taxes; and
  - o unstable governments or legal systems in countries in which our suppliers, manufacturing operations, and customers are located.

We do not have a hedging program in place associated with consolidating the operating results of our foreign businesses into U.S. Dollars. An increase in the value of the U.S. Dollar and/or the Euro relative to other currencies may adversely affect our ability to compete with our foreign-based competitors for international, as well as domestic, sales. In the first six months of 2003, approximately 42% of the \$25.4 million increase in revenues was attributable to favorable currency fluctuations. Also, a decline in the value of the Euro relative to the U.S. Dollar will negatively impact our consolidated financial results, which are denominated in U.S. Dollars.

In addition, due to the typical slower summer manufacturing season in Europe, we expect that revenues in the third fiscal quarter will reflect lower sales, as our sales to European customers have increased as a percentage of net sales.

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

Sales to various U.S. and foreign divisions of SKF, which is one of the largest bearing manufacturers in the world, accounted for approximately 33% of consolidated net sales in 2002, and sales to INA/FAG accounted for approximately 19% of consolidated net sales in 2002. Our recent acquisition at SKF's tapered roller and metal cage production facility, along with the related long-term supply agreement with SKF, will increase our dependence on SKF in the future. During 2002, our ten largest customers accounted for approximately 73% of our consolidated net sales. None of our other customers individually accounted for more than 5% of our consolidated net sales for 2002. Recent consolidation of certain of our bearing customers, including the acquisition at the Torrington Company by Timken, will increase our dependence on a smaller number of customers. The loss of all or a substantial portion of sales to these customers would cause us to lose a substantial portion of our revenue and would lower our profit margin and cash flows from operations.

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

We cannot assure you that any future acquisition will enhance our financial performance. Our ability to effectively integrate any future acquisitions will depend on, among other things, the adequacy of our implementation plans, the ability of our management to oversee and operate effectively the combined operations and our ability to achieve desired operating efficiencies and sales goals. The integration of any acquired businesses might cause us to incur unforeseen costs, which would lower our profit margin and future earnings and would prevent us from realizing the expected benefits of these acquisitions.

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

Acquiring businesses that complement or expand our operations has been and continues to be an important element of our business strategy. This strategy calls for growth through acquisitions constituting approximately two-thirds of our future growth, with the remainder resulting from internal growth and market penetration. We bought our plastic bearing component business in 1999, formed Euroball with our two largest bearing customers, SKF and INA/FAG, in 2000 and acquired our bearing seal operations in

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2001. During 2002, we purchased INA/FAG's minority interest in Euroball and on May 2, 2003, we acquired SKF's minority interest in Euroball, to become the sole owner at Euroball. On May 2, 2003 we acquired SKF's tapered roller and metal cage manufacturing operations in Veenendaal, The Netherlands. We cannot assure you that we will be successful in identifying attractive acquisition candidates or completing acquisitions on favorable terms in the future. In addition, we may borrow funds to acquire other businesses, increasing our interest expense and debt levels. Our inability to acquire businesses, or to operate them profitably once acquired, could have a material adverse effect on our business, financial position, results of operations and cash flows.

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

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

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

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

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

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

***The price of our common stock may be volatile.***

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

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

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- o sales of our common stock by stockholders;

- o general market conditions; and
- o domestic and international economic, legal and regulatory factors unrelated to our performance.

The stock markets in general have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock.

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

Our certificate of incorporation and bylaws, as well as Delaware corporate law, contain provisions that could delay or prevent a change of control or changes in our management that a stockholder might consider favorable and may prevent you from receiving a takeover premium for your shares. These provisions include, for example, a classified board of directors and the authorization of our board of directors to issue up to 5,000,000 preferred shares without a stockholder vote. In addition, our restated certificate of incorporation provides that stockholders may not call a special meeting.

We are a Delaware corporation subject to the provisions of Section 203 of the Delaware General Corporation Law, an anti-takeover law. Generally, this statute prohibits a publicly-held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which such person became an interested stockholder, unless the business combination is approved in a prescribed manner. A business combination includes a merger, asset sale or other transaction resulting in a financial benefit to the stockholder. We anticipate that the provisions of Section 203 may encourage parties interested in acquiring us to negotiate in advance with our board of directors, because the stockholder approval requirement would be avoided if a majority of the directors then in office approve either the business combination or the transaction that results in the stockholder becoming an interested stockholder.

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

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to changes in financial market conditions in the normal course of our business due to our use of certain financial instruments as well as transacting in various foreign currencies. To mitigate our exposure to these market risks, we have established policies, procedures and internal processes governing our management of financial market risks. We are exposed to changes in interest rates primarily as a result of our borrowing activities. At June 30, 2003, these borrowings included a \$30 million term loan and a \$30 million revolving credit facility which was used to maintain liquidity and fund our business operations. At June 30, 2003, we had \$55.9 million outstanding under the domestic credit facilities and Euroball had 25.0 million Euro (\$28.5 million) outstanding under the Euro term loan. At June 30, 2003, a one-percent increase in the interest rate charged on our outstanding borrowings under both credit facilities would result in interest expense increasing annually by approximately \$0.8 million. In connection with a variable EURIBOR rate debt financing in July 2000 our majority owned subsidiary, Euroball entered into an interest rate swap with a notional amount of Euro 12.5 million for the purpose of fixing the interest rate on a portion of their debt financing. The interest rate swap provides for us to receive variable Euribor interest payments and pay 5.51% fixed interest. The interest rate swap agreement expires in July 2006 and the notional amount amortizes in relation to principal payments on the underlying debt over the life of the swap. This original debt was repaid in May 2003, however, the swap remains pursuant to its original terms. On May 1, 2003, we entered into a new \$90 million syndicated credit facility. This new financing arrangement replaces our prior credit facility with AmSouth and Euroball's credit facility with Hypo Vereinsbank Luxembourg, S.A., see "Management's Discussion and Analysis of Financial Condition and

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Results of Operations - Liquidity and Capital Resources". 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 NN Europe Segment bills and receives payments from some of its foreign customers in their own currency. To date, we have not been materially adversely affected by currency fluctuations of foreign exchange restrictions. However, to help reduce exposure to foreign currency fluctuation, management has incurred debt in Euros and has periodically used foreign currency hedges. These currency hedging programs allow management to hedge currency exposures when these exposures meet certain discretionary levels. We did not hold a position in any foreign currency hedging instruments as of June 30, 2003.

### **Item 4. Controls and Procedures**

- a) As of June 30, 2003, we carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-14 and 15d-14 of the Securities Exchange Act of 1934 (the "Exchange Act"). Based upon that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's Exchange Act filings.
- b) There have been no significant changes in the Company's internal controls or in other factors which could significantly affect internal controls during the most recent fiscal quarter subsequent to the date the Company carried out its evaluation.

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## **Part II. Other Information**

### **Item 1. Legal Proceedings**

All legal proceedings and actions involving the Company are of an ordinary and

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

**Item 2. Change in Securities and Use of Proceeds**

None

**Item 3. Defaults upon Senior Securities**

None

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

The Company's Annual Meeting of Stockholders was held on May 15, 2003. As of March 28, 2003, the record date for the meeting, there were 15,369,807 shares of common stock outstanding and entitled to vote at the meeting. There were present at said meeting, in person or by proxy, stockholders holding 14,728,346 shares of common stock, constituting approximately 96% of the shares of common stock outstanding and entitled to vote, which constituted a quorum.

The first matter voted upon at the meeting was the election of Roderick R. Baty as a Class I Director to serve for a three-year term. The vote was 14,656,813 For and 71,533 Withheld.

The nominee was elected to serve until the 2006 Annual Meeting of Stockholders and until his successor is duly elected and qualified. In addition to the foregoing director, Michael D. Huff and Michael E. Werner are serving terms that will expire in 2004, and Steven T. Warsaw, James E. Earsley, and G. Ronald Morris are serving terms that will expire in 2005. Mr. Baty continues in his position as Chairman of the Company's Board of Directors.

The second matter voted upon at the meeting was the proposal to ratify and approve non-employee director stock options. The vote was 13,680,073 For and 252,057 Against, and there were 796,216 Abstentions.

The third matter voted upon at the meeting was the proposal that the shareholders approve an amendment to the Company's Stock Incentive Plan. The vote was 11,446,799 For and 2,483,505 Against and there were 798,042 Abstentions.

The fourth matter voted upon the 2003 Annual Meeting of Stockholders was the ratification of KPMG LLP as independent public accountants to audit the Company's accounts for the fiscal year ending December 31, 2003. The vote was 14,557,412 For and 69,245 Against, and there were 101,689 Abstentions.

**Item 5. Other Information**

None

**Item 6. Exhibits and Reports on Form 8-K.**

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

2.1 Asset Purchase Agreement dated April 14, 2003 among SKF Holding Maatschappij Holland B.V., SKF B.V., NN, Inc. and NN Netherlands B.V. (incorporated by reference to Exhibit 2.1 of Form 8-K filed on May 16, 2003).

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10.1 Amendment No. 3 to NN, Inc. Stock Incentive Plan as ratified by the shareholders on May 15, 2003 amending the Plan to permit the issuance of awards under the Plan to directors of the Company.

10.2 Credit Agreement dated as of May 1, 2003 among NN, Inc., and NN Euroball ApS as the Borrowers, the Subsidiaries as Guarantors, the Lenders as identifies therein, AmSouth Bank as Administrative Agent, and SunTrust Bank as Documentation Agent and Euro Loan Agent.

10.3 Supply Agreement between NN Euroball ApS and AB SKF dated April 6, 2000. (We have omitted certain information from the Agreement and filed it separately with the Securities and Exchange Commission pursuant to our request for confidential treatment under Rule 24b-2. We have identified the omitted confidential information by the following statement, "Confidential portions of material have been omitted and filed separately with the Securities and Exchange Commission," as indicated throughout the document with an asterisk in brackets [\*]).

10.4 Global Supply Agreement among NN, Inc., NN Netherlands B.V. and SKF Holding Maatschappij Holland B.V. dated April 14, 2003. (We have omitted certain information from the Agreement and filed it separately with the Securities and Exchange Commission pursuant to our request for confidential treatment under Rule 24b-2. We have identified the omitted confidential information by the following statement, "Confidential portions of material have been omitted and filed separately with the Securities and Exchange Commission," as indicated throughout the document with an asterisk in brackets [\*]).

31.1 Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of Sarbanes-Oxley Act.

32.2 Certification of Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act.

(b) Reports on Form 8-K

The Company filed a Form 8-K, in response to Items 5 and 7, on April 24, 2003 announcing its first quarter 2003 earnings.

The Company filed a Form 8-K/A, in response to Items 5, 7 and 9 on May 1, 2003 amending the 8-K filed on April 24, 2003.

The Company filed a Form 8-K, in response to Items 5 and 7, on May 2, 2003 announcing it acquired SKF's component manufacturing operation in Veenendaal, The Netherlands.

The Company filed a Form 8-K, in response to Items 5 and 7, on May 2, 2003 announcing it purchased SKF's interest in NN Euroball ApS.

The Company filed a Form 8-K, in response to Items 5 and 7, on May 2, 2003 announcing it has filed with the Securities and Exchange Commission a



prospectus, consisting of a prospectus supplement dated May 2, 2003, together with a base prospectus dated February 11, 2003, which relates to the Company's sale of 700,000 shares of its Common Stock.

The Company filed a Form 8-K, in response to Items 5 and 7, on May 5, 2003 announcing a public offering of the Company's common stock.

The Company filed a Form 8-K, in response to Items 2 and 7, on May 16, 2003 announcing additional details related to the acquisition of SKF's Veenendaal, The Netherlands component manufacturing operation and filing the Asset Purchase Agreement.

The Company filed a Form 8-K, in response to Items 5 and 7, on May 16, 2003 in order to furnish certain exhibits for incorporation by reference into the Registration Statement.

The Company filed a Form 8-K, in response to Items 5 and 7, on May 16, 2003 announcing the completion of a public offering of the Company's common stock.

The Company filed a Form 8-K, in response to Items 5 and 7, on May 23, 2003 announcing the exercise of an over-allotment option by underwriters.

The Company furnished a Form 8-K, in response to Items 7 and 9, on May 27, 2003 announcing the payment of a regular quarterly cash dividend.

The Company filed a Form 8-K, in response to Items 5 and 7, on June 12, 2003 announcing the appointment of Robert M. Aiken Jr. to its Board of Directors.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NN, Inc.

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(Registrant)

Date: August 14, 2003

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/s/ Roderick R. Baty

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Roderick R. Baty,  
Chairman, President and  
Chief Executive Officer  
(Duly Authorized Officer)

Date: August 14, 2003

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/s/ David L. Dyckman

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David L. Dyckman  
Vice President - Corporate Development  
Chief Financial Officer  
(Principal Financial Officer)  
(Duly Authorized Officer)

Date: August 14, 2003

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/s/ William C. Kelly, Jr.

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

AMENDMENT NO. 3 TO  
NN, INC. STOCK INCENTIVE PLAN

As adopted by the Board of Directors on March 6, 2003, and subject to approval by the stockholders of the Company as required in Section 23 of the Stock Incentive Plan, the NN, Inc. Stock Incentive Plan is hereby amended as follows:

Article 1 of the Plan is amended and restated in its entirety as follows:

"1. PURPOSE

The NN, Inc. Stock Incentive Plan (the "Plan") is designed to enable directors, officers and key employees of NN, Inc. (the "Company") to acquire or increase a proprietary interest in the Company, and thus to share in the future success of the Company's business. Accordingly, the Plan is intended as a means of attracting and retaining directors, officers and key employees of outstanding ability and or increasing the identity of interests between them and the Company's shareholders, by providing an incentive to perform in a superior manner and rewarding such performance. Because the individuals eligible to receive Awards under the Plan will be those who are in positions to make important and direct contributions to the success of the Company, the directors believe that the grant of Awards will advance the interests of the Company and the shareholders."

Article 5(c) of the Plan is amended and restated in its entirety as follows:

"(c) The powers of the Committee shall include plenary authority to interpret the Plan. Subject to the provisions of the Plan, the Committee shall have the authority, in its sole discretion, from time to time: (1) to select the directors, officers and key employees to whom Awards shall be granted; (2) to determine the date on which each Award shall be granted; (3) to prescribe the number of Shares subject to each Award; (4) to determine the type of each Award; (5) to determine the term of each Award; (6) to determine the periods during which Awards may be exercised and the restrictions and limitations upon exercise of Awards or the receipt of Shares, other property or cash thereunder; (7) to prescribe any performance criteria pursuant to which Awards may be granted or may become exercisable or payable; (8) to prescribe any limitations, restrictions or conditions on any Award; (9) to prescribe the provisions of each Agreement, which shall not be inconsistent with the terms of the Plan; (10) to adopt, amend and rescind rules and regulations relating to the Plan; and (11) to make all other determinations and take all other

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actions that are necessary or advisable for the implementation and administration of the Plan."

Article 6(a) of the Plan is amended and restated in its entirety as follows:

"(a) Awards may be granted under the Plan to directors, officers and key employees of the Company or any Subsidiary. All determinations by the Committee as to the individuals to whom Awards shall be granted hereunder shall be conclusive."

Article 6(b) of the Plan is deleted in its entirety.

Except as expressly amended by the Board of Directors, subject to approval by the stockholders, the NN, Inc. Stock Incentive Plan is hereby ratified and confirmed in all respects.

IN WITNESS WHEREOF, NN, Inc., acting by and through its officer hereunto duly authorized has executed this Amendment as of the 6th day of March, 2003.

NN, Inc.

By: /s/ William C. Kelly, Jr.  
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Name: William C. Kelly, Jr.  
Title: Secretary/Treasurer  
Chief Administrative Officer

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**CREDIT AGREEMENT**

Dated as of May 1, 2003

Among

NN, INC.,  
as the Domestic Borrower,

NN EUROBALL ApS  
as the Euro Borrower,

All of the present and future Subsidiaries (except for  
Euro Borrower) of the Domestic Borrower that become  
parties hereto, as Guarantors,

the Lenders identified herein,

AMSOUTH BANK,  
as Administrative Agent

and

SUNTRUST BANK,  
as Documentation Agent and Euro Loan Agent

U.S. \$30,000,000 Revolving Credit Facility  
U.S \$30,405,342 Domestic Term Loan Facility  
(euro)26,283,000 Euro Term Loan Facility

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**CREDIT AGREEMENT**

THIS CREDIT AGREEMENT (this "Agreement"), dated as of May 1, 2003, is made and entered into on the terms and conditions hereinafter set forth, by and among NN, INC., a Delaware corporation ("Domestic Borrower") and NN EUROBALL ApS, a Denmark limited liability company ("Euro Borrower"; Euro Borrower and Domestic Borrower are sometimes hereinafter individually and collectively referred to as the "Borrower"), all subsidiaries (except for Euro Borrower) of the Domestic Borrower now or hereafter becoming parties to this Agreement as Domestic Guarantors, those several lenders who are or become parties to this Agreement (collectively, the "Lenders" and, individually, a "Lender"), AMSOUTH BANK, an Alabama state bank having an office and place of business in Nashville, Tennessee ("AmSouth"), as administrative agent for the Lenders (in such capacity, the "Administrative Agent") and SUNTRUST BANK, as Documentation Agent and Euro Loan Agent for the Lenders (in such capacity, the "Euro Loan Agent").

THE PARTIES HERETO AGREE AS FOLLOWS:

**ARTICLE 1.**

**DEFINITIONS, ACCOUNTING TERMS  
AND PRINCIPLES OF CONSTRUCTION**

1.1. **Defined Terms.** In addition to terms defined elsewhere herein, the following terms, as used in this Agreement, shall have the respective meanings set forth below (terms defined in the singular to have the same meaning when used in the plural, and vice versa, unless otherwise expressly indicated):

"**Administrative Agent**" shall mean AmSouth or such successor Administrative Agent as may be appointed by the Lenders pursuant to Section 12.10 hereof.

"**Affiliate**" shall mean, as to any Person, any other Person directly or indirectly controlling (including all directors, officers and employees of such Person), directly or indirectly controlled by or under direct or indirect common control with such Person.

"**Agents**" shall mean, collectively, the Administrative Agent and the Euro Loan Agent.

"**Applicable Bankruptcy Law**" shall mean, with respect to any Guarantor or NN Italy, Title 11 of the United States Code, and any other laws governing bankruptcy, suspension of payments, reorganization, arrangement, adjustment of debts, relief of debtors, dissolution or insolvency and any other similar laws applicable to such Guarantor or NN Italy.

"**Applicable Base Rate Margin**" shall mean the margin to be added to the Base Rate for purposes of determining the interest rate(s) applicable to Base Rate Loans from time to time, which shall be determined as provided in Section 2.10.

"**Applicable Commitment Fee Percentage**" shall mean the percentage to be used to calculate Commitment Fees from time to time, which shall be determined as provided in Section 2.10.

"**Applicable LIBOR Margin**" shall mean the margin to be added to LIBOR for purposes of determining the interest rate(s) applicable to LIBOR Loans from time to time, which shall be determined as provided in Section 2.10.

"**Asset Acquisition**" shall mean (a) any Investment by the Borrower or any of its Subsidiaries in any other Person pursuant to which such Person shall become a Subsidiary of the Borrower or any of its Subsidiaries or shall be merged with the Borrower or any of its Subsidiaries or (b) any acquisition by the Borrower or any of its Subsidiaries of the assets of any Person that constitute substantially all of an operating unit or business of such Person.

"**Assignment and Acceptance**" shall mean an assignment and acceptance, substantially in the form of Exhibit 13.2, between a transferor Lender and a proposed transferee, regarding the sale, assignment, transfer or other disposition (other than the sale of a participation) of all or any amount of the Commitments, Revolving Loans and Term Loans of such Lender.

"**Base LIBOR**" shall mean,

(a) with respect to any Loan (other than a Euro Term Loan) the rate per annum for offered Dollar deposits in the interbank Eurodollar market appearing on page 3750 of the TELERATE rate reporting system at approximately 11:00 a.m., Central Time, on the Interest Rate Determination Date immediately prior to the beginning of the Interest Period for the corresponding LIBOR Loan, for the number of months comprised therein and in an amount equal to the amount of such LIBOR Loan to be outstanding during such Interest Period. Without limiting the provisions of Section 2.11.3, in the event that prior to the Term Loan Maturity Date TELERATE quotes for Base LIBOR are discontinued or become unascertainable, the Administrative Agent may (1) determine Base LIBOR with reference to the rate per annum for offered Dollar deposits in the interbank Eurodollar market appearing on the Reuters Screen LIBO Page at approximately 11:00 a.m., Central Time, on the Interest Rate Determination Date immediately prior to the beginning of the Interest Period for the corresponding LIBOR Loan, for the number of months comprised therein and in an amount equal to the amount of such LIBOR Loan to be outstanding during such Interest Period (and if more than one such rate appears, the Administrative Agent may use the arithmetic mean of such rates), or (2) designate any other comparable resource for use in determining Base LIBOR for purposes hereof.

(b) with respect to any Euro Term Loan, the rate per annum for offered Euro deposits in the interbank Eurodollar market appearing on the applicable page of the

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TELERATE rate reporting system at approximately 11:00 a.m., Central Time, on the Interest Rate Determination Date immediately prior to the beginning of the Interest Period for the corresponding LIBOR Loan, for the number of months comprised therein and in an amount equal to the amount of such LIBOR Loan to be outstanding during such Interest Period. Without limiting the provisions of Section 2.11.3, in the event that prior to the Term Loan Maturity Date TELERATE quotes for Base LIBOR are discontinued or become unascertainable, the Euro Loan Agent may (1) determine Base LIBOR with reference to the rate per annum for offered Euro deposits in the interbank Eurodollar market appearing on the applicable Reuters Screen at approximately 11:00 a.m., Central Time, on the Interest Rate Determination Date immediately prior to the beginning of the Interest Period for the corresponding LIBOR Loan, for the number of months comprised therein and in an amount equal to the amount of such LIBOR Loan to be outstanding during such Interest Period (and if more than one such rate appears, the Euro Loan Agent may use the arithmetic mean of such rates), or (2) designate any other comparable resource for use in determining Base LIBOR for purposes hereof.

"Base Rate" shall mean, for any period, the greater of (i) the fluctuating rate of interest per annum from time to time established by AmSouth as its "prime rate", regardless of whether published or publicly announced, or (ii) a fluctuating rate of interest per annum equal to one-half of one percentage point (0.5%) in excess of the Federal Funds Rate in effect from time to time. Each change in the Base Rate shall be effective as of the opening of business on the day such change occurs. The parties hereto acknowledge that the rate established by AmSouth as its "prime rate" is an index or base rate and is not necessarily the lowest rate charged to its customers or other banks. In the event that AmSouth discontinues or abandons the practice of establishing a prime rate, or should the same become unascertainable, the Administrative Agent shall designate a comparable reference rate for use in determining the Base Rate for purposes hereof.

"Base Rate Loans" shall mean Revolving Loans and Term Loans bearing interest at rates determined by reference to the Base Rate.

"Borrowing" shall mean (1) a borrowing consisting of Revolving Loans made to the Domestic Borrower on the same day by the Lenders ratably according to their respective Commitments pursuant to the provisions of Section 2.2.1, (2) a borrowing consisting of Domestic Term Loans made to the Domestic Borrower on the same day by the Lenders ratably according to their respective Commitments pursuant to the provisions of Section 2.2.2(a), (3) a borrowing consisting of Euro Term Loans made to the Euro Borrower on the same day by the Lenders ratably according to their respective Commitments pursuant to the provisions of Section 2.2.2(b), and (4) a borrowing consisting of a Swing Line Loan made to the Domestic Borrower by the Swing Line Lender pursuant to the provisions of Section 2.2.7.

"Business Day" shall mean any day on which the Tennessee and Georgia offices of both Agents are open to conduct general banking business and on which the Federal Reserve System is open to conduct the business conducted by it; provided that if such day relates to a Borrowing or continuation of, a payment or prepayment of principal of or interest on, or the Interest Period for, a Euro Term Loan Borrowing or a notice by the Euro Borrower with respect

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to any such Borrowing, continuation, payment, prepayment or Interest Period, that is also a day on which the Trans-European Automated Real-Time Gross settlement Express Transfer system (commonly known as TARGET) or any successor system is open.

"Capital Expenditures" shall mean, as to any Person for any period, the aggregate capital expenditures recorded by such Person and its Subsidiaries on a consolidated basis in conformity with GAAP, including charges in respect of Capitalized Lease Obligations exclusive of imputed interest on such Capitalized Lease Obligations; provided, however, that for purposes of determining Capital Expenditures for the Domestic Borrower and its Subsidiaries on a consolidated basis, there shall be excluded therefrom any Capital Expenditures attributable solely to the making of Permitted Acquisitions.

"Capitalization" shall mean, for the Domestic Borrower and its Subsidiaries on a consolidated basis, the sum of Consolidated Funded Indebtedness plus shareholders' equity.

"Capitalized Lease" shall mean, as to any Person, any lease of property by such Person as lessee that would be capitalized on a balance sheet of such Person prepared in conformity with GAAP.

"Capitalized Lease Obligations" shall mean, as to any Person, the capitalized amount of the obligations of such Person and its Subsidiaries under all Capitalized Leases.

"Cash Equivalents" shall mean, at any time,

(a) certificates of deposit or time deposits having a maturity not exceeding ninety (90) days, and demand deposits, that are fully insured by

the Federal Deposit Insurance Corporation and that are maintained with commercial banks organized and existing under, or chartered or otherwise qualified to do business under, the laws of the United States of America or any State thereof or the District of Columbia;

(b) Government Obligations having a maturity not exceeding ninety (90) days;

(c) commercial paper rated at least A-1 by S&P or P-1 by Moody's, having a maturity not exceeding ninety (90) days;

(d) certificates of deposit or time deposits maintained with (i) the Lenders or (ii) other commercial banks having capital and undivided surplus of at least \$500 million and issuing commercial paper rated as described in the preceding clause (c) and organized and existing under, or chartered or otherwise qualified to do business under, the laws of the United States of America or any State thereof or the District of Columbia, having a maturity not exceeding ninety (90) days;

(e) repurchase agreements or investment contracts having a maturity not exceeding ninety (90) days with a financial institution insured by the Federal Deposit Insurance Corporation, or any broker or dealer (as defined in the Securities Exchange Act

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of 1934) that is a dealer in government bonds and that is recognized by trades with and reports to, a Federal Reserve Bank as a primary dealer in government securities; provided that in any case (i) collateral is pledged for the repurchase agreement or investment contract, which collateral consists of (A) Government Obligations or evidences of ownership of proportionate interests in future interest and principal payments on Government Obligations held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor on such obligations, and which underlying obligations are held in a segregated account and not available to satisfy any claim of the custodian or any person claiming through the custodian or to whom the custodian may be obligated or (B) evidences of indebtedness issued by any of the following: Bank of Cooperatives, Export-Import Bank of the United States, Farmers Home Administration, Federal Financing Bank, Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (including participation certificates), Federal Housing Administration, Federal Farm Credit Banks, Federal National Mortgage Association, Government National Mortgage Association, Inter-American Development Bank, International Bank for Reconstruction and Development, Small Business Administration or any other agency or instrumentality of the United States of America created by an act of Congress that is substantially similar to the foregoing in its legal relationship to the United States of America, (ii) the current market value of the collateral securing the repurchase agreement or investment contract is at least equal to the amount of the repurchase agreement or investment contract and (iii) the current market value of the collateral is determined not less frequently than monthly;

(f) investments in money market funds substantially all of whose assets consist of securities of the types described in the foregoing clauses (b) through (e);

(g) investments in obligations the return with respect to which is excludable from gross income under Section 103 of the Code, having a maturity of not more than six (6) months or providing the holder the right to put such obligations for purchase at par upon not more than twenty-eight (28) days' notice, and which are rated at least A-1 by S&P or P-1 by Moody's;

(h) investments in tax free money market funds all of whose assets consist of securities of the types described in the foregoing clause (g); and

(i) investments, redeemable upon not more than seven (7) days' notice, in money market preferred municipal bond funds that are rated at least AAA by S&P or Aaa by Moody's.

"Closing Date" shall mean May 1, 2003.

"Code" shall mean the Internal Revenue Code of 1986.

"Collateral" shall mean, collectively, the Domestic Collateral and the Euro Collateral.

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"Commission" shall mean the Securities and Exchange Commission or any successor entity.

"Commitment Fees" shall have the meaning given such term in Section 2.8.3.

"Commitments" shall mean the Revolving Credit Commitments and the Term Loan Commitments, which collectively are in the aggregate amount set forth in Section 2.1 and in the case of each Lender are in the initial amount set forth with such Lender's signature on this Agreement or the Assignment and Acceptance pursuant to which such Lender became a party hereto.

"Commonly Controlled Entity" shall mean a Person that is under common control with the Borrower within the meaning of subsection 414(b), (c), (m), (n) or (o) of the Code.

"Consolidated Funded Indebtedness" shall mean, for the Domestic Borrower and its Subsidiaries on a consolidated basis, all Indebtedness that constitutes (a) indebtedness for borrowed money or for notes, debentures or other debt securities, (b) notes payable and drafts accepted representing extensions of credit regardless of whether the same represent obligations for borrowed money, (c) reimbursement obligations in respect of letters of credit issued for the account of Domestic Borrower or a Subsidiary thereof (including any such obligations in respect of any drafts drawn thereunder), (d) liabilities for all or any part of the deferred purchase price of property or services, (e) liabilities secured by any Lien on any property or asset owned or held by the Domestic Borrower or any of its Subsidiaries regardless of whether the Indebtedness secured thereby shall have been assumed by or is a primary obligation of the Domestic Borrower or such Subsidiary, (f) Capitalized Lease Obligations, (g) Off-Balance Sheet Liabilities, and (h) without duplication, all Contingent Obligations the primary obligation of which is Indebtedness of the type described in clauses (a) through (g) above; provided, however, that Consolidated Funded Indebtedness shall not include any unsecured current liabilities incurred in the ordinary course of business and not represented by

any note, bond, debenture or other instrument.

"Consolidated Net Income" shall mean, for the Domestic Borrower and its Subsidiaries on a consolidated basis for any period, the net income (or loss) after taxes of the Domestic Borrower and its Subsidiaries on a consolidated basis for such period taken as a single accounting period, determined in conformity with GAAP, subject to customary exclusions with respect to extraordinary and nonrecurring items.

"Contingent Obligations" shall mean, as to any Person, any contingent obligation calculated in conformity with GAAP, and in any event shall include (without duplication) all indebtedness, obligations or other liabilities of such Person guaranteeing or in effect guaranteeing the payment or performance of any indebtedness, obligation or other liability, whether or not contingent (collectively, the "primary obligations"), of any other Person (the "primary obligor") in any manner, whether directly or indirectly, including any indebtedness, obligation or other liability of such Person, (a) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (b) to advance or supply funds (i) for the purchase or payment of any such primary obligation or (ii) to maintain working capital or equity

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capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (c) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, or (d) otherwise to assure or hold harmless the owner of such primary obligation against loss with respect thereto.

"Contractual Obligations" shall mean, as to any Person, any and all indebtedness, obligations or other liabilities of such Person, now existing or hereafter arising, whether due or not due, absolute or contingent, liquidated or unliquidated, direct or indirect, express or implied, individually or jointly with others, pursuant to the provisions of any document, instrument or agreement to which such Person is a party or by which such Person or any of its property is or may be bound or affected or pursuant to the provisions of any security issued by such Person.

"Credit Fees" shall mean the credit fees payable as provided in Section 2.8.

"Current Maturities of Long-Term Debt" shall mean, as of any date of determination, that portion of Consolidated Funded Indebtedness that is due and payable within the twelve (12) month period immediately following the date of determination, calculated in conformity with GAAP.

"Default" shall mean any of the events specified in Section 11.1, regardless of whether any requirement for the giving of notice (and if applicable, an opportunity to cure), the lapse of time or both has been satisfied.

"Default Rate" shall mean the rate(s) per annum otherwise applicable to Loans from time to time plus two percentage points (2.00%); provided, however, that in no event shall any Default Rate exceed the Highest Lawful Rate.

"Dollars" and "\$" shall mean lawful money of the United States of America.

"Dollar Equivalent" shall mean, on any date, with respect to any amount denominated in Euros, the amount of Dollars that would be required to purchase the amount of Euros on the date that is two Business Days prior to such date based upon the spot selling rate quoted on the Reuters NFX page for the sale of Euros in the London market, as determined by the Euro Loan Agent.

"Domestic Collateral" shall mean all property and interests in property, presently owned or hereafter acquired or presently existing or hereafter created by the Domestic Borrower, the Domestic Guarantors or NN Italy, including any and all proceeds thereof, in which a security interest has been granted in favor of the Administrative Agent for the ratable benefit of the Lenders, whether under this Agreement or any other Loan Document.

"Domestic Guarantor" shall mean, collectively, each Subsidiary (except for Euro Borrower) of the Domestic Borrower that has become a party to this Agreement as a Domestic Guarantor by executing this Agreement or a Supplement to Credit Agreement in the form of Exhibit 1.1A, and has delivered to the Administrative Agent, for the ratable benefit of the

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Lenders all promissory notes and other instruments evidencing intercompany Indebtedness owed to such Subsidiary by any other Subsidiary of the Borrower, endorsed to the order of the Administrative Agent.

"Domestic Obligations" shall mean, as to the Domestic Borrower, all Indebtedness, obligations and other liabilities of the Domestic Borrower of any kind and description owing to the Agents or the Lenders pursuant to the provisions of this Agreement, the Notes and the other Loan Documents, howsoever evidenced or acquired, whether now existing or hereafter arising, due or not due, absolute or contingent, liquidated or unliquidated, direct or indirect, express or implied, whether owed individually or jointly with others.

"Domestic Pledge Agreement" shall mean the Pledge and Security Agreement, substantially in the form of Exhibit 4.1A, executed by the Domestic Borrower in favor of the Administrative Agent and the Lenders.

"Domestic Stock Pledge Agreement" shall mean the Stock Pledge and Security Agreement, substantially in the form of Exhibit 4.1B, executed by the Domestic Borrower in favor of the Administrative Agent and the Lenders.

"Domestic Term Loan Commitments" shall mean, at any time, the commitment of all the Lenders, collectively, to make Domestic Term Loans to the Domestic Borrower in Dollars on the date hereof pursuant to the provisions of Section 2.2.2, and the "Domestic Term Loan Commitment" of any Lender at any time shall mean an amount equal to such Lender's Percentage multiplied by the then effective aggregate Domestic Term Loan Commitments. The Domestic Term Loan Commitments are in the aggregate amount set forth in Section 2.1.

"Domestic Term Loan Facility" shall mean the term loan facility provided by the Lenders pursuant to the Domestic Term Loan Commitments as more particularly set forth in Section 2.2.2.

"Domestic Term Loan Notes" shall mean the promissory notes, substantially in the form of Exhibit 2.5B, executed by the Domestic Borrower in favor of the Lenders, evidencing the indebtedness of the Domestic Borrower to

the Lenders in connection with the Domestic Term Loans.

"Domestic Term Loans" shall mean the term loans made by the Lenders to the Domestic Borrower pursuant to Section 2.2.2.

"EBITDA" shall mean, for the Domestic Borrower and its Subsidiaries on a consolidated basis for any period, after giving Pro Forma Effect to any Asset Acquisition made during such period, the sum of Consolidated Net Income, plus Interest Expense, plus any provision for taxes based on income or profits that was deducted in computing Consolidated Net Income, plus depreciation, plus amortization of intangible assets and other non-recurring non-cash charges.

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"Environmental Laws" shall mean all federal, state, regional, county or local laws, statutes, rules, regulations or ordinances, now or hereafter in effect, relating to the generation, recycling, use, reuse, sale, storage, handling, transport, treatment or disposal of Hazardous Materials, including the Comprehensive Environmental Response Compensation Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. §9601 et seq., the Resource Conservation and Recovery Act of 1976, as amended by the Solid and Hazardous Waste Amendments of 1984, 42 U.S.C. §6901 et seq., the Toxic Substances Control Act, 15 U.S.C. §2601 et seq., the Hazardous Materials Transportation Act, 49 U.S.C. §1801, et seq., the Clean Air Act, 42 U.S.C. §7401 et seq., the Clean Water Act of 1977, 33 U.S.C. §1251 et seq., the Tennessee Hazardous Waste Management Act of 1977, Tenn. Code Ann. §68-212-101 et seq., the Tennessee Hazardous Waste Management Act of 1983, Tenn. Code Ann. §68-212-201 et seq., and any rules, regulations and guidance documents promulgated or published thereunder, and any state, regional, county or local statute, law, rule, regulation or ordinance now or hereafter in effect that relates to public health or safety, to the discharge, emission or disposal of Hazardous Materials in or to air, water, land or groundwater, to the withdrawal or use of groundwater, to the use, handling or disposal of asbestos, polychlorinated biphenyls, petroleum, petroleum derivatives or by-products, other hydrocarbons or urea formaldehyde, to the treatment, storage, disposal or management of Hazardous Materials, to exposure to Hazardous Materials or to the transportation, storage, disposal, management or release of gaseous or liquid substances, and any regulation, order, injunction, judgment, declaration, notice or demand issued thereunder.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974.

"Euro" or "Euros" means the single currency of the participating member states of the European Union as constituted by the Treaty on European Union and as referred to in the Economic and Monetary Union legislation.

"Euro Collateral" shall mean all property and interests in property, presently owned or hereafter acquired or presently existing or hereafter created by the Euro Borrower, the Guarantors or NN Italy, including any and all proceeds thereof, in which a security interest has been granted in favor of the Administrative Agent for the ratable benefit of the Lenders, whether under this Agreement or any other Loan Document.

"Euro Equivalent" shall mean, on any date, with respect to any amount denominated in Dollars, the amount of Euros that could be purchased with such amount of Dollars on the date that is two Business Days prior to such date based upon the spot buying rate quoted on the Reuters NFX page for the purchase of Euros in the London market, as determined by the Euro Loan Agent.

"Euro Loan Agent" shall mean SunTrust Bank or such successor Euro Loan Agent as may be appointed by the Lenders pursuant to Section 12.10 hereof.

"Euro Obligations" shall mean, as to the Euro Borrower, all Indebtedness, obligations and other liabilities of the Euro Borrower of any kind and description owing to the Agents or the Lenders pursuant to the provisions of this Agreement, the Notes and the Other

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Loan Documents, howsoever evidenced or acquired, whether now existing or hereafter arising, due or not due, absolute or contingent, liquidated or unliquidated, direct or indirect, express or implied, whether owed individually or jointly with others.

"Euro Pledge Agreement" shall mean the Pledge and Security Agreement, substantially in the form of Exhibit 4.1A, executed by the Euro Borrower in favor of the Administrative Agent and the Lenders.

"Euro Stock Pledge Agreement" shall mean the Stock Pledge and Security Agreement, substantially in the form of Exhibit 4.1B, executed by the Euro Borrower in favor of the Administrative Agent and the Lenders.

"Euro Term Loan Commitments" shall mean, at any time, the commitment of all the Lenders, collectively, to make Euro Term Loans in Euros to the Euro Borrower on the date hereof pursuant to the provisions of Section 2.2.2(b), and the "Euro Term Loan Commitment" of any Lender at any time shall mean an amount equal to such Lender's Percentage multiplied by the then effective aggregate Euro Term Loan Commitments. The Euro Term Loan Commitments are in the aggregate amount set forth in Section 2.1.

"Euro Term Loan Facility" shall mean the term loan facility provided by the Lenders pursuant to the Euro Term Loan Commitments as more particularly set forth in Section 2.2.2(b).

"Euro Term Loans" shall mean the term loans made by the Lenders to the Euro Borrower pursuant to Section 2.2.2(b).

"Euro Term Notes" shall mean the promissory notes, substantially in the form of Exhibit 2.5D, executed by the Euro Borrower in favor of the Lenders, evidencing the indebtedness of the Euro Borrower to the Lenders in connection with the Euro Term Loans.

"Event of Default" shall mean any of the events specified in Section 11.1, provided that any requirement for the giving of notice (and if applicable, an opportunity to cure), the lapse of time or both has been satisfied.

"Existing Liens" shall mean those certain Liens in existence on the date hereof that are described on Schedules 7.17A and 7.17 B.

"Facilities" shall mean the Revolving Credit Facility, the Euro Term Loan Facility, the Domestic Term Loan Facility and the Swing Line

Facility.

"Federal Funds Rate" shall mean, for any period, a fluctuating interest rate per annum equal, for each day during such period, to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published for each day (or, if such day is not a Business Day, for the immediately preceding Business Day) by the Federal Reserve Bank of New York.

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"Financing Statement" shall mean any Uniform Commercial Code financing statement filed in connection with this Agreement or any other Loan Document.

"Fiscal Quarter" shall mean each of the accounting periods of approximately three (3) months ending on March 31, June 30, September 30 and December 31, respectively, of each year.

"Fiscal Year" shall mean the twelve (12) month period ending on December 31 of each year.

"Fixed Charge Coverage Ratio" shall mean, for the Domestic Borrower and its Subsidiaries on a consolidated basis, calculated as of any date of determination for the most recent twelve (12) month period after giving Pro Forma Effect to any Asset Acquisition made during such period, the ratio of (a) the sum of EBITDA plus Rent Expense to (b) the sum of Interest Expense plus Current Maturities of Long-Term Debt plus Rent Expense.

"Funded Indebtedness to Capitalization Ratio" shall mean, for the Domestic Borrower and its Subsidiaries on a consolidated basis, as of any date of determination, the ratio of Consolidated Funded Indebtedness to Capitalization.

"Funded Indebtedness to EBITDA Ratio" shall mean, for the Domestic Borrower and its Subsidiaries on a consolidated basis, calculated as of any date of determination for the most recent twelve (12) month period after giving Pro Forma Effect to any Asset Acquisition made during such period, the ratio of Consolidated Funded Indebtedness to EBITDA.

"Funding Date" shall mean each of the respective dates on which the funding of a Borrowing made under this Agreement occurs.

"GAAP" shall mean generally accepted accounting principles in the United States of America in effect from time to time.

"Government Obligations" shall mean direct obligations of the United States of America or obligations for the full and prompt payment of which the full faith and credit of the United States of America are pledged.

"Governmental Authority" shall mean any nation, province, state or other political subdivision thereof and any government or any natural person or entity exercising executive, legislative, regulatory or administrative functions of or pertaining to government.

"Guaranteed Domestic Obligations" shall mean all of the Domestic Obligations guaranteed by the Domestic Guarantors pursuant to Article 5.

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"Guaranteed Euro Obligations" shall mean all of the Euro Obligations guaranteed by the Guarantors pursuant to Article 5.

"Guaranteed Obligations" shall mean all the Obligations of the Borrower guaranteed by the Guarantors pursuant to Article 5.

"Guarantor" shall mean, collectively, each of the Domestic Guarantors and the Domestic Borrower.

"Guaranty" shall mean the guaranty of the Obligations of the Borrower set forth in Article 5.

"Hazardous Material" shall mean gasoline, motor oil, fuel oil, waste oil, other petroleum or petroleum-based products, asbestos, polychlorinated biphenyls, medical and infectious wastes and any chemical, material or substance to which exposure is prohibited, limited or regulated by any federal, state, county, local or regional authority or which, even if not so regulated, is known to pose a hazard to health and safety, including but not limited to substances and materials defined or designated as "hazardous substances", "hazardous wastes", "pollutants", "contaminants", "hazardous materials" or "toxic substances" under any Environmental Law.

"Highest Lawful Rate" shall mean, with respect to each Lender, the maximum nonusurious interest rate, if any, that at any time or from time to time may be contracted for, taken, reserved, charged or received on debts outstanding hereunder or under the Notes, as the case may be, under the laws applicable to such Lender that are presently in effect or, to the extent allowed by law, under such applicable laws that may hereafter be in effect and that allow a higher maximum nonusurious interest rate than applicable laws now allow.

"Indebtedness" shall mean, as to any Person, all items that in conformity with GAAP would be shown on the balance sheet of such Person as a liability and in any event shall include (without duplication) (a) indebtedness for borrowed money or for notes, debentures or other debt securities, (b) notes payable and drafts accepted representing extensions of credit whether or not representing obligations for borrowed money, (c) reimbursement obligations in respect of letters of credit issued for the account of such Person (including any such obligations in respect of any drafts drawn thereunder), (d) liabilities for all or any part of the deferred purchase price of property or services, (e) liabilities secured by any Lien on any property or asset owned or held by such Person regardless of whether the indebtedness secured thereby shall have been assumed by or is a primary liability of such Person, (f) Capitalized Lease Obligations, (g) Contingent Obligations, and (h) Off-Balance Sheet Liabilities.

"Interest Expense" shall mean, as to any Person for any period, the aggregate interest expense and amortization of deferred loan costs of such Person and its Subsidiaries on a consolidated basis for such period (calculated without regard to any limitations on the payment thereof), imputed interest on Capitalized Lease Obligations, commissions, discounts and other fees and charges owed with respect to letters of credit and unused commitments and net costs under interest rate protection agreements, all as determined in conformity with GAAP.



"Interest Payment Date" shall mean, (a) with respect to any Base Rate Loan or Swing Line Loan, the first day of each month, commencing on the first day of the first month after the applicable Funding Date, and (b) with respect to any LIBOR Loan, the last day of the Interest Period applicable to such Loan.

"Interest Period" shall mean any interest period applicable to a LIBOR Loan as determined pursuant to Section 2.11.1.

"Interest Rate Contracts" shall mean any interest rate swap agreements, interest rate cap agreements, interest rate collar agreements, interest rate insurance and other agreements or arrangements designed to provide protection against fluctuations in interest rates, in each case between either Borrower and any Lender, and in an aggregate notional amount at any time not to exceed an amount equal to Consolidated Funded Indebtedness at such time.

"Interest Rate Determination Date" shall mean each date for calculating LIBOR for purposes of determining the interest rate in respect of an Interest Period, which in each case shall be the second (2d) Business Day prior to the first (1st) day of the corresponding Interest Period.

"Investment" shall mean the making of any loan, advance, extension of credit or capital contribution to, or the acquisition of any stock, bonds, notes, debentures or other obligations or securities of, or the acquisition of any other interest in or the making of any other investment in, any Person.

"Irish Stock Pledge Agreement" shall mean the Stock Pledge and Security Agreement, substantially in the form of Exhibit 4.1B, executed by NN Italy in favor of the Administrative Agent and the Lenders.

"Italian Guaranty" shall mean, collectively, the Letter Agreement executed by NN Italy and the letter of acceptance from the Administrative Agent, substantially in the form of Exhibit 4.1C, pursuant to which NN Italy guarantees to the Administrative Agent and the Lenders the performance of the obligations of the Borrower.

"Last Four Fiscal Quarters" shall mean, as of any date of determination, the Fiscal Quarter ending on such date or otherwise then most recently ended plus the immediately preceding three Fiscal Quarters.

"Lending Office" shall mean with respect to any Lender or any Agent, the office of each such Lender or Agent at the address specified on the signature pages hereto or in the Assignment and Acceptance pursuant to which it became a Lender, or such other office as any such Lender or the Euro Loan Agent from time to time may specify to the Borrower and the Administrative Agent.

"LIBOR" shall mean the rate per annum (rounded upwards, if necessary, to the nearest whole one-eighth of 1%) equal to the product of Base LIBOR times Statutory Reserves.

"LIBOR Loans" shall mean Revolving Loans and Term Loans bearing interest at rates determined by reference to LIBOR.

"Lien" shall mean, as to any asset, (a) any lien, charge, claim, mortgage, security interest, pledge, hypothecation or other encumbrance of any kind with respect to such asset, (b) any interest of a vendor or lessor under any conditional sale agreement, Capitalized Lease or other title retention agreement relating to such asset, (c) any reservation, exception, encroachment, easement, right-of-way, covenant, condition, restriction, lease or other title exception affecting such asset, or (d) any assignment, deposit, preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction).

"Loan Documents" shall mean this Agreement, the Notes, the Interest Rate Contracts, the Security Documents and all other documents, instruments and agreements now or hereafter executed or delivered pursuant hereto or in connection herewith.

"Loans" shall mean Revolving Loans, Term Loans and Swing Line Loans.

"Material Adverse Effect" and "Material Adverse Change" shall mean a material adverse effect on, or a material adverse change in, (a) the properties, business, prospects, operations, management or financial condition of (i) the Borrower, the Domestic Guarantors and NN Italy, taken as a whole, or (ii) Euro Borrower, its Subsidiaries that are Domestic Guarantors and NN Italy, taken as a whole, or (b) the ability of any Borrower, any Guarantor or any of their respective Subsidiaries to perform any of their respective obligations under this Agreement, the Notes or the other Loan Documents to which it is a party.

"Material Contract" shall mean each contract to which the Domestic Borrower or any of its Subsidiaries is a party or a guarantor (or by which it is bound) that requires payments (either to or for the benefit of, or by or on behalf of, the Domestic Borrower or any of its Subsidiaries) in excess of \$10,000,000 in any twelve-month period (a) the cancellation, non-performance or non-renewal of which by any party thereto would have a Material Adverse Effect, or (b) pursuant to which the Domestic Borrower or any of its Subsidiaries may incur Indebtedness for borrowed money or Capitalized Lease Obligations.

"Maximum Guaranty Liability" shall mean the maximum liability hereunder and under the Italian Guaranty of the respective Guarantors and NN Italy permitted by Applicable Bankruptcy Law as provided in Section 5.2 hereof and in the Italian Guaranty.

"Moody's" shall mean Moody's Investors Service, Inc. and its successors.

"Multi-Employer Plan" shall mean any multiple employer plan, as defined in Section 4001(a)(3) of ERISA, that is maintained by the Borrower, any Guarantor, any of their respective Subsidiaries or a Commonly Controlled Entity.

"NN, Inc. Stock Incentive Plan" shall mean the NN, Inc. Stock Incentive Plan as amended, restated or modified from time to time, or any

successor stock option plan.

"NN Ireland" shall mean NN Euroball Ireland Limited, an Irish company.

"NN Italy" shall mean Euroball S.p.A., an Italian company.

"Non-Guarantor Subsidiaries" shall mean the Subsidiaries of the Domestic Borrower and the Guarantors listed on Schedule 7.1 and designated as such thereon.

"Notes" shall mean the Revolving Notes, the Term Notes and the Swing Line Note.

"Notice of Borrowing" shall mean a notice substantially in the form of Exhibit 2.2.5 with respect to a proposed Borrowing of Revolving Loans.

"Notice of Conversion/Continuation" shall mean a notice substantially in the form of Exhibit 2.4.2 annexed hereto with respect to a proposed conversion or continuation, pursuant to Section 2.4, of (a) Revolving Loans, Domestic Term Loans or Euro Term Loans bearing interest at a rate determined by reference to one basis, to (b) Revolving Loans, Domestic Term Loans or Euro Term Loans bearing interest at a rate determined by reference to an alternative basis.

"Obligations" shall mean, as to any Person, all Indebtedness, obligations and other liabilities of such Person of any kind and description owing to the Agents or the Lenders pursuant to the provisions of this Agreement, the Notes and the other Loan Documents, howsoever evidenced or acquired, whether now existing or hereafter arising, due or not due, absolute or contingent, liquidated or unliquidated, direct or indirect, express or implied, whether owed individually or jointly with others.

"Off-Balance Sheet Liabilities" of any Person shall mean (i) any repurchase obligation or liability of such Person with respect to accounts or notes receivable sold by such Person, (ii) any liability of such Person under any sale and leaseback transactions that do not create a liability on the balance sheet of such Person, (iii) any Synthetic Lease Obligation or (iv) any obligation arising with respect to any other transaction which is the functional equivalent of or takes the place of borrowing but which does not constitute a liability on the balance sheet of such Person.

"Operating Lease" shall mean, as to any Person, any lease of property (whether real, personal or mixed) by such Person as lessee that is not a Capitalized Lease.

"PBGC" shall mean the Pension Benefit Guaranty Corporation established pursuant to subtitle A of Title IV of ERISA.

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"Percentage" shall mean, as to each Lender, the percentage set forth with such Lender's signature on this Agreement or the Assignment and Acceptance pursuant to which such Lender became a party hereto.

"Permitted Acquisition" shall mean any Asset Acquisition by any Borrower, any Guarantor or NN Italy with respect to which (a) the Borrower, the Guarantors and NN Italy shall have complied with the provisions of Section 8.2.4, (b) the Borrower, such Guarantor or NN Italy is the surviving entity in the transaction, (c) all assets acquired in the transaction are held or acquired by the Borrower, such Guarantor or NN Italy, (d) at the time of such Asset Acquisition and after giving Pro Forma Effect thereto and to any other Asset Acquisition made during the then most recent twelve (12) month period, no Default shall have occurred or be continuing or would result therefrom, and (e) if either (i) the aggregate consideration paid or to be paid in connection with such Asset Acquisition, inclusive of all Indebtedness incurred or assumed, is equal to or greater than \$5,000,000, or (ii) the aggregate consideration paid or to be in connection with such Asset Acquisition, inclusive of all Indebtedness incurred or assumed, together the aggregate consideration paid in connection with all Asset Acquisitions occurring during the term of the Facilities for which consent was not required, is equal to or greater than \$15,000,000, the Requisite Lenders shall have consented in writing to such Asset Acquisition, which consent shall not be unreasonably withheld.

"Permitted Liens" shall mean Liens permitted pursuant to the provisions of Section 9.2.

"Person" shall mean an individual, corporation, partnership, limited partnership, limited liability company, limited liability limited partnership, trust, business trust, association, joint stock company, joint venture, pool, syndicate, sole proprietorship, unincorporated organization, Governmental Authority or other form of entity not specifically listed herein.

"Plan" shall mean an employee pension benefit plan covered by Title IV of ERISA that is maintained by the Borrower, any Guarantor, any of their respective Subsidiaries or a Commonly Controlled Entity, and shall include any Single Employer Plan or any Multi-Employer Plan.

"Pledge Agreements" shall mean, collectively, the Domestic Pledge Agreement and the Euro Pledge Agreement.

"Pledged Notes" shall have the meaning given such term in the Pledge Agreements.

"Pricing Tier Determination Date" shall mean the fifth (5th) Business Day following each date on which the Domestic Borrower has delivered to the Administrative Agent financial statements, financial reports, certificates and other financial information complying with the requirements of Section 8.1.1 or 8.1.2 and containing information sufficient to enable a calculation of the Funded Indebtedness to EBITDA Ratio for the purpose of determining the Applicable Base Rate Margin, the Applicable LIBOR Margin and the Applicable Commitment Fee Percentage pursuant to Section 2.10.

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"Principal Obligor" shall mean, with respect to a specific indebtedness or obligation, the Person creating, incurring, assuming or suffering to exist such indebtedness or obligation without becoming liable for same as a surety or guarantor.

"Pro Forma Effect" shall mean, in making any calculation hereunder to which such term is applicable, including any calculation necessary to determine whether the Domestic Borrower is in compliance with Section 10.1.2 or 10.1.3 or whether a Default would result from any Asset Acquisition, (a) any Asset Acquisition made during the most recent twelve (12) month period (the "Reference Period") ending on and including the date of determination (the "Calculation Date") shall be assumed to have occurred on the first day of the

Reference Period, (b) Consolidated Funded Indebtedness, and the application of proceeds therefrom, incurred or to be incurred in connection with any Asset Acquisition made or to be made during the Reference Period shall be assumed to have arisen or occurred on the first day of the Reference Period, (c) there shall be excluded any Interest Expense in respect of Consolidated Funded Indebtedness outstanding during the Reference Period that was or is to be refinanced with proceeds of Indebtedness incurred or to be incurred in connection with any Asset Acquisition made or to be made during the Reference Period, (d) Interest Expense in respect of Consolidated Funded Indebtedness bearing a floating rate of interest and assumed to have been incurred on the first day of the Reference Period shall be calculated on the basis of the average rate in effect under this Agreement for Base Rate Loans throughout the period such Consolidated Funded Indebtedness is assumed to be outstanding, and (e) Rent Expense shall include actual Rent Expense incurred by any Person, operating unit or business acquired during the Reference Period, plus Rent Expense projected for the twelve (12) month period following the date of actual incurrence thereof in respect of any Operating Lease entered into or to be entered into in connection with any Asset Acquisition made during the Reference Period, which projected Rent Expense shall be deemed to have been incurred on the first day of the Reference Period.

"Projections" means the financial projections provided by Domestic Borrower to Administrative Agent, as the same may have been modified or supplemented in a writing delivered to the Administrative Agent that is expressly identified as a modification of or supplement to such financial projections.

"Purchase Money Debt" shall mean (a) Indebtedness of the Domestic Borrower or any of its Subsidiaries that, within thirty (30) days of the purchase of equipment in which neither the Domestic Borrower nor any of its Subsidiaries at any time prior to such purchase had any interest, is incurred to finance part or all of (but not more than) the purchase price of such equipment, and that bears interest at a rate per annum that is commercially reasonable at the time, and (b) Indebtedness that constitutes a renewal, extension, refunding or refinancing of, but not an increase in the principal amount of, Purchase Money Debt that is such by virtue of clause (a), is binding only upon the obligor or obligors under the Purchase Money Debt being renewed, extended or refunded and bears interest at a rate per annum that is commercially reasonable at the time.

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"Rent Expense" shall mean, as to any Person for any period, the aggregate rent and lease expenses recorded by such Person and its Subsidiaries on a consolidated basis in conformity with GAAP pursuant to any Operating Lease.

"Reportable Event" shall mean any of the events set forth under Section 4043(b) of ERISA or the PBGC regulations thereunder.

"Requirement of Law" shall mean, as to any Person (a) the partnership agreement, charter, certificate of incorporation, articles of incorporation, bylaws, operating agreement or other organizational or governing documents of such Person, (b) any federal, state or local law, treaty, ordinance, rule or regulation, and (c) any order, decree or determination of a court, arbitrator or other Governmental Authority; in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Requisite Lenders" shall mean, as of any date of determination, Lenders having at least sixty-six and two-thirds percent (66 2/3%) of the Commitments.

"Responsible Officer" shall mean, as to any Person, either (a) its president or chief executive officer, or (b) with respect to financial matters, its president, chief executive officer, chief financial officer, chief accounting officer or any vice president designated in writing by the chief executive officer to the Administrative Agent.

"Restricted Payments" shall mean, as to any Person for any period:

(a) dividends, other distributions and other payments or deliveries of property on account of the capital stock of or other ownership interests in, or any warrants, options or other rights in respect of any capital stock of or other ownership interests in, such Person or its Subsidiaries, now or hereafter outstanding, that are recorded by such Person and its Subsidiaries on a consolidated basis (excluding any such dividends, distributions and other payments made solely to such Person or a wholly-owned Subsidiary of such Person by a Subsidiary of such Person); provided, however, "Restricted Payments" shall include any such dividends, distributions and other payments to Euro Borrower from any of its Subsidiaries.

(b) amounts paid to purchase, redeem, retire or otherwise acquire for value any of the capital stock of or other ownership interests in, or any warrants, options or other rights in respect of the capital stock of or other ownership interests in, such Person or its Subsidiaries, now or hereafter outstanding (excluding any such amounts paid solely to such Person or a wholly-owned Subsidiary of such Person by a Subsidiary of such Person),

(c) any assets segregated or set apart by such Person or any of its Subsidiaries (including any money or property deposited with a trustee or other paying agent) for a sinking or analogous fund for the purchase, redemption or retirement or other acquisition of any capital stock of or other ownership interests in, or any warrants, options or other rights in respect of any capital stock of or other ownership interests in, such Person or its Subsidiaries, now or hereafter outstanding (excluding any assets so segregated or set

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apart with respect to any stock, warrants, options or other rights held by a wholly-owned Subsidiary of such Person),

(d) payments made or required to be made by such Person with respect to any stock appreciation rights plan, equity incentive or achievement plan or any similar plan and any assets segregated or set apart for such purposes (including any money or property deposited with a trustee or other paying agent), and

(e) any payment, purchase, redemption or acquisition of Subordinated Indebtedness and any assets segregated or set apart for such purposes (including any money or property deposited with a trustee or other paying agent), excluding, however, regularly scheduled payments of interest made according to the stated terms of

such Subordinated Indebtedness;

all as determined in conformity with GAAP.

"Revolving Commitment Period" shall mean that period commencing on the date hereof and continuing to, but not including, the Revolving Commitment Period Expiration Date.

"Revolving Commitment Period Expiration Date" shall mean March 1, 2005.

"Revolving Credit Commitments" shall mean, at any time, the commitment of all the Lenders, collectively, to make Revolving Loans to the Domestic Borrower during the Revolving Commitment Period pursuant to the provisions of Section 2.2, and the "Revolving Credit Commitment" of any Lender at any time shall mean an amount equal to such Lender's Percentage multiplied by the then effective aggregate Revolving Credit Commitments. The Revolving Credit Commitments are in the aggregate amount set forth in Section 2.1.

"Revolving Credit Facility" shall mean the revolving credit facility provided by the Lenders pursuant to the Revolving Credit Commitments as more particularly set forth in Section 2.2.1.

"Revolving Loans" shall mean the revolving loans made by the Lenders to the Domestic Borrower pursuant to the provisions of Section 2.2.1.

"Revolving Notes" shall mean the promissory notes, substantially in the form of Exhibit 2.5A, executed by the Domestic Borrower in favor of the Lenders, evidencing the indebtedness of the Domestic Borrower to the Lenders in connection with the Revolving Loans.

"S&P" shall mean Standard & Poor's Corporation and its successors.

"SKF" shall mean AB SKF, a Swedish company.

"SKF-Veenendaal Acquisition" shall mean the acquisition by NN Netherlands B.V., a Dutch company of the tapered roller operation of SKF located in Veenendaal, Holland.

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"Security Documents" shall mean the Pledge Agreements, the Stock Pledge Agreements, the Italian Guaranty and all documents, instruments and agreements now or hereafter executed or delivered pursuant thereto or in connection therewith.

"Single Employer Plan" shall mean any Plan that is not a Multi-Employer Plan.

"Solvent" shall mean, with respect to any Person on any particular date, that on such date (a) the fair value of the assets of such Person (both at fair valuation and at present fair saleable value) is, on the date of determination, greater than the total amount of liabilities, including contingent and unliquidated liabilities, of such Person, (b) such Person is able to pay all liabilities of such Person as they mature, and (c) such Person does not have unreasonably small capital with which to carry on its business, after giving due consideration to the nature of the business in which such Person is engaged. In computing the amount of contingent or unliquidated liabilities at any time, such liabilities will be computed at the amount that, in light of all the facts and circumstances existing at such time, represents the amount that can be reasonably expected to become an actual or matured liability.

"Statutory Reserves" shall mean a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves), expressed as a decimal, established by the Federal Reserve Board and/or any other banking authority to which any Lender or any member bank of the Federal Reserve System is subject with respect to LIBOR, for Eurocurrency Liabilities (as defined in Regulation D of the Federal Reserve Board). Such reserve percentages shall include those imposed under such Regulation D. LIBOR Loans shall be deemed to constitute Eurocurrency Liabilities and as such shall be deemed to be subject to such reserve requirements without benefit of or credit for proration, exceptions or offsets that may be available from time to time to the Lenders under such Regulation D. Statutory Reserves shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"Stock Pledge Agreements" shall mean, collectively, the Euro Stock Pledge Agreement, the Irish Stock Pledge Agreement and the Domestic Stock Pledge Agreement.

"Subordinated Indebtedness" shall mean Indebtedness of the Domestic Borrower and its Subsidiaries that is subordinated in right of payment to the Obligations on terms no less favorable to the Lenders than those set forth on Exhibit 1.1B attached hereto.

"Subsidiary" shall mean, as to any Person (a) a corporation, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock having such power only by reason of the occurrence of a contingency) to elect a majority of the board of directors or other managers thereof are at the time owned, or the management of which is otherwise controlled, directly or indirectly, through one or more intermediaries, or both, by such Person, or (b) a partnership in which such Person is a general partner or the management of which is otherwise controlled, directly or indirectly, through one or more intermediaries or both, by such Person.

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"Swing Line Commitment" shall mean the commitment of the Swing Line Lender to make Swing Line Loans pursuant to Section 2.2.7.

"Swing Line Facility" shall mean the swing line credit facility provided by the Swing Line Lender pursuant to the Swing Line Commitment as more particularly set forth in Section 2.2.7.

"Swing Line Lender" shall mean AmSouth and any other financial institution that, subject to approval by the Administrative Agent and the Domestic Borrower, agrees to become a party to this Agreement and to make Swing Line Loans pursuant to Section 2.2.7. As used herein and in the other Loan Documents, "Lender" shall include the Swing Line Lender except to the extent that the context requires otherwise.

"Swing Line Loans" shall mean the loans made by the Swing Line Lender pursuant to Section 2.2.7.

"Swing Line Note" shall mean the promissory note, in substantially the form of Exhibit 2.5C, executed by the Domestic Borrower in favor of the Swing Line Lender, evidencing the indebtedness of the Domestic Borrower to the Swing Line Lender in connection with the Swing Line Loans.

"Synthetic Lease" shall mean a lease transaction under which the parties intend that (i) the lease will be treated as an "operating lease" by the lessee pursuant to Statement of Financial Accounting Standards No. 13, as amended and (ii) the lessee will be entitled to various tax and other benefits ordinarily available to owners (as opposed to lessees) of like property.

"Synthetic Lease Obligations" shall mean, with respect to any Person, the sum of (i) all remaining rental obligations of such Person as lessee under Synthetic Leases which are attributable to principal and, without duplication, (ii) all rental and purchase price payment obligations of such Person under such Synthetic Leases assuming such Person exercises the option to purchase the lease property at the end of the lease term.

"Term Loan Commitments" shall mean, collectively, the Domestic Term Loan Commitments and the Euro Term Loan Commitments.

"Term Loan Maturity Date" shall mean May 1, 2008.

"Term Loan Notes" shall mean, collectively, the Domestic Term Notes and the Euro Term Notes.

"Term Loans" shall mean, collectively, the Domestic Term Loans and the Euro Term Loans.

"UCC" shall mean the Uniform Commercial Code as in effect in the State of Tennessee or any other applicable jurisdiction, as the context may require.

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1.2. Accounting and Commercial Terms. As used in this Agreement, all accounting terms used but not otherwise defined herein shall have the respective meanings assigned to them in conformity with GAAP. All terms used but not otherwise defined herein that are defined or used in Article 9 of the UCC shall have the respective meanings assigned to them in such Article.

1.3. General Construction. As used in this Agreement, the masculine, feminine and neuter genders and the plural and singular numbers shall be deemed to include the others in all cases in which they would so apply. "Includes" and "including" are not limiting, and shall be deemed to be followed by "without limitation" regardless of whether such words or words of like import in fact follow same. The word "or" is not intended and shall not be construed to be exclusive.

1.4. Defined Terms; Headings. The use of defined terms in the Loan Documents is for convenience of reference and shall not be deemed to be limiting or to have any other substantive effect with respect to the persons or things to which reference is made through the use of such defined terms. Article and section headings and captions in the Loan Documents are included in such Loan Documents for convenience of reference and shall not constitute a part of the applicable Loan Documents for any other purpose. 1.5. References to this Agreement and Parts Thereof. As used in this Agreement, unless otherwise specified the words "hereof," "herein" and "hereunder" and words of similar import shall refer to this Agreement, including all schedules and exhibits hereto, as a whole, and not to any particular provision of this Agreement, and the words "Article", "Section", "Schedule" and "Exhibit" refer to articles, sections, schedules and exhibits of or to this Agreement.

1.6. Documentary References. Any reference herein to any instrument, document or agreement, by whatever terminology used, shall be deemed to include any and all amendments, modifications, supplements, extensions, renewals, substitutions and/or replacements thereof as the context may require.

1.7. Legal References. Any reference herein to any law shall be a reference to such law as in effect from time to time and shall include any rules and regulations promulgated or published thereunder and published interpretations thereof.

## ARTICLE 2.

### LOANS

#### 2.1. Commitments.

##### 2.1.1. Amounts of Commitments.

(a) The aggregate amount of the Revolving Credit Commitments shall be U.S. \$30,000,000.

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(b) The aggregate amount of the Domestic Term Loan Commitments shall be U.S. \$30,405,342.

(c) The aggregate amount of the Euro Term Loan Commitments shall be (euro)26,283,000.

2.1.2. Voluntary Reductions of Revolving Credit Commitments. The Domestic Borrower shall have the right, at any time and from time to time, to terminate in whole or permanently reduce in part, without premium or penalty, the Revolving Credit Commitments in an amount up to the amount by which the Revolving Credit Commitments exceed the aggregate amount of the then outstanding Revolving Loans. The Domestic Borrower shall give not less than ten (10) Business Days' prior written notice to the Administrative Agent designating the date (which shall be a Business Day) of such termination or reduction and the amount of any reduction. Promptly after receipt of a notice of such termination or reduction, the Administrative Agent shall notify each Lender of the proposed termination or reduction. Such termination or reduction of the Revolving Credit Commitments shall be effective on the date specified in the Domestic Borrower's notice and shall reduce the Revolving Credit Commitment of each Lender in proportion to its Percentage of the Revolving Credit Commitments. Any such reduction of the Revolving Credit Commitments shall be in a minimum amount of \$1,000,000 and in integral multiples of \$500,000.

#### 2.2. Loans.

##### 2.2.1. Commitment to Make Revolving Loans. Subject to all of the terms

and conditions of this Agreement (including the conditions set forth in Sections 6.1 and 6.2) and in reliance upon the representations and warranties of the Borrower herein set forth, each Lender hereby severally agrees to make Revolving Loans to the Domestic Borrower from time to time during the Revolving Commitment Period, for the purposes identified in Section 2.7; provided, however, that in no event shall (a) the aggregate principal amount of Revolving Loans made by any Lender outstanding at any time exceed such Lender's Revolving Credit Commitment, or (b) the aggregate principal amount of Revolving Loans made by all Lenders and the Swingline Loans made by the Swing Line Lender that are outstanding at any time exceed the Revolving Credit Commitments. Each Lender's Revolving Credit Commitment shall expire on the Revolving Commitment Period Expiration Date, and all Revolving Loans shall be paid in full no later than the Revolving Commitment Period Expiration Date.

2.2.2. Commitment to Make Term Loans.

(a) Domestic Term Loans. Subject to all of the terms and conditions of this Agreement (including the conditions set forth in Sections 6.1 and 6.2) in reliance upon the representations and warranties of the Borrower herein set forth, each Lender hereby severally agrees to make Domestic Term Loans to the Domestic Borrower on the date hereof and for the purposes identified in Section 2.7; provided, however, in no event shall (a) the aggregate principal amount of the Domestic Term Loans made by any Lender outstanding at any time

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exceed such Lender's Domestic Term Loan Commitment, or (b) the aggregate principal amount of the Domestic Term Loans outstanding at any time exceed the Domestic Term Loan Commitments. All Domestic Term Loans shall be paid in full no later than the Term Loan Maturity Date.

(b) Euro Term Loans. Subject to all of the terms and conditions of this Agreement (including the conditions set forth in Sections 6.1 and 6.2) in reliance upon the representations and warranties of the Borrower herein set forth, each Lender hereby severally agrees to make Euro Term Loans to the Euro Borrower on the date hereof and for the purposes identified in Section 2.7; provided, however, in no event shall (a) the aggregate principal amount of the Euro Term Loans made by any Lender outstanding at any time exceed such Lender's Euro Term Loan Commitment, or (b) the aggregate principal amount of the Euro Term Loans outstanding at any time exceed the Euro Term Loan Commitments. All Euro Term Loans shall be paid in full no later than the Term Loan Maturity Date.

2.2.3. Lenders' Obligations Several; Proportionate Loans. The obligations of the Lenders to make Revolving Loans under Section 2.2.1 and Term Loans under Section 2.2.2 shall be several and not joint and, subject to Section 2.11.4, all Revolving Loans and Term Loans under this Agreement shall be made by the Lenders simultaneously and proportionately to their respective Percentages of the Commitments. It is understood and agreed that the failure of any Lender to make its Revolving Loan as part of any Borrowing under Section 2.2.1 or its Term Loans as part of any Borrowing under Section 2.2.2 shall not relieve any other Lender of its obligation to make its Revolving Loan as provided in Section 2.2.1 or its Term Loans under Section 2.2.2. None of the Agents nor any Lender shall be responsible for the failure of any other Lender to make a Revolving Loan or Term Loans as provided herein nor shall the Commitment of any Lender be increased as a result of the default by any other Lender in such other Lender's obligation to make Revolving Loans or Term Loans hereunder.

2.2.4. Revolving Credit; Minimum Borrowings. Amounts borrowed by the Domestic Borrower under the Revolving Credit Commitments may be prepaid and reborrowed from time to time to during the Revolving Commitment Period. The aggregate amount of Revolving Loans made on any Funding Date shall be in integral multiples of \$100,000.

2.2.5. Notice of Borrowing.

(a) Delivery of Notice. Whenever the Domestic Borrower desires to borrow under Section 2.2.1, it shall deliver to the Administrative Agent a Notice of Borrowing no later than 11:00 a.m. (Central time) at least one (1) Business Day in advance of the proposed Funding Date (in the case of Base Rate Loans) or three (3) Business Days in advance of the proposed Funding Date (in the case of LIBOR Loans). The Notice of Borrowing shall specify (i) the proposed Funding Date (which shall be a Business Day), (ii) the amount of the proposed Borrowing, (iii) whether the proposed Borrowing shall be in the form of Base Rate Loans or LIBOR Loans, and (iv) in the case of LIBOR Loans, the requested Interest Period. In lieu of delivering a Notice of Borrowing, the Domestic Borrower may give the Administrative Agent telephonic notice by the required time of notice of any proposed Borrowing under this Section 2.2.5; provided, however, that such notice shall be promptly confirmed in writing by delivery of a Notice of Borrowing to the

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Administrative Agent on or prior to the Funding Date of the requested Revolving Loans. The execution and delivery of each Notice of Borrowing shall be deemed a representation and warranty by the Domestic Borrower that the requested Revolving Loans may be made in accordance with, and will not violate the requirements of, this Agreement, including those set forth in Section 2.2.1.

(b) No Liability for Telephonic Notices. Neither any Agent nor any Lender shall incur any liability to the Domestic Borrower in acting upon any telephonic notice given pursuant to this Section 2.2.5 that such Agent or Lender believes in good faith to have been given by a duly authorized officer or other person authorized to borrow on behalf of the Domestic Borrower or for otherwise acting in good faith under this Section 2.2.5 and, upon the funding of Revolving Loans by the Lenders in accordance with this Agreement pursuant to any telephonic notice, the Domestic Borrower shall have effected a Borrowing of Revolving Loans hereunder.

(c) Notice Irrevocable. A Notice of Borrowing for LIBOR Loans (or a telephonic notice in lieu thereof) shall be irrevocable on and after the related Interest Rate Determination Date, and the Domestic Borrower shall be bound to make a Borrowing in accordance therewith.

2.2.6. Disbursement of Funds.

(a) Promptly after receipt of a Notice of Borrowing (or telephonic notice in lieu thereof), the Administrative Agent shall

notify each Lender of the proposed Borrowing in writing, or by telephone promptly confirmed in writing. Each Lender shall make the amount of its Revolving Loan available to the Administrative Agent, in immediately available funds, at the Lending Office of the Administrative Agent, not later than 11:00 a.m. (Central time) on the Funding Date. The Administrative Agent shall make the proceeds of such Revolving Loans available to the Domestic Borrower on such Funding Date by causing an amount of immediately available funds equal to the proceeds of all such Revolving Loans received by the Administrative Agent to be credited to the account of the Domestic Borrower at such office of the Administrative Agent.

(b) On the Closing Date, each Lender shall make the amount of its Euro Term Loan available to the Euro Loan Agent, in immediately available funds in Euros, at the Lending Office of the Euro Loan Agent, not later than 11:00 a.m. (Central time) on such Date. The Euro Loan Agent shall make the proceeds of such Euro Term Loan available to the Euro Borrower on the Closing Date by causing an amount of immediately available funds equal to the proceeds of all such Euro Term Loans received by the Euro Loan Agent to be credited to the account of the Euro Borrower at such office of the Euro Loan Agent.

(c) On the Closing Date, each Lender shall make the amount of its Domestic Term Loan available to the Administrative Agent, in immediately available funds, at the Lending Office of the Administrative Agent, not later than 11:00 a.m. (Central time) on such Date. The Administrative Agent shall make the proceeds of such Domestic Term Loan available to the Domestic Borrower on the Closing Date by causing an amount of

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immediately available funds equal to the proceeds of all such Domestic Term Loans received by the Administrative Agent to be credited to the account of the Domestic Borrower at such office of the Administrative Agent.

#### 2.2.7. Swing Line Loans.

(a) Commitment to Make Swing Line Loans. Subject to all of the terms and conditions of this Agreement (including the conditions set forth in Sections 6.1 and 6.2 and the limitations set forth in Section 2.2.1), and in reliance upon the representations and warranties of the Borrower herein set forth and the agreements of the other Lenders set forth in subsections (c) and (d) of this Section 2.2.7, the Swing Line Lender hereby agrees to make Swing Line Loans to the Domestic Borrower from time to time during the Revolving Commitment Period, in an aggregate principal amount not to exceed \$5,000,000 outstanding at any time, for the purposes identified in Section 2.7. Amounts borrowed by the Domestic Borrower under the Swing Line Commitment may be prepaid and reborrowed from time to time during the Revolving Commitment Period. The Swing Line Lender's commitment to make Swing Line Loans as provided in this subsection 2.2.7(a) shall expire on the Revolving Commitment Period Expiration Date, and all Swing Line Loans shall be paid in full no later than the Revolving Commitment Period Expiration Date.

(b) Funding Procedures for Swing Line Loans. Except to the extent that funding of Swing Line Loans is being administered through an automated cash management system mutually approved in writing by the Domestic Borrower and the Swing Line Lender, the Domestic Borrower shall give to the Swing Line Lender written notice (or oral notice to be confirmed promptly in writing) of a proposed Swing Line Loan Borrowing, specifying the amount of the requested Swing Line Loan, not later than 11:00 a.m., Central time, on the Business Day of the proposed Borrowing. Each request for a Swing Line Loan shall be deemed a representation and warranty by the Domestic Borrower that the requested Swing Line Loan may be made in accordance with, and will not violate the requirements of, this Agreement, including those set forth in subsection 2.2.7(a). Not later than 2:00 p.m., Central time, on the Business Day of the proposed Swing Line Loan Borrowing, the Swing Line Lender shall make the proceeds of the requested Swing Line Loan available to the Domestic Borrower at the office of the Swing Line Lender by crediting an account of the Domestic Borrower maintained at such office.

(c) Repayment of Swing Line Loans With Revolving Loans. Regardless of whether the conditions set forth in Sections 6.1 and 6.2 have been or are capable of being satisfied, on any Business Day the Swing Line Lender may, in its sole discretion, give notice to the Lenders that some part or all of the outstanding Swing Line Loans are to be repaid on the next succeeding Business Day with a Borrowing of Revolving Loans constituting Base Rate Loans made pursuant to Section 2.2.1 in the same manner and with the same force and effect as if the Domestic Borrower had submitted a Notice of Borrowing therefor pursuant to Section 2.2.5. Subject to and in accordance with Sections 2.2.1 and 2.2.3, each Lender shall make the amount of its Revolving Loan

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available to the Administrative Agent, in immediately available funds, at the Lending Office of the Administrative Agent, not later than 11:00 a.m. (Central time) on the applicable Funding Date. The Administrative Agent shall make the proceeds of such Revolving Loans available to the Swing Line Lender on such Funding Date by causing an amount of immediately available funds equal to the proceeds of all such Revolving Loans received by the Administrative Agent to be credited to an account of the Swing Line Lender at such office of the Administrative Agent, or shall make such proceeds available to the Swing Line Lender in such other manner as shall be satisfactory to the Administrative Agent and the Swing Line Lender.

(d) Participations in Swing Line Loans. If for any reason a requested Borrowing of Revolving Loans pursuant to subsection 2.2.7(c) is not or cannot be effected, the Lenders will immediately purchase from the Swing Line Lender, as of the date such proposed Borrowing otherwise would have occurred but adjusted for any payments received in respect of such Swing Line Loan(s) by or for the account of the Domestic Borrower on or after such date but prior to such purchase, such participations in the outstanding Swing Line Loans as shall be necessary to cause the Lenders to share in such Swing Line

Loan(s) proportionately in accordance with their respective Percentages of the Revolving Credit Commitments. Whenever, at any time after any Lender has purchased a participating interest in a Swing Line Loan, the Swing Line Lender receives any payment on account thereof, the Swing Line Lender will distribute to such Lender its proportionate share of such amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's participating interest was outstanding and funded); provided, however, that in the event any such payment received by the Swing Line Lender is subsequently set aside or is required to be refunded, returned or repaid, such Lender will repay to the Swing Line Lender its proportionate share thereof.

(e) Failure to Pay by Lenders. If any Lender shall fail to perform its obligation to make a Revolving Loan pursuant to subsection 2.2.7(c) or to purchase a participation in Swing Line Loans pursuant to subsection 2.2.7(d), the amount in default shall bear interest for each day from the day such amount is payable until fully paid at a rate per annum equal to the Federal Funds Rate or any other rate customarily used by banks for the correction of errors among banks, but in no event to exceed the Highest Lawful Rate, and such obligation may be satisfied by application by the Administrative Agent (for the account of the Swing Line Lender) of any payment that such Lender otherwise is entitled to receive under this Agreement. Pending repayment, each such advance shall be secured by such Lender's participation interest, if any, in the Swing Line Loans and any security therefor, and the Swing Line Lender shall be subrogated to such Lender's rights hereunder in respect thereof.

(f) Lenders' Obligations Absolute. The obligation of each Lender to make Revolving Loans pursuant to subsection 2.2.7(c) and to purchase participations in Swing Line Loans pursuant to subsection 2.2.7(d) shall be unconditional and irrevocable, shall not be subject to any qualification or exception whatsoever, shall be made in accordance with the terms and conditions of this Agreement under all circumstances and shall be

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binding in accordance with the terms and conditions of this Agreement under all circumstances, including the following circumstances:

- (1) any lack of validity or enforceability of this Agreement, any of the other Loan Documents or any other instrument, document or agreement relating to the transactions that are the subject thereof;
- (2) the existence of any claim, set-off, defense or other right that the Borrower, any Guarantor, NN Italy or any Lender may have at any time against any Agent, the Swing Line Lender, any other Lender or any other Person, whether in connection with this Agreement, the transactions contemplated herein or any related transactions;
- (3) the surrender or impairment of any security for the performance or observance of any of the terms of this Agreement;
- (4) the occurrence or continuance of any Default;
- (5) any adverse change in the condition (financial or other) of the Borrower, any Guarantor, or NN Italy; or
- (6) any other reason.

### 2.3. Interest.

2.3.1. Interest Rate on Loans. Subject to Section 2.3.3, the unpaid principal balances of the Loans shall bear interest from their respective Funding Dates through maturity (whether by acceleration or otherwise) (including post-petition interest in any case or proceeding under applicable bankruptcy laws) at a rate determined by reference to the Base Rate or LIBOR. The applicable basis for determining the rate of interest for Revolving Loans and Domestic Term Loans shall be selected by the Domestic Borrower at the time a Notice of Borrowing is given pursuant to Section 2.2.5 or at the time a Notice of Conversion/Continuation is given pursuant to Section 2.4.2. The applicable basis for determining the rate of interest for Euro Term Loans shall be selected by the Euro Borrower at the time a Notice of Conversion/Continuation is given pursuant to Section 2.4.2. If on any day any Revolving Loan or Term Loan is outstanding with respect to which notice has not been delivered to the Administrative Agent or the Euro Loan Agent, as applicable, in accordance with the terms of this Agreement specifying the basis for determining the rate of interest, then for that day such Revolving Loan or Term Loan shall bear interest determined by reference to the Base Rate. The Loans shall bear interest as follows:

- (a) if a Swing Line Loan or a Base Rate Loan, then at a fluctuating rate per annum equal to the sum of the Base Rate, as it varies from time to time, plus the Applicable Base Rate Margin; or
- (b) if a LIBOR Loan, then at a rate per annum equal to the sum of LIBOR plus the Applicable LIBOR Margin.

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2.3.2. Default Rate. Upon the occurrence and during the continuance of an Event of Default, the unpaid principal balances of the Loans and, to the extent permitted by applicable law, any unpaid interest accrued in respect of the Loans shall bear interest at the Default Rate; provided, however, that in the case of LIBOR Loans, upon the expiration of the Interest Period in effect at the time any such increase in interest rate is effective, such LIBOR Loans shall thereupon become Base Rate Loans and thereafter bear interest at the corresponding Default Rate. Interest accruing pursuant to this Section 2.3.2 shall be payable upon demand.

2.3.3. Conclusive Determination. Each determination by either Agent of an interest rate under this Agreement shall be conclusive and binding for all purposes, absent manifest error.

2.3.4. Maximum Number of Interest Periods. No more than four (4) Interest Periods may be in effect in respect of outstanding Loans (other than Euro Term Loans) bearing interest based on LIBOR at any time, and no more than two (2) Interest Periods may be in effect in respect of outstanding Euro Term Loans bearing interest based on LIBOR at any time.

### 2.4. Conversion or Continuation.



2.4.1. Option to Convert or Continue.

(a) Subject to the provisions of Section 2.11, the Domestic Borrower shall have the option with respect to Revolving Loans and Domestic Term Loans (i) at any time to convert all or any part of any outstanding Base Rate Loans in an aggregate minimum amount of \$500,000 and integral multiples of \$100,000 in excess of that amount from Base Rate Loans to LIBOR Loans and (ii) upon the expiration of any Interest Period applicable to a specific Borrowing of LIBOR Loans, to continue all or any portion of such Loans in an aggregate minimum amount of \$500,000 and integral multiples of \$100,000 in excess of that amount as LIBOR Loans, and the succeeding Interest Period of such continued LIBOR Loans shall commence on the expiration date of the Interest Period previously applicable thereto.

(b) Subject to the provisions of Section 2.11, the Euro Borrower shall have the option with respect to Euro Term Loans (i) at any time to convert all or any part of any outstanding Base Rate Loans in an aggregate minimum amount of (euro)500,000 and integral multiples of (euro)100,000 in excess of that amount from Base Rate Loans to LIBOR Loans and (ii) upon the expiration of any Interest Period applicable to a specific Borrowing of LIBOR Loans, to continue all or any portion of such Loans in an aggregate minimum amount of (euro)500,000 and integral multiples of (euro)100,000 in excess of that amount as LIBOR Loans, and the succeeding Interest Period of such continued LIBOR Loans shall commence on the expiration date of the Interest Period previously applicable thereto.

2.4.2. Notice of Conversion/Continuation. The Domestic Borrower shall deliver a Notice of Conversion/Continuation to the Administrative Agent, and the Euro Borrower shall deliver a Notice of Conversion/Continuation to the Euro Loan Agent, as applicable, in each case

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no later than 11:00 a.m. (Central time) at least three (3) Business Days in advance of the proposed conversion/continuation date. A Notice of Conversion/Continuation shall specify (a) the proposed conversion/continuation date (which shall be a Business Day), (b) the aggregate amount of Loans to be converted/continued, (c) the nature of the proposed conversion/continuation, and (d) the requested Interest Period. In lieu of delivering a Notice of Conversion/Continuation, the Domestic Borrower or the Euro Borrower may give the applicable Agent telephonic notice by the required time of any proposed conversion/continuation under this Section 2.4; provided, however, that such notice shall be promptly confirmed in writing by a Notice of Conversion/Continuation delivered to the applicable Agent on or before the proposed conversion/continuation date. The execution and delivery of each Notice of Conversion/Continuation shall be deemed a representation and warranty by the Borrower that the requested conversion/continuation may be made in accordance with, and will not violate the requirements of, this Agreement, including those set forth in Sections 2.4.1 and 2.11.1.

2.4.3. Notice to the Lenders. Promptly after receipt of a Notice of Conversion/Continuation (or telephonic notice in lieu thereof), the applicable Agent shall notify each Lender of the proposed conversion or continuation. Neither any Agent nor any Lender shall incur any liability to the applicable Borrower in acting upon any telephonic notice referred to above that such Agent or such Lender believes in good faith to have been given by a duly authorized officer or other person authorized to act on behalf of the applicable Borrower or for otherwise acting in good faith under this Section 2.4 and, upon conversion/continuation by the applicable Agent in accordance with this Agreement pursuant to any telephonic notice, the applicable Borrower shall have effected a conversion/continuation of Loans hereunder.

2.4.4. Notice Irrevocable. A Notice of Conversion/Continuation shall be irrevocable on and after the related Interest Rate Determination Date, and the applicable Borrower shall be bound to convert or continue such Loan in accordance therewith.

2.4.5. Automatic Conversion. In the event any LIBOR Loan is unpaid upon the expiration of the Interest Period applicable thereto and a Notice of Conversion/Continuation has not been given in the manner provided in Section 2.4.2, such LIBOR Loan shall, effective as of the last day of such Interest Period, become a Base Rate Loan.

2.5. Notes; Records of Payments. Each Revolving Loan made by a Lender to the Domestic Borrower pursuant to this Agreement shall be evidenced by a Revolving Note payable to the order of such Lender in an amount equal to such Lender's Percentage of the aggregate amount of the Revolving Credit Commitments; each Domestic Term Loan made by a Lender to the Domestic Borrower pursuant to this Agreement shall be evidenced by a Domestic Term Note payable to the order of such Lender in an amount equal to such Lender's Percentage of the aggregate amount of the Domestic Term Loan Commitments; each Euro Term Loan made by a Lender to the Euro Borrower pursuant to this Agreement shall be evidenced by a Euro Term Note payable to the order of such Lender in an amount equal to such Lender's Percentage of the aggregate amount of the Euro Term Loan Commitments; and the Swing Line Loans made by the Swing Line Lender to the Domestic Borrower pursuant to this Agreement shall be evidenced by the Swing Line Note. Each Lender (including the Swing Line Lender) hereby is authorized to record and endorse the date and principal amount of each Loan made by it, and the amount of all

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payments and prepayments of principal and interest made to such Lender with respect to such Loans, on a schedule annexed to and constituting a part of the corresponding Note(s) of such Lender, which recordation and endorsement shall constitute prima facie evidence of such Loans made by such Lender to the applicable Borrower and payments made by the applicable Borrower to such Lender, absent manifest error; provided, however, that (a) failure by any Lender to make any such recordation or endorsement shall not in any way limit or otherwise affect the obligations of the applicable Borrower or the rights and remedies of the Lenders under this Agreement or the Notes, and (b) payments of principal and interest on the Loans to the Lenders shall not be affected by the failure to make any such recordation or endorsement thereof. In lieu of making recordation or endorsement, the Lenders hereby are authorized, at their option, to record the payments or prepayments on their respective books and records in accordance with their usual and customary practice, which recordation shall constitute prima facie evidence of the Loans made by the Lenders to the applicable Borrower and the payments and prepayments made by the applicable Borrower to the Lenders, absent manifest error.

2.6. Agents' Right to Assume Funds Available. Each Agent may assume that each Lender has made the proceeds of its Revolving Loans or Term Loans, as the

case may be, available to such Agent on the corresponding Funding Date in the event the applicable conditions precedent to funding the requested Revolving Loans or Term Loans, as the case may be, set forth in Article 6 have been satisfied or waived in accordance with Section 14.3, and such Agent, in its sole discretion, may, but shall not be obligated to, advance all or any portion of the amount of any requested Borrowing on such Funding Date to the applicable Borrower prior to receiving the proceeds of the corresponding Revolving Loans or Term Loans, as the case may be, from the Lenders. If any Agent has advanced proceeds of any Loan to the applicable Borrower on behalf of any Lender and such Lender fails to make available to such Agent its Percentage share of such Loan as required by Section 2.2, such Agent shall be entitled to recover such amount on demand from such Lender. If such Lender does not pay such amount forthwith upon such Agent's demand therefor, such Agent shall notify the applicable Borrower and the applicable Borrower shall pay such amount to such Agent. Each Agent also shall be entitled to recover from such Lender interest at the applicable rate for such Loan, but in no event to exceed the Highest Lawful Rate, on such amount so advanced on behalf of such Lender for each day from the date such amount was made available by such Agent to the applicable Borrower to the date such amount is recovered by such Agent. Nothing herein shall be deemed to relieve any Lender from its obligation to fulfill such Lender's Commitments or to prejudice any rights that any Agent or the applicable Borrower may have against any Lender as a result of any default by such Lender hereunder.

2.7. Use of Proceeds. (a) The proceeds of the Domestic Term Loan will be used by the Domestic Borrower to refinance the outstanding principal amount owed by the Domestic Borrower under that certain Credit Agreement dated July 20, 2001, by and among the Domestic Borrower, the Lenders identified therein, Bank One, Kentucky, N.A. as Co-Agent and AmSouth as Administrative Agent, as amended to date, and to finance the purchase by the Domestic Borrower of the remaining ownership interest in the Euro Borrower not currently owned by the Domestic Borrower, (b) the proceeds of the Euro Term Loan will be used by the Euro Borrower to refinance certain existing Indebtedness owed by the Euro Borrower and to finance the SKF-Veenendaal Acquisition, and (c) the proceeds of the Revolving Loans and the Swing Line Loans

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will be used by the Domestic Borrower for working capital purposes and for other general corporate purposes (including, without limitation, Permitted Acquisitions and, to the extent permitted by this Agreement, Investments in Subsidiaries). The proceeds of the Loans will not be used by the Borrower for any purpose prohibited by the terms of this Agreement or by any law.

2.8. Credit Fees. In consideration for the obligations of the Agents and the Lenders set forth herein, the Borrower shall pay the following credit fees:

2.8.1. Agent Fees. Pursuant to one or more separate agreements with the Administrative Agent, the Domestic Borrower shall pay to the Administrative Agent the fees and charges specified therein for the services of the Administrative Agent in acting as such hereunder. Pursuant to one or more separate agreements with the Euro Loan Agent, the Euro Borrower shall pay to the Euro Loan Agent the fees and charges specified therein for the services of the Euro Loan Agent in acting as such hereunder.

2.8.2. Facility Initiation Fees. In consideration of each Lender's agreement to participate in the Domestic Term Loan Facility, the Euro Term Loan Facility and the Revolving Credit Facility as provided herein:

(a) the Domestic Borrower agrees to pay to each Lender a fee in an amount equal to twenty-five one-hundredths of one percent (0.25%) of such Lender's Percentage of the Domestic Term Loan Commitments and the Revolving Credit Commitments hereunder; and

(b) the Euro Borrower agrees to pay to each Lender a fee in an amount equal to twenty-five one-hundredths of one percent (0.25%) of such Lender's Percentage of the Euro Term Loan Commitments hereunder.

Such fees shall be due and payable upon the execution and delivery of this Agreement by the Borrower. Upon payment, such fees shall be deemed to have been fully earned and are nonrefundable.

2.8.3. Commitment Fees. The Domestic Borrower agrees to pay to the Administrative Agent, for distribution to the Lenders in proportion to their respective Percentages, annual commitment fees for the period commencing on the date hereof to but excluding the Revolving Commitment Period Expiration Date equal to the average of the daily unused portion of the Revolving Credit Commitments (i.e., the aggregate amount of the Revolving Credit Commitments less the aggregate amount of Revolving Loans outstanding) multiplied by the Applicable Commitment Fee Percentage ("Commitment Fees"). Commitment Fees shall be payable in quarter-annual installments, in arrears, on January 1, April 1, July 1 and October 1 of each year, commencing July 1, 2003, and on the Revolving Commitment Period Expiration Date.

2.8.4. Payment of Fees by Euro Borrower. In no event shall Euro Borrower be liable for the payment of any fees required to be paid by Domestic Borrower pursuant to this Section 2.8.

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2.9. Computations. To the extent permitted by applicable law, all computations of fees and interest under this Agreement payable in respect of any period shall be made by the Agents on the basis of a 360-day year, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such fees or interest are payable. In computing interest on any Loan, the date of the making of such Loan or the first day of an Interest Period, as the case may be, shall be included and the date of payment or the expiration date of an Interest Period, as the case may be, shall be excluded; provided, however, that if a Loan is repaid on the same day on which it is made, one day's interest shall be paid on that Loan.

2.10. Interest and Fees Margins. For purposes of interest and fee computations hereunder involving the Applicable Base Rate Margin, the Applicable LIBOR Margin and the Applicable Commitment Fee Percentage, such margins and percentages shall be determined as follows:

Tier	Applicable LIBOR Margin	Applicable Base Rate Margin	Applicable Commitment Fee Percentage
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1	1.25%	0.00%	0.15%
2	1.50%	0.00%	0.20%
3	1.75%	0.00%	0.25%
4	2.00%	0.00%	0.30%

Except as expressly hereinafter provided, the applicable tier at any time shall be determined with reference to the Funded Indebtedness to EBITDA Ratio of the Domestic Borrower at such time (provided, however, for purposes of this Section 2.10, Pro Forma Effect shall not be given with respect to any Asset Acquisitions), as follows:

Tier	Funded Indebtedness to EBITDA Ratio
1	Equal to or less than 1.25 to 1.00
2	Greater than 1.25 to 1.00 but equal to or less than 1.75 to 1.00
3	Greater than 1.75 to 1.00 but equal to or less than 2.00 to 1.00
4	Greater than 2.00 to 1.00

From the date hereof to but not including the first Pricing Tier Determination Date after June 30, 2003, Tier 4 shall be applicable. Any adjustment in the margins set forth above shall take effect on the first Pricing Tier Determination Date following the Last Four Fiscal Quarters as to which such ratio was calculated.

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2.11. Special Provisions Governing LIBOR Loans. Notwithstanding other provisions of this Agreement, the following provisions shall govern with respect to LIBOR Loans as to the matters covered:

2.11.1. Determination of Interest Period. By giving a Notice of Borrowing pursuant to Section 2.2.5, the Domestic Borrower shall have the option, subject to the other provisions of this Section 2.11.1, to specify whether the Interest Period commencing on the date specified therein shall be a one, two or three-month period; provided that:

(a) in the case of immediately successive Interest Periods, each successive Interest Period shall commence on the day on which the next preceding Interest Period expires;

(b) if any Interest Period otherwise would expire on a day that is not a Business Day, that Interest Period shall be extended to expire on the next succeeding Business Day; provided, however, that if any such Interest Period would otherwise expire on a day that is not a Business Day but is a day of the month after which no further Business Day occurs in that month, that Interest Period shall expire on the immediately preceding Business Day;

(c) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to paragraph (d) below, end on the last Business Day of a calendar month; and

(d) no Interest Period shall extend beyond the Revolving Commitment Period Expiration Date, or the Term Loan Maturity Date, as applicable.

2.11.2. Determination of Interest Rate. As soon as is practicable after 11:00 a.m. (Central time) on the Interest Rate Determination Date, the Administrative Agent or the Euro Loan Agent, as applicable, shall determine (which determination shall, absent manifest error, be final, conclusive and binding upon all parties) the interest rate that shall apply to the LIBOR Loans for which an interest rate is then being determined for the applicable Interest Period and shall promptly give notice thereof (in writing or by telephone confirmed in writing) to the applicable Borrower and each Lender.

2.11.3. Inability to Determine Rate. In the event the Administrative Agent or the Euro Loan Agent, as applicable, shall have determined (which determination shall be conclusive and binding absent manifest error) that by reason of circumstances affecting the London interbank market, adequate and reasonable means do not exist for ascertaining Base LIBOR, such Agent forthwith shall give telephonic notice of such determination, confirmed in writing, to the Borrower and each Lender. If such notice is given, and until such notice has been withdrawn by such Agent, no additional LIBOR Loans shall be made.

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2.11.4. Illegality; Termination of Commitment to Make LIBOR Loans. Notwithstanding any other provisions of this Agreement, if any law, treaty, rule or regulation or determination of a court or other governmental authority, or any change therein or in the interpretation or application thereof, shall make it unlawful for any Lender to make or maintain LIBOR Loans, as contemplated by this Agreement, then, and in any such event, such Lender shall be an "Affected Lender" and shall promptly give notice (by telephone confirmed in writing) to the Borrower and each Agent (which notice each Agent shall promptly transmit to each Lender in writing, or by telephone confirmed in writing) of such determination, and the obligation of the Affected Lender to make LIBOR Loans shall be terminated, and its obligation to maintain its LIBOR Loans during such period shall be terminated at the earlier to occur of the termination of the last Interest Period then in effect or when required by law. Thereafter, and until such notice has been withdrawn by the Affected Lender, the Affected Lender shall have no obligation to make LIBOR Loans, and any LIBOR Loans of the Affected Lender then outstanding shall be converted into Base Rate Loans as of the end of the corresponding Interest Period for each.

2.11.5. LIBOR Loans After Default. Unless all Lenders shall otherwise agree, after the occurrence of and during the continuance of a Default, the Borrower may not elect to have a Loan be made or continued as, or converted to, a LIBOR Loan.

2.12. Expenses. The Domestic Borrower shall reimburse the Agents, on demand, for all reasonable attorneys' and paralegals' fees and expenses of counsel to the Agents, all fees and expenses for title, lien and other public records searches, all filing and recordation fees and taxes, all duplicating expenses, corporation search fees, appraisal fees and escrow agent fees and expenses and all other customary fees and expenses incurred in connection with (a) the negotiation, documentation and closing of the transactions contemplated hereby, (b) the perfection of or the continued perfection of the security interests contemplated hereby, and (c) the review and preparation of any documentation in connection with, and the approval by the Lenders of, any matter

for which the Lenders' approval is requested or required hereunder. The obligations described in this Section 2.12 regarding the payment of expenses are independent of all other obligations of the Domestic Borrower hereunder, shall survive the expiration or termination of the Commitments and shall be payable regardless of whether the financing transactions contemplated by this Agreement shall be consummated.

2.13. Replacement or Removal of Lender. If the Administrative Agent receives a notice pursuant to Section 3.3.5 claiming compensation, reimbursement or indemnity pursuant to Section 3.3 or Section 3.4, and the aggregate amount of all such compensation, reimbursement or indemnity payments made or required to be made by the Borrower pursuant to Section 3.3 or Section 3.4 to the Lender giving notice is materially greater (as determined by the Borrower in its reasonable judgment) than the weighted average amount of payments made or required to be made to the other Lenders pursuant to Section 3.3 or Section 3.4, or if the Administrative Agent receives a notice from an Affected Lender pursuant to Section 2.11.4, then, so long as no Default shall have occurred and be continuing, the Borrower may, within sixty (60) days after receipt of any such notice, elect to terminate such Lender as a party to this Agreement. If the amount of such Lender's Commitment, together with the amount of any other Commitments thereto or concurrently therewith to be reduced in accordance with this Section 2.13, aggregates twenty-

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five percent (25%) or less of the aggregate Commitments, the Borrower may elect either to replace such Lender with another financial institution reasonably satisfactory to the Administrative Agent (a "Replacement Lender") or to reduce the Commitments by the amount of the Commitment of such Lender. If the amount of such Lender's Commitment, together with the amount of any other Commitments thereto or concurrently therewith to be reduced in accordance with this Section 2.13, aggregates in excess of twenty-five percent (25%) of the aggregate Commitments, the Borrower may elect to terminate such Lender only if, together with its notice of termination, it provides to the Administrative Agent a commitment from a Replacement Lender to replace the Commitment of the terminated Lender on the terms and conditions set forth herein. The Borrower's election to terminate a Lender under this Section 2.13 shall be set forth in a written notice from the Borrower to the Administrative Agent (with a copy to such Lender), setting forth (a) the basis for termination of such Lender, (b) whether the Borrower intends to replace such Lender with a Replacement Lender or, if the Borrower is not required to replace such Lender, to reduce the Commitments by the amount of the Commitment of such Lender, and (c) the date (not later than thirty (30) days after the date of such notice) when such termination shall become effective. On the date on which such termination becomes effective, (i) the Borrower and/or the Replacement Lender, as applicable, shall pay the terminated Lender an amount equal to all principal, interest, fees and other amounts owed to such Lender pursuant to this Agreement (including any amounts owed under Sections 3.3 and 3.4) through such date, and (ii) there shall have been received by the Administrative Agent an executed Assignment and Acceptance and all other documents and supporting materials necessary, in the reasonable judgment of the Administrative Agent, to evidence the substitution of the Replacement Lender for such terminated Lender, or if there is no Replacement Lender, to reflect the adjustment of the Commitments, including any necessary or appropriate adjustments to the Lenders' Percentages (adjustments to the Commitments and Percentages of the remaining Lenders to be based upon the relative proportions of their respective Percentages).

2.14. Failure to Pay in Appropriate Currency. If the Euro Borrower is unable for any reason to effect payment of a Euro Term Loan in Euros as required hereunder or if the Euro Borrower shall default in the payment when due of any payment in Euros, the Lenders may, at their option, require such payment to be made to the Euro Loan Agent in the Dollar Equivalent of such Euro payment at the Euro Loan Agent's Lending Office specified for payments of Loans in Dollars. In any such case, the Euro Borrower agrees to indemnify and hold Lenders harmless from any loss incurred by such Lender arising from any change in the value of Dollars in relation to Euros between the date such payment became due and the date of payment thereof.

2.15. Currency Control and Exchange Regulations. Notwithstanding anything to the contrary herein, if any currency control or exchange regulations relating to the Euro are imposed with the result that the Euro (the "Original Currency") no longer exists or the Euro Borrower is not able to make payment to the Euro Loan Agent for the account of the Lenders in such Original Currency, then all payments to be made by the Euro Borrower hereunder in such Original Currency shall instead be made when due in Dollars in an amount equal to the Dollar Equivalent (as of the date of repayment) of such payment due, it being the intention of the parties that the Euro Borrower takes all risks of the imposition of any such currency control or exchange regulations.

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2.16. European Economic and Monetary Union. The terms and provisions of this Agreement will be subject to such reasonable changes of construction as determined by the Euro Loan Agent to reflect the implementation of the economic and monetary union in any member state of the European Union not currently participating in the economic and monetary union or any market conventions relating to the fixing and/or calculation of interest being changed or replaced and to reflect market practice at that time, and subject thereto, to put the Agents, the Lenders and the Borrower in the same position, so far as possible, that they would have been if such implementation had not occurred. In connection therewith, the Borrower agrees, at the request of the Euro Loan Agent, at the time of or at any time following the implementation of the economic and monetary union in any member state of the European Union not currently participating in the economic and monetary union or any market conventions relating to the fixing and/or calculation of interest being changed or replaced, to enter into an agreement amending this Agreement in such manner as the Euro Loan Agent shall reasonably request.

### ARTICLE 3.

#### PAYMENTS, PREPAYMENTS AND COMPUTATIONS

3.1. General Provisions Relating to Repayment of Loans. The Loans shall be repaid as provided in this Section 3.1.

3.1.1. Interest Payments. The interest accrued on each Loan shall be payable on each Interest Payment Date applicable to such Loan, upon any prepayment of any LIBOR Loan (to the extent accrued on the amount being prepaid) and at maturity.

3.1.2. Scheduled Term Loan Principal Payments.

(a) Principal of the Domestic Term Loans shall be repaid in equal, quarterly installments of \$1,520,267 each (subject to reduction

in accordance with Section 3.1.3), with the first installment due and payable on July 1, 2003, and subsequent installments due and payable on each January 1, April 1, July 1, and October 1 thereafter; provided, however, that in connection with any payment of principal of the Domestic Term Loans consisting of LIBOR Loans, the Domestic Borrower shall pay to the Administrative Agent, for distribution to the Lenders, the accrued interest on such Loan required to be paid pursuant to Section 3.1.1 and any amounts required to be paid pursuant to Section 3.3.3.

(b) Principal of the Euro Term Loans shall be repaid in equal, quarterly installments of (euro)1,314,150 each (subject to reduction in accordance with Section 3.1.3), with the first installment due and payable on July 1, 2003, and subsequent installments due and payable on each January 1, April 1, July 1, and October 1 thereafter; provided, however, that in connection with any payment of principal of the Euro Term Loans consisting of LIBOR Loans, the Euro Borrower shall pay to the Euro Loan Agent, for

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distribution to the Lenders, the accrued interest on such Loan required to be paid pursuant to Section 3.1.1 and any amounts required to be paid pursuant to Section 3.3.3.

### 3.1.3. Prepayments.

#### (a) Optional Prepayments.

(1) The Domestic Borrower may prepay Swing Line Loans, in whole or in part, at any time and from time to time. Except to the extent that repayment of Swing Line Loans is being administered through an automated cash management system mutually approved in writing by the Domestic Borrower and the Swing Line Lender, the Domestic Borrower shall, prior to or contemporaneously with making any such prepayment, give the Swing Line Lender such notice of prepayment as is sufficient to enable the Swing Line Lender to apply such prepayment properly to the repayment of Swing Line Loans.

(2) Each Borrower may, upon not less than one (1) Business Day's prior written or telephonic notice confirmed in writing to the applicable Agent (in the case of Base Rate Loans), and upon not less than three (3) Business Days' prior written or telephonic notice confirmed in writing to the applicable Agent (in the case of LIBOR Loans) (each of which notices the applicable Agent will promptly transmit to each Lender in writing, or by telephone confirmed in writing), at any time and from time to time prepay any Borrowing of Revolving Loans or Domestic Term Loans (as the Borrower may specify to the Administrative Agent) in whole or in part in integral multiples of \$50,000, or any Borrowing of Euro Term Loans in whole or in part in integral multiples of (euro)50,000; provided, however, that LIBOR Loans may only be prepaid in part if, after such prepayment, the unpaid portion of such Revolving Loans and Domestic Term Loans shall have aggregate minimum balances of \$100,000 and the unpaid portion of such Euro Term Loans shall have aggregate minimum balances of (euro)100,000; and provided, further, that in connection with any prepayment of LIBOR Loans, the applicable Borrower shall pay to the Administrative Agent with respect to all Loans other than Euro Term Loans and to the Euro Loan Agent with respect to Euro Term Loans, for distribution to the Lenders, the accrued interest on such Loan required to be paid pursuant to Section 3.1.1 and any amounts required to be paid pursuant to Section 3.3.3; and provided, further, that any prepayments of the Term Loans shall be applied to reduce scheduled Term Loan principal payments on a pro rata basis (and any such prepayments may be applied, at Borrower's option, either to (i) all the Term Loans, on a pro rata basis or (ii) either the Domestic Term Loans or the Euro Term Loans, in either case on a pro rata basis); and provided, further, all such prepayments made by Euro Borrower shall be applied only to the Euro Obligations.

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#### (b) Mandatory Prepayments.

(1) The Borrower shall prepay Loans with (a) all of the net proceeds of the sale by the Borrower, any Guarantor or NN Italy of any stock or other securities (other than (i) net proceeds received in connection with the issuance of 700,000 shares of the stock of the Domestic Borrower to SKF in connection with the SKF-Veenendaal Acquisition; (ii) net proceeds not exceeding the Dollar Equivalent of \$10,000,000 during the term of the Facilities of the sale by the Borrower of common stock issued upon the exercise of stock options pursuant to the NN, Inc. Stock Incentive Plan; (iii) the sale by a Guarantor or NN Italy of stock or other securities to the Borrower, another Guarantor or NN Italy; and (iv) net proceeds not exceeding the Dollar Equivalent of \$5,000,000 during the term of the Facilities of any other sale by the Borrower of any stock or other securities), or the incurrence of any Indebtedness for borrowed money (other than Indebtedness permitted under clauses (a) through (c) and (e) through (j) of Section 9.1); (b) 11 of the net proceeds of the sale or other disposition of assets except for (i) dispositions permitted pursuant to clauses (a), (b) and (c) of Section 9.3 and (ii) dispositions permitted pursuant to clause (d) of Section 9.3 to the extent such dispositions do not exceed an aggregate amount of \$100,000 in any Fiscal Year; and (c) all payments received by Borrower pursuant to that certain Promissory Note dated December 21, 2001, in the original principal amount of \$3,305,000, executed by General Bearing Corporation, a Delaware corporation, and payable to the order of the Domestic Borrower; provided, however, that in connection with any prepayment of LIBOR Loans, the applicable Borrower shall pay to the Administrative Agent, for distribution to the Lenders, the accrued interest on such Loan required to be paid pursuant to Section 3.1.1 and any amounts required to be paid pursuant to Section 3.3.3; and provided further that any prepayments of the Term Loans shall be applied to reduce scheduled Term Loan principal payments on a pro rata basis (and any such prepayments may be applied, at Borrower's option, either to (i) all the Term Loans, on a pro rata basis or (ii) either the Domestic Term Loans or the Euro Term Loans, in either case on a pro rata basis); and provided, further, that this section shall not be construed to permit the Borrower to take any action not otherwise permitted hereunder; and provided, further, all such prepayments made by Euro Borrower shall be applied only to the Euro Obligations. Any prepayment pursuant to this paragraph (1) shall be applied first to scheduled Term Loan principal payments as set forth above, and

then to outstanding Revolving Loans, in each case applied first to Base Rate Loans until the same have been fully repaid, and then to LIBOR Loans. The amount of the Commitments shall be reduced pro rata among the Lenders by the amount of any prepayment made pursuant to this paragraph (1), with reductions in the Commitments applied in accordance with the allocation of the prepayments of the Loans as set forth above.

(2) The applicable Borrower shall prepay Loans to the extent necessary so that the aggregate principal amount of Loans outstanding at any time

does not exceed the Commitments then in effect; provided, however, that in connection with any prepayment of LIBOR Loans, the applicable Borrower shall pay to the applicable Agent, for distribution to the Lenders, the accrued interest on such Loan required to be paid pursuant to Section 3.1.1 and any amounts required to be paid pursuant to Section 3.3.3. Any prepayment pursuant to this paragraph (2) shall be applied first to Swing Line Loans until the same have been fully repaid, then to Base Rate Loans until the same have been fully repaid, and then to LIBOR Loans.

3.1.4. Final Maturity of Loans. In all events, (a) the entire aggregate principal balances of, all accrued and unpaid interest on and all fees and other sums due and payable in respect of the Revolving Loans and the Swing Line Loans shall be due and payable in full on the Revolving Commitment Period Expiration Date if not sooner paid, and (b) the entire aggregate principal balances of, all accrued and unpaid interest on and all fees and other sums due and payable in respect to the Term Loans shall be due and payable in full on the Term Loan Maturity Date.

### 3.2. Payments and Computations, Etc.

#### 3.2.1. Time and Manner of Payments.

(a) Except as otherwise expressly set forth herein, all payments of principal, interest and fees hereunder with respect to Revolving Loans, Swingline Loans and Domestic Term Loans and under the applicable Notes shall be in lawful currency of the United States of America, in immediately available (same day) funds, and delivered to the Administrative Agent at its Lending Office for its account, the account of the Lenders or the account of the Swing Line Lender, as the case may be (or in the case of Swing Line Loans and if so directed by the Swing Line Lender, delivered directly to the Swing Line Lender), not later than 11:00 a.m. (Central time) on the date due. As soon as is practicable thereafter, the Administrative Agent shall cause to be distributed like funds relating to the payment of principal or interest or fees ratably to the Lenders in accordance with their respective Percentages (other than amounts payable pursuant to Sections 2.8.1, 3.3 and 3.4, which are to be distributed other than ratably). Funds received by the Administrative Agent after the time specified in the first sentence of this paragraph shall be deemed to have been paid by the Domestic Borrower on the next succeeding Business Day.

(b) Except as otherwise expressly set forth herein, all payments of principal, interest and fees hereunder with respect to Euro Term Loans and under the Euro Term Notes shall be in immediately available (same day) funds in Euros, and delivered to the Euro Loan Agent at its Lending Office for its account, the account of the Lenders, not later than 11:00 a.m. (Central time) on the date due. As soon as is practicable thereafter, the Euro Loan Agent shall cause to be distributed like funds relating to the payment of principal or interest or fees ratably to the Lenders in accordance with their respective Percentages (other than amounts payable pursuant to Sections 2.8.1, 3.3 and 3.4, which are to be distributed other than ratably). Funds received by the Euro Loan Agent after the

time specified in the first sentence of this paragraph shall be deemed to have been paid by the Euro Borrower on the next succeeding Business Day.

3.2.2. Payments on Non-Business Days. Whenever any payment to be made hereunder or under the Notes shall be stated to be due on a day that is not a Business Day, the payment shall be made on the next succeeding Business Day and such extension of time shall be included in the computation of the payment of interest hereunder or under the Notes or of the fees payable hereunder, as the case may be; provided, however, that in the event that the day on which payment relating to a LIBOR Loan is due is not a Business Day but is a day of the month after which no further Business Day occurs in that month, then the due date thereof shall be the next preceding Business Day.

3.2.3. Apportionment of Payments. Aggregated principal and interest payments shall be apportioned among all outstanding Loans to which such payments relate, and shall be apportioned ratably among the Lenders in proportion to the Lenders' respective Percentages of the corresponding Loans (except for payments in respect of Swing Line Loans, which shall be apportioned and distributed entirely to the Swing Line Lender). The Administrative Agent or the Euro Loan Agent, as applicable, shall promptly distribute to each Lender at its Lending Office its Percentage of all such payments received by such Agent. Notwithstanding the foregoing provisions of this Section 3.2.3, if, pursuant to the provisions of Section 2.11.4, any Notice of Borrowing is withdrawn as to any Affected Lender or if any Affected Lender makes Base Rate Loans in lieu of its Percentage of LIBOR Loans, the Administrative Agent or the Euro Loan Agent, as applicable, shall give effect thereto in apportioning payments received thereafter.

3.2.4. Assumption of Payments Made. Unless the Administrative Agent or the Euro Loan Agent, as applicable, shall have received notice from the applicable Borrower prior to the date on which any payment is due to such Agent for the benefit of the Lenders hereunder that the Borrower will not make such payment in full, such Agent may assume that such Borrower has made such payment in full to such Agent on such date and such Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent such Borrower shall not have so made such payment in full to such Agent, each Lender shall repay to such Agent forthwith on demand such

amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the such Agent, at the Federal Funds Rate, but in no event to exceed the Highest Lawful Rate.

3.2.5. Application of Proceeds. After the occurrence and during the continuance of an Event of Default, unless otherwise set forth in this Agreement or the other Loan Documents, all payments received by the Administrative Agent, and all payments (or the Dollar Equivalent with respect thereto) received by the Euro Loan Agent from the enforcement of remedies under the Loan Documents or otherwise with respect to the Obligations shall be applied (a) first, to the payment of any fees, expenses, reimbursements or indemnities then due from the applicable Borrower to the Agents; (b) second, to the payment of any fees, expenses, reimbursements or indemnities then due from the applicable Borrower to the Lenders, or any of them; (c) third, to the ratable payment of interest due from the applicable Borrower with respect to any of the Loans; (d) fourth, to the ratable payment of principal of any of the Loans of the

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applicable Borrower, and (e) fifth, to pay all other Obligations of the applicable Borrower. Amounts applied to the interest on or principal of Loans as aforesaid shall be applied to the interest on or principal of outstanding Swing Line Loans, if any, prior to application of same to Revolving Loans.

### 3.3. Increased Costs, Capital Requirements and Taxes.

3.3.1. Increased Costs. Except to the extent reimbursed pursuant to other provisions of this Section 3.3, in the event that either (i) the introduction of, or any change in, or in the interpretation of, any law or regulation or (ii) compliance with any guideline or request from any central bank or other Governmental Authority (regardless of whether having the force of law):

(a) does or shall subject any Lender to any additional income, preference, minimum or excise tax or to any additional tax of any kind whatsoever with respect to this Agreement, the Notes or any of the Loans or change the basis of taxation of payments to such Lender of principal, commitment fees, interest or any other amount payable hereunder (except for changes in the rate of tax on the overall gross or net income of that Lender or its foreign branch, agency or subsidiary); or

(b) does or shall impose, modify or hold applicable any reserve, special deposit, compulsory loan, FDIC insurance or similar requirement against assets held by, or deposits or other liabilities in or for the account of, advances or loans by, or other credit extended by, or any other acquisition of funds by, any office of such Lender (except, with respect to LIBOR Loans, to the extent that the reserve requirements are reflected in the definition of "LIBOR"); or

(c) does or shall impose on that Lender any other condition;

and the result of any of the foregoing is to increase the cost to that Lender of making, renewing or maintaining the Loans or the Commitments or to reduce any amount receivable hereunder or thereunder; then, in any such case, the applicable Borrower shall promptly pay to such Lender, upon demand, such additional amounts as are sufficient to compensate such Lender for any such additional cost or reduced amount received.

3.3.2. Capital Requirements - General. If either (i) the introduction of, or any change in, or in the interpretation of, any law or regulation or (ii) compliance with any guideline or request from any central bank or other Governmental Authority (regardless of whether having the force of law), affects or would affect in any way the amount of capital required or expected to be maintained by any Lender or any corporation controlling such Lender with the effect of reducing the rate of return on such capital to a level below the rate that such Lender or such other corporation could have achieved but for such introduction, change or compliance, and such Lender reasonably determines that such reduction is based on the existence of such Lender's Commitments hereunder and other commitments of this type, then upon demand by such Lender, the applicable Borrower shall further pay to such Lender from time to time as specified by such

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Lender such additional amounts as are sufficient to compensate such Lender or other corporation for such reduction.

3.3.3. Breakage Costs - LIBOR Loans. The applicable Borrower shall indemnify and hold each Lender free and harmless from all losses, liabilities and reasonable expenses (including any loss sustained by that Lender in connection with the re-employment of such funds), that such Lender may sustain: (a) if for any reason (other than a default by such Lender or any Agent) a Borrowing of LIBOR Loans does not occur on a date specified therefor in a Notice of Borrowing or a telephonic request for borrowing or a continuation of or conversion to LIBOR Loans does not occur on a date specified therefor in a Notice of Conversion/Continuation or in a telephonic request for conversion/continuation, (b) if any prepayment of any of its LIBOR Loans occurs on a date that is not the last day of an Interest Period, (c) if any prepayment of any of its LIBOR Loans is not made on any date specified in a notice of prepayment given by the applicable Borrower, or (d) as a consequence of any other default by the applicable Borrower to repay its LIBOR Loans when required by the terms of this Agreement.

### 3.3.4. LIBOR Taxes.

(a) The Domestic Borrower shall indemnify and hold each Lender free and harmless from, and shall pay, prior to the date on which penalties attach thereto, all present and future income, stamp and other taxes, levies or costs and charges whatsoever imposed, assessed, levied or collected on or in respect of a Domestic Term Loan, Revolving Loan or Swing Line Loan solely as a result of the interest rate being determined by reference to LIBOR and/or the provisions of this Agreement related to LIBOR and/or the recording, registration, notarization or other formalization of any thereof and/or any payments of principal, interest or other amounts made on or in respect of a Domestic Term Loan, Revolving Loan or Swing Line Loan when the interest rate is determined by reference to LIBOR (all such taxes, levies, costs and charges being herein collectively called "LIBOR

Taxes"); provided, however, that LIBOR Taxes shall not include: taxes imposed on or measured by the overall gross or net income of such Lender or any foreign branch, agency or subsidiary of such Lender by the United States of America or any political subdivision or taxing authority thereof or therein, or taxes on or measured by the overall gross or net income of that Lender or any foreign branch, agency or subsidiary of that Lender by any foreign country or subdivision thereof in which that Lender, branch, agency or subsidiary is doing business. The Domestic Borrower also shall indemnify and hold each Lender free and harmless from, and shall pay such additional amounts equal to, increases in taxes payable by that Lender described in the foregoing proviso that are attributable to payments made by the Domestic Borrower described in the immediately preceding sentence or this sentence. Promptly after the date on which payment of any such LIBOR Tax is due pursuant to applicable law, the Domestic Borrower will, at the request of such Lender, furnish to such Lender evidence, in form and substance satisfactory to such Lender, that the Domestic Borrower has met its obligation under this Section 3.3.4; and the Domestic Borrower will indemnify each Lender against, and reimburse each Lender on demand for, any LIBOR Taxes payable by that Lender. Such Lender shall provide the Domestic Borrower with appropriate receipts

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for any payments or reimbursements made by the Domestic Borrower pursuant to this Section 3.3.4.

(b) The Euro Borrower shall indemnify and hold each Lender free and harmless from, and shall pay, prior to the date on which penalties attach thereto, all present and future income, stamp and other taxes, levies or costs and charges whatsoever imposed, assessed, levied or collected on or in respect of a Euro Term Loan solely as a result of the interest rate being determined by reference to LIBOR and/or the provisions of this Agreement related to LIBOR and/or the recording, registration, notarization or other formalization of any thereof and/or any payments of principal, interest or other amounts made on or in respect of a Euro Term Loan when the interest rate is determined by reference to LIBOR (all such taxes, levies, costs and charges being herein collectively called "LIBOR Taxes"); provided, however, that LIBOR Taxes shall not include: taxes imposed on or measured by the overall gross or net income of such Lender or any foreign branch, agency or subsidiary of such Lender by the United States of America or any political subdivision or taxing authority thereof or therein, or taxes on or measured by the overall gross or net income of that Lender or any foreign branch, agency or subsidiary of that Lender by any foreign country or subdivision thereof in which that Lender, branch, agency or subsidiary is doing business. The Euro Borrower also shall indemnify and hold each Lender free and harmless from, and shall pay such additional amounts equal to, increases in taxes payable by that Lender described in the foregoing proviso that are attributable to payments made by the Euro Borrower described in the immediately preceding sentence or this sentence. Promptly after the date on which payment of any such LIBOR Tax is due pursuant to applicable law, the Euro Borrower will, at the request of such Lender, furnish to such Lender evidence, in form and substance satisfactory to such Lender, that the Euro Borrower has met its obligation under this Section 3.3.4; and the Euro Borrower will indemnify each Lender against, and reimburse each Lender on demand for, any LIBOR Taxes payable by that Lender. Such Lender shall provide the Euro Borrower with appropriate receipts for any payments or reimbursements made by the Euro Borrower pursuant to this Section 3.3.4.

3.3.5. Notice of Increased Costs; Payment. Each Lender will promptly notify the Administrative Agent (with a copy to the applicable Borrower) of any event of which it has knowledge, occurring after the date hereof, that entitles such Lender to compensation, reimbursement or indemnity pursuant to this Section 3.3 or Section 3.4, and shall furnish to the Administrative Agent (with a copy to the applicable Borrower) a certificate of such Lender claiming compensation, reimbursement or indemnity under this Section 3.3 or Section 3.4, setting forth in reasonable detail the additional amount or amounts to be paid to it hereunder if not theretofore paid by the Domestic Borrower or Euro Borrower, as applicable, as provided in Section 3.4 (which certificate shall be presumed correct and binding in the absence of manifest error). In determining such amount, such Lender may use any reasonable averaging, attribution or allocation methods. Subject to the provisions of the last sentence of this Section 3.3.5, within fifteen (15) days following receipt of such notice, the Domestic Borrower or Euro Borrower, as applicable, shall pay to the Administrative Agent, for distribution to such Lender the amount shown to be due and payable by such certificate. If any Lender fails to give such notice in accordance with this Section 3.3.5 within one hundred twenty (120) days after it first obtains knowledge of such an event, such Lender shall not be entitled to such compensation,

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reimbursement or indemnity attributable to the period beginning one hundred twenty (120) days after it first obtains such knowledge and ending on the date such notice is given.

#### 3.4. Taxes.

3.4.1. Taxes Generally. Any and all payments by the Borrower, any Guarantor or NN Italy hereunder or under the Notes or the other Loan Documents shall be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect to such payments (including interest, additions to tax and penalties thereon), excluding, in the case of each Lender and each Agent, (i) taxes imposed on or measured by its net income or, in the State of Tennessee or Georgia, as applicable, net assets, and franchise taxes imposed on it, by the jurisdiction of such Lender's Lending Office or any political subdivision or taxing authority thereof, and (ii) withholding taxes that are the subject of Sections 3.4.2 through 3.4.5. If Borrower, any Guarantor or NN Italy shall be required by law to deduct any such taxes from or in respect of any sum payable hereunder or under any Note or any other Loan Document to any Lender or any Agent, (a) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 3.4) such Lender or such Agent (as the case may



be) shall receive an amount equal to the sum it would have received had no such deductions been made, and (b) the Domestic Borrower or the Euro Borrower, as applicable, shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law. If and to the extent that any Lender subsequently shall be refunded or otherwise recover all or any part of any such deduction, it shall refund to the Domestic Borrower or the Euro Borrower, as applicable, the amount so recovered.

3.4.2. Withholding Tax Exemption. If any Lender is a "foreign corporation" within the meaning of the Code, such Lender shall deliver to the Agents either: (a) if such Lender qualifies for an exemption from or a reduction of United States withholding tax under a tax treaty, a properly completed and executed Internal Revenue Service Form W-8BEN before the payment of any interest is due in the first calendar year and in each third succeeding calendar year during which interest may be paid under this Agreement, or (b) if such Lender qualifies for an exemption for interest paid under this Agreement from United States withholding tax because it effectively is connected with a United States trade or business of such Lender, two properly completed and executed copies of Internal Revenue Service Form W-8ECI before the payment of any interest is due in the first taxable year of such Lender, and in each succeeding taxable year of such Lender, during which interest may be paid under this Agreement, and (c) such other form or forms as may be required or reasonably requested by the Agents to establish or substantiate exemption from, or reduction of, United States withholding tax under the Code or other laws of the United States. Each such Lender agrees to notify the Agents of any change in circumstances that would modify or render invalid any claimed exemption or reduction.

3.4.3. Withholding Taxes. If any Lender is entitled to a reduction in the applicable withholding tax, the Administrative Agent or the Euro Loan Agent, as applicable, may withhold from any interest payment to such Lender an amount equivalent to the applicable withholding tax after taking into account such reduction. If the forms or other documentation required by Section 3.4.2 are not delivered to the Administrative Agent or the Euro Loan Agent,

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as the case may be, then the applicable Agent may withhold from any interest payment to any Lender not providing such forms or other documentation, an amount equivalent to the applicable withholding tax.

3.4.4. Indemnification. If the Internal Revenue Service or any authority of the United States or other jurisdiction asserts a claim that any Agent did not properly withhold tax from amounts paid to or for the account of any Lender (because the appropriate form was not delivered or was not properly executed, or because such Lender failed to notify such Agent of a change in circumstances that rendered the exemption from or reduction of withholding tax ineffective, or for any other reason) such Lender shall indemnify such Agent fully for all amounts paid, directly or indirectly, by such Agent as tax or otherwise, including penalties and interest, together with all expenses incurred, including legal expenses, allocated staff costs and any out-of-pocket expenses.

3.4.5. Subsequent Lenders. If any Lender sells, assigns, grants participations in or otherwise transfers its rights under this Agreement, the participant shall comply and be bound by the terms of Sections 3.4.2, 3.4.3 and 3.4.4 as though it were such Lender.

3.5. Booking of Loans. Any Lender may make, carry or transfer Loans at, to or for the account of, any of its branch or agency offices, provided, however, that in the event that any Lender transfers its Loans to another branch or agency office in a transaction that does not involve the transfer by such Lender of any of its other loans to such branch or agency office, such Lender shall not be entitled to reimbursement for additional costs or taxes with respect to such Loans pursuant to Section 3.3 or Section 3.4 if the Borrower would be subject to additional liability under Section 3.3 or Section 3.4 to which it would not be subject if such Lender's Loans were maintained at the office at which such Loans were carried prior to such transfer.

The Borrower acknowledges and agrees that (a) each Lender's method of funding its Loans hereunder shall be in the sole discretion of such Lender, so long as such funding complies with all applicable requirements of this Agreement, and (b) for purposes of any determination to be made pursuant to Sections 2.11.4 or 3.3.5 of this Agreement, each Lender shall be presumed conclusively to have funded its LIBOR Loans with the proceeds of Dollar deposits obtained by such Lender in the interbank Eurodollar market.

#### ARTICLE 4.

##### SECURITY

4.1. Initial Security. The Obligations of the Borrower shall be secured by the Domestic Pledge Agreement, the Domestic Stock Pledge Agreement, the Irish Pledge Agreement and the Italian Guaranty, and the Euro Obligations shall be secured by the Euro Pledge Agreement and the Euro Stock Pledge Agreement.

4.2. Further Assurances. The Borrower and the Guarantors shall, and shall cause each of their respective Subsidiaries to, at their sole cost and expense, execute and deliver to

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the Administrative Agent and the Lenders all such further documents, instruments and agreements and perform all such other acts that reasonably may be required in the opinion of the Administrative Agent to enable the Administrative Agent and the Lenders to exercise and enforce their respective rights as the secured parties under the Security Documents and to carry out the provisions or effectuate the purposes of this Agreement and the other Loan Documents. To the extent permitted by applicable law, the Borrower and the Guarantors hereby authorize the Administrative Agent on behalf of itself and the Lenders to file Financing Statements and continuation statements with respect to the security interests granted or assigned under the Security Documents and to execute such Financing Statements and continuation statements on behalf of the Borrower, the Guarantors and their respective Subsidiaries. The Administrative Agent shall furnish to the Borrower, the Guarantors and their respective Subsidiaries copies of all such Financing Statements and continuation statements filed by the Administrative Agent on behalf of the Lenders pursuant to this Section 4.2.

#### ARTICLE 5.

##### GUARANTY

5.1. Guaranty.

(a) Each of the Guarantors hereby unconditionally and irrevocably, jointly and severally, guarantees to the Agents and the Lenders the due and punctual payment and performance of all of the Euro Obligations, in each case as and when the same shall become due and payable, whether at maturity, by acceleration, mandatory prepayment or otherwise, according to their terms. In case of failure by a Principal Obligor of any Euro Obligation punctually to pay or perform such Euro Obligation, each of the Guarantors hereby unconditionally and irrevocably agrees to cause such payment to be made punctually as and when the same shall become due and payable, whether at maturity, by prepayment, declaration or otherwise, and to cause such performance to be rendered punctually as and when due, in the same manner as if such payment or performance were made by such Principal Obligor. This guaranty is and shall be a guaranty of payment and performance and not merely of collection.

(b) Each of the Domestic Guarantors hereby unconditionally and irrevocably, jointly and severally, guarantees to the Agents and the Lenders the due and punctual payment and performance of all of the Domestic Obligations, in each case as and when the same shall become due and payable, whether at maturity, by acceleration, mandatory prepayment or otherwise, according to their terms. In case of failure by a Principal Obligor of any Domestic Obligation punctually to pay or perform such Domestic Obligation, each of the Domestic Guarantors hereby unconditionally and irrevocably agrees to cause such payment to be made punctually as and when the same shall become due and payable, whether at maturity, by prepayment, declaration or otherwise, and to cause such performance to be rendered punctually as and when due, in the same manner as if such payment or performance were made by such Principal Obligor. This guaranty is and shall be a guaranty of payment and performance and not merely of collection.

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5.2. Maximum Guaranty Liability.

(a) Except with respect to the Domestic Borrower, each Guarantor's respective obligations hereunder and under the other Loan Documents shall be in an amount equal to, but not in excess of, the maximum liability permitted under Applicable Bankruptcy Law (the "**Maximum Guaranty Liability**"). To that end, but only to the extent such obligations otherwise would be subject to avoidance under Applicable Bankruptcy Law if any Guarantor (other than the Domestic Borrower) is deemed not to have received valuable consideration, fair value or reasonably equivalent value for its obligations hereunder or under the other Loan Documents, each such Guarantor's respective obligations hereunder and under the other Loan Documents shall be reduced to that amount which, after giving effect thereto, would not render such Guarantor insolvent, or leave such Guarantor with an unreasonably small capital to conduct its business, or cause such Guarantor to have incurred debts (or to be deemed to have intended to incur debts), beyond its ability to pay such debts as they mature, at the time such obligations are deemed to have been incurred under Applicable Bankruptcy Law. As used herein, the terms "insolvent" and "unreasonably small capital" likewise shall be determined in accordance with Applicable Bankruptcy Law. This Section 5.2 is intended solely to preserve the rights of the Lenders and the Agents hereunder and under the other Loan Documents to the maximum extent permitted by Applicable Bankruptcy Law, and neither the Guarantors nor any other Person shall have any right or claim under this Section 5.2 that otherwise would not be available under Applicable Bankruptcy Law.

(b) Each Guarantor (other than the Domestic Borrower) agrees that the Guaranteed Obligations at any time and from time to time may exceed the Maximum Guaranty Liability of such Guarantor, and may exceed the aggregate Maximum Guaranty Liability of all Guarantors hereunder, without impairing this Guaranty or affecting the rights and remedies of the Lenders and the Agents hereunder.

(c) Without limiting the foregoing, the maximum amount of NN Ireland's liability hereunder shall be the sum of (i) the aggregate principal amount of any advances made by any Borrower or Subsidiary to NN Ireland which are used exclusively for the purposes of NN Ireland's business operations in Ireland, (ii) interest with respect to such amount and (iii) any and all expenses incurred by the Administrative Agent or the Lenders in endeavoring to collect and/or enforce the obligations of NN Ireland under this Agreement.

5.3. Contribution.

(a) In the event any Guarantor or NN Italy (a "**Funding Guarantor**") shall make any payment or payments under this Guaranty or under the Italian Guaranty with respect to the Guaranteed Euro Obligations, or shall suffer any loss as a result of any realization upon any of its property granted as Euro Collateral under any Loan Document, each other Guarantor (each, a "**Contributing Guarantor**") shall contribute to such Funding Guarantor an amount equal to such Contributing Guarantor's "**Pro Rata Share**" of such

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payment or payments made, or losses suffered, by such Funding Guarantor. For the purposes hereof, each Contributing Guarantor's Pro Rata Share with respect to any such payment or loss by a Funding Guarantor shall be determined as of the date on which such payment or loss was made by reference to the ratio of (a) such Contributing Guarantor's Maximum Guaranty Liability as of such date (without giving effect to any right to receive, or obligation to make, any contribution hereunder) to (b) the aggregate Maximum Guaranty Liability of all Guarantors and NN Italy (including such Funding Guarantor) as of such date (without giving effect to any right to receive, or obligation to make, any contribution hereunder). Nothing in this Section 5.3 shall affect each Guarantor's several liability for the entire amount of the Guaranteed Euro Obligations (up to such Guarantor's Maximum Guaranty Liability). Each Guarantor covenants and agrees that its right to receive any contribution hereunder from a Contributing Guarantor shall be subordinate and junior in right of payment to all the Guaranteed Euro Obligations.

(b) In the event any Domestic Guarantor or NN Italy (a "**Funding Domestic Guarantor**") shall make any payment or payments under this Guaranty or under the Italian Guaranty with respect to the Guaranteed Domestic Obligations or shall suffer any loss as a result of

any realization upon any of its property granted as Domestic Collateral under any Loan Document, each other Domestic Guarantor (each, a "Contributing Domestic Guarantor") shall contribute to such Funding Domestic Guarantor an amount equal to such Contributing Domestic Guarantor's "Pro Rata Share" of such payment or payments made, or losses suffered, by such Funding Domestic Guarantor. For the purposes hereof, each Contributing Domestic Guarantor's Pro Rata Share with respect to any such payment or loss by a Funding Domestic Guarantor shall be determined as of the date on which such payment or loss was made by reference to the ratio of (a) such Contributing Domestic Guarantor's Maximum Guaranty Liability as of such date (without giving effect to any right to receive, or obligation to make, any contribution hereunder) to (b) the aggregate Maximum Guaranty Liability of all Domestic Guarantors and NN Italy (including such Funding Domestic Guarantor) as of such date (without giving effect to any right to receive, or obligation to make, any contribution hereunder). Nothing in this Section 5.3 shall affect each Domestic Guarantor's several liability for the entire amount of the Guaranteed Domestic Obligations (up to such Domestic Guarantor's Maximum Guaranty Liability). Each Domestic Guarantor covenants and agrees that its right to receive any contribution hereunder from a Contributing Domestic Guarantor shall be subordinate and junior in right of payment to all the Guaranteed Domestic Obligations.

5.4. Guaranty Unconditional. The obligations of each Guarantor under this Article 5 shall be continuing, unconditional and absolute and, without limiting the generality of the foregoing, shall not be released, discharged or otherwise affected by:

(a) any extension, renewal, settlement, compromise, waiver or release in respect of any Obligation of the Borrower under this Agreement or any other Loan Document, by operation of law or otherwise;

(b) any modification or amendment or supplement to this Agreement or any other Loan Document;

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(c) any modification, amendment, waiver, release, non-perfection or invalidity of any direct or indirect security, or of any guaranty or other liability of any third party, for any Obligation of the Borrower under this Agreement or any other Loan Document;

(d) any change in the existence, structure or ownership of the Borrower, any Guarantor or NN Italy, or any insolvency, bankruptcy, reorganization or other similar case or proceeding affecting the Borrower, any Guarantor, NN Italy or any of their respective assets, or any resulting release or discharge of any Obligation of the Borrower under this Agreement or any other Loan Document;

(e) the existence of any claim, set-off or other right that any Guarantor or NN Italy at any time may have against the Borrower, the Agents, any Lender or any other Person, regardless of whether arising in connection with this Agreement or any other Loan Document;

(f) any invalidity or unenforceability relating to or against the Borrower for any reason of the whole or any provision of this Agreement or any other Loan Document or any provision of Applicable Bankruptcy Law purporting to prohibit the payment or performance by the Borrower of any Obligation, or the payment by the Borrower of any other amount payable by it under this Agreement or any other Loan Document; or

(g) any other act or omission to act or delay of any kind by the Borrower, the Agents, any Lender or any other Person or any other circumstance whatsoever that might but for the provisions of this Section 5.4 constitute a legal or equitable discharge of the obligations of any Guarantor under this Article 5.

5.5. Discharge Only Upon Payment in Full; Reinstatement in Certain Circumstances. Each Guarantor's obligations under this Article 5 shall remain in full force and effect so long as any Obligations are unpaid, outstanding or unperformed or any of the Commitments are in effect. If at any time any payment of the Obligations or any other amount payable by the Borrower under this Agreement or the other Loan Documents is rescinded or otherwise must be restored or returned upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, each Guarantor's obligations under this Article 5 with respect to such payment shall be reinstated at such time as though such payment had become due but not been made at such time.

5.6. Waiver. Each Guarantor irrevocably waives acceptance hereof, presentment, demand, protest, notice of any breach or default by the Borrower and any other notice not specifically provided for herein, as well as any requirement that at any time any action be taken by any Person against the Borrower or any other Person or any Collateral granted as security for the Obligations or the Guaranteed Obligations. Each Guarantor hereby specifically waives any right to require that an action be brought against the Borrower or any other Principal Obligor with respect to the Obligations under the provisions of Title 47, Chapter 12, Tennessee Code Annotated, as the same may be amended from time to time.

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5.7. Waiver of Reimbursement, Subrogation, Etc. Each Guarantor hereby waives to the fullest extent possible as against the Borrower and its assets any and all rights, whether at law, in equity, by agreement or otherwise, to subrogation, indemnity, reimbursement, contribution, exoneration or any other similar claim, right, cause of action or remedy that otherwise would arise out of such Guarantor's performance of its obligations to any Agent or any Lender under this Article 5. The preceding waiver is intended by the Guarantors, the Agents and the Lenders to be for the benefit of the Borrower or any of its successors and permitted assigns as an absolute defense to any action by any Guarantor against the Borrower or its assets that arises out of such Guarantor's having made any payment to the any Agent or any Lender with respect to any of the Guaranteed Obligations.

5.8. Stay of Acceleration. If acceleration of the time for payment of any amount payable by the Borrower under this Agreement is stayed upon the insolvency, bankruptcy or reorganization of the Borrower, all such amounts otherwise subject to acceleration under the terms of this Agreement shall nonetheless be payable by the Guarantors hereunder forthwith on demand by the Administrative Agent as directed by Requisite Lenders.

5.9. Subordination of Indebtedness. Any indebtedness of the Borrower for borrowed money now or hereafter owed to any Guarantor is hereby subordinated in right of payment to the payment by the Borrower of the Obligations, and if a default in the payment of the Obligations shall have occurred and be continuing, any such indebtedness of the Borrower owed to any Guarantor, if collected or received by such Guarantor, shall be held in trust by such Guarantor for the holders of the Obligations and be paid over to the Administrative Agent for application in accordance with this Agreement and the other Loan Documents.

5.10. Certain Releases. Provided that no Default has occurred and is continuing or would result therefrom:

(a) in the event that any asset sale permitted under Section 9.3(d) consists in whole or in part of the sale of all of the capital stock of (or other ownership interests in) a Subsidiary that is owned by the Borrower or any other Subsidiary of the Borrower, upon the request of the Borrower the Administrative Agent shall release the Subsidiary whose stock (or other ownership interests) has (have) been sold from any duties and obligations to the Lenders pursuant to this Agreement and the other Loan Documents to which such Subsidiary may be a party, provided that at the times of such request and release any Indebtedness evidenced by a Pledged Note made by such Subsidiary has been fully satisfied; and

(b) in connection with any other asset sale permitted under Section 9.3(d), upon the request of the Borrower the Administrative Agent shall execute and deliver any instruments reasonably required to release the assets sold from the Liens of the Loan Documents.

5.11. Third Party Beneficiary. Notwithstanding anything herein to the contrary, NN Italy shall have all of the rights, benefits and entitlements set forth in Section 5.3 hereof as a third party beneficiary.

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## ARTICLE 6.

### CONDITIONS PRECEDENT

6.1. Conditions Precedent to Initial Loans. The effectiveness of this Agreement and the obligations of the Lenders to make the Loans are all subject to the satisfaction by the Borrower, the Guarantors and their respective Subsidiaries, to the extent not waived by the Lenders, of the following conditions precedent:

6.1.1. Deliveries to the Administrative Agent. The Administrative Agent shall have received, for the ratable benefit of each Lender (and in such number of original counterparts or copies as the Administrative Agent reasonably may specify), each of the following, in form and substance satisfactory to the Administrative Agent, the Lenders and their respective counsel:

(a) Agreement. Counterpart originals of this Agreement, each duly and validly executed and delivered by or on behalf of all the appropriate parties thereto;

(b) Notes. The Notes, each duly and validly executed and delivered on behalf of the Domestic Borrower and the Euro Borrower, as applicable;

(c) Security Documents. The Pledge Agreements, the Stock Pledge Agreements, the Italian Guaranty and other Security Documents, each duly and validly executed and delivered by or on behalf of all the appropriate parties thereto;

(d) Pledged Notes. The Pledged Notes, together with appropriate instruments of assignment attached thereto, duly endorsed in blank by the Domestic Borrower or the Euro Borrower, as applicable, or the appropriate Guarantor, as the case may be;

(e) Organizational Documents. Copies of the charters, articles or certificates of incorporation or other organizational documents of the Borrower, each Guarantor and NN Italy, certified by the Secretary of State or other appropriate public official in each jurisdiction of organization, all in form and substance satisfactory to the Lenders;

(f) Bylaws and Operating Agreements. Copies of the bylaws or operating agreements, as the case may be, and all amendments thereto, of the Borrower, each Guarantor and NN Italy, together with certificates of the respective Secretaries or Assistant Secretaries of the Borrower, each Guarantor and NN Italy, dated the date hereof, stating that such copy is complete and correct;

(g) Good Standing and Authority. Certificates of the appropriate governmental officials of each jurisdiction as the Administrative Agent reasonably may request, dated within thirty (30) days of the date hereof, stating that the Borrower, each Guarantor and NN Italy exist, and are in good standing with respect to the payment of franchise and similar taxes and are duly qualified to transact business therein;

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(h) Incumbency. Certificates of the respective Secretaries or Assistant Secretaries of the Borrower, each of the Guarantors and NN Italy, dated the date hereof, as to the incumbency and signature of all officers of the Borrower, such Guarantor or NN Italy authorized to execute or attest to this Agreement, the Notes and the other Loan Documents to which the Borrower, each such Guarantor, or NN Italy is a party, together with evidence of the incumbency of each such Secretary or Assistant Secretary;

(i) Resolutions. With respect to the Borrower, each of the Guarantors and NN Italy (i) copies of the resolutions authorizing, approving and ratifying this Agreement, the Notes, the Security Documents and the other Loan Documents and the transactions contemplated herein and therein, duly adopted by the respective boards of directors or other managers of the Borrower, each of the Guarantors and NN Italy, together with (ii) certificates of the respective Secretaries or Assistant Secretaries of the Borrower, each of the Guarantors and NN Italy, dated the date hereof, stating that each such copy is a true and correct copy of resolutions duly adopted at a meeting, or by action taken on written consent, of the board of directors or other managers of the Borrower, such Guarantor or NN Italy, and that such resolutions have not been modified, amended,

rescinded or revoked in any respect and are in full force and effect as of the date hereof;

(j) Legal Opinions of the Borrower's, Guarantors' and NN Italy's Counsel. The favorable legal opinion of Messrs. Blackwell Sanders Peper Martin LLP, counsel to the Borrower, the Guarantors and NN Italy, dated the date hereof, and addressed to the Administrative Agent and the Lenders, substantially in the form of Exhibit 6.1.1A and such other opinions of counsel as the Administrative Agent may reasonably require;

(k) Officer's Certificate. A certificate of a Responsible Officer of the Borrower, each of the Guarantors and NN Italy, dated the date hereof, stating that (i) each of the representations and warranties contained in Article 7 is true and correct at and as of the date hereof with the same force and effect as if made on such date, (ii) all obligations, covenants, agreements and conditions contained in this Agreement to be performed or satisfied by the Borrower or such Guarantor on or prior to the date hereof have been performed or satisfied in all respects, (iii) since December 31, 2002, there has been no Material Adverse Change, and (iv) no Default has occurred and is continuing, and in addition setting forth in such detail as shall be required by the Lenders calculations of the financial ratios and covenants contained in this Agreement showing that as of the date hereof and after giving effect to the transactions that are the subject hereof the Borrower, the Guarantors and NN Italy are in compliance with Article 10;

(l) Solvency Certificates. (i) A solvency certificate of a Responsible Officer of each Borrower, in substantially the form of Exhibit 6.1.1B hereto, and (ii) a solvency certificate of the Responsible Officer of each Guarantor and NN Italy, in substantially the form of Exhibit 6.1.1C (collectively, the "Solvency Certificates");

(m) Consents. Evidence that the Borrower, each Guarantor and NN Italy have obtained all requisite consents and approvals required to be obtained from any Person to permit

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the transactions contemplated by this Agreement, the Notes and the other Loan Documents to be consummated in accordance with their respective terms and conditions (other than consent from Bayerische Hypo-und Vereinsbank AG, whose credit arrangement with the Borrower will be fully repaid and terminated simultaneously with the closing of the transactions evidenced hereby);

(n) Purchase of Euro Borrower Interests. The Administrative Agent shall have approved in all respects the acquisition agreement and all other documentation in connection with the purchase by the Domestic Borrower of all shares of the Euro Borrower held by SKF;

(o) Purchase of SKF Tapered Roller Operation. The Administrative Agent shall have approved in all respects the acquisition agreement and all other documentation in connection with the SKF-Veenendaal Acquisition;

(p) Lien Search Reports. Lien search reports from a search firm acceptable to the Administrative Agent, identifying all of the financing statements or other evidence of liens on file with respect to the Borrower, the Guarantors and NN Italy in all jurisdictions required by the Administrative Agent;

(q) Recordings and Filings. (1) Acknowledgment copies of Financing Statements duly filed under the UCC or other evidence of Liens required to be filed under applicable laws in all jurisdictions necessary or, in the opinion of the Administrative Agent, desirable to perfect the security interests created by the Security Documents, (2) lien search reports from a search firm acceptable to the Administrative Agent, identifying all of the financing statements on file with respect to the Borrower in all jurisdictions referred to under the preceding item (1), indicating that no Person claims an interest in any of the Collateral described in such Financing Statements, and (3) evidence of the public recording or filing of such of the Security Documents as the Administrative Agent deems it necessary or desirable to record or file publicly, in such offices as the Administrative Agent shall require, together with evidence satisfactory to the Administrative Agent of the priority of the Liens of such Security Documents;

(r) Pledged Ownership Interest. (1) A binding agreement from Bayerische Hypo-und Vereinsbank AG to release and deliver to the Administrative Agent the certificates evidencing the ownership interests pledged pursuant to the Stock Pledge Agreements (to the extent such ownership interests are represented by certificates immediately after the consummation of the transaction evidenced hereby), and (2) an appropriate stock power for each certificate, as applicable, duly executed in blank by the Domestic Borrower or the Euro Borrower, as the case may be; and

(s) Other Matters. All other documents, instruments, agreements, opinions, certificates, insurance policies, consents and evidences of other legal matters, in form and substance satisfactory to the Administrative Agent and its counsel, as the Administrative Agent reasonably may request.

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6.1.2. Compliance with Laws. The Borrower, the Guarantors and their respective Subsidiaries shall not be in violation of, and shall not have received notice of any violation of, any applicable Requirement of Law, including any building, zoning, occupational safety and health, fair employment, equal opportunity, pension, environmental control, health care, certificate of need, health care facility licensing or similar federal, state or local law, ordinance or regulation, relating to the ownership or operation of its business or assets, if such violation or non-compliance could have a Material Adverse Effect, and if requested by the Administrative Agent the Borrower, the Guarantors or their respective Subsidiaries shall have furnished to the Administrative Agent and the Lenders copies of all required approvals (including required operating licenses and permits) of any Governmental Authority.

6.1.3. No Material Adverse Change. Since December 31, 2002, no Material Adverse Change (as determined by the Administrative Agent and the Lenders in their sole discretion) shall have occurred.

6.1.4. No Material Misrepresentation. No material misrepresentation or omission shall have been made by or on behalf of the Borrower, any Guarantor or NN Italy to the Administrative Agent or the Lenders with respect to the Borrower's, such Guarantor's or NN Italy's business operations or financial or other condition.

6.1.5. Legal Proceedings. Except as set forth on Schedule 7.6, no action, suit, proceeding or investigation shall be pending before or threatened by any court or Governmental Authority with respect to the transactions contemplated hereby or that may have a Material Adverse Effect (as determined by the Administrative Agent and the Lenders, in their sole discretion).

6.1.6. Subordinated Indebtedness. If requested by the Administrative Agent, any creditor holding Subordinated Indebtedness shall have entered into an intercreditor and subordination agreement with the Administrative Agent in form and substance reasonably satisfactory to the Lenders and consistent with the definition of Subordinated Indebtedness set forth herein.

6.2. Conditions Precedent to All Loans. The obligations of each of the Lenders to make any Loans (including Loans used to refinance or repay other Loans) on any date (including the date hereof) are subject to the satisfaction of the conditions set forth below in this Section 6.2. Each request for Loans hereunder shall constitute a representation and warranty by the Borrower to the Administrative Agent and each Lender, as of the date of the making of such Loans, that the conditions in this Section 6.2 have been satisfied.

6.2.1. Satisfaction of Conditions Precedent to Initial Loans. The conditions precedent set forth in Section 6.1 shall have been satisfied.

6.2.2. Representations and Warranties. The representations and warranties of the Borrower, the Guarantors and NN Italy set forth in this Agreement, the Notes and the other Loan Documents, as applicable, and in any certificate, opinion or other statement provided at any time by or on behalf of the Borrower, any Guarantor or NN Italy in connection herewith shall be true

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and correct on and as of the date of the making of such Loans as if made on and as of such date, except to the extent that a representation or warranty is made as of a specific date, in which event such representation or warranty shall remain true and correct as of such earlier date, and except to the extent that a representation or warranty is no longer correct by virtue of changes permitted by the terms of this Agreement.

6.2.3. No Default. No Default shall have occurred and be continuing on the date of the requested Borrowing or after giving effect to such Borrowing.

6.2.4. No Violations. No law or regulation shall prohibit the making of the requested Loan and no order, judgment or decree of any court or Governmental Authority shall, and no litigation shall be pending that in the judgment of the Administrative Agent or Requisite Lenders would, enjoin, prohibit or restrain any Lender from making a requested Loan.

6.2.5. Proceedings Satisfactory. All proceedings in connection with the making of any Loan, and the other transactions contemplated by this Agreement, the Loan Documents and all documents incidental thereto shall be satisfactory to the Administrative Agent, and the Administrative Agent shall have received all such information and such counterpart originals or certified or other copies of such documents as the Administrative Agent reasonably may request.

## ARTICLE 7.

### REPRESENTATIONS AND WARRANTIES

In order to induce the Administrative Agent and the Lenders to enter into this Agreement, to make the Loans and to provide the other financial accommodations provided for herein, the Borrower and each of the Guarantors hereby make the following representations and warranties to the Administrative Agent and each Lender:

#### 7.1. Existence and Power.

(a) The Borrower, each of the Guarantors and each of their respective Subsidiaries are entities of the type designated on Schedule 7.1 and are duly organized, validly existing and in good standing under the laws of the jurisdiction indicated next to the name of such entity on Schedule 7.1. The Borrower, each of the Guarantors and each of their respective Subsidiaries have the power, authority and legal right to own and operate their respective properties and assets, to lease the properties and assets they operate under lease and to carry on their respective businesses as they are now being conducted and intended to be conducted, and are duly qualified to transact business in, and in good standing under the laws of, each jurisdiction in which their ownership, lease or operation of property or the conduct of their respective businesses requires such qualification, except to the extent that failure to qualify to transact business will not have a Material Adverse Effect.

(b) Euro Borrower is unable to become a party to this Agreement as a Domestic Guarantor or as an Additional Domestic Guarantor because the law of the

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jurisdiction of its organization prohibits the Euro Borrower from guaranteeing the Indebtedness of or granting loans to the Domestic Borrower.

7.2. Authorization and Enforceability of Obligations. The Borrower, each of the Guarantors and each of their respective Subsidiaries (a) have the power, authority and legal right to enter into this Agreement and such of the Loan Documents to which each is a party and to enter into and perform their respective obligations hereunder and thereunder, and (b) have taken all necessary action on the part of each to authorize the execution and delivery of such documents, instruments and agreements and the performance of their respective obligations hereunder and thereunder. This Agreement, the Notes and the other Loan Documents have been duly executed and delivered on behalf of the Borrower, each of the Guarantors and such of their respective Subsidiaries as

are parties to such Loan Documents, and constitute legal, valid and binding obligations, enforceable against the Borrower, the Guarantors and their respective Subsidiaries as are parties hereto or thereto in accordance with their respective terms.

7.3. No Consents. Except as set forth on Schedule 7.3, all necessary consents, approvals and authorizations of, filings with and acts by or with respect to all Governmental Authorities and other Persons required to be obtained, made or taken in connection with the execution, delivery, performance, validity or enforceability of this Agreement, the Notes and the other Loan Documents, or otherwise in connection with the transactions contemplated hereby, have been obtained, made or taken and remain in effect. 7.4. No Conflict. Except as set forth on Schedule 7.4, the execution and delivery of this Agreement, the Notes and the other Loan Documents, the transactions contemplated hereby, the use of the proceeds of the Loans and the performance by the Borrower, the Guarantors and such of their respective Subsidiaries as are parties to the Loan Documents of their respective obligations hereunder and thereunder (a) do not conflict with or violate any Requirement of Law or any Contractual Obligation of the Borrower, such Guarantor or such Subsidiary, except to the extent that any such violation or conflict will not have a Material Adverse Effect, and (b) do not conflict with, constitute a default or require any consent under, or result in the creation of any Lien upon any property or assets of the Borrower, such Guarantor or such Subsidiary pursuant to any Contractual Obligation of the Borrower, such Guarantor or such Subsidiary (other than Liens in favor of the Administrative Agent and the Lenders), except to the extent that any such conflict or default or the failure to obtain any necessary consent will not have a Material Adverse Effect.

7.5. Financial Statements; Projections; Solvency.

(a) The consolidated balance sheet of the Domestic Borrower and its Subsidiaries as of December 31, 2002, and the related consolidated statements of income, shareholders' equity and cash flows for the Fiscal Year then ended, together with the opinion of KPMG LLP with respect thereto, and together with the unaudited consolidating balance sheet of the Domestic Borrower and its Subsidiaries as of the end of such Fiscal Year and the unaudited consolidating statement of income of the Domestic Borrower and its Subsidiaries for such Fiscal Year, copies of all of which have been furnished to the Administrative Agent, are complete and correct and fairly present the assets, liabilities and consolidated financial position of the Domestic Borrower and its

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Subsidiaries as at such date and the consolidated results of their operations and their cash flows for the Fiscal Year then ended.

(b) The financial statements described in the preceding paragraph (a), including the related schedules and notes thereto, have been prepared in conformity with GAAP applied consistently throughout the periods involved. Neither the Borrower nor any of its Subsidiaries has any material indebtedness, obligation or other unusual forward or long-term commitment that is not fairly reflected in the foregoing financial statements or in the notes thereto.

(c) In the opinion of the management of the Domestic Borrower, the assumptions used in the preparation of the Projections were reasonable when made and as of December 3, 2002. The Projections were prepared in good faith by executive and financial personnel of the Domestic Borrower in light of the historical financial performance and the financial and operating condition of the Domestic Borrower and its Subsidiaries at the time prepared and, in the opinion of the management of the Domestic Borrower and the Guarantors, represented, as of December 3, 2002, a reasonable estimate of the future performance and financial condition of the Domestic Borrower and its Subsidiaries for the periods included therein, subject to the uncertainties and approximations inherent in the making of any financial projections and without assurance that the projected performance and financial condition actually will be achieved.

(d) After giving effect to the consummation of the transactions contemplated by this Agreement, the making of Loans hereunder and the incurrence by the Domestic Borrower and the Guarantors of the obligations incurred by each pursuant to this Agreement, each of the Domestic Borrower, the Guarantors and their respective Subsidiaries is Solvent.

7.6. Absence of Litigation. Except as otherwise set forth in Schedule 7.6, there are no actions, suits, proceedings or other litigation (including proceedings by or before any arbitrator or Governmental Authority) pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower, the Guarantors or any of their respective Subsidiaries, nor to the knowledge of the Borrower and the Guarantors is there any basis therefor, (a) that challenge the validity or propriety of the transactions contemplated hereby, or (b) that reasonably can be expected to be adversely determined and, if adversely determined, to have a Material Adverse Effect, either individually or in the aggregate.

7.7. No Default. Neither the Borrower nor any Guarantor nor any of their respective Subsidiaries is in default (nor has any event occurred that with notice or lapse of time or both would constitute a default) under any Contractual Obligation of the Borrower, any Guarantor or any of their respective Subsidiaries, if such default or event could have a Material Adverse Effect. No Default has occurred and is continuing.

7.8. Security Documents. The Security Documents create in favor of the Administrative Agent for the ratable benefit of the Lenders valid, perfected security interests in the Collateral subject to no Liens other than Permitted Liens. The security interests granted in favor of the Administrative Agent as contemplated by this Agreement and the Security

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Documents do not constitute a fraudulent conveyance under the federal Bankruptcy Code or any applicable state law.

7.9. Capitalization. The capitalization of the Borrower, the Guarantors and their respective Subsidiaries consists of such number of shares or other ownership interests, authorized, issued and outstanding, of such classes and series, with or without such par value, as are set forth in Schedule 7.1. All such outstanding shares or other ownership interests, have been duly authorized and validly issued and are fully paid and nonassessable. There are no outstanding stock purchase warrants, subscriptions, options, securities, instruments or other rights of any type or nature whatsoever that are convertible into, exchangeable for or otherwise provide for the issuance of capital stock or other ownership interests, of the Borrower, any Guarantor or

any of their respective Subsidiaries, except as described in Schedule 7.1.

7.10. Taxes. The Borrower, the Guarantors and their respective Subsidiaries have filed all tax returns that were required to be filed in any jurisdiction and have paid all taxes shown thereon to be due or otherwise due upon the Borrower, the Guarantors, their respective Subsidiaries or their respective properties, income or franchises, including interest, assessments, fees and penalties, or have provided adequate reserves for the payment thereof. To the knowledge of the Borrower and the Guarantors, no claims are threatened, pending or being asserted with respect to, or in connection with, any return referred to in this Section 7.10 that, if adversely determined, could have a Material Adverse Effect.

7.11. No Burdensome Restrictions. No Contractual Obligation or Requirement of Law relating to or otherwise affecting the Borrower, any Guarantor, any of their respective Subsidiaries or any of the respective properties, businesses or operations thereof has had or, insofar as the Borrower or any of the Guarantors reasonably may foresee is likely to have, a Material Adverse Effect.

7.12. Judgments. There are no outstanding or unpaid judgments against the Borrower, any of the Guarantors or any of their respective Subsidiaries.

7.13. Subsidiaries. Each of the Subsidiaries of the Borrower and the Guarantors as of the date hereof is set forth in Schedule 7.1. Schedule 7.1 also shows as of the date hereof as to each such Subsidiary the jurisdiction of its incorporation or formation, the number of shares of each class of capital stock outstanding, the direct owner of the outstanding shares of each such class and the number of shares owned, and the jurisdictions in which such Subsidiary is qualified to do business as a foreign corporation.

7.14. ERISA. No "prohibited transaction" or "accumulated funding deficiency" (each as defined in ERISA) or Reportable Event has occurred with respect to any Single Employer Plan, or to the knowledge of Borrower and the Guarantors with respect to any Multi-Employer Plan. As of the most recent actuarial valuation of any such Plan, the actuarial present value of all benefits under each Plan (based on those assumptions used to fund the Plan) does not exceed the fair market value of the assets of the Plan allocable to such benefits. The Borrower, the Guarantors, their respective Subsidiaries and each Commonly Controlled Entity are in

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compliance in all material respects with ERISA and the rules and regulations promulgated thereunder.

7.15. Margin Securities. None of the Borrower, the Guarantors or any of their respective Subsidiaries is engaged principally in, nor has as one of its significant activities, the business of extending credit for the purpose of purchasing or carrying "margin stock" as that term is defined in Regulation U promulgated by the Board of Governors of the Federal Reserve System, as now in effect. No part of the Indebtedness evidenced by the Notes, or otherwise created in connection with this Agreement or the other Loan Documents, has been or will be used, directly or indirectly, for the purpose of purchasing any such margin stock. If requested by the Administrative Agent or any of the Lenders, the Borrower shall furnish or cause to be furnished to the Administrative Agent and each such Lender a statement, in conformity with the requirements of Federal Reserve Form U-1 referred to in Regulation U, to the foregoing effect.

7.16. Investment Company Act. None of the Borrower, the Guarantors or any of their respective Subsidiaries is an "investment company," or company "controlled" by an investment company within the meaning of the Investment Company Act of 1940, as now in effect.

7.17. Indebtedness and Contingent Obligations. Set forth on Schedule 7.17A hereto is a complete and correct list of all Indebtedness (other than Contingent Obligations, Indebtedness incurred under the Loan Documents, trade debt incurred in the ordinary course of business and obligations under Operating Leases) of the Borrower, each Guarantor and each of their respective Subsidiaries and the aggregate principal amount thereof outstanding on the date hereof. Set forth on Schedule 7.17B is a complete and correct list of all Contingent Obligations (other than any Contingent Obligations created under the Loan Documents) of the Borrower, each Guarantor and each of their respective Subsidiaries and the aggregate amount thereof outstanding on the date hereof.

7.18. Business Locations and Trade Names. Set forth on Schedule 7.18A is a complete and correct list of the locations where each of the Borrower, the Guarantors and their respective Subsidiaries maintain their respective chief executive offices, their principal places of business, an office, a place of business or any material financial records. Set forth on Schedule 7.18B is a complete and correct list of each name under or by which each of the Borrower, the Guarantors and their respective Subsidiaries presently conducts its business or has conducted its business during the past seven years.

7.19. Title to Assets. The Borrower, the Guarantors and their respective Subsidiaries have good and marketable title (or good and marketable leasehold interests with respect to leased property) to all their respective assets (including all assets constituting a part of the Collateral and all assets reflected in the consolidated balance sheet as of December 31, 2002), subject to no Liens other than Permitted Liens.

7.20. Labor Matters. There are no disputes or controversies pending between the Borrower, the Guarantors or their respective Subsidiaries and their respective employees, the outcome of which reasonably may be expected to have a Material Adverse Effect.

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7.21. Business. There is no pending or threatened claim, action, suit, proceeding or other litigation against or affecting the Borrower, the Guarantors or their respective Subsidiaries contesting the right of the Borrower, the Guarantors or their respective Subsidiaries to conduct their businesses as presently conducted or as proposed to be conducted, and there are no other facts or circumstances that have had or reasonably may be expected to have a Material Adverse Effect.

7.22. Compliance with Laws. The Borrower, the Guarantors and their respective Subsidiaries (a) have not been, are not and will not be in violation of any applicable Requirement of Law, including any building, zoning, occupational safety and health, fair employment, equal opportunity, pension, environmental control, health care, certificate of need, health care facility licensing or similar federal, state or local law, ordinance or regulation, relating to the ownership or operation of their respective businesses or assets, (b) have not failed to obtain any license, permit, certificate or other governmental authorization necessary for the conduct of their businesses or the ownership and operation of their assets, (c) have not received any notice from any Governmental Authority, and to their knowledge no such notice is pending or



threatened, alleging that the Borrower, any Guarantor or any of their respective Subsidiaries has violated, or has not complied with, any Requirement of Law, condition or standard applicable with respect to any of the foregoing, and (d) are not a party to any agreement or instrument, or subject to any judgment, order, writ, rule, regulation, code or ordinance, except to the extent that any violation, noncompliance, failure, agreement, judgment, etc. as described in this Section 7.22 will not have a Material Adverse Effect.

7.23. Governmental Authorizations; Permits, Licenses and Accreditation; Other Rights. The Borrower, the Guarantors and their respective Subsidiaries have all licenses, permits, approvals, registrations, contracts, consents, franchises, qualifications, certificates of need, accreditations and other authorizations necessary for the lawful conduct of their respective businesses or operations wherever now conducted and as planned to be conducted, pursuant to all applicable statutes, laws, ordinances, rules and regulations of all Governmental Authorities having, asserting or claiming jurisdiction over the Borrower, the Guarantors and their respective Subsidiaries or over any part of their respective operations. Copies of all such licenses, permits, approvals, registrations, contracts, consents, franchises, qualifications, certificates of need, accreditations and other authorizations shall be provided to the Administrative Agent upon request. The Borrower, the Guarantors and their respective Subsidiaries are not in default under any of such licenses, permits, approvals, registrations, contracts, consents, franchises, qualifications,

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certificates of need, accreditations and other authorizations, and no event has occurred, and no condition exists, that with the giving of notice, the passage of time or both would constitute a default thereunder or would result in the suspension, revocation, impairment, forfeiture or non-renewal of any thereof, except to the extent that the cumulative effect of all such defaults, events, conditions, suspensions, revocations, impairments, forfeitures and non-renewals will not have a Material Adverse Effect. The continuation, validity and effectiveness of all such licenses, permits, approvals, registrations, contracts, consents, franchises, qualifications, certificates of need, accreditations and other authorizations will not be adversely affected by the transactions contemplated by this Agreement. The Borrower, the Guarantors and their respective Subsidiaries know of no reason why they will not be able to maintain after the date hereof all licenses, permits, approvals, registrations, contracts, consents, franchises, qualifications, certificates of need, accreditations and other authorizations necessary or appropriate to conduct the businesses of the Borrower, the Guarantors and their respective Subsidiaries as now conducted and presently planned to be conducted.

7.24. No Material Adverse Change. Since December 31, 2002, no Material Adverse Change has occurred.

7.25. Environmental Matters. Except as disclosed in Schedule 7.25, (a) none of the Borrower, the Guarantors or any of their respective Subsidiaries, nor any of the properties owned or leased thereby or operations thereof, nor, to the knowledge of the Borrower and the Guarantors, any current or prior owner, lessor or operator (other than the Borrower or any Guarantor or any of their respective Subsidiaries) of any properties owned or leased by Borrower or any Guarantor or any of their respective Subsidiaries, is in violation of any applicable Environmental Law or any restrictive covenant or deed restriction relating to environmental matters (recorded or otherwise) or subject to any existing, pending or threatened investigation, inquiry or proceeding by any Governmental Authority or subject to any remedial obligations under any Environmental Law, except to the extent that the cumulative effect of all such violations, investigations, inquiries, proceedings and remedial obligations will not have a Material Adverse Effect; (b) all permits, licenses and approvals required of the Borrowers, the Guarantors or any of their respective Subsidiaries with respect to Hazardous Materials, including past or present treatment, storage, disposal or release of any Hazardous Materials or solid waste into the environment, have been obtained or filed; (c) all Hazardous Materials or solid waste generated by the Borrower, any Guarantor or any of their respective Subsidiaries have in the past been, and will continue to be, transported, treated and disposed of only by carriers maintaining valid permits under all applicable Environmental Laws and only at treatment, storage and disposal facilities maintaining valid permits under applicable Environmental Laws, which carriers and facilities have been and are, to the knowledge of the Borrower and the Guarantors, operating in compliance with such permits; (d) the Borrower, the Guarantors and their respective Subsidiaries have taken all reasonable steps necessary to determine, and have determined, that no Hazardous Materials or solid wastes have been disposed of or otherwise released by them except in compliance with Environmental Laws; and (e) neither the Borrower nor any Guarantor nor any of their respective Subsidiaries has a material contingent liability in connection with any release of any Hazardous Materials or solid waste into the environment, and in connection herewith the Borrower hereby agrees to pursue diligently the resolution of any environmental issues disclosed in Schedule 7.25 by all necessary and appropriate actions and shall report to the Administrative Agent not less frequently than quarter-annually as to the status of the resolution of such issues.

7.26. Material Contracts. Set forth on Schedule 7.26 hereto is a complete and accurate list of all Material Contracts of the Borrower, each of the Guarantors and each of their respective Subsidiaries. Other than as set forth on Schedule 7.26, each such Material Contract is in full force and effect in accordance with the terms thereof and there are no material defaults by the Borrower, the Guarantors or any of their respective Subsidiaries as are parties thereto or, to the knowledge of the Borrower and the Guarantors, by any other party, under any such Material Contract. The Borrower has delivered to the Administrative Agent a true and complete copy of each Material Contract required to be listed on Schedule 7.26.

7.27. No Misstatements. Neither this Agreement nor any of the other Loan Documents, nor any agreement, instrument or other document executed pursuant hereto or thereto or in connection herewith or therewith, nor any certificate, statement or other information referred to herein or therein or furnished to the Administrative Agent or any Lender pursuant hereto or thereto or in connection herewith or therewith, contains any misstatement of a material fact or omits to state any material fact necessary to make the statements contained herein or therein, in the light of the circumstances under which they were made, not misleading on the date hereof or on the date furnished, as the case may be, except as otherwise disclosed to the Administrative Agent and the Lenders in writing on or prior to the date hereof. Neither the Borrower nor any Guarantor is aware of any fact that it has not disclosed in writing to the Administrative Agent that materially and adversely affects, or insofar as the Borrower or such Guarantor can now foresee, could materially and adversely affect, the properties, businesses, prospects, results of operations, management or financial or other condition of the Borrower and its Subsidiaries, taken as a whole, the Administrative Agent's or the Lenders' rights or the ability of the Borrower, any Guarantor or any of their respective Subsidiaries to perform its obligations under this Agreement and the other Loan Documents to which it is a party.

**AFFIRMATIVE COVENANTS**

So long as any Obligations are unpaid or outstanding, any Obligation under the Loan Documents is unperformed or any of the Commitments are in effect, the Borrower and Guarantors shall:

**8.1. Financial Statements.**

8.1.1. **Annual Financial Statements and Reports.** Furnish to the Administrative Agent and each Lender, as soon as available and in any event by the earlier of (a) the date that is ninety-five (95) days after the end of each Fiscal Year of the Domestic Borrower, or (b) the date that is five (5) days after the date that the following are required to be furnished to the Commission: a consolidated balance sheet of the Domestic Borrower and its Subsidiaries as of the end of such Fiscal Year and the related consolidated statements of income, shareholders' equity and cash flows of the Domestic Borrower and its Subsidiaries for such Fiscal Year, audited and reported upon, without qualification, by KPMG LLP or other independent public accountants acceptable to Requisite Lenders in their sole discretion, certified by a Responsible Officer of the Domestic Borrower, together with (a) a supporting consolidating balance sheet of the Domestic Borrower and its Subsidiaries as of the end of such Fiscal Year and the related supporting consolidating statements of income, shareholders' equity and cash flow of the Domestic Borrower and its Subsidiaries for such Fiscal Year, (b) a written discussion and analysis by the management of the Domestic Borrower of the financial statements furnished in respect of such annual fiscal period, and (c) a certificate of a Responsible Officer of the Domestic Borrower, in form satisfactory to the Administrative Agent and the Lenders, (1) stating that no Default has occurred and is continuing or, if in the opinion of such officer, a Default has

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occurred and is continuing, stating the nature thereof and the action that the Domestic Borrower proposes to take with respect thereto, and (2) setting forth computations demonstrating compliance with all financial covenants contained herein as of the end of such Fiscal Year.

8.1.2. **Quarterly Financial Statements and Reports.** Furnish to the Administrative Agent and each Lender, as soon as available and in any event by the earlier of (a) the date that is fifty (50) days after the end of each Fiscal Quarter of the Domestic Borrower (other than the last Fiscal Quarter in any Fiscal Year) or (b) the date that is five (5) days after the date that the following are required to be furnished to the Commission: Domestic Borrower and its Subsidiaries' Form 10-Q Statement, and an unaudited consolidated and consolidating balance sheet of the Domestic Borrower and its Subsidiaries as of the end of such Fiscal Quarter, the related consolidated and consolidating statement of income of the Domestic Borrower and its Subsidiaries for the period commencing at the beginning of the current Fiscal Year and ending with the end of such Fiscal Quarter and the related consolidated statements of shareholders' equity and cash flows of the Domestic Borrower and its Subsidiaries for such period, certified by a Responsible Officer of the Domestic Borrower, together with (a) a written discussion and analysis by the management of the Domestic Borrower of the financial statements furnished in respect of such period, and (b) a certificate of a Responsible Officer of the Domestic Borrower, in form satisfactory to the Administrative Agent and the Lenders, (1) stating that no Default has occurred and is continuing or, if in the opinion of such officer, a Default has occurred and is continuing, stating the nature thereof and the action that the Domestic Borrower proposes to take with respect thereto, and (2) setting forth computations demonstrating compliance with all financial covenants contained herein as of the end of such period.

8.1.3. **GAAP.** Take all actions necessary to cause all such financial statements to be complete and correct in all material respects and to be prepared in reasonable detail and in conformity with GAAP applied consistently throughout the periods reflected therein (except as may be approved by such accountants or Responsible Officer, as the case may be, and disclosed therein).

8.2. **Certificates and Other Information.** Furnish to the Administrative Agent and each Lender, each in form and substance acceptable to Requisite Lenders:

8.2.1. **Management Letters.** Promptly after the same are received by the Borrower, copies of management letters provided to the Borrower by its independent certified public accountants that describe or refer to any inadequacy, defect, problem, qualification or other lack of satisfactory accounting controls utilized by the Borrower or any of its Subsidiaries.

8.2.2. **Shareholder Materials.** (a) Within two (2) Business Days after the delivery of same to the shareholders of the Borrower, copies of all financial statements and reports that the Borrower, any Guarantor or any of their respective Subsidiaries sends to the shareholders of the Borrower, and (b) within two (2) Business Days after the filing thereof, copies of all reports and statements of the Borrower, the Guarantors and their respective Subsidiaries (including proxy and information statements, quarterly, annual and current reports and registration statements, but excluding those pertaining only to employee benefit plans) that it may make to, or file with, the Commission.

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8.2.3. **Budgets.** As soon as available, and in any event not later than ninety (90) days after the end of each Fiscal Year of the Domestic Borrower, twelve (12) month budgeted financial statements (including balance sheets and statements of income, shareholders' equity and cash flows and a statement of budgeted capital expenditures, and including a reasonably detailed description of all underlying assumptions) of the Domestic Borrower and its Subsidiaries on a consolidated basis for the following Fiscal Year, and twelve (12) month consolidating budgeted financial statements (including balance sheets and statements of income and cash flows indicating budgeted capital expenditures and changes in shareholders' equity, and including a reasonably detailed description of all underlying assumptions) of the Borrower and each of its Subsidiaries for the following Fiscal Year, all in a format reasonably acceptable to Requisite Lenders and certified by a Responsible Officer of the Domestic Borrower as being fairly stated in good faith. Any updates thereto shall be provided upon request of the Administrative Agent.

8.2.4. **Asset Acquisitions.** With respect to any Asset Acquisition that requires the consent of the Requisite Lenders, not later than thirty (30) days

prior to the consummation of any Asset Acquisition, notice of the pendency of such Asset Acquisition, and with respect to any Asset Acquisition, not later than fourteen (14) Business Days prior to the consummation of such Asset Acquisition, the following:

(a) a reasonably detailed description of the operating profile for the assets to be acquired in such Asset Acquisition, and

(b) a reasonably detailed description of the terms and conditions of such Asset Acquisition, including the purchase price and the manner and structure of payment(s), accompanied by copies of the then-current drafts of the proposed acquisition agreement(s), and

(c) a certificate duly executed by a Responsible Officer of the Borrower, in form satisfactory to the Administrative Agent, certifying that no Default has occurred and is continuing or will result from such Asset Acquisition, certifying that after giving Pro Forma Effect to such Asset Acquisition such Responsible Officer reasonably believes that such Asset Acquisition will not result in a violation of any of the financial covenants contained herein during the twelve (12) month period following such Asset Acquisition, and setting forth computations demonstrating compliance with all financial covenants contained herein as of the end of the Fiscal Quarter then most recently completed, after giving Pro Forma Effect to such Asset Acquisition, and

(d) twelve-months trailing financial statements, consolidated starting balance sheet, twelve-month projected financial statements, and twelve-months projections of capital expenditures for the Asset Acquisition.

8.2.5. Acquisition Documents. Not later than thirty (30) days after the consummation of any Asset Acquisition, copies of the executed documents evidencing the transaction.

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8.2.6. Reports to Other Persons. Promptly after the furnishing thereof, copies of any statement or report furnished to any other holder of any Indebtedness of the Borrower, any of the Guarantors or any of their respective Subsidiaries pursuant to the terms of any indenture, loan or credit or similar agreement and not otherwise required to be furnished to the Administrative Agent or Lenders pursuant to any other clause of this Section 8.2.

8.2.7. Funded Indebtedness. Promptly upon request by the Administrative Agent, copies of all agreements, instruments and/or documents evidencing or otherwise related to any Consolidated Funded Indebtedness.

8.2.8. Additional Information. Promptly, such additional financial and other information as the Administrative Agent or any Lender from time to time reasonably may request.

8.3. Provision of Notices. Notify the Administrative Agent and each Lender of the occurrence of any of the following events not later than five (5) days after the Borrower or any Guarantor knows or has reason to know of such event:

8.3.1. Default. Any Default.

8.3.2. Other Default or Litigation. (a) Any default or event of default under any Contractual Obligation of the Borrower, any Guarantor or any of their respective Subsidiaries that if adversely determined could have a Material Adverse Effect, (b) any litigation, investigation or proceeding that may exist at any time between the Borrower, any Guarantor or any of their respective Subsidiaries and any Governmental Authority (excluding, however, audits and inquiries made in the ordinary course of business) or (c) any other litigation that if adversely determined would have a Material Adverse Effect.

8.3.3. Reportable Events. (a) Any Reportable Event with respect to any Plan, (b) the institution of proceedings or the taking or expected taking of any other action by the PBGC, the Borrower, any Guarantor, any of their respective Subsidiaries or any Commonly Controlled Entity to terminate, withdraw or partially withdraw from any Plan, and (c) with respect to any Multi-Employer Plan, the reorganization or insolvency of such Plan. In addition to such notice, the Borrower and the Guarantors shall deliver or cause to be delivered to the Administrative Agent and each Lender whichever of the following may be applicable: (i) a certificate of a Responsible Officer of the Borrower or such Guarantor setting forth details as to such Reportable Event and the action that it, such Subsidiary or the Commonly Controlled Entity proposes to take with respect thereto, together with the copy of any notice of such Reportable Event that may be required to be filed with the PBGC, or (ii) any notice delivered by the PBGC evidencing its intent to institute such proceedings or any notice to the PBGC that such Plan is to be terminated, as the case may be.

8.3.4. Environmental Matters. (a) Any event that makes any of the representations set forth in Section 7.25 inaccurate in any respect or (b) the receipt by the Borrower, any of the Guarantors or any of their respective Subsidiaries of any notice, order, directive or other communication from a Governmental Authority alleging a violation of or

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noncompliance with any Environmental Laws, except to the extent that any such violation or noncompliance could not reasonably be expected to have a Material Adverse Effect.

8.3.5. Loss of License, Permit, Approval, Etc. The loss or, if known by the Borrower, any Guarantor or any of their respective Subsidiaries, threatened loss, by the Borrower, any Guarantor or any of their respective Subsidiaries, of any license, permit, approval, registration, contract, consent, franchise, qualification, certificate of need, accreditation or other authorization issued by any Governmental Authority referenced in Section 7.23, if such loss reasonably could be expected to have a Material Adverse Effect.

8.3.6. Material Contracts. (a) Any proposed material amendment, change or modification to, or waiver of any material provision of, or any termination of, any Material Contract and (b) any default or event of default under any Material Contract.

8.3.7. Casualty Losses. Any casualty loss or event not insured against in an amount in excess of \$250,000.

8.4. Payment of Obligations and Performance of Covenants.

(a) Cause the Euro Borrower, the Guarantors and NN Italy to make full and timely payment of the Euro Obligations, including the Euro Term Loans, whether now existing or hereafter arising;

(b) Cause the Domestic Borrower, the Domestic Guarantors and NN Italy to make full and timely payment of the Domestic Obligations, including the Revolving Term Loans and the Domestic Term Loans, whether now existing or hereafter arising.

(c) Duly comply with all terms, covenants and conditions contained in each of the Loan Documents, at the times and places and in the manner set forth therein; and

(d) Take all action necessary to maintain the security interests provided for under this Agreement and the Security Documents as valid and perfected Liens on the property intended to be covered thereby, subject to no other Liens except Permitted Liens, and supply all information to the Administrative Agent or the Lenders necessary to accomplish same.

8.5. Payment of Taxes. Pay, and cause their respective Subsidiaries to pay, or cause to be paid before the same shall become delinquent and before penalties have accrued thereon, all taxes, assessments and governmental charges or levies imposed on the income, profits, franchises, property or businesses of the Borrower, the Guarantors or their respective Subsidiaries, except to the extent and so long as (a) the same are being contested in good faith by appropriate proceedings and (b) adequate reserves with respect thereto in conformity with GAAP have been provided on the books of the Borrower or any such Guarantor or Subsidiary, as appropriate.

8.6. Conduct of Business and Maintenance of Existence. Continue, and cause their respective Subsidiaries to continue, (a) to engage solely in the business as the Borrower and the

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Guarantors are presently engaged and businesses that enhance or support that primary business activity, and (b) except as permitted by Sections 9.3 and 9.7, to preserve, renew and keep in full force and effect their existence and present corporate, partnership or other organizational structure, as the case may be.

8.7. Compliance with Law. Observe and comply with, and cause their respective Subsidiaries to observe and comply with, all present and future Requirements of Law relating to the conduct of their businesses or to their properties or assets, except to the extent and so long as the nonobservance thereof or noncompliance therewith will not have a Material Adverse Effect. Notwithstanding the foregoing, the granting of loans or provision of securities from the Euro Borrower to the Domestic Borrower or financial assistance from the Euro Borrower to the Domestic Borrower is under no circumstances permissible, whether or not such actions would have a Material Adverse Effect.

8.8. Maintenance of Properties and Franchises. Maintain, preserve and keep and cause their respective Subsidiaries to maintain, preserve and keep (a) all of their buildings, tangible properties, equipment and other property and assets used and necessary in their businesses, whether owned or leased, in good repair, working order and condition, from time to time making all necessary and proper repairs and replacements so that at all times the utility, efficiency and value thereof shall not be impaired, and (b) all rights, privileges and franchises necessary or desirable in the normal conduct of their businesses.

8.9. Insurance.

(a) Maintain and cause their respective Subsidiaries to maintain:

(1) insurance (in addition to any insurance required under the Security Documents) on all insurable operations of and insurable property and assets owned or leased by the Borrower, the Guarantors or any of their respective Subsidiaries in the manner, to the extent and against at least such risks (in any event including professional and comprehensive general liability, workers' compensation, employer's liability, automobile liability and physical damage, fiduciary liability, commercial fidelity, employee benefits liability, environmental impairment liability, all-risk property, business interruption and crime insurance) usually maintained by owners of similar businesses and properties in similar geographic areas; provided that the amounts of property insurance coverages shall not be less than the full replacement cost of all such insurable property and assets, except for coverage limitations with respect to flood, earthquake and windstorm perils that are acceptable to the Administrative Agent and Requisite Lenders; and

(2) self-insurance reserves covering those risks for which the Borrower, the Guarantors and each of their respective Subsidiaries presently self-insure in appropriate amounts as determined from time to time by independent insurance claims auditors acceptable to the Administrative Agent and Requisite Lenders.

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All such insurance shall be in such amounts, in such form and with such insurance companies as are reasonably satisfactory to the Administrative Agent and Requisite Lenders.

(b) Furnish to the Administrative Agent not less frequently than annually and at any time upon written request, (i) full information as to such insurance carried, including the amounts of all self-insurance reserves of the Borrower, the Guarantors and their respective Subsidiaries, and (ii) certificates of insurance from the insurance companies and certified copies of such insurance policies.

8.10. Use of Proceeds. Use, and cause their respective Subsidiaries to use, the proceeds of the Facilities for the purposes specified in Section 2.7 and for no other purpose.

8.11. Books and Records. Keep and maintain, and cause their respective Subsidiaries to keep and maintain, full and accurate books of record and accounts of their operations, dealings and transactions in relation to their business and activities, in conformity with GAAP and all Requirements of Law.

8.12. Inspection. Permit, and cause their respective Subsidiaries to permit, any employees, agents or other representatives of the Administrative Agent or the Lenders and any attorneys, accountants or other agents or representatives designated by the Administrative Agent or the Lenders to (a) have access to and visit and inspect any of the accounting systems, books of account, financial records and properties, real, personal or mixed, of the Borrower, the Guarantors and their respective Subsidiaries, (b) examine and make abstracts from any such accounting systems, books and records, and (c) discuss the affairs, finances and accounts of the Borrower, the Guarantors and their respective Subsidiaries with their officers, employees or agents, all at such reasonable business times as the Administrative Agent or the Lenders deem necessary or advisable to protect their respective interests. So long as no Default or Event of Default shall have occurred and be continuing, the Administrative Agent and the Lenders shall give the Borrower, the Guarantors and their respective Subsidiaries, as the case may be, reasonable prior notice of any such inspection.

8.13. Compliance With Terms of Material Contracts. Comply, and cause their respective Subsidiaries to comply, with all agreements, covenants, terms, conditions and provisions of all Material Contracts, except to the extent and so long as noncompliance therewith will not have a Material Adverse Effect.

8.14. Compliance With Environmental Laws, Etc.

(a) Employ, and cause their respective Subsidiaries to employ, in connection with the use of any real property, appropriate technology (including appropriate secondary containment measures) to maintain compliance with applicable Environmental Laws;

(b) take, and cause their respective Subsidiaries to take, all actions necessary to comply with all Environmental Laws, including any actions identified as necessary in

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any environmental compliance reports delivered to the Administrative Agent pursuant to the provisions of this Agreement;

(c) obtain and maintain, and cause their respective Subsidiaries to obtain and maintain, any and all permits required by applicable Environmental Laws in connection with the operations of the Borrower, the Guarantors or any of their respective Subsidiaries or any Affiliate thereof;

(d) dispose of, and cause their respective Subsidiaries to dispose of, any and all Hazardous Materials only at facilities and with carriers maintaining valid permits under applicable federal, state and local Environmental Laws; and

(e) use best efforts to obtain, and cause their respective Subsidiaries to use their best efforts to obtain, certificates of disposal from all contractors employed by the Borrower, the Guarantors or any of their respective Subsidiaries in connection with the transportation or disposal of any Hazardous Materials.

8.15. Environmental Monitoring. Establish and maintain, and cause their respective Subsidiaries to establish and maintain, a system to assure and monitor continued compliance with all applicable Environmental Laws, noncompliance with which would have a Material Adverse Effect, which system shall include annual reviews of such compliance by employees or agents of the Borrower, the Guarantors and their respective Subsidiaries who are familiar with the requirements of applicable Environmental Laws.

8.16. Maintenance of Licenses, Permits, Approvals, Etc. Preserve and maintain, and cause their respective Subsidiaries to preserve and maintain, all licenses, permits, approvals, registrations, contracts, consents, franchises, qualifications, certificates of need, accreditations and other authorizations required under applicable state or local laws and regulations in connection with the ownership or operation of their businesses, except to the extent that a failure to preserve and maintain any of same will not have a Material Adverse Effect.

8.17. Intercompany Indebtedness; Pledged Notes.

(a) Maintain, and cause their respective Subsidiaries to maintain, accounting systems, practices and procedures that enable the Borrower, the Guarantors and their respective Subsidiaries to report to the Administrative Agent at any time upon its request the aggregate unpaid balance of any unsecured advances or loans owing to the Borrower or a Guarantor by any such Subsidiary; and

(b) Cause all such advances or loans to be evidenced by Pledged Notes delivered to the Administrative Agent pursuant to the Pledge Agreement and, contemporaneously with the delivery to the Administrative Agent of any Pledged Note, assign and deliver to the Administrative Agent any loan agreement or other instrument, document or agreement further evidencing, securing or otherwise relating to the indebtedness evidenced by such Pledged Note.

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8.18. Further Assurances. Perform, make, execute and deliver, and cause their respective Subsidiaries to perform, make, execute and deliver, all such additional and further acts, deeds, occurrences and instruments as the Administrative Agent or the Lenders reasonably may require to document and consummate the transactions contemplated hereby and to vest completely in and to ensure the Administrative Agent and the Lenders their respective rights under this Agreement, the Notes and the other Loan Documents.

8.19. Creation of Subsidiaries. Within ninety (90) days after creating any Subsidiary of Borrower or any Guarantor, (a) give Notice to the Administrative Agent of the creation of such Subsidiary, (b) cause such Subsidiary to become a Domestic Guarantor under the terms of this Agreement, (c) satisfy the conditions precedent set forth in Sections 6.1 (d), (e), (f), (g), (h), (i), (j), (k), (l), (m) and (p) of this Agreement with respect to such Domestic Guarantor; provided, however, such Subsidiary shall not be required to become a Domestic Guarantor if it is prohibited from doing so under applicable law.

**NEGATIVE COVENANTS**

So long as any Obligations are unpaid or outstanding, any Obligation under the Loan Documents is unperformed or any of the Commitments are in effect, the Borrower and the Guarantors shall not:

9.1. **Indebtedness**. Create, incur, assume or suffer to exist, or permit any of their respective Subsidiaries to create, incur, assume or suffer to exist, any Indebtedness, except:

- (a) Indebtedness of the Borrower, any of the Guarantors or NN Italy under or pursuant to this Agreement and the other Loan Documents;
- (b) Indebtedness existing, or arising pursuant to commitments existing, on the date hereof, all as set forth in Schedules 7.17A and 7.17B, and any extensions, renewals, refundings or refinancings thereof on the same terms or other terms satisfactory to Requisite Lenders; provided, however, that neither the principal amount thereof nor the interest rate thereon shall be increased, nor shall the date for the making of any required payment of principal be accelerated nor the amount due on any such date increased;
- (c) Purchase Money Debt and Capitalized Lease Obligations in an aggregate amount not to exceed \$2,500,000 outstanding at any one time;
- (d) Subordinated Indebtedness;
- (e) Current liabilities incurred in the ordinary course of business and not represented by any note, bond, debenture or other instrument, and which are not past due for a period of more than thirty (30) days, or if overdue for more than thirty (30) days, which are being contested in good faith and by appropriate actions and for which

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adequate reserves in conformity with GAAP have been established on the books of the primary obligor with respect thereto;

(f) Contingent Obligations consisting of (i) the endorsement by the Borrower, any Guarantor or any of their respective Subsidiaries of negotiable instruments payable to such Person for deposit or collection in the ordinary course of business, and (ii) guarantees executed by the Borrower, any Guarantor or any of their respective Subsidiaries with respect to Operating Lease obligations or Indebtedness of the Borrower and its Subsidiaries otherwise permitted by this Agreement;

(g) Contingent Obligations consisting of the indemnification by the Borrower or any of its Subsidiaries of (i) the officers, directors, employees and agents of the Borrower or such Subsidiary, to the extent permissible under the corporation law of the jurisdiction in which the Borrower or such Subsidiary is organized, (ii) commercial banks, investment bankers and other independent consultants or professional advisors pursuant to agreements relating to the underwriting of the Borrower's or such Subsidiary's securities or the rendering of banking or professional services to the Borrower or such Subsidiary, (iii) landlords, licensors, licensees and other parties pursuant to agreements entered into in the ordinary course of business by the Borrower or such Subsidiary and (iv) other Persons under agreements relating to Permitted Acquisitions;

(h) Indebtedness with respect to financed insurance premiums not past due; and

(i) Indebtedness of the Borrower or a Subsidiary of the Borrower that is owed to the Borrower or a Subsidiary of the Borrower and that is described in clauses (d), (e) or (h) of Section 9.4.

(j) Indebtedness of the Borrower and its Subsidiaries, not otherwise described in this Section 9.1, in an aggregate amount not to exceed \$5,000,000, less any amounts outstanding pursuant to Section 9.1(c).

9.2. **Liens**. Create, incur, assume or suffer to exist, or permit any of their respective Subsidiaries (other than the Non-Guarantor Subsidiaries) to create, incur, assume or suffer to exist, any Lien upon any real or personal property, fixtures, revenues or other assets whatsoever (including the Collateral), whether now owned or hereafter acquired, of the Borrower, the Guarantors or any of their respective Subsidiaries (other than the Non-Guarantor Subsidiaries), except:

(a) Liens securing the Obligations;

(b) Existing Liens;

(c) Liens for taxes not yet due or that are being contested in good faith and by appropriate actions and for which adequate reserves in conformity with GAAP have been established on the books of the Borrower or such Guarantor or Subsidiary;

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(d) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business that are not overdue for a period of more than thirty (30) days, or if overdue for more than thirty (30) days, (i) which are being contested in good faith and by appropriate proceedings, (ii) for which adequate reserves in conformity with GAAP have been established on the books of the Borrower or such Guarantor or Subsidiary; and (iii) with respect to which the obligations secured thereby are not material;

(e) pledges or deposits in connection with workers' compensation insurance, unemployment insurance and like matters;

(f) Liens securing Purchase Money Debt or Indebtedness arising under Capitalized Leases; provided, however, that in each case any such Lien attaches only to the specific item(s) of property or asset(s) financed with such Purchase Money Debt or Capitalized Lease;

(g) deposits to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(h) easements, reservations, exceptions, rights-of-way, covenants, conditions, restrictions and other similar encumbrances incurred in the ordinary course of business that, in the aggregate, are not substantial in amount, and that do not in any case materially detract from the value of the property subject thereto or interfere with the ordinary conduct of business by the Borrower or such Guarantor or Subsidiary;

(i) Liens in respect of any writ of execution, attachment, garnishment, judgment or judicial award, if (i) the time for appeal or petition for rehearing has not expired, an appeal or appropriate proceeding for review is being prosecuted in good faith and a stay of execution pending such appeal or proceeding for review has been secured, or (ii) the underlying claim is fully covered by insurance issued by an insurer satisfactory to the Administrative Agent, the insurer has acknowledged in writing its responsibility to pay such claim and no action has been taken to enforce such execution, attachment, garnishment, judgment or award;

(j) Liens of lessors under or in connection with Operating Leases;

(k) Liens securing Indebtedness permitted under clause (b) of Section 9.1, but only to the extent that such Indebtedness is currently secured as set forth on Schedules 7.17A and 7.17B; and

(l) Other non-consensual Liens not securing Indebtedness, (i) the amount of which does not exceed in the aggregate, \$2,500,000, and (ii) the existence of which will not have a Material Adverse Effect; provided, however, that any Lien permitted by this clause (l) is permitted only for so long as is reasonably necessary for the Borrower or the

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affected Subsidiary, using its best efforts, to remove or eliminate such Lien and, provided, further, that any Lien not otherwise permitted by this clause shall be permitted so long as Borrower or the affected Subsidiary shall within thirty (30) days after the filing thereof either (x) cause such Lien to be discharged, or (y) post with Administrative Agent a bond or other security in form and amount satisfactory to Administrative Agent in all respects and shall thereafter diligently pursue its discharge.

9.3. Sale or Transfer of Assets. Sell, lease, assign, transfer or otherwise dispose of, or permit any of their respective Subsidiaries (other than the Non-Guarantor Subsidiaries) to sell, lease, assign, transfer or otherwise dispose of, any of their assets (including the stock of Subsidiaries) except:

(a) sales of personal property assets in the ordinary course of business of the Borrower and its Subsidiaries;

(b) the disposition of obsolete or worn-out equipment or other property no longer required by or useful to the Borrower or any of its Subsidiaries in connection with the operation of their businesses, provided that such equipment or other property is replaced with equipment or other property having substantially equivalent utility and equal or greater value;

(c) the sale or transfer to the Domestic Borrower, any Guarantor or NN Italy of any asset owned by the Borrower or any of its Subsidiaries; and

(d) any other sale or transfer of assets not exceeding an aggregate amount of \$2,500,000 in any Fiscal Year and not exceeding an aggregate amount of \$10,000,000 over the term of the Facilities.

9.4. Investments. Make, commit to make or suffer to exist, or permit any of their respective Subsidiaries to make, commit to make or suffer to exist, any Investment except:

(a) Cash Equivalents;

(b) Investments existing on the date hereof and set forth in Schedule 9.4;

(c) accounts receivable representing trade credit extended in the ordinary course of business;

(d) unsecured loans or advances by the Borrower, any Guarantor or NN Italy to any Guarantor, NN Italy or the Domestic Borrower (other than loans or advances from Euro Borrower to Domestic Borrower); provided, however, (i) in no event shall such loans or advances to NN Ireland exceed the amount of NN Ireland's liability under Section 5.2 of this Agreement, and (ii) in no event shall such loans or advances to NN Italy exceed the amount of NN Italy's liability under the Italian Guaranty;

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(e) unsecured loans or advances by any Subsidiary of the Borrower to the Domestic Borrower, any Guarantor or NN Italy (other than loans or advances from Euro Borrower to Domestic Borrower);

(f) Investments in Guarantors or NN Italy;

(g) Investments consisting of Permitted Acquisitions;

(h) additional advances to, and other Investments in, Non-Guarantor Subsidiaries in an aggregate outstanding amount not to exceed \$4,000,000 at any time;

(i) advances, in an aggregate amount not to exceed \$1,000,000 outstanding at any one time, made by the Borrower and its Subsidiaries to their respective employees for reimbursable expenses incurred or to be incurred by such employees in the ordinary course performance of their duties;

(j) Investments consisting of amounts potentially due from a seller of assets in a Permitted Acquisition that relate to customary post-closing adjustments with respect to accounts receivable, accounts payable and similar items typically subject to post-closing adjustments in similar transactions;

(k) the Domestic Borrower's purchase of the remaining ownership interests in the Euro Borrower not currently owned by the Domestic

Borrower;

(1) the SKF-Veenendaal Acquisition; and

(m) Investments by the Domestic Borrower in the Euro Borrower that are used to make capital contributions to NN Italy or the Euro Borrower's Subsidiaries that are Domestic Guarantors and used by such Subsidiaries to fund their operations or used to pay the Euro Obligations.

9.5. Restricted Payments. Declare, pay or make, or permit any of their respective Subsidiaries to declare, pay or make any Restricted Payments except so long as no Default or Event of Default exists or would result therefrom:

(a) the Borrower may declare and deliver dividends and make distributions payable solely in common stock of the Borrower or in preferred stock of the Borrower that the Borrower is permitted to issue pursuant to Section 9.6, and may distribute cash in lieu of fractional shares otherwise distributable pursuant to this clause (a);

(b) the Domestic Borrower may purchase or otherwise acquire shares of its capital stock, or other ownership interests; and

(c) The Borrower may declare and deliver dividends and make distributions payable to its shareholders in any Fiscal Year in an aggregate amount not in excess of the lesser of (a) \$5,500,000 plus the product of thirty-two cents (\$0.32) multiplied by the number of shares of its common stock issued on or before February 11, 2005, pursuant to

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its Registration Statement on Form S-3 (Registration Number 333-100119); or (ii) \$7,000,000.

(d) Subsidiaries of Euro Borrower may declare and deliver dividends and make distributions payable to Euro Borrower so long as such amounts are (i) distributed as a dividend by Euro Borrower to Domestic Borrower, (ii) contributed by Euro Borrower to any of its Subsidiaries that are Guarantors or NN Italy, to the extent permitted under Section 9.4, or (iii) used to pay the Euro Obligations.

9.6. Issuance of Stock. Issue any capital stock or permit any Subsidiary to issue any capital stock; provided, however, that

(a) the Borrower may issue common stock and may issue preferred stock to the extent the aggregate of all preferred stock outstanding does not require the payment of dividends in excess of amounts permitted under Section 9.5, and provided such preferred stock is not redeemable, payable or subject to being required to be purchased or otherwise retired or extinguished (i) at a fixed or determinable date, whether by operation of a sinking fund or otherwise, (ii) at the option of any Person other than the Borrower or (iii) upon the occurrence of a condition not solely within the control of the Borrower, such as a redemption required to be made out of future earnings; and

(b) any Subsidiary of the Borrower may issue capital stock to the Borrower or any wholly-owned Subsidiary of the Borrower.

9.7. Fundamental Changes. Directly or indirectly (whether in one transaction or a series of transactions), or permit any of their respective Subsidiaries directly or indirectly (whether in one transaction or a series of transactions) to:

(a) enter into any transaction of merger, consolidation or amalgamation;

(b) liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution);

(c) make any Asset Acquisition other than a Permitted Acquisition;

(d) make any material change in its present method of conducting business; or

(e) enter into any agreement or transaction to do or permit any of the foregoing;

provided, however, that:

(1) notwithstanding clause (a) of this Section 9.7, the merger, consolidation or amalgamation of any Person with the Domestic Borrower, any Guarantor or NN Italy as the method by which a Permitted Acquisition is accomplished shall be permitted, provided that the Domestic Borrower, such Guarantor or NN Italy is the surviving entity in the transaction (provided,

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however, that nothing contained herein shall permit the merger of any Subsidiary of the Euro Borrower with and into the Euro Borrower, with the Euro Borrower as the surviving entity, if such merger would violate Danish law);

(2) notwithstanding clause (a) of this Section 9.7, the merger, consolidation or amalgamation of any Subsidiary of the Borrower with any Guarantor or NN Italy shall be permitted, provided that such Guarantor or NN Italy is the surviving entity in the transaction (provided, however, that nothing contained herein shall permit the merger of any Subsidiary of the Euro Borrower with and into the Euro Borrower, with the Euro Borrower as the surviving entity, if such merger would violate Danish law);

(3) notwithstanding clause (a) of this Section 9.7, the merger, consolidation or amalgamation of any Subsidiary of the Borrower with the Domestic Borrower shall be permitted, provided that the Domestic Borrower is the surviving entity in the transaction (provided, however, that nothing contained herein shall permit the merger of any Subsidiary of the Euro Borrower with and into the Euro Borrower, with the Euro Borrower as the surviving entity, if such merger would violate Danish law); and



(4) notwithstanding clause (b) of this Section 9.7, the Borrower may permit the dissolution of any of its Subsidiaries (and any such Subsidiary may suffer such dissolution) if at the time of such dissolution such Subsidiary has no material assets, engages in no material business and otherwise has no material activities other than activities related to the maintenance of its corporate existence and good standing.

9.8. Transactions With Affiliates. Enter into, or permit any of their respective Subsidiaries to enter into, any transaction, including any purchase, sale, lease or exchange of property or the rendering of any service, with any Affiliate or employee of the Borrower or any of its Subsidiaries, except transactions that are in the ordinary course of business of the Borrower or such Guarantor or Subsidiary and that are upon fair and reasonable terms no less favorable to the Borrower or such Guarantor or Subsidiary than would be obtained in a comparable arm's length transaction with a Person not an Affiliate.

9.9. Agreements Restricting the Borrower and its Subsidiaries. Enter into or become a party to any agreement with any Person (other than this Agreement and the Loan Documents) that in any way prohibits, restricts or limits the ability of the Borrower, any Guarantor or any such Subsidiary to:

(a) transfer cash or other assets to the Borrower or any of its Subsidiaries, or

(b) create, incur, assume or suffer to exist any Lien with respect to any real or personal property, fixtures, revenues or other assets whatsoever, whether now owned or hereafter acquired, of the Borrower, any Guarantor or any such Subsidiary.

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9.10. ERISA.

(a) terminate or permit any of their respective Subsidiaries to terminate any Plan so as to result in any material liability to the PBGC;

(b) engage or permit any of their respective Subsidiaries to engage in any "prohibited transaction" (as defined in Section 4975 of the Code) involving any Plan that would result in a material liability for an excise tax or civil penalty in connection therewith;

(c) incur or suffer to exist, or permit any of their respective Subsidiaries to incur or suffer to exist, any material "accumulated funding deficiency" (as defined in Section 302 of ERISA), regardless of whether waived, involving any Plan; or

(d) allow or suffer to exist, or permit any of their respective Subsidiaries to allow or suffer to exist, any event or condition that presents a material risk of incurring a material liability to the PBGC by reason of the termination of any Plan.

9.11. Maintenance of Material Contracts. Without the prior written consent of Requisite Lenders, enter into an agreement to cancel, terminate or surrender, or enter into any material amendment of, any Material Contract, unless the cumulative effect of all such cancellations, terminations, surrenders and amendments will not have a Material Adverse Effect.

9.12. Adverse Transactions. Enter into or become a party to, or permit any of their respective Subsidiaries to enter into or become a party to, any transactions the performance of which in the future would be inconsistent with or is reasonably likely to result in a breach of any covenant contained herein or any other Loan Document or otherwise to result in a Default.

9.13. Subordinated Indebtedness. Modify, amend or in any way change the terms of any Subordinated Indebtedness or any instrument, document or agreement evidencing same or related thereto, if the effect of any such modification, amendment or change would be to (a) modify the terms of subordination, as they apply to the Obligations, in a manner inconsistent with the definition of Subordinated Indebtedness set forth herein, or (b) otherwise materially affect the rights of the Administrative Agent or the Lenders vis-a-vis the holder(s) of such Subordinated Indebtedness. It is expressly acknowledged that, under applicable Danish law, Euro Borrower cannot subordinate any Obligations owed to it to any of the Domestic Obligations.

## ARTICLE 10.

### FINANCIAL COVENANTS

10.1. Domestic Borrower Ratios. So long as any Obligations are unpaid or outstanding, any Obligation under the Loan Documents is unperformed or any of the Commitments are in effect, the Borrower and the Guarantors shall not:

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10.1.1. Fixed Charge Coverage Ratio. Permit the Fixed Charge Coverage Ratio to be less than 2.00 to 1.00 as of the end of any Fiscal Quarter.

10.1.2. Funded Indebtedness to EBITDA Ratio. Permit the Funded Indebtedness to EBITDA Ratio (a) to be greater than 2.50 to 1.00, as of the end of any Fiscal Quarter ending on or before December 31, 2003, or (b) to be greater than 2.25 to 1.00, as of the end of any Fiscal Quarter ending after December 31, 2003.

10.1.3. Funded Indebtedness to Capitalization Ratio. Permit the Funded Indebtedness to Capitalization Ratio (a) to be greater than 0.55 to 1.00, as of the end of any Fiscal Quarter ending on or before December 31, 2003, or (b) to be greater than 0.50 to 1.00, as of the end of any Fiscal Quarter ending after December 31, 2003 but on or before December 31, 2004, or (c) to be greater than 0.45 to 1.00, as of the end of any Fiscal Quarter ending after December 31, 2004.

10.1.4. Capital Expenditures. Permit Capital Expenditures made by the Borrower, the Guarantors and NN Italy to exceed an aggregate amount in any Fiscal Year equal to one hundred fifty percent (150%) of the Borrower, Guarantor's and NN Italy's depreciation during such Fiscal Year.

10.2. Guarantor Solvency. So long as any Obligations or any Guaranteed Obligations are unpaid or outstanding, any Obligations under the Loan Documents are unperformed or any of the Commitments are in effect, each of the Guarantors

ARTICLE 11.

**EVENTS OF DEFAULT AND LENDERS' REMEDIES**

11.1. Events of Default. Any one or more of the following described events shall constitute an Event of Default hereunder, whether such occurrence shall be voluntary or involuntary, or come about or be effected by operation of law or otherwise:

11.1.1. Failure to Pay Loans, Etc.

(a) The Domestic Borrower shall fail to pay when due any principal of, interest on or other amount payable in respect of the Revolving Loans, the Swing Line Loan or the Domestic Term Loans, the Credit Fees or any of the other Domestic Obligations;

(b) The Euro Borrower shall fail to pay when due any principal of, interest on or other amount payable in respect of the Euro Term Loans, the Credit Fees due from the Euro Borrower or any of the other Euro Obligations.

11.1.2. Failure to Perform Certain Covenants. The Borrower or any Guarantor shall fail to perform or observe any of its covenants and agreements set forth in Sections 8.1, 8.6, 8.10 and 8.12 and in Articles 9 and 10.

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11.1.3. Failure to Perform Agreements Generally. The Borrower or any Guarantor shall fail to perform or observe, or shall fail to cause their respective Subsidiaries to perform or observe, any of its other covenants and agreements set forth in this Agreement (other than those described in Sections 11.1.1 and 11.1.2) or the other Loan Documents, and such failure shall continue for more than twenty (20) days after the earlier of (a) written notice from the Administrative Agent to the Borrower or such Guarantor, as applicable, of the existence of such Default or (b) the date any Responsible Officer of the Borrower or such Guarantor, as applicable, first obtains knowledge of such failure.

11.1.4. Defaults Under Other Loan Documents. Any default or event of default shall occur under any other Loan Document, and, if subject to a cure right, shall fail to be cured or corrected within the applicable cure period.

11.1.5. False Statements. Any representation or warranty of the Borrower, any Guarantor or NN Italy set forth in this Agreement, the Notes or the other Loan Documents or in any other certificate, opinion or other statement at any time provided by or on behalf of the Borrower, any Guarantor or NN Italy in connection herewith or therewith shall prove to be false or misleading in any material respect at the time made or given.

11.1.6. Voluntary Insolvency Proceedings. The Borrower, any Guarantor or any of their respective Subsidiaries (a) shall commence a voluntary case or other proceeding seeking dissolution, liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a receiver, trustee, liquidator, custodian or other similar official with respect to it or any substantial part of its property, (b) shall consent to any such relief or to the appointment of, or the taking of possession of any of its property by, any such official in any involuntary case or other proceeding commenced against it, (c) shall make a general assignment for the benefit of creditors, (d) shall take any action to authorize any of the foregoing, or (e) shall become insolvent or fail generally to pay its debts as they become due.

11.1.7. Involuntary Insolvency Proceedings. Any involuntary case or other proceeding shall be commenced against the Borrower, any Guarantor or any of their respective Subsidiaries seeking dissolution, liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a receiver, trustee, liquidator, custodian or other similar official with respect to it or any substantial part of its property, and (a) an order for relief (or the equivalent) shall be entered in such involuntary case or other proceeding or (b) such involuntary case or other proceeding shall remain undismissed and unstayed for a period of forty-five (45) days after the commencement thereof.

11.1.8. Failure to Perform Other Obligations. The Borrower, any Guarantor or any of their respective Subsidiaries shall (a) fail to pay any amount of any Indebtedness or interest thereon, or (b) fail to observe or perform any term, covenant or agreement contained in any Contractual Obligation (including Contractual Obligations evidencing, securing or relating to any Indebtedness) executed by it, which failure (i) would cause or permit the holder or holders or beneficiary or beneficiaries of such Indebtedness (or any agent or trustee on their behalf) to

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cause such Indebtedness to become due or otherwise payable prior to its stated maturity, so long as the aggregate principal amount of all such Indebtedness that would then become due or payable would equal or exceed \$1,000,000, or (ii) would impair the Administrative Agent's or the Lenders' rights or the performance of the obligations of the Borrower, any Guarantor or any of their respective Subsidiaries under this Agreement, the Notes or the other Loan Documents or the business or operations of the Borrower, any Guarantor or any of their respective Subsidiaries; unless in the case of a Contractual Obligation that is not for borrowed money, such failure of performance is being contested by the Borrower, such Guarantor or such Subsidiary in good faith and adequate reserves with respect thereto have been established on the books of the Borrower, such Guarantor or such Subsidiary in conformity with GAAP.

11.1.9. Judgments; Legal Process. One or more judgments, decrees or orders for the payment of money shall be entered, or any judgment lien shall be filed, or any writ of execution, attachment, garnishment or other legal process shall be issued, against the Borrower, any Guarantor or any of their respective Subsidiaries, or any of the property thereof, which by itself or together with all other such legal processes is for an amount in excess of \$1,000,000, and which shall remain unvacated, unbonded or unstayed for a period of thirty (30) days, or in any event later than five (5) days prior to the date of any proposed

sale thereunder.

11.1.10. Condemnation of Property. All or substantially all of the property of the Borrower, any Guarantor or any of their respective Subsidiaries shall be condemned, seized or otherwise appropriated, and the condemnation award is materially less than the book value of such property at the date hereof (if such property was owned by the Borrower or any of its Subsidiaries on the date hereof) or at the time such property was acquired by the Borrower or such Subsidiary (if such property was acquired by the Borrower or such Subsidiary after the date hereof).

11.1.11. Suspension of Business. The Borrower, any Guarantor or any of their respective Subsidiaries shall voluntarily suspend the transaction of its business for more than five (5) Business Days in any Fiscal Year after the date hereof without the prior express written consent of Requisite Lenders.

11.1.12. ERISA. (a) The Borrower or any Commonly Controlled Entity shall engage in any "prohibited transaction" (as defined in ERISA or Section 4975 of the Code) involving any Plan, (b) any "accumulated funding deficiency" (as defined in ERISA), regardless of whether waived, shall exist with respect to any Plan, (c) a Reportable Event shall occur with respect to, or a proceeding shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, any Single Employer Plan, which Reportable Event or proceeding presents a material risk of termination of such Plan for purposes of Title IV of ERISA, and, in the case of a Reportable Event, shall continue unremedied for ten (10) days after notice of such Reportable Event is given pursuant to Section 4043(a), (c) or (d) of ERISA and, in the case of such proceeding, shall continue for ten (10) days after commencement thereof, (d) any Single Employer Plan shall terminate for purposes of Title IV of ERISA, (e) the withdrawal or partial withdrawal by the Borrower or any Commonly Controlled Entity from any Multi-Employer Plan, or (f) the reorganization or insolvency of a Plan or any other event or condition shall occur or exist with respect to a Plan and in each case in clauses (a) through (f) above, such

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event or condition together with all other such events or conditions, if any, would have a Material Adverse Effect.

11.1.13. Validity of Loan Documents. Any of the Loan Documents or any provision thereof, for any reason whatsoever, shall cease to be binding on the Borrower, any Guarantor or any of their respective Subsidiaries as is a party thereto, or the Borrower or any Guarantor shall so assert.

11.1.14. Guaranty Obligations. Any Guarantor shall default in the performance or observance of its guarantee hereunder, or such guarantee for any reason whatsoever shall cease to be a valid and binding obligation of any such Guarantor, or any such Guarantor shall so assert, or NN Italy shall default in the performance or observance of its guarantee under the Italian Guaranty, or such guarantee for any reason whatsoever shall cease to be a valid and binding obligation of NN Italy, or NN Italy shall so assert.

11.1.15. Failure of Lien. Any Security Document, after delivery thereof pursuant to this Agreement, for any reason shall cease to create a valid Lien on any of the Collateral purported to be covered thereby or, after recordation of such Security Document as provided in this Agreement, shall cease to be a perfected and first priority Lien on such Collateral, subject only to Permitted Liens.

11.1.16. Defaults under Material Contracts. Any default or event of default by the Borrower, any Guarantor or NN Italy shall occur under any Material Contract, and, if subject to a cure right, shall fail to be cured or corrected within the applicable cure period.

11.1.17. Material Adverse Change. Any Material Adverse Change shall occur.

11.1.18. Change in Control. An event or series of events shall occur by which (a) any "person" or "group" (within the meaning of Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934), shall become the "beneficial owner" (within the meaning of Rule 13d-3 and/or Rule 13d-5 under the Securities Exchange Act of 1934, except that a Person shall be deemed to have "beneficial ownership" of all shares or other ownership interests, as the case may be, that such Person has the right to acquire without condition, other than the passage of time, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of thirty-five percent (35%) or more of the combined voting power of all securities of the Domestic Borrower entitled to vote in the election of directors, other than securities having such power only by reason of the happening of a contingency (other than the passage of time), or (b) during any period of up to twelve (12) consecutive months, individuals who at the beginning of such period were directors or managers of the Domestic Borrower shall cease for any reason to constitute a majority of the Board of Directors or managers of the Domestic Borrower.

11.1.19. Change in Management. If any two (2) of the following persons shall cease to be active in the day-to-day management of the Domestic Borrower: Roderick R. Baty, David L. Dyckman and William C. Kelly, Jr.

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11.2. Lenders' Remedies. Upon the occurrence of an Event of Default or at any time thereafter, and in each and every case, unless such Event of Default shall have been remedied or waived in writing by Requisite Lenders, any one or all of the following actions may be taken:

(a) upon the request of Requisite Lenders, the Administrative Agent shall, by notice to the Borrower terminate any or all of the Commitments, whereupon such Commitments of the Lenders thereunder immediately shall terminate; provided, however, that upon the occurrence of any event specified in either Section 11.1.6 or Section 11.1.7 the Commitments shall terminate automatically without further action by the Administrative Agent or the Lenders;

(b) upon request of Requisite Lenders, the Administrative Agent shall declare all outstanding Obligations and other amounts owing under this Agreement, the Notes and the other Loan Documents to be due and payable immediately, and all such Obligations and other amounts immediately shall be due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived to the extent permitted by applicable law; provided, however, that upon the occurrence of any event

specified in either Section 11.1.6 or Section 11.1.7 all such Obligations and other amounts immediately shall be due and payable in full without declaration or other notice;

(c) the Administrative Agent immediately, and without expiration of any period of grace, may enforce payment of all Obligations of the Borrower, the Guarantors and NN Italy to the Administrative Agent and the Lenders under this Agreement, the Notes and the other Loan Documents, and the Administrative Agent shall be entitled to all remedies available hereunder or thereunder; and

(d) the Administrative Agent shall be entitled to exercise, for the ratable benefit of the Lenders, all other rights, powers, privileges, options and remedies available under or by virtue of the Loan Documents or otherwise available at law or in equity.

## ARTICLE 12.

### THE AGENTS

12.1. Appointment. Each Lender hereby (a) irrevocably appoints AmSouth as the Administrative Agent for such Lender and the other Lenders under this Agreement, the Notes and the other Loan Documents, and (b) irrevocably authorizes the Administrative Agent to take such action on its behalf under the provisions of this Agreement, the Notes and the other Loan Documents and to exercise such powers and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement, the Notes and the other Loan Documents, together with such other powers as are reasonably incidental thereto. Each Lender hereby (a) irrevocably appoints SunTrust Bank as the Euro Loan Agent for such Lender and the other Lenders under this Agreement, the Notes and the other Loan Documents, and (b) irrevocably authorizes the Euro Loan Agent to take such action on its behalf under the provisions

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of this Agreement, the Notes and the other Loan Documents and to exercise such powers and perform such duties as are expressly delegated to the Euro Loan Agent by the terms of this Agreement, the Notes and the other Loan Documents, together with such other powers as are reasonably incidental thereto. Each Agent shall, among other things, take such actions as such Agent is authorized to take pursuant to this Agreement, the Notes and the other Loan Documents. As to any matters not expressly provided for in this Agreement, the Agents may, but shall not be required to, exercise any discretion or take any action; however, no Agent shall be required to act or to refrain from acting upon the written instructions of Requisite Lenders if such Agent shall be indemnified to its satisfaction by the Lenders against any and all liability and expense that may be incurred by it by reason of so acting or refraining from acting. Notwithstanding anything to the contrary herein, the Agents shall have no duties, responsibilities or fiduciary relationships with any Lender except those expressly set forth in this Agreement, the Notes and the other Loan Documents, and no implied covenants, responsibilities, duties, obligations or liabilities shall be read into this Agreement, the Notes or the other Loan Documents or otherwise exist against the Agents.

12.2. Delegation of Duties. The Agents may exercise any of their respective powers or execute any of their respective duties under this Agreement, the Notes and the other Loan Documents by or through one or more agents or attorneys-in-fact and shall be entitled to obtain, and to rely on, advice of counsel concerning all matters pertaining to such rights and duties. The Agents may utilize the services of such agents and attorneys-in-fact as the Agents in their respective sole discretion reasonably determine, and all reasonable fees and expenses of such agents and attorneys-in-fact shall be paid by the applicable Borrower on demand. No Agent shall be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by such Agent in good faith.

12.3. Limitation of Liability. None of the Agents nor their respective officers, directors, employees, agents, attorneys-in-fact or affiliates shall be (a) liable for any waiver, consent or approval given or any action taken or omitted to be taken by it or by such Person under or in connection with this Agreement, the Notes or the other Loan Documents, if authorized or permitted hereunder, except for its or such Person's own gross negligence or willful misconduct, or (b) responsible for the consequences of any oversight or error in judgment by it or such Person whatsoever, except for its or such Person's own gross negligence or willful misconduct. No Agent shall be responsible for (i) the execution, validity, genuineness, effectiveness, sufficiency, enforceability, perfection or priority of this Agreement, the Notes or the other Loan Documents, (ii) the collectability of any amounts owing under this Agreement, the Notes or the other Loan Documents, (iii) the value, sufficiency, enforceability, perfection or collectability of any Collateral, (iv) the failure by the Borrower, any Guarantor or any of their respective Subsidiaries to perform its obligations under this Agreement, the Notes or the other Loan Documents or to observe any conditions hereof or thereof, (v) the truth, accuracy and completeness of the recitals, statements, representations or warranties made by the Borrower, any Guarantor or any of their respective Subsidiaries or any officer or agent thereof contained in this Agreement, the Notes or the other Loan Documents, or in any certificate, report, statement, document or other writing referred to or provided for in, or received by any Agent in connection with, this Agreement, the Notes or the other Loan Documents believed by any Agent to be genuine and correct and to have been signed, sent or made by the proper Person or Persons.

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12.4. Reliance by the Agents. No Agent shall have any obligation (a) to ascertain or to inquire as to the observance or performance of any of the conditions, covenants or agreements in this Agreement, the Notes or the other Loan Documents or in any document, instrument or agreement at any time constituting, or intended to constitute, Collateral, (b) to ascertain or inquire as to whether any notice, consent, waiver or request delivered to it shall have been duly authorized or is genuine, accurate and complete or (c) to inspect the properties, books or records of the Borrower, any Guarantor or any of their respective Subsidiaries. Each Agent shall be entitled to rely, and shall be fully protected in relying (i) upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, teletype message, statement, order or other document, instrument or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and (ii) upon advice and statements of legal counsel (including counsel to the Borrower or the Guarantors), independent

accountants and other experts selected by such Agent. Each Agent may deem and treat the payee of any Note as the owner thereof for all purposes unless a written notice of the assignment, negotiation or transfer thereof, in accordance with the provisions of this Agreement, shall have been delivered to such Agent identifying the name of the subsequent payee or holder thereof. Each Agent shall be entitled to fail or refuse, and shall be fully protected in failing or refusing, to take any action required or permitted by it under this Agreement, the Notes or the other Loan Documents unless (A) it first shall receive such advice or concurrence of Requisite Lenders as it deems appropriate, or (B) it first shall be indemnified to its satisfaction by the Lenders against any and all liability and expense that may be incurred by it by reason of taking or continuing to take any such action. In all cases each Agent shall be fully protected in acting, or in refraining from acting, under this Agreement, the Notes or the other Loan Documents in accordance with a request of Requisite Lenders, and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Lenders and all future holders of the Notes.

12.5. Notice of Default; Action by Agents. No Agent shall be deemed to have knowledge or notice of the occurrence of any Default unless such Agent has received notice from a Lender, the Borrower, any Guarantor or NN Italy referring to this Agreement, describing such Default and stating that such notice is a "Notice of Default". If any Agent receives such a notice, such Agent shall give telephonic and written notice thereof to the Lenders as soon as is practicable. The Agents shall take such action with respect to an Event of Default as shall be reasonably directed by Requisite Lenders; provided, however, that unless and until any Agent shall have received such directions, such Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Event of Default as it deems advisable in the best interests of the Lenders.

12.6. Non-Reliance on the Agents by the Other Lenders. Each Lender expressly acknowledges that none of the Agents nor any of their officers, directors, employees, agents, attorneys-in-fact or affiliates has made any representations or warranties to such Lender. No Agent shall have any obligation, responsibility or liability to any of the Lenders regarding the creditworthiness or financial condition of the Borrower, any of the Guarantors or any of their respective Subsidiaries or for any recitals, statements, information, representations or warranties herein or in any document, certificate or other writing delivered in connection herewith or for the

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execution, effectiveness, genuineness, validity, enforceability, perfection, collectability, priority or sufficiency of this Agreement or any other Loan Document. No act by any Agent hereinafter taken, including any review of the Borrower, the Guarantors and their respective Subsidiaries, shall be deemed to constitute any representation or warranty by such Agent to any Lender. Each Lender represents to the Agents that, independently and without reliance upon the Agents or any other Lender and based on such documents and information as it has deemed appropriate, it has made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Borrower, the Guarantors and their respective Subsidiaries and has made its own decision to enter into this Agreement and to make its Loans and otherwise participate in the transactions hereunder. Each Lender also represents that, independently and without reliance upon the Agents or any other Lender, and based on such documents and information as it deems appropriate at the time, it shall continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, the Notes and the other Loan Documents and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Borrower, the Guarantors and their respective Subsidiaries. No Agent shall be required to make any inquiry concerning the performance or observance of any of the terms, provisions or conditions of this Agreement or any other Loan Document, or the financial condition of the Borrower, the Guarantors or NN Italy, or the existence or possible existence of any Default. Except for notices, reports and other documents expressly required to be furnished to the Lenders by the Agents hereunder, the Agents shall have no obligation or liability to provide any Lender with any credit or other information concerning the business, operations, property, financial and other condition or creditworthiness of the Borrower, the Guarantors or their respective Subsidiaries that may come into the possession of any Agent or any of its respective officers, directors, employees, agents, attorneys-in-fact or affiliates.

12.7. Indemnification. Each of the Lenders shall indemnify, defend and hold harmless each Agent in its capacity as such (to the extent not reimbursed by the applicable Borrower and without limiting the obligation of the applicable Borrower to do so), ratably according to their respective Percentages, from and against any and all claims, demands, lawsuits, costs, expenses, fees, liabilities, obligations, losses, damages, actions, recoveries, judgments, suits, costs, expenses or disbursements of any kind whatsoever, including interest, penalties and reasonable attorneys' and paralegals' fees and costs and amounts paid in settlement of any of the foregoing, whether direct, indirect, consequential or incidental, that at any time (including at any time following the satisfaction of the Obligations) may be imposed on, incurred by or asserted against the Administrative Agent in any way relating to, resulting from or arising out of this Agreement, the Notes or the other Loan Documents, the transactions contemplated hereby or any action taken or omitted by such Agent under or in connection with any of the foregoing; provided, however, that no Lender shall be liable for the payment of any portion of such claims, demands, lawsuits, costs, expenses, fees, liabilities, obligations, losses, damages, actions, remedies, judgments, suits, costs, expenses or disbursements to the extent such result arose solely from such Agent's gross negligence or willful misconduct. The agreements in this Section 12.7 shall survive the repayment of the Loans and the satisfaction of the other Obligations and shall be in addition to and not in lieu of any other indemnification agreements set forth in the Loan Documents.

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12.8. Payments. If in the opinion of any Agent, the distribution of any amount received by such Agent in such capacity under this Agreement, the Notes or the other Loan Documents might involve it in liability, such Agent may refrain from making the distribution thereof until such Agent's right to make such distribution shall have been adjudicated by a court of competent jurisdiction. If a court of competent jurisdiction shall adjudge that any amount received from and distributed by any Agent in such capacity as Agent is to be repaid, each Person to whom any such distribution shall have been made either (a) shall repay to such Agent its proportionate share of the amount so adjudged

to be repaid, or (b) shall repay the same in such manner and to such Persons as shall be determined by such court.

12.9. Agents in Their Individual Capacity. Each Agent in its individual capacity, and its Affiliates, may make loans and other financial accommodations to, accept deposits from and generally engage in any kind of business with the Borrower or any of the Guarantors and their respective Subsidiaries as though such Agent were not an Agent hereunder. With respect to Loans made or renewed by it and any Notes issued to it, each Agent in its individual capacity shall have the same benefits, rights, powers and privileges under this Agreement, the Notes and the other Loan Documents as any other Lender and may exercise the same as though it were not an Agent, and the terms "Lender", "Lenders" and "Requisite Lenders" shall include such Agent in its individual capacity.

12.10. Successor Agents. Any Agent may resign as such upon thirty (30) days' prior written notice to the Lenders. If the any Agent shall resign as such under this Agreement, then Requisite Lenders shall appoint from among the Lenders a successor agent for the Lenders, which successor agent shall be reasonably acceptable to the Borrower; provided, however, that acceptability to the Borrower shall not be required if a Default has occurred and is continuing. Upon acceptance of its appointment as successor agent, (a) such successor agent shall succeed to the rights, powers, privileges and duties of such Agent, (b) the retiring Agent shall be discharged of all its obligations and liabilities in such capacity under this Agreement, the Notes and the other Loan Documents, (c) the term "Administrative Agent" or "Euro Loan Agent", as the case may be, shall mean such successor agent effective upon its appointment and (d) the retiring Agent's rights, powers and duties as Administrative Agent or Euro Loan Agent, as the case may be, shall be terminated, without any other or further act or deed on the part of such retiring Agent or any of the parties to this Agreement or any holders of the Notes. After any retiring Agent's resignation hereunder as Administrative Agent or Euro Loan Agent, as the case may be, the provisions of this Article 12 shall continue to inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

#### ARTICLE 13.

##### ASSIGNMENTS AND PARTICIPATIONS

13.1. Successors and Assigns. This Agreement, the Notes and the other Loan Documents shall be binding on and shall inure to the benefit of the Borrower, the Guarantors, NN Italy, the Administrative Agent, the Lenders and their respective successors and assigns, except as otherwise provided herein or therein. Neither the Borrower nor the Guarantors may

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assign, transfer, hypothecate or otherwise convey (nor permit NN Italy to assign, transfer hypothecate, or otherwise convey) their respective rights, benefits, obligations or duties hereunder or thereunder without the prior express written consent of the Lenders. Any purported assignment, transfer, hypothecation or other conveyance by the Borrower, NN Italy or the Guarantors without the prior express written consent of all the Lenders shall be void. Neither the Administrative Agent nor any of the Lenders may sell, assign, transfer, grant a participation in or otherwise dispose of all or any portion of its interest in this Agreement, the Notes or the other Loan Documents except as expressly provided herein.

##### 13.2. Assignments.

13.2.1. Assignments. With prior notice to the Borrower, each Lender may assign (other than the sale of a participation) up to one hundred percent (100%) of its right, title and interest under this Agreement, the Notes and the other Loan Documents (including all or a portion of its Commitments and the same portion of the Loans at the time owing to it) to one or more banks or other financial institutions; provided, however, that (a) each such assignment shall be of a constant, and not a varying, percentage of all such Lender's right, title and interest hereunder and thereunder, (b) such share equals no less than \$5,000,000 in the case of any one assignee, (c) any assignee shall execute and deliver to the Administrative Agent an Assignment and Acceptance and a non-refundable assignment fee of \$3,500, and (d) a Lender may not assign any interest without the prior approval of the Administrative Agent and, in the absence of a Default, the Borrower, which approval shall not be unreasonably withheld. Notwithstanding the foregoing, any Lender may assign, as collateral or otherwise, any of its rights (including such Lender's rights to payments of principal and/or interest on the Notes) under this Agreement to any Federal Reserve Bank without notice to or consent of the Administrative Agent or the Borrower.

13.2.2. Effect of Assignments. Upon the sale, assignment, transfer or other disposition (other than the sale of a participation) of any of a Lender's right, title and interest under this Agreement, the Notes and the other Loan Documents to any assignee in accordance with this Section 13.2, then upon the execution, delivery and acceptance of the Assignment and Acceptance, from and after the effective date specified therein, (a) the transferor Lender no longer shall have the rights, benefits and obligations under this Agreement, the Notes or the other Loan Documents to the extent of the interest transferred (except for such rights, benefits and obligations that such Lender would retain under or with respect to this Agreement, the Notes or the other Loan Documents upon payment in full of the Obligations), and (b) the assignee shall become a Lender, shall succeed to the rights and benefits and assume the obligations of such transferor Lender hereunder and thereunder to the extent of the interest transferred.

13.2.3. Actions by the Borrower. The Borrower hereby agrees that it shall execute and deliver, at the request of the Administrative Agent (a) one or more substitute Notes to the order of such Lenders to evidence the portions of the Loans retained and sold and (b) any amendment to any Loan Document to effectuate the provisions of this Section 13.2.

13.3. Participations. Subject to the provisions of this Section 13.3, each Lender shall have the right at any time to sell undivided participating interests in all or any part of its

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Commitments and the Loans to one or more banks or other financial institutions; provided, however, that (a) such sale or transfer shall not relieve such Lender of any obligation or liability hereunder, (b) such Lender shall make and receive all payments for the account of its participants and shall retain exclusively,

and shall continue to exercise exclusively, all rights of approval and administration available hereunder with respect to such Lender's Commitments and the Loans, even after giving effect to the sale of any such participation (although such Lender may at its option agree with its participants that it will not consent to any matter described in clauses (a) through (f) of Section 14.3.4 without their concurrence), and (c) such Lender shall make such arrangements with its participants as may be necessary to accomplish the foregoing. No such participant shall be a Lender for any purpose of this Agreement, other than for purposes of Section 14.13, without the consent of the Administrative Agent.

13.4. Disclosure. In connection with any assignments, participations or offers therefor pursuant to this Article 13, each Lender may disclose to any assignee or participant or prospective assignee or participant such information pertaining to the Borrower, the Guarantors or any of their respective Subsidiaries as such Lender may deem appropriate or such assignee or participant or prospective assignee or participant may request; provided, however, that prior to any such disclosure such assignee or participant or prospective assignee or participant shall agree to preserve the confidentiality of any confidential information relating to the Borrower or its Subsidiaries received by it on the same basis as provided in this Section 13.4.

13.5. Assignments and Participations as Units. No Lender shall assign or sell any participation in its Commitments or the Loans, except in the form of units consisting of pro rata interests in its Commitments and the Loans.

#### ARTICLE 14.

##### GENERAL PROVISIONS

14.1. Notices. Any notice, request, demand or other communication required or permitted under this Agreement, the Notes or the other Loan Documents shall be in writing and shall be deemed to be properly given (a) when received, if personally delivered or sent by overnight courier with appropriate confirmation of delivery, (b) two (2) Business Days after deposit in the mail, if mailed by United States first class, certified or registered mail, postage prepaid, (c) one (1) Business Day after deposit with a public telegraph company for transmittal, charges prepaid, or (d) when received, if given by telecopy, with appropriate confirmation, each to the appropriate address set forth below or to such other address that any such party or the Administrative Agent may designate by written notice to other parties.

If to the Borrower:

NN, Inc.  
NN Euroball ApS  
Building 2, Suite 12

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2000 Water's Edge Drive  
Johnson City, Tennessee 37604  
Attn: William C. Kelly  
Telecopy No. 423/743-2670

with a copy to:

Blackwell Sanders Peper Martin LLP  
13710 FNB Parkway, Suite 200  
Omaha, Nebraska 68154  
Attn: H. Dale Dixon, III  
Telecopy No. 402/964-5050

If to any of the Guarantors:

c/o NN, Inc.  
Building 2, Suite 12  
2000 Water's Edge Drive  
Johnson City, Tennessee 37604  
Attn: William C. Kelly  
Telecopy No. 423/743-2670

If to any of the Lenders:

Their respective addresses as set forth with their signatures on this Agreement.

If to AmSouth as Administrative Agent:

AmSouth Bank  
AmSouth Center  
315 Deaderick Street  
Nashville, Tennessee 37237  
Attn: Corporate Finance  
Telecopy No. 615/748-1501

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with a copy to:

Bass, Berry & Sims PLC  
2700 AmSouth Center  
315 Deaderick Avenue  
Nashville, Tennessee 37237  
Attn: Felix R. Dowsley, III  
Telecopy No. 615/742-6293

If to SunTrust Bank as Euro Loan Agent:

SunTrust Bank  
303 Peachtree St., NE  
Atlanta, Georgia 30303  
Attn: Foreign Exchange Desk  
Telecopy No. 404/827-6348

with a copy to:

King & Spalding LLP  
191 Peachtree St., NE

14.2. Entire Agreement. The execution and delivery of this Agreement and the other Loan Documents supersede all the negotiations or stipulations concerning the matters that preceded or accompanied the execution and delivery hereof and thereof (other than with respect to fees payable pursuant to separate agreements between the Borrower and the Administrative Agent). This Agreement, the Notes and the other Loan Documents also are intended, by the parties hereto and thereto, as a complete and exclusive statement of the terms and conditions hereof and thereof.

14.3. Amendments, Waivers and Consents.

14.3.1. Amendments. Except as otherwise set forth in this Agreement, the provisions of (a) this Agreement may not be modified, amended, restated or supplemented, except by a written instrument duly executed and delivered on behalf of the Borrower, the Guarantors and Requisite Lenders, and (b) the Notes and all Loan Documents other than this Agreement may not be modified, amended, restated or supplemented, except by a written instrument duly executed and delivered on behalf of the Borrower, any of the Guarantors or their respective Subsidiaries, to the extent that the Borrower, any such Guarantor or Subsidiary is a signatory party to such Note or such Loan Document, and on behalf of the Administrative Agent, with the written consent of Requisite Lenders. Notwithstanding anything to the contrary herein, the Administrative Agent and Requisite Lenders may modify, amend, restate, supplement or waive any provision of Article 12 without the consent of the Borrower or any Guarantor.

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14.3.2. Waivers and Consents. Except as otherwise set forth in this Agreement, any waiver of the terms and conditions of this Agreement, the Notes or the other Loan Documents, or any waiver of any Default and its consequences hereunder or thereunder, and any consent or approval required or permitted by this Agreement, the Notes or the other Loan Documents to be given by the Lenders, may be made or given with, but only with, the written consent of Requisite Lenders on such terms and conditions as specified in the written instrument granting such waiver, consent or approval. A waiver, to be effective, must be in writing and signed by the party making the waiver.

14.3.3. Effect of Waivers. In the case of any waiver, the Borrower, the Guarantors, NN Italy the Lenders and the Administrative Agent shall be restored to their former positions and rights under this Agreement, the Notes and the other Loan Documents to the extent of such waiver, and any Default waived shall be deemed to be cured and not continued; provided, however, that no waiver shall constitute the waiver of any subsequent or other Default or impair any right consequent thereon. No failure or delay on the part of the Administrative Agent or any Lender to exercise or enforce any right or remedy under or in connection with this Agreement, the Notes or the other Loan Documents, whether by their respective terms, at law, in equity or otherwise, shall operate as a waiver thereof. No single or partial exercise of any such right or remedy shall preclude other or further exercise thereof or the exercise of any other right or remedy.

14.3.4. Consent of All the Lenders. Without in each instance the prior express written consent of the Administrative Agent and all the Lenders, no such modification, amendment, restatement, supplement, waiver or consent shall:

(a) increase the aggregate Commitments, or increase the Commitment of any Lender without such Lender's approval;

(b) reduce the amounts or extend the dates for the payment of any Credit Fees that are payable ratably to all of the Lenders in accordance with their respective Percentages of the Commitments;

(c) extend the maturity of the Notes or the date of any scheduled principal payments or mandatory prepayments hereunder or thereunder;

(d) reduce the rate or extend the time of payment of interest hereunder or under the Notes;

(e) waive the payment of any principal, interest or Credit Fees payable hereunder or under the Notes;

(f) extend the Revolving Commitment Expiration Date or the Term Loan Maturity Date except as expressly provided for in this Agreement;

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(g) consent to the assignment or transfer by the Domestic Borrower of any of its Domestic Obligations under this Agreement, the Revolving Notes, the Swing Line Note or the Domestic Term Notes or the other Loan Documents;

(h) consent to the assignment or transfer by the Euro Borrower of any of its Euro Obligations under this Agreement, the Euro Term Notes or the other Loan Documents;

(i) release a material portion of the Collateral or release any of the guarantees hereunder, except as expressly provided herein; or

(j) amend or modify the definitions of "Percentages" or "Requisite Lenders" contained in this Agreement.

14.3.5. Binding Effect. Any such modification, amendment, restatement, supplement, waiver or consent shall apply equally to each of the Lenders and shall be binding upon the Borrower, the Guarantors, NN Italy, the Lenders, the Administrative Agent and all future holders of the Notes.

14.4. Independence of Covenants. All covenants hereunder shall be given independent effect so that if a particular action or condition is not permitted by any of such covenants, the fact that it would be permitted by an exception to, or otherwise would be within the limitations of, another covenant shall not avoid the occurrence of a Default if such action is taken or condition exists.

14.5. Interpretation. Neither this Agreement, the Notes or the other Loan Documents, nor any uncertainty or ambiguity herein or therein, shall be construed or resolved against the Administrative Agent, the Lenders, the Borrower, the Guarantors or NN Italy whether under any rule of construction or otherwise. This Agreement, the Notes and the other Loan Documents have been



reviewed by all the parties hereto and thereto and shall be construed and interpreted according to the ordinary meaning of the words used as to accomplish fairly the purposes and intentions of all such parties.

14.6. Inconsistencies With Other Documents. In the event there is a conflict or inconsistency between this Agreement, the Notes or the other Loan Documents, the terms of this Agreement shall control; provided, however, that any provision of the Security Documents that imposes additional burdens on the Borrower, any Guarantor or NN Italy or further restricts the rights of the Borrower, any Guarantor or NN Italy or gives the Lenders additional rights shall not be deemed to be in conflict or inconsistent with this Agreement and shall be given full force and effect.

14.7. Severability. If any portion of this Agreement, the Notes or any of the other Loan Documents shall be judged by a court of competent jurisdiction to be unenforceable, the remaining portions shall be valid and enforceable to the extent that the remaining terms thereof provide for the creation of the Obligations and the consummation of the issuance of the Notes, the grant of collateral security therefor, the guarantee thereof and the payment of principal and

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interest in respect of the Obligations substantially on the same terms and subject to the same conditions as set forth herein and therein.

14.8. Governing Law. This Agreement, the Notes and the other Loan Documents, unless otherwise expressly set forth therein, shall be governed by, construed and enforced in accordance with the laws of the State of Tennessee, without reference to the conflicts or choice of law principles thereof, except to the extent that the laws of a particular jurisdiction govern the creation, perfection, priority and enforcement of liens on and security interests in the Collateral. Notwithstanding the foregoing, if at any time the laws of the United States of America permit any Lender to contract for, take, reserve, charge or receive interest or loan charges in amounts greater than are allowed by the laws of such state (whether such federal laws directly so provide or refer to the law of the state where such Lender is located), then such federal laws shall to such extent govern as to the interest and loan charges that such Lender is allowed to contract for, take, reserve, charge or receive under this Agreement, the Notes and the other Loan Documents. References to laws in this section are to such laws as are now in effect, and, with respect to usury laws, if any, applicable to any Lender and to the extent allowed thereby, to such laws as hereafter may be in effect that allow a higher maximum nonusurious interest rate than such laws now allow.

14.9. CONSENT TO JURISDICTION. THE BORROWER AND EACH GUARANTOR HEREBY IRREVOCABLY CONSENT TO THE PERSONAL JURISDICTION OF THE STATE AND FEDERAL COURTS LOCATED IN DAVIDSON COUNTY, TENNESSEE IN ANY ACTION, CLAIM OR OTHER PROCEEDING ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS AGREEMENT, THE NOTES AND THE OTHER LOAN DOCUMENTS, ANY RIGHTS OR OBLIGATIONS HEREUNDER OR THEREUNDER OR THE PERFORMANCE OF SUCH RIGHTS AND OBLIGATIONS. THE BORROWER AND EACH GUARANTOR HEREBY IRREVOCABLY CONSENT TO THE SERVICE OF A SUMMONS AND COMPLAINT AND OTHER PROCESS IN ANY ACTION, CLAIM OR PROCEEDING BROUGHT BY THE ADMINISTRATIVE AGENT OR ANY LENDER IN CONNECTION WITH THIS AGREEMENT, THE NOTES OR THE OTHER LOAN DOCUMENTS, ANY RIGHTS OR OBLIGATIONS HEREUNDER OR THEREUNDER OR THE PERFORMANCE OF SUCH RIGHTS AND OBLIGATIONS, ON BEHALF OF ITSELF OR ITS PROPERTY, IN THE MANNER SPECIFIED IN SECTION 14.1. NOTHING IN THIS SECTION 14.9 SHALL AFFECT THE RIGHT OF THE ADMINISTRATIVE AGENT OR ANY LENDER TO SERVE LEGAL PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR AFFECT THE RIGHT OF THE ADMINISTRATIVE AGENT OR ANY LENDER TO BRING ANY ACTION OR PROCEEDING AGAINST THE BORROWER, ANY OF THE GUARANTORS OR THEIR RESPECTIVE PROPERTIES IN THE COURTS OF ANY OTHER JURISDICTIONS.

14.10. WAIVER OF JURY TRIAL. THE ADMINISTRATIVE AGENT, EACH LENDER, THE BORROWER AND EACH GUARANTOR HEREBY IRREVOCABLY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL WITH RESPECT TO ANY ACTION, CLAIM, COUNTERCLAIM OR OTHER PROCEEDING ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS AGREEMENT, THE NOTES OR THE OTHER LOAN DOCUMENTS, ANY RIGHTS OR OBLIGATIONS HEREUNDER OR

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THEREUNDER OR THE PERFORMANCE OF SUCH RIGHTS AND OBLIGATIONS. The scope of this waiver is intended to be all-encompassing with respect to any and all disputes that may be filed in any court and that relate to the subject matter of this transaction, including without limitation contract claims, tort claims, breach of duty claims and all other common law and statutory claims. Each of the parties hereto (a) acknowledges that this waiver is a material inducement for the parties to the Loan Documents to enter into a business relationship, that the parties to the Loan Documents have already relied on this waiver in entering into same and the transactions that are the subject thereof, and that they will continue to rely on this waiver in their related future dealings, and (b) further warrants and represents that each has reviewed this waiver with its legal counsel and that each knowingly and voluntarily waives its jury trial rights following consultation with legal counsel. This waiver is irrevocable, meaning that it may not be modified either orally or in writing, and this waiver shall apply to any subsequent amendments, modifications, supplements, extensions, renewals and/or replacements of this Agreement. In the event of litigation, this Agreement may be filed as a written consent to a trial by the court.

14.11. Cumulative Remedies. All rights and remedies provided in or contemplated by this Agreement, the Notes and the other Loan Documents are cumulative and not exclusive of any right or remedy otherwise provide herein, therein, at law or in equity.

14.12. Expenses of Administration and Enforcement. The Domestic Borrower shall pay on demand all reasonable expenses of the Administrative Agent in connection with this Agreement, the Notes and the other Loan Documents, and the preparation of any modifications, amendments, restatements, supplements or waivers, including all attorneys' and paralegals' fees and expenses, all fees and expenses for title, lien and other public records searches, filing and recordation fees and taxes, duplicating expenses, corporation search fees, appraisal fees, escrow agent fees and expenses, and all other customary expenses. The Domestic Borrower shall pay on demand all expenses of the Lenders for the conversion of Dollars to Euros in connection with the funding of the Euro Term Loans. If a Default shall occur, all reasonable out-of-pocket expenses incurred by the Lenders and the Administrative Agent (including administrative expenses of the Administrative Agent and the Lenders and reasonable fees and disbursements of outside counsel) in connection with such Default and collection and other enforcement proceedings (including bankruptcy proceedings) resulting

therefrom shall be paid by the applicable Borrower, regardless of whether suit is actually commenced to obtain any relief provided hereunder. The Domestic Borrower shall indemnify, defend and hold harmless the Administrative Agent and each of the Lenders from and against any and all documentary or filing taxes, assessments or charges by any Governmental Authority by reason of the execution and delivery of this Agreement, the Notes and the other Loan Documents and the consummation of the transactions that are the subject thereof.

14.13. Indemnification. The Borrower and each of the Guarantors, jointly and severally, shall indemnify, defend and hold harmless the Administrative Agent and the Lenders (to the fullest extent permitted by law) from and against any and all claims, demands, lawsuits, costs, expenses, fees, obligations, liabilities, losses, damages, recoveries and deficiencies, including interest, penalties and reasonable attorneys' and paralegals' fees and costs and amounts paid in settlement of any of the foregoing, whether direct, indirect, consequential or incidental, that the Administrative Agent and the Lenders may incur or suffer or that may arise out of, result from or

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relate to (a) this Agreement, the Notes or the other Loan Documents or the transactions contemplated hereby or thereby (excluding actions arising out of the Administrative Agent's or the Lenders' own gross negligence or willful misconduct and actions arising out of claims made by the Administrative Agent or any Lender against any of the others), or (b) any action under this Agreement, the Notes or the other Loan Documents or the transactions contemplated hereby or thereby (excluding actions arising out of the Administrative Agent's or the Lenders' own gross negligence or willful misconduct and actions arising out of claims made by the Administrative Agent or any Lender against any of the others); provided, however, in no event shall Euro Borrower have any indemnity obligations in respect of the Domestic Obligations. In no event shall the Administrative Agent or any Lender be liable to the Borrower or any of the Guarantors for any matter or thing in connection with this Agreement, the Notes or the other Loan Documents other than to account for monies actually received by them in accordance with the terms hereof. This Section 14.13 shall survive termination of this Agreement.

14.14. Adjustment. Except with respect to payments on account of Swing Line Loans, if any Lender (a "benefitted Lender") at any time shall receive any payment of all or part of its Loans or the interest thereon or receive any collateral therefor, whether voluntarily or involuntarily, by set-off or otherwise, in an amount proportionately greater than any corresponding payment to or collateral received by any other Lender in respect of such other Lender's Loans or the interest thereon, such benefitted Lender shall purchase for cash from the other Lenders such portion of each Lender's Loans, or shall provide such other Lenders with the benefits of any such collateral, or the proceeds thereof, as shall be necessary to cause such benefitted Lender to share the excess payment or benefits of such collateral or proceeds ratably with each of the Lenders; provided, however, that if all or any portion of such excess payment or benefits thereafter is recovered from such benefitted Lender or set aside, such purchase shall be rescinded and the purchase price and benefit returned to the extent of such recovery, but without interest. Each Lender so purchasing a portion of another Lenders' Loans may exercise all rights of payment (including rights of setoff) with respect to such portion as fully as if such Lender were the direct holder of such portion.

14.15. Setoff.

In addition to any rights and remedies of the Lenders provided by law, the Lenders each shall have a security interest in any and all deposits of the Borrower and the Guarantors (general or special, time or demand, provisional or final) at any time held by any Lender or any Affiliate thereof, which security interest shall secure the Obligations. Upon the occurrence and during the continuance of any Event of Default, with the consent of the Administrative Agent without prior notice to the Borrower or the Guarantors, any notice being specifically waived by the Borrower and the Guarantors to the fullest extent permitted by applicable law, each Lender may set off and apply against any indebtedness, whether matured or unmatured, of the Borrower or any Guarantor to the Lenders, any amount owing from any Lender or any Affiliate thereof to the Borrower or any Guarantor at, or at any time after, the occurrence of an Event of Default (and each Affiliate of any Lender is irrevocably authorized to permit such setoff and application), and the aforesaid right of setoff may be exercised by any Lender against the Borrower or the Guarantors or against any trustee in bankruptcy, debtor in possession, assignee for the benefit of creditors, receiver or execution, judgment, or attachment creditor of the Borrower or any Guarantor, or against anyone else claiming through or against the Borrower or any such

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Guarantor or such trustee in bankruptcy, debtor in possession, assignee for the benefit of creditors, receiver or execution, judgment or other attachment creditor, notwithstanding the fact that such right of setoff shall not have been exercised by any Lender prior to the making, filing or issuance, or service upon any Lender of, or of notice of, any such petition, assignment for the benefit of creditors, appointment or application for the appointment of a receiver, or issuance of execution, subpoena, order or warrant. Each Lender promptly shall notify the Borrower or the Guarantors and the Administrative Agent after any such setoff and application made by any Lender; provided, however, that failure to give such notice shall not affect the validity of such setoff and application. Notwithstanding anything herein to the contrary, in no event shall any of the deposits of the Euro Borrower held by any Lender or any Affiliate thereof be set off and applied against the Domestic Obligations.

14.16. Other Accommodations to the Borrower and the Guarantors; No Rights By Virtue of Cross-Collateralization.

(a) Each Lender (including the Administrative Agent) may, without notice to or consent by any other Lender, make or participate in loans, extensions of credit or other financial accommodations to or for the benefit of the Borrower and/or any of its Subsidiaries on any terms that it deems desirable, and engage in other business transactions, in the same manner as if this Agreement were not in existence, all without limiting, waiving or otherwise impairing any rights of such Lender or any other Lender under this Agreement. Without limiting the generality of the foregoing, the Lenders acknowledge and agree that so long as a Lender acts in good faith and the other Lenders' interests in the Obligations and the Collateral are not impaired thereby, (i) such Lender may be preferred or secured in any manner that it deems advisable with respect to such other loans, extensions of credit, financial accommodations and transactions,

(ii) such Lender shall be under no obligation to collect or attempt to collect any payments in respect of the Obligations in preference to the collection or enforcement of any other borrowings or obligations of the Borrower and/or its Subsidiaries to such Lender, and (iii) any amounts collected by such Lender from the Borrower and/or its Subsidiaries that are not expressly designated (or reasonably determinable to be intended) as being in payment of the Obligations may be applied to any of the obligations of such Person to such Lender in any manner deemed appropriate by such Lender.

(b) (i) The Lenders acknowledge and agree that the Collateral constitutes all of the collateral security for the Euro Obligations and that, as among themselves, no Lender shall have any interest in (i) any property or interests of the Borrower or any of its Subsidiaries, other than the Collateral, that now or hereafter secures loans, extensions of credit, other financial accommodations and other transactions (excluding the Euro Obligations), of the Borrower or any of its Subsidiaries with any other Lender, whether entered into directly or acquired by such Lender, (ii) any property of the Borrower or any of its Subsidiaries, other than the Collateral, now or hereafter in the possession or control of any other Lender, (iii) any deposit, not constituting Collateral, now or hereafter held by any other Lender, or (iv) any other indebtedness now or hereafter owing to any other Lender; any of which may be or become security for or otherwise available for payment or performance of the Euro Obligations by reason of any cross-collateralization or any general description of secured indebtedness(es) and/or obligation(s) contained in any

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mortgage, security agreement or other security instrument or agreement held by any Lender, or by reason of the right of setoff, counterclaim or otherwise. Notwithstanding the foregoing, if any such property, deposit or indebtedness, or any proceeds thereof, in the discretion of the Lender holding same, is applied to the reduction of the Euro Obligations, then all of the Lenders shall be entitled to their respective Percentages of such application in the manner provided in Sections 3.3 and 14.14.

(c) (ii) The Lenders acknowledge and agree that the Domestic Collateral constitutes all of the collateral security for the Domestic Obligations and that, as among themselves, no Lender shall have any interest in (i) any property or interests of the Domestic Borrower or any of its Subsidiaries, other than the Domestic Collateral, that now or hereafter secures loans, extensions of credit, other financial accommodations and other transactions (excluding the Domestic Obligations), of the Domestic Borrower or any of its Subsidiaries with any other Lender, whether entered into directly or acquired by such Lender, (ii) any property of the Domestic Borrower or any of its Subsidiaries, other than the Domestic Collateral, now or hereafter in the possession or control of any other Lender, (iii) any deposit, not constituting Domestic Collateral, now or hereafter held by any other Lender, or (iv) any other indebtedness now or hereafter owing to any other Lender; any of which may be or become security for or otherwise available for payment or performance of the Domestic Obligations by reason of any cross-collateralization or any general description of secured indebtedness(es) and/or obligation(s) contained in any mortgage, security agreement or other security instrument or agreement held by any Lender, or by reason of the right of setoff, counterclaim or otherwise. Notwithstanding the foregoing, if any such property, deposit or indebtedness, or any proceeds thereof, in the discretion of the Lender holding same, is applied to the reduction of the Domestic Obligations, then all of the Lenders shall be entitled to their respective Percentages of such application in the manner provided in Sections 3.3 and 14.14.

14.17. Survival of Representations and Warranties. All representations and warranties of the Borrower and the Guarantors set forth in this Agreement, the Notes and the other Loan Documents and in any other certificate, opinion or other statement provided at any time by or on behalf of the Borrower and the Guarantors in connection herewith shall survive the execution of the delivery of this Agreement, the Notes and the other Loan Documents, the purchase and sale of the Notes hereunder and the payment or other satisfaction of the Obligations.

14.18. Relationship of the Parties. None of the Administrative Agent or the Lenders shall be deemed partners or joint venturers with the Borrower or the Guarantors or any Affiliate thereof in making this Agreement or by any action taken hereunder. The Borrower and the Guarantors, jointly and severally, shall indemnify, defend and hold harmless the Lenders and the Administrative Agent from and against any and all claims, demands, lawsuits, costs, expenses, fees, obligations, liabilities, losses, damages, recoveries and deficiencies, including interest, penalties and reasonable attorneys' fees and costs, whether direct, indirect, consequential or incidental, that the Lenders or the Administrative Agent may incur or suffer or that may arise out of, result from or relate to such a construction of the parties and their relationship; provided, however, the Euro Borrower shall have no such obligation to the Administrative Agent and the

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Lenders with respect to any obligations of the Domestic Borrower hereunder. This Section 14.18 shall survive termination of this Agreement.

14.19. Destruction of Records. Any documents, schedules, invoices or other papers delivered to the Administrative Agent or the Lenders at their option may be destroyed or otherwise disposed of by them six (6) months after they are delivered to or received by them, unless the Borrower or any Guarantor requests, in writing, the return of such documents, schedules, invoices or other papers and makes reasonably acceptable arrangements, at the Borrower's or such Guarantor's expense, for their return.

14.20. Execution in Counterparts; Effectiveness.

(a) This Agreement may be executed in multiple counterparts, each of which shall be deemed an original hereof for all purposes, but all of which together shall constitute one and the same document. One or more counterparts of this Agreement may be executed by one or more of the parties hereto, and some different counterparts or copies executed by other parties. Each counterpart hereof executed by any party hereto shall be binding upon the party executing same even though other parties may execute one or more different counterparts, and all counterparts hereof so executed shall constitute but one and the same agreement. Each party hereto, by execution of a counterpart hereof, expressly authorizes and directs any

other party hereto to detach the signature pages (and any corresponding acknowledgment pages) thereof from the counterpart hereof executed by the authorizing party and affix same to another identical counterpart hereof such that upon execution of multiple counterparts hereof by all parties hereto, there shall be one counterpart hereof to which is attached the signature pages (and any corresponding acknowledgment pages) containing signatures (and acknowledgments) of all parties hereto.

(b) This Agreement shall become effective when (i) the Administrative Agent shall have received counterparts or signature pages executed by the Borrower, the Guarantors, the Administrative Agent and the Lenders, or (ii) in the case of any Lender, the Administrative Agent shall have received telecopied notice from such Lender that it has executed a counterpart hereof or signature page hereto and forwarded the same to the Administrative Agent by first class, registered or certified mail as set forth in Section 14.1. A set of the copies of this Agreement or counterparts signed by all of the parties shall be lodged with the Borrower, on behalf of itself and the Guarantors, and the Administrative Agent.

14.21. Interest and Loan Charges Not to Exceed Maximum Amounts Allowed by Law. It is the intention of the Borrower and the Lenders to conform strictly to all laws applicable to the Lenders that govern or limit the interest and loan charges that may be charged in respect of the Obligations. Anything in this Agreement, the Notes or any of the other Loan Documents to the contrary notwithstanding, in no event whatsoever, whether by reason of advancement of proceeds of the Loans, acceleration of the maturity of the unpaid balance of any of the Obligations or otherwise, shall the interest and loan charges agreed to be paid to any of the Lenders for the use of the money advanced or to be advanced hereunder exceed the maximum

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amounts collectible by such Lender pursuant to applicable law. If for any reason whatsoever the interest or loan charges paid or contracted to be paid by the Borrower to any of the Lenders in respect of the Obligations shall exceed the maximum amounts collectible under the law applicable to such Lender, then, in that event, and notwithstanding anything to the contrary in this Agreement, the Notes or any other Loan Document: (a) the aggregate of all consideration that constitutes interest or loan charges under the law applicable to such Lender that is contracted for, taken, reserved, charged or received under this Agreement, the Notes or any other Loan Document or otherwise in connection with the Obligations under no circumstances shall exceed the maximum amounts allowed by such applicable law, and any excess shall be credited by such Lender on the principal amount of the Obligations (or, to the extent the principal amount outstanding under this Agreement, the Notes and the other Loan Documents has been or thereby would be paid in full, refunded to the Borrower); and (b) in the event that the maturity of any or all of the Obligations is accelerated by reason of an election of the Lenders resulting from any Default under this Agreement or otherwise, or in the event of any required or permitted prepayment, then such consideration that constitutes interest or loan charges under the law applicable to any Lender may never include more than the maximum amounts allowed by the law applicable to such Lender, and any excess interest or loan charges provided for in this Agreement or otherwise shall be canceled automatically as of the date of such acceleration or prepayment and, if theretofore paid, shall be credited by such Lender on the principal amount of the Obligations (or, to the extent the principal amount of the Obligations has been or thereby would be paid in full, refunded by such Lender to the Borrower). All sums paid or agreed to be paid to the Lenders for the use, forbearance or detention of sums due hereunder shall, to the extent permitted by applicable law, be prorated, allocated and spread throughout the full term of the Obligations until payment in full so that the rate or amount of interest and loan charges on account of the Obligations will not exceed any applicable legal limitation. The right to accelerate the maturity of the Obligations does not include the right to accelerate the maturity of any interest or loan charges not otherwise accrued on the date of such acceleration, and the Lenders do not intend to charge or collect any unearned interest or loan charges in the event of any such acceleration.

14.22. Final Agreement. This written agreement represents the final agreement between the parties and may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements of the parties. There are no unwritten oral agreements between the parties.

14.23. Amendment and Restatement. This Agreement constitutes an amendment and restatement of that certain Credit Agreement dated as of July 20, 2001 by and among Domestic Borrower, the Lenders party thereto, Bank One, Kentucky, NA as Co-Agent and AmSouth as Administrative Agent, as amended from time to time.

14.24. Judgment Currency.

(a) Each of the Borrower's, Guarantor's and NN Italy's obligations hereunder and the other Loan Documents to make payments in a particular currency as the case may be (the "Obligation Currency") shall not be discharged or satisfied by any tender or recovery in any currency other than the Obligation Currency, whether pursuant to any judgment expressed in or converted into another currency or otherwise, except to the

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extent that such tender or recovery, when converted to the Obligation Currency under normal banking procedures, actually results in the effective receipt by any Agent or a Lender of the full amount of the Obligation Currency expressed to be payable to such Agent or such Lender under this Agreement or the other Loan Documents. If for the purpose of obtaining or enforcing judgment against any Borrower, the Guarantors or NN Italy in any court or in any jurisdiction, it becomes necessary to convert an amount due in the Obligation Currency into another currency (the "Judgment Currency"), the rate of exchange that shall be applied shall be that at which in accordance with normal banking procedures the applicable Agent could purchase the Obligation Currency with the Judgment Currency on the Business Day next preceding that on which such judgment is rendered (the "Judgment Currency Conversion Date").

(b) If there is a change in the rate of exchange prevailing between the Judgment Currency Conversion Date and the date of actual payment of the amount due, the Borrower and the Guarantors, as a separate obligation and notwithstanding such judgment, indemnify the Agents and the Lenders for, and covenant and agree to pay, or cause to be paid, such additional amounts, if any (but in any event not a lesser amount), as may be necessary

to ensure that the amount paid in the Judgment Currency, when converted at the rate of exchange quoted by the Euro Loan Agent at its prevailing rate for such currency exchange on the date of payment under normal banking practices, will produce the amount of the Obligation Currency which could have been purchased with the amount of Judgment Currency stipulated in the judgment or judicial award at the rate of exchange prevailing on the Judgment Currency Conversion Date.

(c) For purposes of determining the currency equivalent for this Section, such amounts shall include any premium and costs payable in connection with the purchase of the Obligation Currency.

14.25. Dollar Equivalent Computations. Unless otherwise provided herein, to the extent that the determination of compliance with any requirement of this Agreement requires the conversion to Dollars of foreign currency amounts, such Dollar amount shall be computed using the Dollar Equivalent of the amount of such foreign currency at the time such item is to be calculated or is to be or was incurred, created or suffered or permitted to exist, or assumed or transferred or sold for purposes of this Agreement (except if such item was incurred, created or assumed, or suffered or permitted to exist or transferred or sold prior to the Closing Date, such conversion shall be made based on the Dollar Equivalent of the amounts of such foreign currency at the date hereof).

14.26. Euro Equivalent Computations. Unless otherwise provided herein, to the extent that the determination of compliance with any requirement of this Agreement requires the conversion of amounts in Dollar to Euros, such Euro amount shall be computed using the Euro Equivalent of the amount of Dollars at the time such item is to be calculated or is to be or was incurred, created or suffered or permitted to exist, or assumed or transferred or sold for purposes of this Agreement (except if such item was incurred, created or assumed, or suffered or permitted to exist or transferred or sold prior to the Closing Date, such conversion shall be made based on the Euro Equivalent of the amounts of such Dollars at the date hereof).

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the date first written above.

**BORROWER:**

NN, INC.,  
a Delaware corporation

By: /s/ David L. Dyckman

-----  
Name: David L. Dyckman

-----  
Title: VP & CFO

NN EUROBALL ApS

By: /s/ David L. Dyckman

-----  
Name: David L. Dyckman

-----  
Title: Director

**GUARANTORS:**

INDUSTRIAL MOLDING GP, LLC,  
a Delaware limited liability company

By: /s/ David L. Dyckman

-----  
Name: David L. Dyckman

-----  
Title: Manager

INDUSTRIAL MOLDING LP, LLC,  
a Tennessee limited liability company

By: /s/ William C. Kelly, Jr.

-----  
Name: William C. Kelly, Jr.

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Title: Manager

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INDUSTRIAL MOLDING GROUP, L.P.,  
a Tennessee limited partnership

By: Industrial Molding GP, LLC, a Delaware  
limited liability company, its general partner

By: /s/ David L. Dyckman

-----  
Name: David L. Dyckman

-----  
Title: Manager

DELTA RUBBER COMPANY,  
a Connecticut corporation

By: /s/ David L. Dyckman  
-----  
Name: David L. Dyckman  
-----  
Title: Vice President  
-----

KUGELFERTIGUNG ELTMANN GmbH, a  
German Company

By: /s/ Erich Graser  
-----  
Name: Erich Graser  
-----  
Title: Geschäftsführer  
-----

By: /s/ Wolfgang Bartel  
-----  
Name: Wolfgang Bartel  
-----  
Title: Geschäftsführer  
-----

NN NETHERLANDS B.V., a Dutch company

By: /s/ David L. Dyckman  
-----  
Name: David L. Dyckman  
-----  
Title: Director  
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NN MEXICO, LLC, a Delaware limited liability  
company

By: /s/ William C. Kelly, Jr.  
-----  
Name: William C. Kelly, Jr.  
-----  
Title: Manager  
-----

NN ARTE S. De R.L. De C.V., a Mexican company

By: /s/ William C. Kelly, Jr.  
-----  
Name: William C. Kelly, Jr.  
-----  
Title: Chairman  
-----

NN EUROBALL IRELAND LIMITED, an Irish company

By: /s/ Robert R. Sams  
-----  
Name: Robert R. Sams  
-----  
Title: Director  
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[Lender's Signature Page to NN, Inc.  
Credit Agreement dated May 1, 2003]

AMSOUTH BANK, as a Lender and as  
Administrative Agent

By: /s/ Robert Page  
-----  
Name: Robert Page  
-----  
Title: VP  
-----

Address: AmSouth Bank  
AmSouth Center  
315 Deaderick Street  
Nashville, Tennessee 37237  
Attn: Corporate Finance  
Telecopy No. 615/748-1501

Initial Commitment: \$31,500,000  
\*(subject to Section 2.1.1)

Percentage 35.0%

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[Lender's Signature Page to NN, Inc.  
Credit Agreement dated May 1, 2003]

FIRST TENNESSEE BANK NATIONAL  
ASSOCIATION, as a Lender

By: /s/ Vincent K. Hickam  
-----  
Name: Vincent K. Hickam  
-----  
Title: Executive Vice President  
-----

Address: First Tennessee Bank National  
Association  
2112 North Roan Street  
P. O. Box 1596  
Johnson City, TN 37605  
Attn: Vince Hickam  
Telecopy No. 423/461-1208

Initial Commitment: \$8,500,000  
\*(subject to Section 2.1.1)

Percentage: 9.4444445%

[Lender's Signature Page to  
NN, Inc.  
Credit Agreement dated May 1, 2003]

UNION PLANTERS BANK, NATIONAL  
ASSOCIATION as a Lender

By: /s/ Carol S. Geraghty  
-----  
Name: Carol S. Geraghty  
-----  
Title: Vice President  
-----

Address: Union Planters Bank, National  
Association  
401 Union Street  
Nashville, TN 37219  
Attn: Kathleen L. Nelson  
Telecopy No. 615/726-4274

Initial Commitment: \$15,000,000  
\*(subject to Section 2.1.1)

Percentage: 16.6666667%

[Lender's Signature Page to  
NN, Inc.  
Credit Agreement dated May 1, 2003]

INTEGRA BANK, N.A., as a Lender

By: /s/ Jeffrey S. Nurkiewicz  
-----  
Name: Jeffrey S. Nurkiewicz  
-----  
Title: Senior Vice President  
-----

Address: Integra Bank, N.A.  
21 S.E. Third Street  
P. O. Box 868  
Evansville, IN 47705  
Attn: Jeffrey S. Nurkiewicz  
Telecopy No. 812/464-9691

Initial Commitment: \$10,000,000  
\*(subject to Section 2.1.1)

Percentage: 11.1111111%

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[Lender's Signature Page to  
NN, Inc.  
Credit Agreement dated May 1, 2003]

SUNTRUST BANK, as a Lender

By: /s/ William E. Edwards III

-----  
Name: William E. Edwards, III

-----  
Title: Group Vice President

Address: SunTrust Bank  
207 Mockingbird Lane  
Johnson City, TN 37604  
Attn: William E. Edwards  
Telecopy No. 423/434-0338

Initial Commitment: \$25,000,000

\*(subject to Section 2.1.1)

Percentage: 27.7777777%

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## SCHEDULES AND EXHIBITS

### Schedules

Schedule 7.1	Borrower, Guarantors and Subsidiaries - Capitalization and Jurisdictions of Incorporation and Foreign Qualification
Schedule 7.3	Post-Closing Consents
Schedule 7.4	Conflicts
Schedule 7.6	Pending Litigation
Schedule 7.17A	Indebtedness
Schedule 7.17B	Contingent Obligations
Schedule 7.18A	Business Locations
Schedule 7.18B	Trade Names
Schedule 7.25	Environmental Matters
Schedule 7.26	Material Contracts
Schedule 9.4	Existing Investments

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### Exhibits

<u>Exhibit</u> 1.1A	Form of Supplement to Credit Agreement
<u>Exhibit</u> 1.1B	Form of Subordination Provisions
<u>Exhibit</u> 2.2.5	Form of Notice of Borrowing
<u>Exhibit</u> 2.4.2	Form of Notice of Conversion/Continuation
<u>Exhibit</u> 2.5A	Form of Revolving Note
<u>Exhibit</u> 2.5B	Form of Domestic Term Note
<u>Exhibit</u> 2.5C	Form of Swing Line Note
<u>Exhibit</u> 2.5D	Form of Euro Term Note
<u>Exhibit</u> 4.1A	Form of Pledge Agreement
<u>Exhibit</u> 4.1B	Form of Stock Pledge Agreement
<u>Exhibit</u> 4.1C	Form of Italian Guaranty
<u>Exhibit</u> 6.1.1A	Form of Opinion of Counsel to the Borrower and the Guarantors
<u>Exhibit</u> 6.1.1B	Form of Solvency Certificate of Borrower
<u>Exhibit</u> 6.1.1C	Form of Solvency Certificate of Guarantors
<u>Exhibit</u> 13.2	Form of Assignment and Acceptance





SUPPLY AGREEMENT

between

**Euroball Aps**

and

**AB SKF**

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This SUPPLY AGREEMENT is entered into as of April 6, 2000 by and between

Euroball Aps, reg. No. 10020417, a limited liability company duly incorporated, organized and existing under the laws of Denmark (hereinafter called "Euroball"), and

AB SKF, reg. no. 556007-3495, a limited liability company duly incorporated, organised and existing under the laws of Sweden (hereinafter called "SKF");

The above parties are individually referred to as a "Party" and collectively as the "Parties".

WITNESSETH:

WHEREAS Euroball and its Affiliates (as defined below) are manufacturing the Products (as defined below);

WHEREAS SKF and certain of its Affiliates use the Products in their production of ball bearings and other products;

WHEREAS SKF holds 23 per cent of the shares in Euroball A.S.;

WHEREAS Euroball and its Affiliates have got ball manufacturing units in Eltmann (Germany), Pinerolo (Italy) and Kilkenny (Ireland) (the "EB Facilities");

WHEREAS the Parties wish to establish a long term close relation relating to the

supply of the Products;

WHEREAS the Parties now wish to record the detailed basis upon which Euroball will supply the Products to SKF.

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NOW THEREFORE, the Parties have agreed as follows.

**1. DEFINITIONS**

- 1.1 "Agreement" means this document, the Exhibits annexed hereto and SKF Supplier Delivery Concept (as amended from time to time).
- 1.2 "Contract Year" means the six consecutive 12 month periods beginning upon signing of this Agreement and ending at the expiration thereof.
- 1.3 "Euroball Group" means the group of companies of which Euroball from time to time is the ultimate parent company.
- 1.4 "Euroball Affiliate" shall mean any company belonging to the Euroball Group other than Euroball.
- 1.5 "Force Majeure" shall mean industrial disputes and any other circumstance beyond the control of a Party such as fire, war (whether declared or not), extensive military mobilization, insurrection, requisition, seizure, embargo, and restrictions in the use of power.
- 1.6 "Euroball Supply Unit" shall mean any production unit of any company within the Euroball Group.
- 1.7 "New Product" shall mean a new size and/or a new grade.
- 1.8 "Products" means the Euroball products set forth in Exhibit 1.8 hereto, whenever applicable as amended pursuant to Section 3 below.

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- 1.9 "SKF Affiliate" shall mean any company belonging to the SKF Group other than SKF.
- 1.10 "SKF Group" means the group of companies of which AB SKF from time to time is the ultimate parent company.
- 1.11 "SKF Production Unit" shall mean the production unit of the companies within the SKF Group listed in Exhibit 1.11.
- 1.12 "Specification" means the technical specification for each of the Products specified in the SKF Material Specifications (Exhibit 1.12) as amended from time to time.
- 1.13 "Supply Channel Contract" shall have the meaning set forth in Section 6 below.

**2. SUPPLY AND PURCHASE OF PRODUCTS**

- 2.1 Pursuant to the terms of this Agreement, Euroball hereby agrees to manufacture and supply to SKF the Products ordered by SKF, and SKF agrees to purchase from Euroball the Products ordered by SKF hereunder.
- 2.2 Total ball purchases by SKF Production Units located in Europe were [\*] Euro in 1999 ("1999 Euro Total") and [\*] tons (the "1999 Tonnage"). Of those amounts, [\*] Euro (the "EB purchase Level") and [\*] tons (the "EB Tonnage Level") were purchased from NN Ball & Roller, Inc. USA and the EB Facilities. SKF shall, in each Contract Year purchase from Euroball (deducted purchases made by SKF Production Units located in Europe from NN Ball & Roller USA) at least, either the EB Purchase Level or the EB Tonnage. If in any Contract Year actual total ball

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purchases by SKF Production Units located in Europe change from the 1999 Euro Total or the 1999 Tonnage the EB Purchase Level and the EB Tonnage Level, shall be changed proportionately. SKF shall provide annual reports to Euroball detailing total ball purchases (in value as expressed in euro and pieces by size) by SKF Production Unit located in Europe.

Total SKF 1999 ball purchases from the EB Facilities for its bearing production outside of Europe were [\*] Euro and [\*] tons and SKF shall, in each Contract Year purchase at least either of such amounts from Euroball subject to variations in purchase requirements due to market conditions.

The obligations in this Section 2.2 shall not apply in relation to SKF's requirement of Products intended for manufacture of any products by SKF to be supplied in countries or to certain customers where SKF, at SKF's reasonable discretion, needs to fulfil demands concerning local content and the Products do not fulfil such demands for local content. SKF shall in such case give written evidence to Euroball showing these requirements and SKF agrees to make best effort to use all other component parts to meet the requirements before it uses balls to meet the requirements.

SKF shall not be deemed to be in breach of this Section 2.2 if the breach is due to Euroball or a Force Majeure situation.

- 2.3 Euroball itself or with its approved subcontractors shall reserve and/or maintain sufficient capacity to meet all of SKF's requirements of Products in both peak and down time market conditions, and shall ensure the timely deliveries of the Products.

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- 2.4 Euroball shall, after prior written approval by SKF, have the right to use sub-contractors when manufacturing Products to be sold to SKF under this Agreement. The use of such subcontractors will not relieve Euroball from the responsibility for ensuring the quality of the subcontractors' material, parts and services. SKF confirm that, at the date of this

Agreement, NN Ball & Roller, Inc. ("NNBR") should be considered as an approved subcontractor.

- 2.5 In case Euroball divests a Euroball Supply Unit (through a sale of shares or assets or otherwise, or through a merger or joint venture with a third party), Euroball shall prior to such divestiture (i) confirm to SKF that Euroball and its approved subcontractors have sufficient capacity to replace the divested capacity or (ii) cause the entity which will own such Euroball Supply Unit following such divestiture to be bound towards SKF to continue to supply Products pursuant to the conditions of this Agreement during the term hereof, and to confirm to SKF that it will be so bound.
- 2.6 In case SKF determines to shift production from SKF Production Units located in Europe, whether by closing a plant, moving a production line, decreasing European production levels, or otherwise, SKF shall give Euroball at least [\*] prior written notice and shall give Euroball the right of first refusal to continue to supply the ball purchases of such shifted production (directly or, subject to required quality and customer approvals, through a parent or Affiliate) at competitive market prices.

### 3. NEW AND DISCONTINUED PRODUCTS

- 3.1 The Parties may during the term of this Agreement agree that certain New Products shall be added. Such changes shall be recorded in the form of a written amendment

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to Exhibit 1.8 setting forth (a) such New Product (b) the Specifications of any New Product, (c) the date when a New Product will be introduced, and (d) the price for such New Product to be applied at the time such amendment is executed. Such written amendment shall be executed in duplicate by each Party and added to this Agreement and shall thereafter be considered as valid. Each Party shall keep one copy of such written amendment.

- 3.2 In case SKF should no longer require one or more Products in its own production, SKF shall have the right to unilaterally delete such Products from Exhibit 1.8.

### 4. PRICES

- 4.1 The prices for Products shall during each Contract Year not exceed those set forth in Exhibit 1.8. Initially, Exhibit 1.8 shall be in effect through December 31, 2000, and shall then be amended for January 1, 2001, through June 30, 2001, and then shall be amended for each Contract Year. In addition SKF may elect to apply the price list to be effective January 1, 2001, at an earlier date, provided that all SKF Production Units simultaneously move to such pricing.
- 4.2 SKF and Euroball shall continuously work on programmes to reduce the total costs for Products and the process for supply and delivery of Products aiming at reducing (i) costs in the internal SKF process; (ii) costs in the internal Euroball process; (iii) costs in the combined SKF and Euroball processes; and (iv) costs for the Products. The Parties shall during the work on such programmes and the implementation thereof forward to each other full details on any such costs and any savings resulting therefrom, and the Parties shall discuss in good faith the sharing of any such savings

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pursuant to the principle described above. The Parties shall before incurring any such costs agree on such costs and the split of any savings achieved.

### 5. PAYMENT AND DELIVERY TERMS

- 5.1 Delivery clauses shall be construed in accordance with the latest version of "INCOTERMS" 2000 (or any successor thereof). The delivery terms used by the Parties on the date hereof shall continue to apply until new delivery terms have been agreed in writing. SKF wishes to initiate negotiations as soon as practicable with the aim to agree on OF with respect to all SKF Production Units.
- 5.2 Euroball shall pack the Products in accordance with instructions issued by SKF (Exhibit 5.2 as amended from time to time) or instructions commonly developed by the Parties. The cost for packaging and packaging material shall be borne by Euroball unless otherwise agreed in writing on a Product by Product level.
- 5.3 Payment shall be made within [\*] days from the later of receipt of the invoice and delivery of the Products. Remittance of payment shall not be deemed to imply any acceptance of the delivery or the invoiced amount.

### 6. ORDERING AND SUPPLY PROCEDURE

- 6.1 The service levels from Euroball shall at least be at the same level as they were before the EB Facilities became part of Euroball. Further, the ordering and supply procedures shall continue as they were before the EB Facilities became part of Euroball. Euroball will however strive to improve the service levels and the ordering

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and supply procedures. The below in this Section 6 shall be seen as an agreed tool for the parties to achieve service levels and improved ordering and supply procedure.

- 6.2 SKF has developed systems [\*] for the ordering and supply procedure, Euroball accepts and agrees with the principles of these systems and procedures, e.g. electronic ordering and on-line entering of orders in the Euroball planning systems. Euroball also accepts and agrees with the SKF Supplier Delivery Concept Exhibit 13 and that it will be used as the basis for Euroball's deliveries to the SKF Production Units, and commits to work in accordance with the models, principles, criteria and rules set forth in the SKF Supplier Delivery Concept. The SKF Supplier Delivery Concept is based on the fact that each SKF Production Unit has different consumption patterns in respect of the Products, and that the SKF Production Unit has the role of being the customer in the supplier/purchaser relation. Euroball will, with reference to the respective section and appendices headed capacity booking in the SKF Supplier Delivery Concept give feedback to each

SKF Production Unit individually as soon as possible but within a maximum of five days from the date when the SKF Production Unit submitted its plan for volume requirements as described in the SKF Supplier Delivery Concept (i.e. capacity booking). In order to facilitate quick and efficient delivery meeting the requirements of each SKF Production Unit, ordering and supply shall take place in accordance with the specifications laid down in a separate document (the Supply Channel Contract as described in SKF Supplier Delivery Concept Appendix 6). Where SKF desires to implement new Supply Channel Contracts, the Parties undertake to negotiate in good faith, and to use all reasonable efforts to reach agreement on Supply Channel

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Contracts for supply relationships. In cases when SKF Production Channels have not been implemented and/or if the Parties have not agreed on a Supply Channel Contract, the principles and rules for Supply Mode 3 and 4 shall apply. Euroball's maximum delivery times for the Products in question as set forth in Exhibit 6.1 shall apply, provided that in cases where Supply Channel Contracts have not been established, the Supply Mode 3 and 4 leadtimes shall apply respectively. The [\*] and other alternative SKF systems, as well as the SKF Supplier Delivery Concept, are subject to successive improvement and development actions in order to make SKF and Euroball together to better meet customer requirements and to make SKF and Euroball together more competitive.

- 6.3 Supply Channel Contracts shall for each Product contain the information set forth in Appendix 6 to the SKF Supplier Delivery Concept. The meaning of the term Supply Mode and the details on the four Supply Modes (Supply Modes 1-4) used in the Supply Channel Contracts is, as set forth in Appendix 2, 3 and 4 to the SKF Supplier Delivery Concept, which are agreed and accepted by Euroball.
- 6.4 Orders and deliveries of Products shall be made in accordance with the Supply Mode and other details specified for each Product in the relevant Supply Channel Contract. Unless otherwise set forth in the relevant Supply Channel Contract, the delivery conditions set out in Section 13 shall apply to all deliveries hereunder.
- 6.5 Delivery following a call-off shall be made within the lead-time specified for each Product in the relevant Supply Channel Contract.

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- 6.6 SKF shall not have any responsibility for Products supplied in quantities exceeding those called off by the SKF Production Unit. Excessive Products may be returned to the relevant Euroball Supply Unit at Euroball's expense. The risk for such Products shall be borne by Euroball. What has been stated in this Section shall apply unless otherwise agreed in relation to particular Products or set out in the Supply Channel Contract(s) for such Products.
- 6.7 SKF shall not have any responsibility for Products delivered too early according to the terms in the Supply Channel Contract, or alternatively, compared to an acknowledged delivery time, if applied. Such Products may be returned to the relevant Euroball Supply Unit at Euroball's expense. The risk for such Products shall be borne by Euroball. What has been stated in this Section shall apply unless otherwise agreed in relation to particular Products or set out in the Supply Channel Contract(s) for such Products.

## 7. DELAYS

- 7.1 If delay in delivery is caused by Force Majeure or by an act or omission on the part of SKF, the time for delivery shall be extended by a period which is reasonable having regard to all the circumstances in the case.
- 7.2 If a delay in delivery exceeds [\*] days, and the Products concerned by the delay has still not been delivered, SKF may in writing demand delivery within a final reasonable period which shall not be less than [\*] days. If Euroball does not deliver within such final period and this is not due to any circumstance for which SKF is responsible, then SKF may by notice in writing to Euroball terminate the order in

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respect of the delayed delivery, and may itself undertake to employ a third party to supply the Products at the expense of Euroball.

- 7.3 Euroball shall bear any extra cost (including but not limited to extra freight charges) incurred in ensuring that deliveries reach the SKF Production Unit on time and in ensuring that incurred delays are minimized.

## 8. QUALITY

- 8.1 The SKF Quality Standards for Suppliers attached hereto as Exhibit 8 (as amended from time to time) shall apply to all deliveries of Products hereunder. In case of any discrepancy between the terms hereof and the SKF Quality Standards for Suppliers, the terms of this Agreement shall prevail. In case of any discrepancies between the terms of the SKF Quality Standards for Suppliers and the SKF General Conditions of Purchase, the latter shall apply. If Euroball does not comply with reasonably requested changes in the SKF Quality Standards for Suppliers within reasonable time after notice of such change, SKF shall be free to purchase such products from any other source that can meet the new SKF standards at the same or lower pricing than Euroball. Only those purchases will reduce SKF's purchase obligations under Section 2.2 with an equivalent amount.

## 9. PRODUCT WARRANTY; INSPECTIONS

- 9.1 Euroball warrants the proper and professional manufacture of the Products, that they will be free from defects, that they will conform to agreed Specifications and that they will be fit and sufficient for their intended purposes. Euroball shall immediately

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upon SKF's written request remedy defective Products free of charge or, if SKF so wishes, compensate SKF for the value of such defective Products or for the cost of their rectification. In addition, Euroball shall compensate SKF for all costs, damages and losses incurred by SKF as a result of the defective Products.

9.2 [\*]

9.3 SKF shall without undue delay notify Euroball of any defects which appears. Such notice shall under no circumstances be given later than [\*] after the defect became known to SKF. The notice shall contain a description of the defect. If SKF does not notify Euroball of a defect within the time limit set forth above, SKF shall lose its right to have the defect remedied. Upon receipt of such notice Euroball shall remedy the defect or replace the Product without undue delay and at its own cost.

9.4 If Euroball does not fulfil its obligation to rectify or replace a Product hereunder within a reasonable time, SKF may, by written notice, fix a final time [\*] for completion of Euroball's obligations. If Euroball fails to fulfil its obligations within such final time, SKF may itself undertake to employ a third party to supply new Products or to undertake necessary remedial work at the risk and expense of Euroball.

9.5 Where the Products have not been successfully remedied or replaced

(i) SKF is entitled to a reduction of the purchase price in proportion to the reduced value of the Product(s) concerned, or

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(ii) where the defect is so substantial as to significantly deprive SKF of the benefit of the supply of such Product, SKF may terminate the order. Such termination will have no effect on SKF's right to compensation under this Agreement.

9.6 Euroball is not liable for defects which appear due to improper use, faulty maintenance or faulty repair by SKF or ordinary wear and tear or deterioration. Notwithstanding the above provisions in this Article, Euroball shall not be liable for any defects in a Product for more than [\*] from the delivery of such Product.

9.7 In markets where SKF is required by specific customers, applicable laws or regulations to provide an extended warranty or is subject to extended liability for defects, Euroball's warranty and liability shall be extended to cover SKF's obligations.

9.8 SKF shall be entitled, after prior written notice, to make inspections and carry out any other necessary investigations with respect to the manufacture of the Products at the relevant premises of Euroball. Euroball shall see to it that SKF can exert its right of inspection also in cases where; production, partially or entirely, is assigned to companies not belonging to the Euroball Group.

#### 10. PATENT INFRINGEMENT

Euroball shall hold SKF harmless against claims of patent infringement in respect to the Products provided that SKF shall without undue delay but in any event within [\*] after the claim is brought against it notify Euroball of the claim. After such notification Euroball shall participate in and handle any negotiation and/or defence

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of the claim or legal proceeding at Euroball's expense. In this event SKF shall fully and at its own expense co-operate with Euroball. Euroball shall continuously keep SKF fully informed of such claims or legal proceedings. If SKF desires to maintain its own defence, SKF shall do so at its own expense and Euroball shall fully and at its own expense co-operate with SKF.

#### 11. TREATMENT OF INFORMATION

Unless otherwise provided in this Agreement, during and after the term of this Agreement, each party hereto shall keep in confidence any and all of the other party's technical, engineering, production, marketing, sales or other business data and information (including, but not limited to, all documents, designs, samples, tools, drawings, plans and programs) relating to the Products or other products of the other party which shall come to its knowledge or be supplied or acquired from the other party in the course of the business transactions under this Agreement and shall not disclose the same to any third party without prior written consent of the other party.

#### 12. NEGOTIATIONS

12.1 The Parties have established a forum for negotiations of possible disagreement that may arise in connection with the supply and purchase of Products hereunder, such as the introduction of new Products, modification of existing Products, negotiations of further Supply Channel Contracts and any extension of this Agreement or the replacement hereof with a new or modified supply agreement after the termination hereof.

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The negotiation forum shall consist of two persons of which each Party shall nominate one. Euroball has for this purpose initially nominated [\*] and SKF has initially nominated [\*]. If one Party wishes to replace the person nominated by it, the Party concerned shall notify the other Party in writing of the replacement. SKF and, respectively, Euroball, may also designate alternates who may participate at meetings of the negotiation forum as substitutes for a designated person. The persons appointed by the Parties shall also be entitled to ask inhouse experts to participate in any negotiation to discuss specific topics.

12.2 The negotiation forum shall meet whenever reasonably requested by a Party. Such request shall be submitted in writing and shall contain such documents and information as is relevant and necessary for the other Party to prepare for a negotiation. Any agreements reached during the negotiations shall be made in writing and signed by the appointed persons who are hereby

authorised to sign such documents on behalf of the Party who has appointed the person in question.

**13. SKF GENERAL CONDITIONS OF PURCHASE**

The SKF General Conditions of Purchase attached hereto as Exhibit 13 shall apply to all deliveries of Products hereunder. In case of any discrepancy or ambiguity between the terms hereof and the SKF General Conditions of Purchase the terms and conditions of this Agreement shall prevail.

**14. DURATION**

This Agreement shall become effective at the closing of the Euroball transaction and shall continue in force and effect during a period of six (6) years. The Parties shall no later than 6 months in advance of such expiration initiate negotiations pursuant to the principle described in Article 12 above concerning a possible new supply agreement to apply after expiration of this Agreement.

**15. TERMINATION**

15.1 This Agreement may be terminated forthwith SKF, if Euroball directly or indirectly acquires, or becomes acquired by, or merged with a competitor of SKF or otherwise becomes controlled by, or acquires control over such competitor.

15.2 Termination of this Agreement shall be without prejudice to the accrued rights and liabilities of the Parties on the date of termination, unless expressly waived in writing by the Parties.

**16. MISCELLANEOUS**

16.1 This Agreement contains the entire agreement between the Parties with respect to supply of the Products and supersedes all other supply agreements, commitments or representations in respect of the Products which may have been made by the Parties either orally or in writing prior to the signing hereof.

16.2 If any provision of this Agreement is or becomes invalid ineffective, unenforceable or illegal for any reason, this shall not affect the validity or enforceability of any or all of the remaining provisions hereof. In such case, the Parties shall forthwith enter

into good faith negotiations to amend such provision in such a way that, as amended, it is valid and legal and to the maximum extent possible carries out the original intent of the Parties as reflected herein with respect to the matter in question.

16.3 The provisions of Sections 10, 11 and 12 shall survive any termination or expiration of this Agreement.

16.4 The failure of one of the Parties under this Agreement to exercise any right, power or option given to it under this Agreement or applicable law, or to insist upon strict compliance with the terms of this Agreement by the other Party, shall not constitute a waiver of the terms and conditions of this Agreement with respect to any subsequent breach thereof, nor a waiver by any of the Parties of its rights at any time thereafter to require strict compliance with all of the terms of this Agreement.

16.5 Any notice required or permitted by this Agreement shall be in writing. Such notices shall be written in English. Such notices shall be delivered by hand, or may be sent by telefax, or by air courier, to the Parties at the following addresses:

If to SKF:                    SKF France S.A.  
    BP 239  
  
    37542 Saint-Cyr-sur-Loire Cedex  
  
    France  
  
    Attention: Director, Group Purchasing Office,  
  
    Raw Material & Components  
  
    Telefax: +33 2 47 40 33 80

With a copy to:            AB SKF  
    SKF Group Headquarters  
  
    SE-415 50 GOTEBOURG  
  
    Sweden  
  
    Attention: General Counsel  
  
    Telefax: +46 31 337 16 91

If to Euroball:  
  
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Attention: -----

Any Party may change its address and numbers by giving notice in accordance with the terms of this sub-Section 16.5. Any notice shall be effective when received in the offices of the Party to which it is sent.

- 16.6 References to SKF and Euroball in this Agreement include references to all SKF Affiliates and Euroball Affiliates respectively to the intent and effect that each reference to a Party shall be construed as a reference to that Party and a reference to each company belonging to that Party's group of companies (SKF Group and Euroball Group respectively). Each Party shall take all necessary action to ascertain that its Affiliates act in accordance with the terms and conditions of this Agreement.

- 16.7 The relationship between SKF and Euroball is that of buyer and seller. SKF is not an agent, employee, partner or representative of Euroball for any purpose.

- 16.8 The use of the customer relationship with SKF for advertising purposes requires the prior written approval of SKF.

- 16.9 Euroball must provide evidence of a business and product liability insurance in the amount of at least [\*] Euro, and maintain such insurance with regard to the risks covered and the amount of coverage for the term of the contract.

- 16.10 At the request of SKF, Euroball shall provide SKF with information on the environmental acceptability and recycling possibility of the Products, including packaging.

**17. GOVERNING LAW AND SETTLEMENT OF DISPUTES**

- 17.1 This Agreement shall be governed by and construed in accordance with the substantive laws of Denmark.

- 17.2 Any and all disputes, controversies or claims arising out of or relating to this Agreement, or the transactions contemplated hereby, or the breach, termination or invalidity thereof, shall be settled by final and binding arbitration by three (3) arbitrators in accordance with the UNCITRAL Arbitration Rules as at present in effect. The appointing authority shall be the International Chamber of Commerce. The place of arbitration shall be Copenhagen, Denmark, or such other location as may be agreed among the parties. The arbitration proceedings shall be conducted in the English language. Among the remedies available to them, the arbitrators shall be

authorized to order the specific performance of provisions of this Agreement. The award rendered by the arbitrators may include costs of arbitration, reasonable counsel's fees, and reasonable costs for expert and other witnesses.

- 17.3 All papers, documents or evidence, whether written or oral, filed with or presented to the panel of arbitrators shall be deemed by the parties and by the arbitrators to be Confidential Information. No party or arbitrator shall disclose in whole or in part to any other person any Confidential Information submitted in connection with the arbitration proceedings, except to the extent reasonably necessary to assist counsel in the arbitration or preparation for arbitration if the dispute. Confidential Information may be disclosed (i) to attorneys, (ii) to parties, and (iii) to outside experts requested by either party's counsel to furnish technical or expert services or to give testimony at the arbitration proceedings, subject, in the case of such experts, to execution of a legally binding written statement that such expert is fully familiar with the terms of this Section, agrees to comply with the confidentiality terms of this Section, and will not use any Confidential Information disclosed to such expert for personal or business advantage.

- 17.4 The written decisions and conclusions of a majority of the arbitration panel shall be final and binding in the JV Parties and enforcement thereof may be rendered thereon by any court having jurisdiction upon application of any JV Party.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed in two counterparts, as of the day and year first above written.

**AB SKF** **Euroball Aps**

(publ)

/s/ Carina Bergfelt Kaj Thoren

/s/ David L. Dyckman

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By: Carina Bergfelt Kaj Thoren

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By: David L. Dyckman  
Board Member



Exhibit 1.8*	Product and Pricing
Exhibit 1.11**	Companies of the SKF Group
Exhibit 1.12	SKF Product Specification
Exhibit 5.2	SKF Product Packing Instructions
Exhibit 8.1	SKF Quality Standards
Exhibit 13	SKF General Conditions of Purchase

\* Incorrectly labeled hereafter as Schedule 1.7  
 \*\* Incorrectly labeled hereafter as Exhibit 1.10

**Schedule 1.7**

See attached documents.

Composite 4/4/00  
 Page 1 of 7

**Euroball Composite Price List  
 (Euro/1000)**

Ball Size (mm)	G3	G5	G10	G16	G16 Hub	G20	G28	G40	G100	G200	G500	(
2.381												
2.5												
3												
3.175												
3.5												
3.969												
4												
4.5												
4.762												
5												
5.3												
5.5												
5.558				[*]								
6												
6.32												
6.35												
6.5												
6.747												
7												
7.144												
7.3												
7.5												
7.938												
8												
8.3												
8.5												
8.731												
8.8												
9												

Composite 4/4/00  
 Page 2 of 7

**Euroball Composite Price List  
 (Euro/1000)**

Ball Size (mm)	G3	G5	G10	G16	G16 Hub	G20	G28	G40	G100	G200	G500	(
9.525												
10												
10.319												
10.5												
11												
11.112												
11.45												
11.5												
11.906												
12												
12.025												
12.303												
12.5												
12.7				[*]								
13												
13.484												
13.5												
14												
14.288												
14.5												
14.6												
15												
15.081												
15.5												
15.875												
16												
16.104												
16.5												
16.668												

Euroball Composite Price List  
(Euro/1000)

Ball Size (mm)

G3 G5 G10 G16 G16 Hub G20 G28 G40 G100 G200 G500

17  
17.462  
17.5  
17.7  
18  
18.256  
18.5  
19  
19.05  
19.5  
19.844  
20  
20.5  
20.587  
20.638  
21  
21.431  
21.461  
22  
22.225  
22.35  
22.5  
22.9  
23  
23.019  
23.5  
23.812  
24  
24.45

[\*]

Composite 4/4/00  
Page 4 of 7Euroball Composite Price List  
(Euro/1000)

Ball Size (mm)

G3 G5 G10 G16 G16 Hub G20 G28 G40 G100 G200 G500

24.5  
24.606  
25  
25.4  
26  
26.194  
26.988  
27  
27.5  
27.781  
28  
28.575  
29  
29.369  
30  
30.162  
31  
31.75  
32  
32.5  
33  
33.338  
34  
34.5  
34.71  
34.925  
35  
35.719  
36

[\*]

Composite 4/4/00  
Page 5 of 7Euroball Composite Price List  
(Euro/1000)

Ball Size (mm)

G3 G5 G10 G16 G16 Hub G20 G28 G40 G100 G200 G500

36.512  
37  
37.98  
38  
38.1  
39.687  
39.688  
40  
40.461  
41.275  
42  
42.486  
42.862  
43.656  
44.45  
45  
45.244  
46.038  
47.625  
48  
48.419

[\*]

49  
50  
50.3  
50.403  
50.8  
52.5  
53.975  
55

Composite 4/4/00  
Page 6 of 7

**Euroball Composite Price List  
(Euro/1000)**

Ball Size (mm)	G3	G5	G10	G16	G16 Hub	G20	G28	G40	G100	G200	G500
55.562											
57.15											
58.738											
59											
60											
60.325											
62											
63.5											
65											
66.675											
69.85											
70											
73.025											
75							[*]				
76.2											
80											
82.55											
85											
88.9											
90											
92.075											
95.25											
100											
105											
108											
110											
120											
127											
150											

Composite 4/4/00  
Page 7 of 7

**Euroball Composite Price List  
(Euro/1000)**

Ball Size (mm)	G3	G5	G10	G16	G16 Hub	G20	G28	G40	G100	G200	G500
180											
200											
250							[*]				

Notes:

- [\*]
- [\*]

SKF  
4/03/2000  
Page 1 of 1

**NN-Euroball Price List**  
SKF - Spain (AD)  
Valid until 12/31/00

Ball Size	Grade	Price / 1000 (Euros)
[*]		

**NN-Euroball Price List**  
SKF - France (AD)  
Valid until 12/31/00

Ball Size	Grade	Price / 1000 (Euros)

[\*]

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**NN-Euroball Price List**  
SKF - France (ED)  
Valid until 12/31/00

Ball Size	Grade	Price / 1000 (Euros)
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[\*]

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**NN-Euroball Price List**  
SKF - Italy (SD)  
Valid until 12/31/00

Ball Size	Grade	Price / 1000 (Euros)
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[\*]

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**NN-Euroball Price List**  
SKF - Italy (ID)  
Valid until 12/31/00

Ball Size	Grade	Price / 1000 (Euros)
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[\*]

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**NN-Euroball Price List**  
SKF - Germany  
Valid until 12/31/00

Ball Size	Grade	Price / 1000 (Euros)
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[\*]

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**NN-Euroball Price List**  
SKF - Italy (ED)  
Valid until 12/31/00

Ball Size	Grade	Price / 1000 (Euros)
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[\*]

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**NN-Euroball Price List**  
SKF - Italy (AD)  
Valid until 12/31/00

Ball Size	Grade	Price / 1000 (Euros)
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[\*]

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SKF  
4/4/2000  
Page 1 of 1

**NN-Euroball Price List**  
SKF - South Africa

Ball Size	Grade	Price / 1000 (US\$)
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[\*]

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**NN-Euroball Price List**  
SKF - Malaysia

Ball Size	Grade	Price / 1000 (US\$)
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[\*]

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**NN-Euroball Price List**  
SKF - Bangalore

Ball Size	Grade	Price / 1000 (US\$)
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[\*]

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**NN-Euroball Price List**  
SKF - Korea

Ball Size	Grade	Price / 1000 (US\$)
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[\*]

**NN-Euroball Price List**  
SKF - Jakarta

Ball Size	Grade	Price / 1000 (US\$)
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[\*]

**NN-Euroball Price List**  
SKF - Sweden (ID)

Ball Size	Grade	Price / 1000 (Euros)
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[\*]

**NN-Euroball Price List**  
SKF - Steyr (ID)

Ball Size	Grade	Price / 1000 (Euros)
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[\*]

**Exhibit 1.10**

**SKF PRODUCTION UNITS**

Country	Company	Production Unit
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[\*]

Any Production Unit within the SKF Group not listed above who wishes to enter into this Agreement will have the right to do so by giving written notice thereof to Euroball. [\*] Any Production Unit listed above shall have a right to purchase Products under this Agreement, also when it is no longer part of the SKF Group.

EXECUTION VERSION  
2003-04-14 (ver 2)

GLOBAL SUPPLY AGREEMENT

among

NN Inc.,

NN Netherlands B.V.

and

SKF Holding Maatschappij Holland B.V.

April 14, 2003

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This GLOBAL SUPPLY AGREEMENT is effective as of April 29, 2003, by and among

NN Netherlands B.V., a company duly incorporated, organized and existing under the laws of the Netherlands, ("NNN"), and

NN Inc., a company organized and existing under the laws of Delaware ("NN").

SKF Holding Maatschappij Holland B.V., a company duly incorporated, organized and existing under the laws of the Netherlands ("SKF");

The above parties are individually referred to as a "Party" and collectively as the "Parties".

WITNESSETH:

WHEREAS NNN has as per the date hereof purchased SKF's manufacturing facility in Veenendaal, the Netherlands, which is active in manufacturing and supplying the Products as defined below:

WHEREAS The Purchasers (as defined below) use Products in their production of bearings and related products and SKF is responsible for negotiating and entering into contracts related to the SKF Group's need of Products to be used in the aforementioned production;

WHEREAS The Parties wish to establish a long term close relation relating to the supply of the Products;

WHEREAS the Parties now wish to record the detailed basis upon which NNN will supply certain Products to certain production channels of the Purchasers and the terms and conditions that shall govern any Purchase Order agreed on between any Purchaser and NNN hand related to such Product supply.

NOW THEREFORE, the Parties have agreed as follows.

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1. DEFINITIONS

1.1 "Agreement" means this document, the Exhibits and Appendices annexed hereto

1.2 "Contract Period" means the period set forth in section 10 below.

1.3 "Contract Year" means the twelve (12) months period beginning when this Agreement becomes effective and any following twelve (12) months period during the Contract Period.

1.4 "Force Majeure" shall mean industrial disputes and any other circumstance beyond the control of a Party which could not be reasonably foreseen on the date hereof such as war, military mobilization, political unrest, state intervention of various kinds, currency restrictions, fire, catastrophes and restrictions in the use of power.

1.5 "General Conditions" shall mean the SKF General Conditions of Purchase, valid as from 2002-08-19, Exhibit 1.5.

1.6 "Products" shall mean any and all products listed in the price list, Schedule 3.1.

1.7 "Purchase Order" means any order or call-off of Products from a SKF Group company to NNN according to this Agreement.

1.8 "Purchaser" shall mean an SKF Group company which purchased Products from the Veenendaal facility during 2002 and which is listed in Schedule 3.1.3 1.9 "SKF Group" means the group of companies of which AB SKF from time to time is

the ultimate parent company, as "group" (Sw. "koncern") is defined in the Swedish Companies Act (1975:1385).

1.10 "SKF Production Channel" shall mean any production channel (as described in the SKF Supplier Delivery Concept) of any factory of the SKF Group, which purchases Products under this Agreement; provided that, in cases where the Production Channel Concept has not been implemented, or where it is not applicable, SKF Production Channel shall mean a factory in the SKF Group purchasing Products under this Agreement.

1.11 "SKF Supplier Delivery Concept" shall mean the SKF Supplier Delivery Concept introduced by SKF in relation to supplies to the SKF Production Channels, as amended from time to time, a copy of which has been delivered to NNN.

1.12 "Supply Channel Contract" shall have the meaning set forth in the SKF Supplier Delivery Concept.

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1.13 "Supply Mode 1, 2, 3 and 4" shall have the meaning set forth in the SKF Supplier Delivery Concept.

1.14 "Specification" means the technical specification for each of the Products specified in the SKF Material Specifications as amended from time to time.

1.15 "Volume Commitment" shall mean the obligation of SKF to cause the SKF Group companies to purchase the volumes mentioned in section 2.4.

1.16 Words or expressions defined in the Exhibits or any documentation referred to in this Agreement shall have the same meaning when used in this Agreement, unless specifically defined differently in this Agreement.

## 2. SUPPLY AND PURCHASE OF PRODUCTS

2.1 Pursuant to the terms of this Agreement, NNN hereby agrees to manufacture and supply to the SKF Group companies the Products, as specified in Schedule 3.1.3, as ordered by the SKF Group companies and SKF agrees to purchase or cause the purchase of Products so that the Volume Commitment is fulfilled.

### 2.2 RESERVED

2.3 NNN shall reserve and/or maintain sufficient capacity alone or through SKF approved sub-contractors to be able to deliver to the SKF Group companies the demand of the Products agreed in this Agreement in accordance with the SKF Supplier Delivery Concept, in both peak and down time market conditions. SKF will provide reasonable prior notice of significant increases in their Product needs in order to allow NNN to adjust its capacity accordingly.

2.4 SKF shall see to it that the SKF Group maintains the total purchased volumes from the Veenendaal facility at the 2002 purchased volume levels [\*] for both rollers and stamped metal parts during the term of the Agreement. However, should the total customer demand on the Purchasers for the Products increase or decrease, such purchased volume level shall be adjusted proportionately. The committed volume shall take into account the price adjustments made each year compared to the 2002 prices and any changes in raw material prices pursuant to Exhibit 3.1. SKF shall provide to NNN a written declaration on the total volume need of the Products of the Purchasers during the preceding year (split into two categories; rollers and stamped metal parts). Such a declaration shall be provided to NNN within 60 days after a request thereof from NNN. NNN may also employ a reputable accounting firm with the purpose to verify the correctness of such a declaration made by SKF. The accounting firm must agree in writing not to disclose any information to NNN other than that the figures presented by SKF were correct (and if they were not correct, they may present the correct figures). All cost related to such an investigation shall be borne by NNN, except SKF shall bear all of such costs if the figures presented by SKF were incorrect, unless the error is insignificant.

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2.5 If delay in delivery is caused by Force Majeure or by an act or omission on the part of a Purchaser or a supplier specifically requested in writing by a Purchaser for which NNN has no available alternative, the time for delivery shall be extended by a period which is reasonable having regard all the circumstances in the case. If a delay in delivery for any other reason exceeds [\*] days and the Products concerned by the delay have still not been delivered, the Purchaser may in writing demand delivery within a final reasonable period which shall not be less than [\*] days. If NNN does not deliver within such final period and this is not due to any circumstance for which the Purchaser is responsible, then the Purchaser may by notice in writing to NNN terminate the order in respect of the delayed delivery, and may itself undertake to employ a third party (including SKF Group companies) to supply the Products, with the incremental cost and expense to be borne by NNN. Upon the second time SKF implements its right to employ a third party (including SKF Group companies) during any [\*] period to supply the Products, SKF may with immediate effect delete the particular Product subject to such second event from the assortment of this Agreement without any right for NNN to claim any alternative volume or economical compensation and therefore, the Volume Commitment shall be reduced correspondingly.

2.6 NNN shall, after prior written approval by SKF, have the right to use sub-contractors when manufacturing Products to be sold to SKF under this Agreement. Subcontractors and suppliers currently used by the Veenendaal plant are deemed approved by SKF, [\*]. SKF will cooperate with the timely approval of any request by NNN to use a subcontractor or supplier, provided that the subcontractor or supplier fulfills SKF's requirements. The use of subcontractors or suppliers (other than those specifically requested by SKF in writing and those listed on Exhibit 2.6) will not relieve NNN from the responsibility for ensuring the subcontractor's or supplier's material, quality, parts, service etc, as per agreed specifications, between SKF and NNN. As well, NNN ensures that the subcontractor or supplier accepts and agrees with the SKF Supplier Delivery Concept and that the subcontractor or supplier deliveries in all aspects will take place in accordance with the SKF Supplier Delivery Concept, if not differently approved by SKF prior to the order to the subcontractor or supplier.

2.7 NNN shall give the SKF Group a right of first refusal to act as a subcontractor to NNN. NNN shall, however, be entitled to use a company within the NN Group of companies as subcontractor without granting SKF Group a right of first refusal.



2.8 In case SKF Group determines to shift production from the Purchasers, whether by closing a plant, moving a production line, or otherwise, SKF shall give NNN at least[\*] prior written notice and shall give NNN the right of first refusal to continue to supply the Products purchases of such shifted production (directly or, subject to required quality and customer approvals, through a parent or Affiliate) at competitive market conditions. In no case may SKF reduce the Purchase Commitment by more than [\*] over the term of this Agreement by shifting production from a Purchaser, without the prior written approval of NNN. The parties agree to

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negotiate in good faith on any volume reduction of more than [\*] but less than [\*]. In no event may SKF reduce the Purchase Commitment by more than [\*] in the aggregate over the term of this Agreement.

2.9 Any SKF Group company not listed as a purchaser shall be entitled to order Products under this Agreement. The prices to be applied on such new purchasers shall be based on the prices specified in this Agreement, but shall be negotiated case by case. The prices for such new purchasers shall reflect the volume to be purchased.

2.10 Any SKF Group company shall be entitled to order new products that Veenendaal is capable of producing. The prices to be applied on such new products shall be based on the prices specified in this Agreement, but shall be negotiated case by case. The prices for such new products shall reflect the production cost and volume of the new product. NNN shall have a right of first refusal when a Purchaser intends to buy a new product that Veenendaal is capable of producing.

2.11 SKF recognizes the importance to NNN of maintaining the production volumes at the Veenendaal plant and agrees that it will not use changes in Product as a way to shift demand from NNN or to designate a "new product." For the purpose of the volume commitment, if a Purchaser replaces a Product with a product dimensionally similar to a Product, then the reduction of the volume of the Product shall be replaced with the volume of the new product to the extent that a reduction in volume of the Product is due to the introduction of the new product; provided, however, this shall not apply if a new product is introduced due to the introduction of a new bearing.

### 3. PRICES

3.1 Exhibit 3.1 (and the sub-schedules thereto) contains information regarding the Products, Product specifications and prices. The said schedules shall be continuously updated with mutually agreed upon new products and new information. The prices in the said schedules shall be applicable until new adjusted prices have been agreed as set out in section 3.2 below. The price for a Product shall be renegotiated in good faith, up or down, if a change in a Product specification has an influence on the Product cost.

3.2 In order for NNN to realize certain production cost savings, NNN may be required to implement products or process changes that will require quality approval actions, including homologation, by SKF or its customers. SKF agrees to make reasonable efforts to cooperate in obtaining such approvals on a timely basis. The parties will work in good faith to agree on a cost budget for the approval process. NNN shall compensate SKF and the Purchasers for any and all out-of-pocket costs included in the budget. SKF agrees to bear the normal and customary internal costs included in the budget and NNN agrees to compensate SKF for any additional internal costs included in the budget.

3.3 SKF and NNN shall use all reasonable efforts to work collaboratively on cost improvements that will reduce the parties total costs. Such efforts shall as far as possible be taken in respect of all Products. NNN agrees to, when relevant and reasonable, form joint continuous improvement

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teams with SKF in order to evaluate measurable cost reductions that are (a) external to NNN's internal production processes or (b) that are related to NNN's internal production processes if they are suggested initially, in writing, by SKF. At the end of each Contract Year the cost improvement results achieved through such collaborative initiatives will be jointly evaluated by NNN and SKF. The parties shall in connection therewith agree on appropriate adjustments of the prices referred to in section 3.1 in order to reflect a sharing of the achieved cost reduction under (a) or (b) above.

### 4. GENERAL CONDITIONS AND DELIVERY TERMS

4.1 The terms of this Agreement shall prevail over the terms of the General Conditions, which are an integrated part of this Agreement. The General Conditions shall prevail over the terms of all Purchase Orders agreed on according to this Agreement. For the avoidance of doubt, it is agreed that all clauses and subclauses in the General Conditions shall apply unless the issue is specifically addressed in this Agreement.

4.2 The current delivery terms as set forth in Exhibit 4.2 shall apply to all deliveries hereunder.

4.3 NNN shall pack the Products in accordance with the historical practices of the Veenendaal plant and the particular Purchaser. The cost for packaging and packaging material shall be borne by NNN or the Purchaser in accordance with historical practices. Possible deviations or changes to these instructions must be agreed by both parties and documented. Each party shall keep one copy of such written agreement.

4.4 Payment for delivered Products shall be made within the number of days as set forth in Exhibit 4.4.

4.5 The number of issued invoices shall be as currently in practice. The Purchasers shall, however, make best effort to reduce the number of invoices to not more than one per day.

### 5. ORDERING AND SUPPLY PROCEDURE

5.1 SKF acknowledges that the Veenendaal plant currently may not be fully compliant with all the requirements set forth below in this section 5 and SKF shall not hold NNN liable for any such non-compliance. NNN, however, agrees to make best efforts, unless commercially unreasonable, to become compliant with all the requirements set forth below in this section 5 within a reasonable period of time after taking over the Veenendaal plant. SKF may hold NNN liable for all non-compliance with the requirements set forth below in this section 5 after such reasonable period of time.

5.2 The SKF Group companies are using systems, [\*] for the procedures in line

with the SKF Supplier Delivery Concept. NNN accepts and agrees with the principles of such systems and procedures, e.g. electronic communication of orders and other information (B2B, Systems to Systems communication/EDI). NNN also accepts and agrees with the SKF Supplier Delivery Concept, and that it will be used as the basis for NNN deliveries to the SKF Production

Channels, and commits to work in accordance with the models, principles, criteria and rules set forth in the SKF Supplier Delivery Concept. The SKF Supplier Delivery Concept is based on the fact that each SKF Production Channel has different consumption patterns in respect of the Products, and that the SKF Production Channel has the role of being the customer in the supplier/customer relation.

5.3 NNN will, give feedback to each SKF Production Channel individually to the volume forecast provided by the SKF Production Channel. Such feedback shall be given as soon as possible, but no later than what is the current practice.

5.4 Ordering and supply shall take place per Production Channel and in accordance with the specifications laid down in the "Supply Channel Contract" (as described in SKF Supplier Delivery Concept).

5.5 In cases where an SKF Group company has not implemented Supply Channels and/or Supply Channel Contracts but desires to implement, the Parties undertake to negotiate in good faith, and to use all reasonable efforts to reach agreement on Supply Channel Contracts. In those cases when SKF Production Channels are not implemented, the principles and rules for Supply Mode 3 and 4 shall apply for such Factories or Channels.

5.6 Supply Channel Contracts shall for each Product contain the information set forth in Appendix 6 to the document SKF Supplier Delivery Concept. The meaning of the term "Supply Mode" and the details on the four Supply Modes (Supply Modes 1-4) used in the Supply Channel Contracts is, as set forth in Appendix 2, 3 and 4 to the SKF Supplier Delivery Concept, which are agreed and accepted by NNN.

5.7 Orders and deliveries of Products shall be made in accordance with the Supply Mode and other details, such as lead-time, specified for each Product in the relevant Supply Channel Contract. NNN shall deliver timely. Delivery times shall be in accordance with the lead-times and conditions specified in the Supply Channel Contract. In the event when no Supply Channel Contract has been established, the delivery times shall always be within the Maximum Delivery Times as specified in Exhibit 5.7 with Zero Defect Delivery. The agreed delivery times shall be complied with also during NNN's vacation period.

5.8 Notwithstanding anything to the contrary in this Agreement, NNN shall pay for extra freight charges incurred to ensure that delayed deliveries reach SKF in a timely manner, provided, however, NNN shall not pay for such costs in the event said delay is caused by Force Majeure or the Purchaser.

## 6. QUALITY

### 6.1 [\*]

6.2 The SKF Quality Standards for Suppliers attached hereto as Exhibit 6.2, as amended from time to time, shall apply to all deliveries hereunder. In case of any discrepancy between the terms hereof and the SKF Quality Standards for Suppliers and the SKF General Conditions of Purchase, the terms hereof shall apply. If NNN does not comply with reasonably requested changes in the SKF Quality Standards for Suppliers within reasonable time after the written notice of such change, SKF shall be free to terminate this Agreement with respect to the affected Product (this will include a reduction of the Volume Commitment), if NNN has not remedied its failure to comply within [\*] from a notice of non-compliance issued by SKF.

6.3 NNN accepts and agrees to the principles of the SKF Zero Defect Strategy, as described in the Exhibit 6.3, as amended from time to time, and commits accordingly to use its best efforts to deliver Products with Zero Defects including Zero delays. In order to avoid any misunderstandings it is expressly agreed that NNN's liability for defective Products and delays under this Agreement shall remain in full even if NNN has used its best efforts to deliver Products with Zero Defects and Zero delays.

6.4 NNN accepts and agrees to work according to the requirements of the SKF prohibited substances or substances to be avoided. The lists of prohibited or restricted substances referred to in the SKF Quality Standard for Suppliers, in the chapter entitled "Environment" are included in the International Material System Database (IMDS) at the web site [http://www.mdssystem.com/html/en/home\\_en.htm](http://www.mdssystem.com/html/en/home_en.htm).

6.5 NNN accepts and agrees to comply with the Directive of the European Parliament and council on End-of-Life vehicles.

## 7. PRODUCT WARRANTY

7.1 NNN warrants the proper and professional manufacture of the Products, that they will be free from defects, and will conform to agreed Specifications.

7.2 When a Product defect has been remedied, NNN shall be liable for defects in the replaced or repaired Product under the same terms and conditions as those applicable to the original Product. After the second significant breach of Section 7.1 within a [\*] period of a Defective Product, SKF may with immediate effect delete the particular Product subject to such second event from the assortment of this Agreement without any right for NNN to claim any alternative volume or economical compensation and therefore, the Volume Commitment shall be reduced correspondingly.

7.3 [\*] NNN must receive notice of any defect within a reasonable period of time after such defect becomes known to the Purchaser. In no event shall NNN have any warranty liability for any product sold by the Veenendaal plant prior to the date hereof.

7.4 In markets where SKF is required by applicable laws and regulations or alternatively is required by specific customer to provide an extended warranty or is subject to extended liability for defects, SKF may request NNN to extend its warranty and liability to cover SKF's obligations. If NNN does not accept to extend its warranty and liability accordingly, SKF may cancel any affected Purchase Orders with immediate effect, but will be obligated to pay NNN the cost of material if specific to the Products ordered or to the extent production for

said order has been initiated to produce the Product and the cost of labor related to production of the Product.

## 8. INSURANCE

8.1 NNN shall provide evidence of liability and umbrella insurance in the amount of at least [\*] for NN and its affiliates, and must maintain such insurance with regard to the risks covered and the amount of coverage for the term of this Agreement.

## 9. PATENT INFRINGEMENT

9.1 NNN shall hold SKF and the Purchasers harmless against claims of patent infringement in respect of the Processes provided that SKF shall without undue delay, but in any event within [\*] after the claim is brought against it or an SKF Group company, notify NNN of the claim. After such notification NNN shall participate in and handle any negotiation and/or defense of the claim or legal proceeding at NNN's expense. In this event SKF shall, if needed, fully and at its own expense co-operate with NNN. The parties shall continuously keep each other fully informed of such claims or legal proceedings. If SKF desires to maintain its own defense, SKF shall do so at its own expense and NNN shall fully and at its own expense co-operate with SKF.

9.2 SKF shall hold NNN harmless against claims of patent or other intellectual property infringement in respect of the Products, provided that NNN shall without undue delay, but in any event within [\*] after the claim is brought against it, notify SKF of the claim. After such notification SKF shall participate in and handle any negotiation and/or defense of the claim or legal proceeding at SKF's expense. In this event NNN shall, if needed, fully and at its own expense co-operate with SKF. The parties shall continuously keep each other fully informed of such claims or legal proceedings. If NNN desires to maintain its own defense, NNN shall do so at its own expense and SKF shall fully and at its own expense co-operate with NNN.

## 10. DURATION

10.1 This Agreement shall become effective on the date hereof and shall continue in force and effect until the fifth anniversary of its effective date, when it shall terminate automatically. The Parties shall no later than 6 months in advance of such expiration initiate negotiations concerning a possible new supply agreement to apply after expiration of this Agreement.

10.2 Prior to entering into such new supply agreement, SKF and NNN will jointly conduct benchmarking activities to ensure that NNN supplies SKF with Products that are globally competitive with respect to quality, service and price.

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## 11. TERMINATION

11.1 This Agreement may be terminated forthwith by written notice upon the occurrence of any or more of the following events.

(i) By the other Party, if a Party hereto becomes incapable for a period of 120 days of performing any of its obligations under this Agreement because of Force Majeure

(ii) By the other Party, if either Party hereto should become insolvent, have a receiver or administrator appointed of its assets, or if a petition for bankruptcy is filed by the Party itself or if other bankruptcy proceedings are commenced; or

(iii) By SKF, if NNN directly or indirectly acquires, or becomes acquired by, or merged with a bearing manufacturer or otherwise becomes controlled by, or acquires control over a bearing manufacturer.

11.2 SKF may terminate this Agreement, in whole or in part, in respect of one or several Products of a concerned SKF Production Channel's assortment or of the total SKF assortment, if NNN commits a material breach of any of its material obligations under this Agreement, which is not cured within a reasonable time after written notice of such breach.

11.3 Termination of this Agreement shall be without prejudice to the accrued rights and liabilities of the Parties on the date of termination, unless expressly waived in writing by the Parties.

11.4 Instead of terminating this Agreement or parts thereof, SKF may, at its sole discretion, choose to declare not to be bound by the Volume Commitment.

## 12. MISCELLANEOUS

12.1 This Agreement contains the entire agreement between the Parties with respect to the subject matter hereof and supersedes all other supply agreements, commitments or representations in respect of Products, which may have been made by the Parties either orally or in writing prior to the signing hereof.

12.2 If any provision of this Agreement is or becomes invalid, ineffective, unenforceable or illegal for any reason, this shall not affect the validity or enforceability of any or all of the remaining provisions hereof. In such case, the Parties shall forthwith enter into good faith negotiations to amend such provision in such a way that, as amended, it is valid and legal and to the maximum extent possible carries out the original intent of the Parties as reflected herein with respect to the matter in question.

12.3 The provisions of Section 9 in this Agreement and section 7 and 8 in the General Conditions shall survive any termination or expiration of this Agreement.

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12.4 The failure of one of the Parties under this Agreement to exercise any right, power or option given to it under this Agreement or applicable law, or to insist upon strict compliance with the terms of this Agreement by the other Party, shall not constitute a waiver of the terms and conditions of this Agreement with respect to any subsequent breach thereof, nor a waiver by any of the Parties of its rights at any time thereafter to require strict compliance with all of the terms of this Agreement .

12.5 Any notice required or permitted by this Agreement shall be in writing. Such notices shall be written in English. Such notices shall be delivered by hand, or may be sent by telefax, or by air courier, to the Parties at the

Following addresses:

12.5.1 If to SKF:

Attention: Group Purchasing Director  
AB SKF  
415 50 GOTEBOURG  
Telefax:

with a copy to:

AB SKF  
415 50 GOTEBOURG  
Attention: General Counsel  
Telefax: 031-337 16 91

12.5.2 If to NNN:

NN, Inc.  
2000 Water's Edge Drive  
Building C, Suite 12  
Johnson City, TN 37604  
Attn: Chief Financial Officer  
Telefax: 423.743.2670

12.5.3 Any Party may change its address and numbers by giving notice in accordance with the terms of this sub-section 12.5 Any notice shall be effective when received in the offices of the Party to which it is sent.

12.6 [\*]

12.8 The use of the customer relationship with SKF for advertising purposes requires the prior written approval of SKF.

12.9 At the request of SKF, NNN shall provide SKF with information on the environmental acceptability and recycling possibility of the Products, including packaging.

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12.10 NNN shall not advertise or publish, in any way, without the prior written approval of SKF, except as required by law, the content of this Agreement. NNN may in no event disclose the content of this Agreement without a prior written notice thereof to SKF.

12.11 Neither NNN nor any of its representatives shall, at any time, make public to third parties, divulge or otherwise disclose, directly or indirectly, any final product design, any drawings and related final product tolerance for any products produced in the Facility for delivery to SKF Group companies as from the Closing Date.

12.12 The parties agree to cooperate in good faith to correct any mistakes or errors in the text of the Exhibits and Schedules to this Agreement.

12.13 Neither party shall be liable in any circumstances for any special, consequential or punitive damages beyond the extent of such party's insurance coverage available for such damages.

13. GOVERNING LAW AND SETTLEMENT OF DISPUTES

13.1 This Agreement and each Purchase Order shall be governed by and construed in accordance with the substantive laws of the Netherlands. 13.2 Prior to pursuing arbitration with respect to any dispute hereunder, the chief executive officers or general managers of the parties (or a direct subordinate officer or general manager appointed by them) shall meet to seek an amicable resolution to such dispute. No party shall be entitled to commence arbitration proceedings unless it has attempted for a period of forty-five (45) days from written notice of a dispute to reach such amicable resolution.

13.3 After expiration of the forty-five (45) day period referred to in the prior section, any and all disputes, controversies or claims arising out of or relating to this Agreement or the breach, termination or invalidity thereof, shall be settled by final and binding arbitration by three (3) arbitrators in accordance with the UNCITRAL Arbitration Rules as at present in effect. The appointing authority shall be the International Chamber of Commerce in London, England. The place of arbitration shall be Amsterdam, the Netherlands. The arbitration proceedings shall be conducted in the English language. Among the remedies available to them, the arbitrators shall be authorized to order the specific performance of provisions of this Agreement. The award rendered by the arbitrators may include costs of arbitration, reasonable counsel's fees, and reasonable costs for expert and other witnesses.

13.4 All papers, documents or evidence, whether written or oral, filed with or presented to the panel of arbitrators shall be deemed by the parties and by the arbitrators to be Confidential Information. No party or arbitrator shall disclose in whole or in part to any other person any Confidential Information submitted in connection with the arbitration proceedings, except to the extent reasonably necessary to assist counsel in the arbitration or preparation for arbitration if the dispute. Confidential Information may be disclosed (i) to attorneys, (ii) to parties, and (iii) to outside experts requested by either party's counsel to furnish technical or expert services or to give testimony at the arbitration proceedings, subject, in the case of such experts, to execution of

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a legally binding written statement that such expert is fully familiar with the terms of this Section, agrees to comply with the confidentiality terms of this Section, and will not use any Confidential Information disclosed to such expert for personal or business advantage, or (V) as required by Law or any applicable stock exchange regulations.

14. DISCUSSION FORUM

14.1 The parties have established a forum for discussions of possible disagreements that may arise in connection with the supply and purchase of concerned Products, such as the introduction of new Products, modification of existing Products, negotiations of further Supply Channel Contracts.

14.2 The discussion forum shall consist of two persons of which each Party shall nominate one. NNN for this purpose initially nominated [\*] and SKF has initially nominated [\*].

If one Party wishes to replace the person nominated by it, the Party concerned shall notify the other Party in writing of the replacement. SKF and, respectively, NNN, may also designate alternates who may participate at meetings of the discussion forum as substitutes for a designated person. The persons

appointed by the Parties shall also be entitled to ask in-house experts to participate in any negotiation to discuss specific topics.

14.3 The discussion forum shall meet whenever reasonably requested by a Party. Such request shall be submitted in writing and shall contain such documents and information as is relevant and necessary for the other Party to prepare for a discussion.

**15. NN GUARANTEE**

NN hereby unconditionally and irrevocably guarantees towards SKF and the Purchasers the due and full performance of NNN under this Agreement and under the Purchase Orders.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed in two counterparts, as of the day and year first above written.

SKF Holding Maatschappij Holland B.V.

NN Netherlands B.V.

/s/ Tore Bertilsson Carina Bergfelt

/s/ David L. Dyckman

By: Tore Bertilsson Carina Bergfelt

By: David L. Dyckman, Director

NN, Inc.

/s/ David L. Dyckman

By: David L. Dyckman, Vice President  
and Chief Financial Officer

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**LIST OF SCHEDULES AND EXHIBITS**

- 1.5 General Conditions
- 2.6 Suppliers and Subcontractors not yet approved by SKF
- 3.1 Price policy, Settlement
- 3.1.3 Price List
- 4.2 Current delivery terms
- 4.4 Payment terms
- 5.7 Max Delivery Times
- 6.2 Quality Standards
- 6.3 Zero Defect Policy
- 6.5 End of life Vehicles

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**Exhibit 3.1**

**Price policy and settlement**

[\*]

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**Exhibit 3.1.3**

**Price List**

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**New Pricelist Vee - products for Tudela**

Product designation	EUR per 100 pcs.
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[\*]

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**New Pricelist Vee - products for THU Aiken**

Production Designation	USD per 100 pcs.
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[\*]

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**New Pricelist Vee - products for Cajamar**

Product designation USD per  
100 pcs.

[\*]

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**New Pricelist Vee - products for SRB Hanover**

Product designation USD per  
100 pcs.

[\*]

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**New Pricelist Vee - products for Luechow Unit 1**

Product designation EUR per  
100 pcs.

[\*]

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**New Pricelist Vee - products for Luechow Unit 2**

Product designation EUR per  
100 pcs.

[\*]

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**New Pricelist Vee - products for Luechow Unit 3**

Product designation EUR per  
100 pcs.

[\*]

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**New Pricelist Vee - products for Luechow Unit 4**

Product Designation EUR per  
100 pcs.

[\*]

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**New Pricelist Vee - products for Luechow Unit 5**

Product designation EUR per  
100 pcs.

[\*]

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**New Pricelist Vee - products for Luechow THU**

Product designation EUR per  
100 pcs.

[\*]

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**New Pricelist Vee - products for SRB Luton**

Product designation GBP per  
100 pcs.

[\*]

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New Pricelist Vee - products for ABP Lutsk

Product designation EUR per  
100 pcs.

[\*]

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New Pricelist Vee - products for Mulheim

Product designation EUR per  
100 pcs.

[\*]

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New Pricelist Vee - products for SRB Nilai

Product designation EUR per  
100 pcs.

[\*]

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New Pricelist Vee - products for Poznan

Product designation PLN per  
100 pcs.

[\*]

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New Pricelist Vee - products for Puebla

Product designation USD per  
100 pcs.

[\*]

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New Pricelist Vee - products for TRB India

Product designation EUR per  
100 pcs.

[\*]

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New Pricelist Vee - products for Schweinfurt 1H

Product designation EUR per  
100 pcs.

[\*]

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New Pricelist Vee - products for Schweinfurt 1L

Product designation EUR per  
100 pcs.

[\*]

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New Pricelist Vee - products for Schweinfurt 3M

Product designation EUR per  
100 pcs.

[\*]

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New Pricelist Vee - products for ASP Schweinfurt

Product designation EUR per  
100 pcs.

[\*]

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New Pricelist Vee - products for Schweinfurt LSC

Product designation EUR per  
100 pcs.

[\*]

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New Pricelist Vee - products for Schweinfurt TH

Product designation EUR per  
100 pcs.

[\*]

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New Pricelist Vee - products for ABC Shanghai

Product designation EUR per  
100 pcs.

[\*]

New Pricelist Vee - products for Car Engine St. Cyr

Product designation EUR per  
100 pcs.

[\*]

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New Pricelist Vee - products for HBU Aiken

Product designation USD per  
100 pcs.

[\*]



## CERTIFICATIONS

I, Roderick R. Baty, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NN, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2003

/s/ Roderick R. Baty

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 Roderick R. Baty  
 Chairman, President and Chief Executive  
 Officer

## CERTIFICATIONS

I, David L. Dyckman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NN, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (d) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2003

/s/ David L. Dyckman  
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David L. Dyckman  
Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT  
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of NN, Inc. (the "Company") on Form 10-Q for the interim period ended June 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacity and date indicated below, hereby certifies pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge: (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2003  
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/s/ Roderick R. Baty  
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Roderick R. Baty  
Chairman, President and Chief  
Executive Officer

[A signed original of this written statement required by Section 906 has been provided to NN, Inc. and will be retained by NN, Inc. and furnished to the Securities and Exchange Commission or it's staff upon request.]

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT  
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of NN, Inc. (the "Company") on Form 10-Q for the interim period ended June 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacity and date indicated below, hereby certifies pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge: (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2003  
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/s/ David L. Dyckman  
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David L. Dyckman  
Chief Financial Officer

[A signed original of this written statement required by Section 906 has been provided to NN, Inc. and will be retained by NN, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.]