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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, 2000

OR

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

For the transition period from _________ to _________

Commission File Number 0-23486

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

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

2000 WATERS EDGE DRIVE
BUILDING C, SUITE 12
JOHNSON CITY, TENNESSEE 37604
(Address of principal executive offices, including zip code)

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

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

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As of August 11, 2000 there were 15,244,308 shares of the registrant's common stock, par value $0.01 per share, outstanding.

NN, INC.
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PART I. FINANCIAL INFORMATION

NN, INC.
CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(UNAUDITED)

| THOUSANDS OF DOLLARS, EXCEPT PER SHARE DATA | THREE MONTHS ENDED JUNE 30, 2000 | THREE MONTHS ENDED JUNE 30, 1999 | SIX MONTHS ENDED JUNE 30, 2000 | SIX MONTHS ENDED JUNE 30, 1999 |
|---|---|---|---|---|
| Net sales | $25,643 | $17,475 | $53,645 | $35,387 |
| Cost of goods sold | 17,965 | 12,591 | 38,311 | 25,114 |
| Gross profit | 7,678 | 4,884 | 15,334 | 10,273 |
| Selling, general and administrative | 2,463 | 1,027 | 4,781 | 2,245 |
| Depreciation and amortization | 1,723 | 1,231 | 3,568 | 2,475 |
| Loss on involuntary conversion | 4,505 | -- | 8,483 | -- |
| Gain on involuntary conversion | (4,505) | -- | (8,458) | -- |
| Equity in earnings of unconsolidated affiliate | (53) | -- | (66) | -- |
| Income from operations | 3,545 | 2,626 | 7,026 | 5,553 |
| Interest expense, net | 268 | 8 | 559 | 9 |
| Income before provision for income taxes | 3,277 | 2,618 | 6,467 | 5,544 |
| Provision for income taxes | 1,035 | 903 | 2,115 | 1,867 |
| Net income | $2,242 | $1,715 | $4,352 | $3,677 |
| Other comprehensive income: | | | | |
| Foreign currency translation | (27) | (426) | (422) | (1,287) |
| Other comprehensive income | (27) | (426) | (422) | (1,287) |
| Comprehensive income | $2,215 | $1,289 | $3,930 | $2,390 |
| Basic income per common share | $ 0.15 | $ 0.12 | $ 0.28 | $ 0.25 |
| Weighted average shares outstanding | 15,244 | 14,804 | 15,244 | 14,804 |
| Diluted income per common share | $ 0.15 | $ 0.12 | $ 0.28 | $ 0.25 |
| Weighted average shares outstanding | 15,436 | 14,808 | 15,437 | 14,806 |

SEE ACCOMPANYING NOTES.

NN, INC.
CONDENSED BALANCE SHEETS

| THOUSANDS OF DOLLARS | JUNE 30, 2000 (UNAUDITED) | DECEMBER 31, 1999 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 2,432 | $ 1,409 |
| Accounts receivable, net | 20,680 | 18,183 |
| Inventories, net | 12,012 | 13,122 |
| Other current assets | 4,651 | 688 |
| Total current assets | 39,775 | 33,402 |
| Property, plant and equipment, net | 41,925 | 43,452 |
| Goodwill, net | 12,400 | 12,779 |
| Receivable from unconsolidated affiliate | 3,165 | -- |
| Equity in unconsolidated affiliate | 166 | -- |
| Other non-current assets | 379 | 735 |
| Total assets | $ 97,810 | $90,368 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 5,343 | $ 8,952 |
| Accrued vacation and holiday expense | 710 | 676 |
| Deferred Income | 777 | 875 |
| Accrued bonuses | 871 | -- |
| Income taxes payable | 901 | 1,283 |
| Other current liabilities | 2,329 | 2,301 |
| Total current liabilities | 14,540 | 10,478 |
| Deferred income taxes | 2,611 | 2,611 |
| Long-term debt | 19,040 | 17,151 |
| Total liabilities | 36,191 | 30,240 |
| Total stockholders' equity | 61,619 | 60,128 |
| Total liabilities and stockholders' equity | $97,810 | $90,368 |

SEE ACCOMPANYING NOTES.

NN, INC.

CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)

| THOUSANDS OF DOLLARS | COMMON STOCK NUMBER OF SHARES | PAR VALUE | ADDITIONAL PAID IN CAPITAL | RETAINED EARNINGS (DEFICIT) | ACCUMULATED OTHER COMPREHENSIVE INCOME | TOTAL |
|---|---|---|---|---|---|---|
| Balance, January 1, 1999 | 14,804 | $149 | $27,902 | $28,306 | $(115) | $56,242 |
| Net income | | | | 3,677 | | 3,677 |
| Dividends | | | | (2,368) | | (2,368) |
| Other comprehensive income | | | | | (1,287) | (1,287) |
| Balance, June 30, 1999 | 14,804 | $149 | $27,902 | $29,615 | $ (1,402) | $56,264 |
| Balance, January 1, 2000 | 15,244 | $153 | $30,398 | $31,255 | $ (1,678) | $60,128 |
| Net income | | | | 4,352 | | 4,352 |
| Dividends | | | | (2,439) | | (2,439) |
| Other comprehensive income | | | | | (422) | (422) |
| Balance, June 30, 2000 | 15,244 | $153 | $30,398 | $33,168 | $ (2,100) | $61,619 |

SEE ACCOMPANYING NOTES.

NN, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| THOUSANDS OF DOLLARS | SIX MONTHS ENDED JUNE 30, 2000 | 1999 |
|---|---|---|
| OPERATING ACTIVITIES: | | |
| Net income | $4,352 | $3,677 |
| Adjustments to reconcile net income: | | |
| Depreciation and amortization | 3,568 | 2,475 |
| Equity earnings of unconsolidated affiliate | (66) | -- |
| Interest income on receivable from unconsolidated affiliate | (45) | -- |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (2,497) | (2,303) |
| Inventories | 1,110 | 4,054 |
| Taxes payable | (382) | (452) |
| Other current assets | (3,963) | (175) |
| Other assets | 356 | -- |
| Accounts payable | 3,609 | (401) |
| Other liabilities | 835 | 995 |
| Net cash provided by operating activities | 6,877 | 7,870 |
| INVESTING ACTIVITIES: | | |
| Acquisition of plant, property, and equipment | (3,663) | (261) |
| Proceeds from disposals of property, plant and equipment | -- | 65 |
| Involuntary conversion of property, plant and equipment | 2,001 | -- |
| Long-term note receivable | (3,120) | -- |
| Investment in unconsolidated earnings | (100) | -- |
| Net cash used by investing activities | (4,882) | (196) |
| FINANCING ACTIVITIES: | | |
| Net proceeds under revolving credit facility | 1,889 | -- |
| Dividends paid | (2,439) | (2,368) |
| Net cash used by financing activities | (550) | (3,655) |
| Effect of exchange rate changes | (422) | (1,287) |
| Net Change in Cash and Cash Equivalents | 1,445 | 4,019 |
| Cash and Cash Equivalents at Beginning of Period | 1,409 | 1,430 |
| Cash and Cash Equivalents at End of Period | $ 2,432 | $5,449 |

SEE ACCOMPANYING NOTES.

NN, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE 1. INTERIM FINANCIAL STATEMENTS

The accompanying condensed financial statements of NN, Inc. have not been audited by independent accountants, except for the balance sheet at December 31, 1999. 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, 2000 and 1999, the Company's financial position at June 30, 2000 and December 31, 1999, and the cash flows for the six month periods ended June 30, 2000 and 1999. 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.

Certain information and footnote disclosures normally included in 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.

The results for the first and second quarters of 2000 are not necessarily indicative of future results.

NOTE 2. INVENTORIES

Inventories are stated at the lower of cost or market, with cost being determined by the first-in, first-out method.

Inventories are comprised of the following (in thousands):

| | JUNE 30, 2000 (UNAUDITED) | DECEMBER 31, 1999 |
|---|---|---|
| Raw materials | $ 2,539 | $ 3,131 |
| Work in process | 2,607 | 2,585 |
| Finished goods | 6,926 | 7,466 |
| | 12,072 | 13,182 |
| Less - Reserve for excess and obsolete inventory | 60 | 60 |
| | $ 12,012 | $ 13,122 |

NOTE 3. NET INCOME PER SHARE

| THOUSANDS OF DOLLARS, EXCEPT SHARE AND PER SHARE DATA | THREE MONTHS ENDED JUNE 30, 2000 | THREE MONTHS ENDED JUNE 30, 1999 | SIX MONTHS ENDED JUNE 30, 2000 | SIX MONTHS ENDED JUNE 30, 1999 |
|---|---|---|---|---|
| Net income | $ 2,242 | $ 1,715 | $ 4,352 | $ 3,677 |
| Adjustments to net income | -- | -- | -- | -- |
| Net income | $ 2,242 | $ 1,715 | $ 4,352 | $ 3,677 |
| Basic shares outstanding | 15,244,308 | 14,804,244 | 15,244,308 | 14,804,244 |
| Effect of dilutive stock options | 191,204 | 3,606 | 192,509 | 1,444 |
| Dilutive shares outstanding | 15,435,512 | 14,807,850 | 15,436,817 | 14,805,688 |
| Basic net income per share | $ 0.15 | $ 0.12 | $ 0.28 | $ 0.25 |
| Diluted net income per share | $ 0.15 | $ 0.12 | $ 0.28 | $ 0.25 |

Excluded from the shares outstanding for the second quarter ended June 30, 2000 and 1999 were 10,750 and 438,125 antidilutive options, respectively, which had exercise prices ranging from $9.75 to $11.50 and $6.38 to $15.50. Excluded from the shares outstanding for the six months ended June 30, 2000 and 1999 were 10,750 and 510,125 antidilutive options, respectively, which had exercise prices ranging from $9.75 to $11.50 and $6.00 to $15.50.

NOTE 4. SEGMENT INFORMATION

In connection with the Company's acquisition of certain assets and liabilities of Earsley Capital Corporation in July 1999, the Company has chosen to realign its reportable segments on the basis of manufactured products. As a result of this realignment, the Company now has two reportable segments, which include balls & rollers and plastics. The Company's ball & roller operations are distributed among two manufacturing facilities in Tennessee, one manufacturing facility in South Carolina and one manufacturing facility in Kilkenny, Ireland. All of these facilities are engaged in the production of precision balls and rollers used primarily in the bearing industry. The Company's plastic operations are located in two manufacturing facilities located in Lubbock, Texas. The facility is engaged in the production of precision plastic injection molded components.

The accounting policies of the segments do not differ from those of the consolidated entity. The Company evaluates segment performance based on profit or loss from operations before income taxes not including non-recurring gains or losses. The Company accounts for intersegment sales and transfers at current market prices; however, the Company did not have any material intersegment transactions during the six-month period ended June 30, 2000.

| | THREE MONTHS ENDED JUNE 30, | | | |
|---|---|---|---|---|
| | 2000 | | 1999 | |
| THOUSANDS OF DOLLARS | BALL & ROLLER | PLASTICS | BALL & ROLLER | PLASTICS |
| Revenues from external customers | $ 18,296 | $ 7,347 | $ 17,475 | $ -- |
| Segment profit | 3,142 | 135 | 2,618 | -- |
| Segment assets | 66,866 | 30,944 | 67,024 | -- |

| | SIX MONTHS ENDED JUNE 30, | | | |
|---|---|---|---|---|
| | 2000 | | 1999 | |
| THOUSANDS OF DOLLARS | BALL & ROLLER | PLASTICS | BALL & ROLLER | PLASTICS |
| Revenues from external customers | $ 37,421 | $ 16,224 | $ 35,387 | $ -- |
| Segment profit | 5,982 | 510 | 5,544 | -- |
| Segment assets | 66,866 | 30,944 | 67,024 | -- |

NOTE 5. ACQUISITION

Effective July 4, 1999 the Company acquired substantially all of the assets and assumed certain liabilities of Earsley Capital Corporation, a Nevada corporation and successor to and formerly known as Industrial Molding Corporation ("IMC"). IMC, located in Lubbock, Texas, operates as a premier full-service designer and manufacturer of precision plastic injection molded components. The Company paid consideration of approximately $30 million, consisting of cash in the amount of $27.5 million and 440,038 shares of its common stock, for the net assets acquired from IMC. Cash used in the acquisition was obtained from the Company's existing line of credit.

IMC reported earnings of $1.9 million and $1.2 million on net sales of $28.1 million and $13.7 million for the year ended January 2, 1998 and the six-month period ended July 4, 1999, respectively. Net assets of IMC which were acquired by the Company approximated $13.7 million and $16 million at January 2, 1999 and July 4, 1999, respectively.

NOTE 6. JOINT VENTURE

On March 16, 2000, the Company entered into a joint venture with General Bearing Corporation. The new venture, NN General, LLC, owns a majority position in Jiangsu General Ball & Roller Company, Ltd., a Chinese precision ball and roller manufacturer located in Rugao City, Jiangsu Providence China. Through NN General, LLC, the Company equally shares a 60% interest with General Bearing Company in the Chinese company. At inception, the Company was required to make an intial investment of $100,000 and provide a loan to NN General, LLC in the amount of $2.4 million. During the second quarter of 2000, the Company loaned NN General, LLC an additional $720,000. The remaining 40% of the Chinese company is owned by Jiangsu Steel Ball Factory. The Company accounts for this investment under the equity method and recorded income of approximately $53,000 and $66,000 during the three and six month periods ended June 30, 2000, respectively.

NOTE 7. FIRE

On March 12, 2000, the Company experienced a fire at its Erwin, Tennessee facility. The fire was contained to approximately 30% of the production area and did not result in serious injury to any employee. Effected production was shifted to the Company's other facilities as possible as well as the use of other suppliers to protect product supply to customers. Insurance coverage is available for the loss. At June 30, 2000, the Company recorded a loss of approximately $8.5 million representing the net book value of assets destroyed in the fire and other fire related expenses. The Company also recorded a gain of approximately $8.5 million at June 30, 2000 representing the amount it believes the Company will recover from insurance proceeds for losses already recognized.

NOTE 8. SUBSEQUENT EVENT

On July 31, 2000, the Company completed its Euroball transaction. Completion of the transaction required the Company to start a jointly owned stand-alone company in Europe, NN Euroball ApS, for the manufacture and sale of chrome steel balls used for the ball bearings and other products. The Company will have 54% of the shares of the new company, ABSKF ("SKF") and FAG Kugelfischer Georg Schager AG ("FAG") will have 23% each. Euroball ApS, through its newly-formed subsidiaries, acquired the ball factories located in Pinerolo, Italy (SKF), Eltmann, Germany (FAG) and Kilkenny, Ireland (NN, Inc.). Employment will be approximately 700 and yearly sales are planned to be approximately 95 million euro. Euroball will manufacture and sell high precision chrome steel balls used for ball bearings and other products. Financing for the transaction was provided by HypoVereinsbank Luxembourg S.A. as an agent for Bayerische Hypo-und Vereinsbank AG of Munich, Germany. Acquisition financing of approximately 31.5 million euro was drawn at closing, and the credit facilty provides for additional working capital capital expenditure financing. The Company will be required to consolidate NN Euroball ApS.

ITEM 2.

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

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2000 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 1999

NET SALES. Net sales increased by approximately $8.1 million, or 46.3%, from $17.5 million for the second quarter of 1999 to $25.6 million for the second quarter of 2000. The acquisition of IMC accounted for $7.3 million of the increase. For the Ball & Roller division, foreign sales increased $1.4 million, or 17.7%, from $7.9 million in the second quarter of 1999 to $9.3 million during the second quarter of 2000. The increase in foreign sales was due primarily to increased global demand for the Company's products to existing customers in Europe and Asia as well as a new Asian customer. Domestic sales decreased $600,000, or 6.2%, from $9.6 million in the second quarter of 1999 to $9.0 million in the second quarter of 2000. This decrease was due primarily to decreased sales to one existing customer.

GROSS PROFIT. Gross profit increased $2.8 million or 57.1%, from $4.9 million for the second quarter of 1999 to $7.7 million for the second quarter of 2000. The acquisition of IMC accounted for $1.9 million of the increase. As a percentage of net sales, gross profit increased from 27.9% in the second quarter of 1999 to 29.9% for the same period in 2000. This increase in gross profit as a percentage of net sales was due primarily to decreased levels of volume and the reduction of $2.6 million of inventory in the second quarter of 1999.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expenses increased by $1.5 million from $1.0 million in the second quarter of 1999 to $2.5 million in the second quarter of 2000. The acquisition of IMC accounted for $1.0 million of the increase. The remainder of the increase was due primarily to the Company's business development activities as well as increased levels of travel. As a percentage of net sales, selling, general and administrative expenses increased from 5.9% for the second quarter of 1999 to 9.6% for the same period in 2000.

DEPRECIATION AND AMORTIZATION. Depreciation expense increased from $1.2 million for the second quarter of 1999 to $1.7 million for the same period in 2000. The acquisition of IMC accounted for $553,000 of the increase. As a percentage of net sales, depreciation expense decreased from 7.0% in the second quarter of 1999 to 6.7% in the second quarter of 2000.

INTEREST EXPENSE. Interest expense increased from $8,000 in the second quarter of 1999 to $268,000 during the same period in 2000. The increase is due to increased levels outstanding under the Company's line of credit in the second quarter of 2000. In July and August of 1999, the Company borrowed $21.7 million under the line of credit for the purchase of certain assets of Earsley Capital Corporation. During the first and second quarter of 2000, the Company also borrowed $3.2 million for the formation of NN General, LLC.

NET INCOME. Net income increased by $527,000 or 29.4%, from $1.7 million for the second quarter of 1999 to $2.2 million for the same period in 2000. As a percentage of net sales, net income decreased from 9.8% in the second quarter of 1999 to 8.7% for the second quarter of 2000.

SIX MONTHS ENDED JUNE 30, 1999 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 1998

NET SALES. Net sales increased by approximately $18.2 million, or 51.4%, from $35.4 million for the first six months of 1999 to $53.6 million for the same period in 2000. The acquistion of IMC accounted for $16.2 million of the increase. Foreign sales increased $3.6 million, or 23.1%, from $15.6 million in the first six months of 1999 to $19.2 million during the same period of 2000. The increase in foreign sales was due primarily to increased global demand for the Company's products in Europe and Asia. Domestic sales decreased $1.6 million, or 8.1%, from $19.8 million in the first six months of 1999 to $18.2 million in the same period of 2000. This decrease was due primarily to decreased sales to existing customers.

GROSS PROFIT. Gross profit increased $5.0 million, or 48.5%, from $10.3 million for the first six months of 1999 to $15.3 million for the same period of 2000. The acquisition of IMC accounted for $4.0 million of the increase. As a percentage of net sales, gross profit decreased slightly from 29.0% in the first six months of 1999 to 28.6% in the same period of 2000. This decrease in gross profit as a percentage of net sales was due primarily to decreased production efficiencies resulting from the March 2000 fire at the Erwin facility.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expenses increased by $2.6 million, or 118.0%, from $2.2 million in the first six months of 1999 to $4.8 million in the same period of 2000. The acquisition of IMC accounted for $1.9 of the increase. The remainder of the increase was due primarily to the Company's business development activity as well as increased levels of travel. As a percentage of net sales, selling, general and administrative expenses increased from 6.3% in the first six months of 1999 to 8.9% for the same period in 2000.

DEPRECIATION AND AMORTIZATION. Depreciation expense increased from $2.5 million for the first six months of 1999 to $3.6 million for the same period in 2000. The acqusition of IMC accounted for $1.1 million of the increase. As a percentage of net sales, depreciation expense decreased from 7.0% for the first six months of 1999 to 6.6% for the same period in 2000.

INTEREST EXPENSE. Interest expense increased from $9,000 in the first six months of 1999 to $559,000 during the same period in 2000. The increase is due to increased levels outstanding under the Company's line of credit in the second quarter of 2000. In July and August of 1999, the Company borrowed $21.7 million under the line of credit for the purchase of certain assets of Earsley Capital Corporation. During the first and second quarter of 2000, the Company also borrowed $3.2 million for the formation of NN General, LLC.

NET INCOME. Net income increased by $675,000, or 18.9%, from $3.7 million for the first six months of 1999 to $4.4 million for the same period for 2000. As a percentage of net sales, net income decreased from 10.4% for the first six months of 1999 to 8.1% for the same period for 2000.

LIQUIDITY AND CAPITAL RESOURCES

In July 1997, the Company entered into a loan agreement which provides for a revolving credit facility of up to $25 million, expiring on June 30, 2000. In December 1999, the Company extended the term of the loan agreement to July 25, 2001. Amounts outstanding under the revolving facility are unsecured and bear interest at a floating rate equal to, at the Company's option, either LIBOR plus 0.65% or the Fed Funds effective rate plus 1.5%. The loan agreement contains various financial and nonfinancial restrictive covenants. The Company, as of August 11, 2000 was in compliance with or had received waivers on all such covenants.

The Company's arrangements with its domestic customers typically provide that payments are due within 30 days following the date of the Company's shipment of goods, while arrangements with foreign customers (other than foreign customers that have entered into an inventory management program with the Company) generally provide that payments are due within either 90 or 120 days following the date of shipment. Under the Company's inventory management program, payments typically are due within 30 days after the product is used by the customer. The Company's net sales historically have not been of a seasonal nature. However, seasonality has become a factor for the foreign ball and roller sales in that many foreign customers cease production during the month of August. The Company also experiences seasonal fluctuation through its IMC Plastics division which provides several lines of seasonal hardware.

The Company bills and receives payment from some of its foreign customers in their local currency. To date, the Company has not been materially adversely affected by currency fluctuations or foreign exchange restrictions. Nonetheless, as a result of these sales, the Company's foreign exchange risk has increased. Various strategies to manage this risk are under development and implementation, including a hedging program. In addition, a strengthening of the U.S. dollar against foreign currencies could impair the ability of the Company to compete with international competitors for foreign as well as domestic sales.

Working capital, which consists principally of accounts receivable and inventories, was $25.2 million at June 30, 2000 as compared to $22.9 million at December 31, 1999. The ratio of current assets to current liabilities decreased from 3.2:1 at December 31, 1999 to 2.7:1at June 30, 2000. Cash flow from operations decreased from $7.9 million during the second quarter of 1999 to $6.9 million during the same period in 2000. This decrease was primarily attributed to an increase of $4.0 million in insurance reimbursement receivables related to the March fire and $4.1 million in decreased inventories in the 1999 second quarter as compared to a $ 1.1 million decrease in inventories in the current year second quarter.

During 2000, the Company plans to spend approximately $5.3 million on capital expenditures, exclusive of expenditures made to replace destroyed facilities and equipment from the March fire, of which approximately $1.1 has been spent through June 30, 2000. The Company intends to finance these activities with cash generated from operations and funds available under the credit facility described above. The Company believes that funds generated from operations and borrowings from the credit facility will be sufficient to finance the Company's working capital needs and projected capital expenditure requirements through December 2000.

NAME CHANGE

On May 11, 2000, the stockholders of NN Ball & Roller, Inc., at an Annual Meeting of stockholders, approved an amendment to the Company's Certificate of Incorporation changing the name of the company from NN Ball & Roller, Inc. to NN, Inc. On May 23, 2000 the Company filed a Certificate of Admendment to the Certificate of Incorporation with the Delaware Secretary of State.

THE EURO

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

The Company currently has operations in Ireland, which is one of the Euro participating countries, and sells product to customers in many of the participating countries. The functional currency of the Company's Ireland operations was changed to the Euro effective September 1999.

SEASONALITY AND FLUCTUATION IN QUARTERLY RESULTS

The Company's net sales historically have not been of a seasonal nature. However, as foreign sales have increased as a percentage of total sales, seasonality has become a factor for the Company in that many foreign customers cease production during the month of August.

INFLATION AND CHANGES IN PRICES

While the Company's operations have not been affected by inflation during recent years, prices for 52100 Steel and other raw materials purchased by the Company are subject to change. For example, during 1995, due to an increase in worldwide demand for 52100 Steel and the decrease in the value of the United States dollar relative to foreign currencies, the Company experienced an increase in the price of 52100 Steel and some difficulty in obtaining an adequate supply of 52100 Steel from its existing suppliers. Typically, the Company's pricing arrangements with its steel suppliers are subject to adjustment once every six months. In an effort to limit its exposure to fluctuations in steel prices, the Company has generally avoided the use of long-term, fixed price contracts with its customers. Instead, the Company typically reserves the right to increase product prices periodically in the event of increases in its raw material costs. The Company was able to minimize the impact on its operations resulting from the 52100 Steel price increases by taking such measures.

CAUTIONARY STATEMENTS FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The Company wishes to caution readers that this report contains, and future filings by the Company, press releases and oral statements made by the Company's authorized representatives may contain, forward looking statements that involve certain risks and uncertainties. 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 following paragraphs discuss the risk factors the Company regards as the most significant, although the Company wishes to caution that other factors that are currently not considered as significant or that currently cannot be foreseen may in the future prove to be important in affecting the Company's results of operations. The Company undertakes no obligation to publicly update or revise any forward looking statements, whether as a result of new information, future events or otherwise.

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

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

RAPID GROWTH. The Company has significantly expanded its ball and roller production facilities and capacity over the last several years, and during the third quarter of 1997 purchased an additional manufacturing plant in Kilkenny, Ireland. The Company's Ball & Roller division currently is not operating at full capacity and faces risks of further under-utilization or inefficient utilization of its production facilities in future years. The Company also faces risks associated with start-up expenses, inefficiencies, delays and increased depreciation costs associated with its plant expansions.

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

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

DEPENDENCE ON MAJOR CUSTOMERS. During 1999, the Company's ten largest customers accounted for approximately 69% of its net sales. Sales to various US and foreign divisions of SKF, which is one of the largest bearing manufacturers in the world, accounted for approximately 27% of net sales in 1999, and sales to FAG accounted for approximately 11% of net sales. None of the Company's other customers accounted for more than 10% of its net sales in 1999, but sales to three of its customers each represented more than 5% of the Company's 1999 net sales. The loss of all or a substantial portion of sales to these customers would have a material adverse effect on the Company's business.

ACQUISITIONS. The Company's growth strategy includes growth through acquisitions. In July 1999, the Company acquired IMC as part of that strategy. Although the Company believes that it will be able to integrate the operations of IMC and other companies acquired in the future into its operations without substantial cost, delays or other problems, its ability to do so will depend on, among other things, the adequacy of its implementation plans, the ability of its management to effectively oversee and operate the combined operations of the Company and the acquired businesses and its ability to achieve desired operating efficiencies and sales goals. If the Company is not able to successfully integrate the operations of acquired companies into its business, its future earnings and profitability could be materially and adversely affected.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to changes in financial market conditions in the normal course of its business due to its use of certain financial instruments as well as transacting in various foreign currencies. To mitigate its exposure to these market risks, the Company has established policies, procedures and internal processes governing its management of financial market risks.

The Company is exposed to changes in interest rates primarily as a result of its borrowing activities, which include a $25 million floating rate revolving credit facility which is used to maintain liquidity and fund its business operations. At June 30, 2000, the Company had $19.0 million outstanding under the revolving credit facility. A one-percent increase in the interest rate charged on the Company's outstanding borrowings under the revolving credit facility would result in interest expense increasing by approximately $190,000. The nature and amount of the Company's borrowings may vary as a result of future business requirements, market conditions and other factors.

The Company's operating cash flows denominated in foreign currencies are exposed to changes in foreign exchange rates. Beginning in the 1997 fourth quarter, upon the commencement of production in its Kilkenny, Ireland facility, the Company began to bill and receive payment from some of its foreign customers in their own currency. To date, the Company has not been materially adversely affected by currency fluctuations of foreign exchange restrictions. However, as foreign sales approximate 38% of total revenues, management is currently evaluating various strategies to manage this financial market risk, including the implementation of a foreign currency hedging program. The Company did not hold a position in any foreign currency instruments of June 30, 2000.

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The Company's Annual Meeting of Stockholders was held on May 11, 2000. As of March 20, 2000, the record date for the meeting, there were 15,244,308 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 13,691,904 shares of common stock, constituting approximately 87% 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 Richard D. Ennen and Roderick R. Baty as Class III Directors to serve for three-year terms. The results of the voting in connection with such elections were as follows:

| | FOR | WITHHELD |
|---|---|---|
| Richard D. Ennen | 13,574,418 | 117,486 |
| Roderick R. Baty | 13,638,368 | 53,536 |

Accordingly, all nominees were elected to serve until the 2003 Annual Meeting of Stockholders and until their successors are duly elected and qualified. In addition to the foregoing directors, Michael D. Huff and Michael E. Werner are serving terms to expire at the 2001 Annual Meeting of Stockholders, and G. Ronald Morris, Steven T. Warshaw and James L. Earsley are serving terms which are to expire at the 2002 Annual Meeting of Stockholders. Mr. Ennen, the Company's founder, continues in his position as Chairman of the Company's Board of Directors.

The second matter voted upon at the 2000 Annual Meeting of Stockholders was the approval of an amendment to the Company's Certificate of Incorporation to change the name of the corporation to NN, Inc. The vote was 13,663,681 For and 26,073 Against, and there were 2,150 Abstentions.

The Third matter voted upon at the 2000 Annual Meeting of Stockholders was the ratification of PricewaterhouseCoopers, LLP as independent public accountants to audit the Company's accounts for the fiscal year ending December 31, 2000. The vote was 13,688,758 For and 2,396 Against, and there were 750 Abstentions.

ITEM 5. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

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

10.17 Asset Purchase Agreement, dated as of July 4, 1999, by and between NN Ball & Roller, Inc. and Earsley Capital Corporation (incorporated by reference to Exhibit 10.17 of the Company's Form 8-K filed on July 16, 1999).

10.18 Operating Agreement of NN General, LLC (incorporated by reference to Exhibit 99.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000).

10.19 Operating Agreement of NNA, LLC (incorporated by reference to Exhibit 99.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000).

27 Financial Data Schedules (for information of SEC only)

(b) The Company filed reports on Form 8-K during the quarter ending June 30, 2000, as follows:

| Date | Description |
|---|---|
| May 23, 2000 | Reporting change of Company name from NN Ball & Roller, Inc. to NN, Inc. |

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.
(Registrant)

Date: August 11, 2000

/s/ Roderick R. Baty

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

Date: August 11, 2000

/s/ David Dyckman

David Dyckman
Chief Financial Officer
(Principal Financial Officer)
(Duly Authorized Officer)

Date: August 11, 2000

/s/ William C. Kelly, Jr.

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

INDEX TO EXHIBITS

| Exhibit Number | Description |
| --- | --- |
| 27 | Financial Data Schedules (for information of SEC only) |

5
0000918541
NN, Inc.
1,000
U.S. Dollars

3-MOS
DEC-31-2000
APR-01-2000
JUN-30-2000
1
2,423
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3,277
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0.15