NN INC
Form 10-K
March 31, 2010

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

FORM 10-K

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

For the fiscal year ended December 31, 2009

OR

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

For the transition period from to

Commission file number 0-23486

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

Delaware	62-1096725
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2000 Waters Edge Drive	
Johnson City, Tennessee	37604
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $.01	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of class)

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

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

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

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

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

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

Large accelerated filer ¨ Accelerated filer o
Non-accelerated filer x Smaller reporting company ¨
(Do not check if a smaller reporting company)

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

The aggregate market value of the voting stock held by non-affiliates of the registrant at June 30, 2009, based on the closing price on the NASDAQ Stock Market LLC on that date was approximately $27,138,908.

The number of shares of the registrant's common stock outstanding on March 26, 2010 was 16,516,924.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Proxy Statement with respect to the 2010 Annual Meeting of Stockholders are incorporated by reference in Part III, Items 10 to 14 of this Annual Report on Form 10-K as indicated herein.

PART I

Item 1. Business Overview

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

Within the Metal Bearing Components Segment, we manufacture and supply high precision bearing components, consisting of balls, cylindrical rollers, tapered rollers, and metal retainers, for leading bearing manufacturers on a global basis. We are a leading independent manufacturer of precision steel bearing balls and rollers for the North American, European and Asian markets. In 2009, Metal Bearing Components accounted for 71% of total NN, Inc. sales. Sales of balls and rollers accounted for approximately 66% of our total net sales with 52% of sales from balls and 14% of sales from rollers. Sales of metal bearing retainers accounted for 5% of net sales. Through a series of acquisitions and plant expansions, we have built upon our strong core ball business and expanded our bearing component product offering. Today, we offer among the industry's most complete line of commercially available bearing components. We emphasize engineered products that take advantage of our competencies in product design and tight tolerance manufacturing processes. Our bearing customers use our components in fully assembled ball and roller bearings, which serve a wide variety of industrial applications in the transportation, electrical, agricultural, construction, machinery, mining and aerospace markets.

Within the Plastic and Rubber Components Segment, we manufacture high precision rubber seals and plastic retainers for leading bearing manufacturers on a global basis. In addition, we manufacture specialized plastic products including automotive components, electronic instrument cases and other molded components used in a variety of applications. We also manufacture rubber seals for use in various automotive and industrial applications. In 2009, plastic products accounted for 7% of net sales and rubber seals accounted for 5% of net sales.

In 2006, we began to execute on a new five year strategic business plan to leverage our competencies in precision metal products by creating an adjacent platform to the Metal Bearing Components Segment which would broaden our reach into attractive end markets. As part of this new strategy, on November 30, 2006, we added a Precision Metal Components Segment through the acquisition of Whirlaway Corporation ("Whirlaway"). Whirlaway is a high precision metal components and assemblies manufacturer that supplies customers serving the HVAC, appliance and automotive industries. Our entry into the precision metal components market is part of our strategy to serve markets and customers we view as adjacent to bearing components that utilize our core manufacturing competencies. These products accounted for 17% of net sales in 2009.

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

Metal Bearing Components Segment

- Erwin, Tennessee Ball and Roller Plant ("Erwin Plant")
- Mountain City, Tennessee Ball Plant ("Mountain City Plant")
- Eltmann, Germany Ball Plant ("Eltmann Plant")
- Pinerolo, Italy Ball Plant ("Pinerolo Plant")
- Veenendaal, The Netherlands Roller and Stamped Metal Parts Plant ("Veenendaal Plant")
- Kysucke Nove Mesto, Slovakia Ball Plant ("Kysucke Plant")
- Kunshan, China Ball Plant ("Kunshan Plant")

Note: The Kilkenny Plant ceased operations in Q1 2009 and was in the process of being closed during 2009.

Plastic and Rubber Components Segment

- Delta Rubber Company, Danielson, Connecticut Rubber Seal Plant (“Danielson Plant”)
- Industrial Molding Corporation, Inc. Lubbock, Texas Plastic Injection Molding Plant (“Lubbock Plant”)

Precision Metal Components Segment

- Whirlaway Corporation, Wellington, Ohio Metal Components Plant 1 (“Wellington Plant 1”)
- Whirlaway Corporation, Wellington, Ohio Metal Components Plant 2 (“Wellington Plant 2”)
- Whirlaway Corporation, Tempe, Arizona Metal Components Plant, formerly known as Triumph LLC (“Tempe Plant”)

Note: The closure of the Tempe Plant was announced during Q1 of 2010. This closure is expected to be completed during 2010. The Hamilton Plant was closed during the first quarter of 2009.

Financial information about the segments is set forth in Note 11 of the Notes to Consolidated Financial Statements.

Recent Developments

During the first quarter of 2010, we amended both our previously amended and restated $90 million revolving credit facility with Key Bank as administrative agent and our previously amended and restated $40 million senior notes with Prudential Capital. The primary purpose of these amendments was to re-establish covenant levels for both agreements through the expiration of the revolving credit facility in September, 2011 to reflect our current business outlook. The primary financial covenants are the same for both credit agreements through September 2011. As a result of the amendments, the $90 million revolving credit facility was reduced to $85 million as of the amendment date, and it will reduce further by $1.0 million at the end of each of the three fiscal quarters beginning with the December 31, 2010 quarter end and ending with the June 30, 2011 quarter end, after which the total commitment will be $82 million. Neither the commitment amount nor the payment terms of the senior notes were changed. The amendments provided a restriction on restructuring of foreign subsidiaries and removed certain subsidiaries from participation in the credit agreement. Also as a result of the amendments, the interest rate was amended to LIBOR plus an applicable margin of 4.75% from an applicable margin of 4.00%. The interest rate on the senior notes was not changed and remains at 8.5%.

During the first quarter of 2010, we announced the closure of the Tempe Plant. The Tempe Plant was acquired in the 2006 acquisition of Whirlaway and had sales of approximately $12.0 million for calendar year 2009. The closing will impact approximately 130 employees. Current economic conditions coupled with the long-term manufacturing strategy for our Whirlaway business necessitated a consolidation of our manufacturing resources in Ohio. We expect to incur cash charges of approximately $2.5 million in severance, equipment relocation and other closing costs during 2010 related to this closure. In addition, we expect to incur up to $3.0 million in accelerated depreciation during 2010 related to machinery that will be abandoned as part of the closure.

During the third quarter of 2009, we informed our employees of the Veenendaal Plant of our intention to begin a reorganization of the plant's labor force due to the economic downturn. During the year ended December 31, 2009, we incurred severance charges of $3.8 million ($2.9 million after tax) which covers the elimination of 53 permanent positions or 17% of the workforce. The majority of the severance costs were or will be paid out during the fourth quarter of 2009 and first quarter of 2010. During the first quarter of 2010, a number of these employees were rehired under temporary contracts to meet a surge in customer demand.

Corporate Information

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

Products

Metal Bearing Components Segment

Precision Steel Balls. At our Metal Bearing Components Segment facilities, we manufacture and sell high quality, precision steel balls in sizes ranging in diameter from 5/32 of an inch (3.969 mm) to 2 ½ inches (63.5 mm). We produce and sell balls in grades ranging from grade 3 to grade 1000, according to international standards endorsed by the American Bearing Manufacturers Association. The grade number for a ball, in addition to defining allowable dimensional variation within production batches, indicates the degree of spherical precision of the ball; for example, grade 3 balls are manufactured to within three-millionths of an inch of roundness. Our steel balls are used primarily

by manufacturers of anti-friction bearings where precise spherical, tolerance and surface finish accuracies are required. Sales of precision steel balls accounted for approximately 73%, 68%, and 67% of net Metal Bearing Component Segment sales in 2009, 2008, and 2007, respectively.

Steel Rollers. We manufacture tapered rollers at our Veenendaal Plant and cylindrical rollers at our Erwin Plant. Rollers are an alternative rolling element used instead of balls in anti-friction bearings that typically have heavier loading or different speed requirements. Our roller products are used primarily for applications similar to those of our precision steel ball product line, plus certain non-bearing applications such as hydraulic pumps and motors. Tapered rollers are a component in tapered roller bearings that are used in a variety of applications including automotive gearbox applications, automotive wheel bearings and a wide variety of industrial applications. Most cylindrical rollers are made to specific customer requirements for diameter and length and our used in a variety of industrial applications. Tapered rollers accounted for approximately 10%, 14% and 14% of consolidated net sales in 2009, 2008 and 2007, respectively. Cylindrical rollers accounted for approximately 4% of consolidated net sales in each year of 2009, 2008, and 2007, respectively.

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

Plastic and Rubber Components Segment

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

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

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

Precision Metal Components Segment

Precision Metal Components. We sell a wide range of precision metal components. These components are manufactured at the two Wellington, Ohio plants and the Tempe Plant (closure of the Tempe Plant was announced in the first quarter of 2010). The precision metal components offered include mechanical components and assemblies, fluid control components, fluid control assemblies, shafts, and other precision metal parts. The components are used in the following end markets: automotive brake/chassis, thermal air conditioning systems, automotive engine, other automotive, and other industrial applications.

Research and Development

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

Customers

Our products are supplied primarily to bearing manufacturers and automotive and industrial parts manufacturers for use in a broad range of industrial applications, including transportation, electrical, agricultural, construction, machinery, mining and aerospace. Additionally, we supply precision metal, rubber, and plastic components to automotive and industrial companies that are not used in bearing assemblies. We supply approximately 400 customers; however, our top 10 customers account for approximately 76% of our revenue. Only one of these customers, AB SKF (“SKF”), had sales levels that were 10% or greater of total net sales. In 2009, 39% of our products

were sold to customers in North America, 46% to customers in Europe, 11% to customers in Asia and the remaining 4% to customers in South America. Sales to various U.S. and foreign divisions of SKF accounted for approximately 36% of net sales in 2009.

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

Certain long-term supply agreements with Schaeffler Group (INA), with SKF to supply precision balls in Europe, and with SKF providing for the purchase of steel rollers and metal retainers manufactured at our Veenendaal Plant have all expired at December 31, 2009. We are currently supplying product at agreed upon commercial terms, similar to the expired contracts, and anticipate continuing to do so for the foreseeable future.

During 2009, the Metal Bearing Components Segment sold products to approximately 300 customers located in 30 different countries. Approximately 87% of the net sales in 2009 were to customers outside the United States. Approximately 64% of net sales in 2009 were to customers within Europe. Sales to our top ten customers accounted for approximately 81% of the net sales in 2009. Sales to SKF accounted for approximately 50% of net sales of the segment in 2009.

During 2009, the Plastic and Rubber Components Segment sold its products to over 80 customers located principally in North America. Approximately 14% of the Plastic and Rubber Components Segment's net sales were to customers outside the United States, with the vast majority to customers in Mexico and Canada. Sales to the segment's top ten customers accounted for approximately 80% of the segment's net sales in 2009.

During 2009, the Precision Metal Components Segment sold its products to 24 customers located in five countries. Approximately 91% of all sales were to customers located within the United States. Sales to the segment's top ten customers accounted for approximately 98% of the segment's net sales in 2009.

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

See Note 11 of the Notes to Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations" for additional Segment financial information.

The following table presents a breakdown of our net sales for fiscal years 2009, 2008 and 2007:

(In Thousands)	2009		2008		2007	
Metal Bearing Components Segment	$183,605		$321,660		$303,059	
Percentage of Total Sales	70.7	%	75.7	%	72.0	%
Precision Metal Components Segment	45,003		64,235		67,384	
Percentage of Total Sales	17.4	%	15.1	%	16.0	%
Plastic and Rubber Components Segment	30,775		38,942		50,851	
Percentage of Total Sales	11.9	%	9.2	%	12.0	%
Total	$259,383		$424,837		$421,294	
Percentage of Total Sales	100	%	100	%	100	%

The change in value of Euro denominated sales resulted in net sales decreasing $8.3 million in 2009, increasing $17.6 million in 2008 and increasing $19.6 million in 2007 when converted to U.S. Dollars.

Sales and Marketing

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

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

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

Manufacturing Process

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

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

Within the precision metal components industry we are well positioned in the market place by virtue of our focus on critical components and assemblies for highly engineered mechanical systems used in various durable goods.

Employees

Due to the global recession that impacted us starting in the fourth quarter of 2008 through the year ended December 31, 2009, our average employment level for 2009 decreased by 462 employees, or 21%, from the 2008 average employment level. As of December 31, 2009, we employed a total of 1,776 full-time employees. Our Metal Bearing Components Segment employed 217 in the U.S., 803 in Europe, and 108 in China; our Plastic and Rubber Components Segment employed 260, all in the U.S.; and our Precision Metal Components Segment employed 382, all in the U.S. In addition, there were six employees at our corporate headquarters. Of our total employment, 19% are management/staff employees and 81% are production employees. We believe we are able to attract and retain high quality employees because of our quality reputation, technical expertise, history of financial and operating stability, attractive employee benefit programs, and our progressive, employee-friendly working environment. The employees in the Eltmann Plant, Pinerolo Plant and Veenendaal Plant are unionized. We have good labor relations, and we have never experienced any significant involuntary work stoppages.

During February 2009, production ceased at the Kilkenny Plant. The entire work force of the manufacturing location, 68 employees, was permanently laid-off due to the closure of this plant. During the first quarter of 2009, the Hamilton Plant ceased production and was closed, which resulted in the permanent lay-off of 11 employees. During the third quarter of 2009, a reduction in force occurred at our Veenendaal Plant which resulted in the elimination of 53 full-time employees. During the first quarter of 2010, the closure of the Tempe Plant was announced. Production is scheduled to cease at this location during 2010, reducing our full-time employees by approximately 130.

Competition

The Metal Bearing Components Segment of our business is intensely competitive. Our primary domestic competitor is Hoover Precision Products, Inc., a wholly owned U.S. subsidiary of Tsubakimoto Precision Products Co. Ltd. Our primary foreign competitors are Amatsuji Steel Ball Manufacturing Company, Ltd. (Japan), a wholly owed division of NSK LTD., Tsubakimoto Precision Products Co. Ltd (Japan) and Jingsu General Ball and Roller (China).

We believe that competition within the Metal Bearing Components Segment is based principally on quality, price and the ability to consistently meet customer delivery requirements. Management believes that our competitive strengths

are our precision manufacturing capabilities, our wide product assortment, our reputation for consistent quality and reliability, and the productivity of our workforce.

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

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

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

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

Raw Materials

The primary raw material used in our core ball and roller business of the Metal Bearing Components Segment is 52100 Steel, which is high quality chromium steel. During 2009, approximately 90% of the steel used by the segment was 52100 Steel in rod and wire form. Our other steel requirements include metal strip, chrome rod and wire, and type S2 rock bit steel.

The Metal Bearing Components Segment businesses purchase substantially all of their 52100 Steel requirements from mills in Europe and Japan and all of their metal strip requirements from European mills and traders. The principal suppliers of 52100 Steel in the U.S. are Daido Steel Inc., Kobe Steel, Lucchini (affiliate of Ascometal France) and Ohio Star Forge Co. The principal supplier of 52100 Steel in Europe is Ascometal France (See Note 14 of the Notes to Consolidated Financial Statements), while the principal suppliers of metal strip are Thyssen and Theis. If any of our current suppliers were unable to supply 52100 Steel to us, we are unable to provide assurances that we would not face higher costs or production interruptions as a result of obtaining 52100 Steel from alternate sources.

We purchase steel on the basis of price and, more significantly, composition and quality. The pricing arrangements with our suppliers are typically subject to adjustment every three to six months in the U.S. and contractually adjusted on an annual basis within the European locations for the base steel price and quarterly for surcharge adjustments for precision steel balls. In general, we do not enter into written supply agreements with suppliers or commit to maintain minimum monthly purchases of steel except for the supply arrangements between Ascometal and the European operations of our Metal Bearing Components Segment (see Note 14 of the Notes to Consolidated Financial Statements).

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

The Metal Bearing Components Segment has historically been affected by upward price pressure on steel principally due to general increases in global demand and due to global increased consumption of steel. During 2009, steel price increases abated on the basis of reduced scrap prices and overall reduction in global demand for steel products. In general, we pass through material cost fluctuations to our customers in the form of changes in selling price.

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

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

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

Patents, Trademarks and Licenses

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

Seasonal Nature of Business

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

Environmental Compliance

Our operations and products are subject to extensive federal, state and local regulatory requirements both domestically and abroad relating to pollution control and protection of the environment. We maintain a compliance program to assist in preventing and, if necessary, correcting environmental problems. In the Metal Bearing Components Segment, the Eltmann Plant, the Kysucke Plant, the Veenendaal Plant, and Pinerolo Plant are ISO 14000 certified and all received the EPD (Environmental Product Declaration), except for the Veenendaal Plant's stamp metal parts business. Based on information compiled to date, management believes that our current operations are in substantial compliance with applicable environmental laws and regulations, the violation of which would have a material adverse effect on our business and financial condition. We have assessed conditional asset retirement obligations and have found them to be immaterial to the consolidated financial statements. We cannot assure you, however, that currently unknown matters, new laws and regulations, or stricter interpretations of existing laws and regulations will not materially affect our business or operations in the future. More specifically, although we believe that we dispose of waste in material compliance with applicable environmental laws and regulations, we cannot assure you that we will not incur significant liabilities in the future in connection with the clean-up of waste disposal sites. We maintain long-term environmental insurance covering the four manufacturing locations purchased with the Whirlaway acquisition. We are currently a potentially responsible party of a remedial action at a former waste recycling facility used by us. See Item 3 and Note 14 of the Notes to Consolidated Financial Statements.

Executive Officers of the Registrant

Our executive officers are:

Name	Age	Position
Roderick R. Baty	56	Chairman of the Board, Chief Executive Officer and President
Frank T. Gentry, III	54	Vice President – Managing Director, Metal Bearing Components
Robert R. Sams	52	Vice President – Sales
James H. Dorton	53	Vice President – Corporate Development and Chief Financial Officer
William C. Kelly, Jr.	51	Vice President – Chief Administrative Officer, Secretary, and Treasurer
Nicola Trombetti	49	Vice President – General Manager of NN Europe
Thomas G. Zupan	54	Vice President – Precision Metal Components Division

James O. Anderson	45	Vice President – Plastic and Rubber Components Division
Jeffrey H. Hodge	48	Vice President – General Manager, U.S. Ball and Roller Division

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

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

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

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

James H. Dorton joined NN as Vice President of Corporate Development and Chief Financial Officer in June 2005. Prior to joining NN, Mr. Dorton served as Executive Vice President and Chief Financial Officer of Specialty Foods Group, Inc. from 2003 to 2004, Vice President Corporate Development and Strategy and Vice President – Treasurer of Bowater Incorporated from 1996 to 2002 and as Treasurer of Intergraph Corporation from 1989 to 1996. Mr. Dorton is a Certified Public Accountant.

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

Nicola Trombetti was elected NN Europe General Manager in June 2004 and was elected a Corporate Vice President in June 2005. Prior to being named NN Europe General Manager he was Vice President and Director of Operations, NN Europe. He joined NN in September 2000 as Pinerolo Italy Plant Manager. Prior to joining NN Europe, Mr. Trombetti was Plant Director for Tekfor - Neumaier GmbH Group, a European-based steel component manufacturer for the auto industry. From 1996 to 1999 he was Manufacturing Manager and Plant Manager for SKF Group. He also spent seven years as a manufacturing manager for Pininfarina, an Italian-based car design, engineering, development and manufacturing company.

Thomas G. Zupan co-founded Whirlaway in 1973 with his father and began his career as a toolmaker. He gained further experience in every line business function including Engineering, Production Operations, Quality Assurance, H/R, Sales, Material Control, IS, and Finance as the company grew from owner operator to professionally managed. In 1991, Mr. Zupan became CEO and sole shareholder of Whirlaway. Upon the sale of Whirlaway to NN on November 30, 2006, Mr. Zupan was appointed Vice President – Precision Metal Components Division.

James O. Anderson was appointed Vice President-Plastics and Rubber Division in October 2006. Mr. Anderson joined NN in January 2005 and served as the General Manager of Industrial Molding in Lubbock, Texas. Prior to joining NN, Mr. Anderson served for six years in the U.S. Army as an artillery officer and worked in various manufacturing roles with Dana Corporation and Accuma Corporation from 1996 to 2005.

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

Item 1A. Risk Factors

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

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

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

If we cannot meet revised covenant levels under our current credit agreements, we could potentially be in default under our long-term debt; and, accordingly, risk insolvency.

The Company has experienced a significant loss of revenue and has sustained significant losses of income during the global economic recession that began to impact the Company in the fourth quarter of 2008 and is continuing as of the date of this report. As a result, the Company has sustained a significant weakening of its financial condition. Additionally, the Company is dependent on the continued provision of financing from its revolving credit lenders and its senior notes lender in order to remain solvent. The lenders have set revised covenant levels that provide little flexibility in the case that the Company's projections are not met. We believe that it is unlikely that new lenders could be found to replace the existing lenders in case of an uncured default. In such situation, the Company would be technically insolvent and would need to seek a recapitalization of the Company. If such transaction could not be successfully completed, the Company would most likely have to file for protection under bankruptcy laws in the U.S. and other jurisdictions. Although management believes that fundamental business prospects for the Company are positive, there can be no assurance that the current financial projections can be met or that recapitalization could be achieved.

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

During the three month period ended December 31, 2008 and the year ended December 31, 2009, we experienced a sudden and significant reduction in customer orders driven by reductions in automotive and industrial end market demand across all our businesses. Prior to this time, our company had never been affected by a recession that had impacted both of our key geographic markets of the U.S. and Europe simultaneously. It now appears we have weathered the worst of the global recession of 2008 and 2009. However, if the recession were to continue or demand for our products remain weak, this could materially reduce our operating results due to the profits lost on reduced sales levels plus the inability in the short term to reduce our variable and fixed cost of operations. A continued recession could have a material adverse effect on our financial condition, results of operations and cash flows from operations and could lead to additional restructuring and/or impairment charges being incurred.

World wide availability of credit continues to be limited.

The availability of credit from financial institutions to businesses has diminished during the course of 2008 and 2009. The reduction in available credit is due to many factors including the global economic recession and financial institutions being impacted by subprime mortgage defaults and various other types of credit defaults. In addition to the limits on availability, the interest rates charged by financial institutions have increased to reflect the greater level of inherent risk in the debt markets. If the limitation on the availability of credit continues or worsens, our ability and the ability of our customers and vendors to obtain credit in the future may be adversely impacted resulting in a potential adverse impact on our business and that of our customers and vendors.

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

The end markets for fully assembled bearings and other industrial and automotive components are cyclical and tend to decline in response to overall declines in industrial and automotive production. As a result, the market for bearing components and precision metal, plastic, and rubber products is also cyclical and impacted by overall levels of industrial and automotive production. Our sales in the past have been negatively affected, and in the future will be

negatively affected, by adverse conditions in the industrial and/or automotive production sectors of the economy or by adverse global or national economic conditions generally.

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

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

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

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

Sales to various U.S. and foreign divisions of SKF, which is one of the largest bearing manufacturers in the world, accounted for approximately 36% of consolidated net sales in 2009. No other customers accounted for more than 10% of sales. During 2009, our ten largest customers accounted for approximately 76% of our consolidated net sales. The loss of all or a substantial portion of sales to these customers would cause us to lose a substantial portion of our revenue and would lower our operating profit margin and cash flows from operations.

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

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

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

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

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

Failure of our product could result in a product recall.

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

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

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

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

Acquiring businesses that complement or expand our operations has been and continues to be an important element of our business strategy. This strategy calls for growth through acquisitions constituting a significant portion of our future growth objectives, with the remainder resulting from internal growth and increased market penetration. We cannot assure you that we will be successful in identifying attractive acquisition candidates or completing acquisitions on favorable terms in the future. In addition, we may borrow funds to acquire other businesses, increasing our interest expense and debt levels. Our inability to acquire businesses, or to operate them profitably once acquired, could have a material adverse effect on our business, financial position, results of operations and cash flows. Our amended and restated credit facility entered into on March 13, 2009, and subsequently amended on March 5, 2010, prohibits acquisitions without prior approval of the participants of the credit facility and our senior notes lender and until such time as we meet certain earnings and financial covenant levels.

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

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

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

The global markets for bearing components, precision metal and precision plastic parts are highly competitive, with a majority of production represented by the captive production operations of large manufacturers and the balance represented by independent manufacturers. Captive manufacturers make components for internal use and for sale to third parties. All of the captive manufacturers, and many independent manufacturers, are significantly larger and have greater resources than 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 metal bearing components production facilities and capacity over the last several years. Our metal bearing component production 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. Under-utilization or inefficient utilization of our production facilities could be a risk in the future. We have recently undertaken steps to address a portion of the capacity risk including closing of plants and downsizing employment levels at others. See Note 2 of the Notes to the Consolidated Financial Statements.

The price of our common stock may be volatile.

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

- economic recession or other macro economic factors;
- our operating and financial performance and prospects;

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

- changes in revenue or earnings estimates or publication of research reports by analysts;
- loss of any member of our senior management team;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- sales of our common stock by stockholders;
- general market conditions;
- domestic and international economic, legal and regulatory factors unrelated to our performance;
- loss of a major customer; and
- ability to declare and pay a dividend.

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

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

Our certificate of incorporation and bylaws, as well as Delaware corporate law, contain provisions that could delay or prevent a change of control or changes in our management that a stockholder might consider favorable and may prevent 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 5.0 million preferred shares without a stockholder vote. In addition, our restated certificate of incorporation provides that stockholders may not call a special meeting.

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

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

In addition, during 2008 we adopted a shareholder’s rights plan intended to deter coercive or unfair takeover tactics and prevent an acquirer from gaining control of the company at less than fair value. The plan gives existing shareholders the right to purchase Junior Participating Preferred Stock of the company once and only if the acquirer

obtains 15% of our common stock.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The manufacturing plants for each of the company's segments are listed below. In addition, the company leases a portion of a small office building in Johnson City, Tennessee which serves as our corporate headquarters.

Metal Bearing Components Segment

Manufacturing Operation	Country	Sq. Feet	Owned or Leased
Erwin Plant	U.S.A.	125,000	Owned
Mountain City Plant	U.S.A.	86,400	Owned
Kilkenny Plant (non-operating)	Ireland	125,000	Owned
Eltmann Plant	Germany	175,000	Leased
Pinerolo Plant	Italy	330,000	Owned
Kysucke Plant	Slovakia	135,000	Owned
Veenendaal Plant	The Netherlands	159,000	Owned
Kunshan Plant	China	110,000	Leased

The Eltmann Plant is leased from the Schaeffler Group, which is also a customer. The Kunshan Plant lease is accounted for as a capital lease and we have an option to purchase the facility at various points in the future. Production at the Kilkenny Plant ceased on February 6, 2009 and was moved to other European Metal Bearing Components operations. The Kilkenny property is being made ready for sale with any expected sale to occur later than a year. As such, the property is still considered to be held and used.

Plastic and Rubber Components Segment

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

Precision Metal Components Segment

Manufacturing Operation	Country	Sq. Feet	Owned or Leased
Wellington Plant 1	U.S.A.	86,000	Leased
Wellington Plant 2	U.S.A.	132,000	Leased
Tempe Plant	U.S.A.	140,000	Leased

The Wellington Plants are leased from a company controlled by the former owner of Whirlaway Corporation, who is currently an officer of NN, Inc. (see Note 19 of the Notes to Consolidated Financial Statements). During the first quarter of 2010, we announced the closure of the Tempe Plant to be accomplished during 2010. Production will be moved to the Wellington plants.

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

Item 3. Legal Proceedings

During 2006, we received correspondence from the Environmental Protection Agency (“EPA”) requesting information regarding a former waste recycling vendor ("AER") used by our former Walterboro, South Carolina facility. AER, located in Augusta, Georgia, ceased operations in 2000 and EPA began investigating its facility. As a result of AER’s operations, soil and groundwater became contaminated. Besides us, EPA initially contacted fifty-four other companies (“Potentially Responsible Parties” or PRPs”) who also sent waste to AER. Most of these PRPs, including us, have entered into a consent order with EPA to investigate and remediate the site proactively. To date, the PRP Group has submitted a Remedial Investigation, which has been accepted by EPA. In addition, a Feasibility Study has been substantially approved by EPA. Once approved, costs associated with the chosen remediation can be assessed and the PRPs can discuss allocation of the overall cost. As of the date hereof, we do not know the amount of our allocated share.

Part II

Item 4. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Since our initial public offering in 1994, the common stock has been traded on The NASDAQ Stock Market LLC ("NASDAQ") under the trading symbol "NNBR." Prior to such time there was no established market for the common stock. As of March 26, 2010, there were approximately 2,000 holders of the Common Stock and the closing per share stock price as reported by NASDAQ was $4.78.

The following table sets forth the high and low closing sales prices of the common stock, as reported by NASDAQ, and the dividends paid per share on the common stock during each calendar quarter of 2009 and 2008.

	Close Price		
	High	Low	Dividend
2009			
First Quarter	$ 3.10	$ 0.83	$ 0.00
Second Quarter	1.82	1.17	0.00
Third Quarter	4.82	1.30	0.00
Fourth Quarter	5.25	3.82	0.00
2008			
First Quarter	$ 10.28	$ 7.65	$ 0.08
Second Quarter	13.94	9.60	0.08
Third Quarter	16.98	12.57	0.08
Fourth Quarter	13.11	0.97	0.00

The following graph compares the cumulative total shareholder return on our common stock (consisting of stock price performance and reinvested dividends) from December 31, 2004 with the cumulative total return (assuming reinvestment of all dividends) of (i) the Value Line Machinery Index ("Machinery") and (ii) the Standard & Poor's 500 Stock Index, for the period December 31, 2004 through December 31, 2009. The Machinery index is an industry index comprised of 49 companies engaged in manufacturing of machinery and machine parts, a list of which is available from the Company. The comparison assumes $100 was invested in our common stock and in each of the foregoing indices on December 31, 2004. We cannot assure you that the performance of the common stock will continue in the future with the same or similar trend depicted on the graph.

Comparison of Five-Year Cumulative Total Return*
NN, Inc., Standard & Poors 500 and Value Line Machinery Index
(Performance Results Through 12/31/09)

Assumes $100 invested at the close of trading on December 31, 2004 in NN, Inc. common stock, Standard & Poors 500 and Value Line Machinery Index.

*Cumulative total return assumes reinvestment of dividends.

	Cumulative Return				
	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009
NN, Inc.	82.47	99.30	77.52	19.20	33.21
Standard & Poors 500	103.00	117.03	121.16	74.53	92.01
Machinery	108.54	137.00	195.24	113.26	178.13

The declaration and payment of dividends are subject to the sole discretion of our Board of Directors and depend upon our profitability, financial condition, capital needs, credit agreement restrictions, future prospects and other factors deemed relevant by the Board of Directors. During the three month period ended December 31, 2008 and the year ended December 31, 2009, we suspended our regular quarterly dividend in order to enhance our liquidity due to the global recession.

The terms of our revolving credit facility and senior notes amended and restated on March 13, 2009, and subsequently amended on March 5, 2010, prohibit the payment of dividends. For further description of our revolving credit facility, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources".

See Part III, Item 12 – "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" of this 2009 Annual Report on Form 10-K for information required by Item 201 (d) of regulation S-K.

Item 5. Selected Financial Data

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

(In Thousands, Except Per Share Data)

	Year ended December 31,				
	2009	2008	2007	2006	2005
Statement of Income Data:					
Net sales	$ 259,383	$ 424,837	$ 421,294	$ 330,325	$ 321,387
Cost of products sold (exclusive of depreciation shown separately below)	235,466	344,685	337,024	257,703	248,828
Selling, general and administrative expenses	27,273	36,068	36,473	30,008	29,073
Depreciation and amortization	22,186	27,981	22,996	17,492	16,331
(Gain) loss on disposal of assets	493	(4,138)	(71)	(705)	(391)
Impairment of goodwill	--	30,029	10,016	--	--
Restructuring and impairment charges (income), excluding goodwill impairments	4,977	12,036	3,620	(65)	(342)
Income (loss) from operations	(31,012)	(21,824)	11,236	25,892	27,888
Interest expense	6,359	5,203	6,373	3,983	3,777
Other (income) expense	253	(850)	(386)	(1,048)	(653)
Income (loss) before provision (benefit) for income taxes	(37,624)	(26,177)	5,249	22,957	24,764

Provision (benefit) for income taxes		(2,290	)		(8,535	)		6,422			8,522			9,752
Net income (loss)	$	(35,334	)	$	(17,642	)	$	(1,173	)	$	14,435		$	15,012
Basic income (loss) per share:														
Net income (loss)	$	(2.17	)	$	(1.11	)	$	(0.07	)	$	0.84		$	0.88
Diluted income (loss) per share:														
Net income (loss)	$	(2.17	)	$	(1.11	)	$	(0.07	)	$	0.83		$	0.87
Dividends declared	$	0.00		$	0.24		$	0.32		$	0.32		$	0.32
Weighted average number of shares outstanding - Basic		16,268			15,895			16,749			17,125			17,004
Weighted average number of shares outstanding – Diluted		16,268			15,895			16,749			17,351			17,193

	As of December 31,				
(In Thousands)	2009	2008	2007	2006	2005
Balance Sheet Data:					
Current assets	$ 98,283	$ 124,621	$ 138,024	$ 125,864	$ 105,950
Current liabilities	68,489	63,355	84,256	74,869	64,839
Total assets	242,652	284,040	350,078	342,701	269,655
Long-term debt	77,558	90,172	100,193	80,711	57,900
Stockholders' equity	76,803	109,759	130,043	133,169	116,074

For the year ended December 31, 2009, the operating results were significantly impacted by the effects of the global recession and related destocking by our customers as our sales decreased 37%, excluding foreign exchange effects, from the year ended December 31, 2008. Additionally, we incurred $5.0 million in restructuring and impairment charges related to two plant closures and a reduction in force at another manufacturing location. See “Management's Discussion and Analysis of Financial Condition and Results of Operations” for more information.

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

For the year ended December 31, 2007, Whirlaway added $62,662 in sales; $53,515 in cost of products sold (exclusive of depreciation and amortization); $4,106 in selling, general and administrative expenses; $3,991 in depreciation and amortization; $2,406 in interest expense and $852 in net loss.

For the year ended December 31, 2006, Whirlaway added $4,722 in sales; $4,706 in cost of products sold (exclusive of depreciation and amortization); $363 in selling, general and administrative expenses; $345 in depreciation and amortization; $240 in interest expense and $598 in net loss.

On November 30, 2006, we purchased 100% of the stock of Whirlaway and incorporated its assets and liabilities into our consolidated financial statements. Included in the December 31, 2006 balance sheet data are acquired total current assets of $19,276, assets of $55,673 and current liabilities of $7,475. In addition, we incurred third party debt of $24,700 related to the acquisition.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Risk Factors

See Item 1A. “Risk Factors” for a discussion of risk factors that could materially impact our actual results.

Overview and Management Focus

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

- Recovery from the global recession of 2008-2009 and rationalization of our manufacturing capacity

- Growth by taking over the in-house production of components from our global customers, providing a competitive and attractive outsourcing alternative
- Organic and acquisitive growth of our precision metal components platform
- Global expansion of our manufacturing base to better address the global requirements of our customers

Management generally focuses on these trends and relevant market indicators:

- Global industrial growth and economics
- Global automotive production rates
- Costs subject to the global inflationary environment, including, but not limited to:
  - Raw material
  - Wages and benefits, including health care costs
  - Regulatory compliance
  - Energy
- Raw material availability
- Trends related to the geographic migration of competitive manufacturing
- Regulatory environment for United States public companies
- Currency and exchange rate movements and trends
- Interest rate levels and expectations

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

- Sales growth
- Cost of products sold levels
- Selling, general and administrative expense levels
- Net income (loss)
- Cash flow from operations and capital spending
- Customer service reliability
- External and internal quality indicators
- Employee development

Critical Accounting Policies

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

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

Accounts Receivable. Accounts receivable are recorded upon recognition of a sale of goods and ownership and risk of loss is assumed by the customer. Substantially all of our accounts receivables are due primarily from the core served markets: bearing manufacturers, automotive industry, electronics, industrial, and aerospace. We recorded $(0.1) million, $0.2 million and $0.5 million of bad debt expense (income) during 2009, 2008 and 2007, respectively. In establishing allowances for doubtful accounts, we perform credit evaluations of our customers, considering numerous inputs when available including the customers' financial position, past payment history, relevant industry trends, cash flows, management capability, historical loss experience and economic conditions and prospects. Accounts receivable are written off or reserves established when considered to be uncollectible or at risk of being uncollectible. We believe that adequate allowances for doubtful accounts have been provided in the Consolidated Financial Statements, it is possible that we could experience additional unexpected credit losses.

Inventories. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Inventory valuations are developed using normalized production capacities for each of our manufacturing locations. Abnormal variances from excess capacity or under utilization of fixed production overheads are expensed in the period incurred. Our inventories are not generally subject to obsolescence due to spoilage or expiring product life cycles. We assesses inventory obsolescence routinely and record a reserve when inventory items are deemed non recoverable in future periods. We operate generally as a make-to-order business; however, 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, we could experience additional inventory write-downs in the future.

Goodwill and Acquired Intangibles. For new acquisitions, we use estimates, assumptions and appraisals to allocate the purchase price to the assets acquired and to determine the amount of goodwill. These estimates are based on market analyses and comparisons to similar assets. Annual 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, and the expected cash flows that they will generate. 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.

Goodwill is tested for impairment on an annual basis as of October 1 and between annual tests if a triggering event occurs . The impairment test is performed at the reporting unit level for the one unit that still has goodwill. U.S. Generally Accepted Accounting Principles ("GAAP") prescribes a two-step process for testing for goodwill impairments. The first step is to determine if the carrying value of the reporting unit with goodwill is less than the related fair value of the reporting unit. The fair value of the reporting unit is determined through use of discounted cash flow methods and market based multiples of earning and sales methods obtained from a grouping of comparable publicly trading companies. We believe this methodology of valuation is consistent with how market participants would value reporting units. The discount rate and market based multiples used are specifically developed for the units tested regarding the level of risk and end markets served. Even though we do use other observable inputs (Level 2 inputs under the US GAAP hierarchy) the calculation of fair value for goodwill would be most consistent with Level 3 under the US GAAP hierarchy.

If the carrying value of the reporting unit is less than fair value of the reporting unit, the goodwill is not considered impaired. If the carrying value is greater than fair value then the potential for impairment of goodwill exists. The potential impairment is determined by allocating the fair value of the reporting unit among the assets and liabilities

based on a purchase price allocation methodology as if the reporting unit was acquired in a business combination. The fair value of the goodwill is implied from this allocation and compared to the carrying value with an impairment loss recognized if the carrying value is greater than the implied fair value.

We base our fair value estimates, in large part, on management business plans and projected financial information which are subject to a high degree of management judgment and complexity. Actual results may differ from these projections and the differences may be material. As of December 31, 2009, the only location where we have a recorded balance of goodwill is at the Pinerolo Plant of the Metal Bearing Components Segment. There was no impairment to the goodwill balance as the fair value of this reporting unit was estimated as $47,000 which exceeded the carrying value of the reporting unit of $35,900 by $11,100.

Income taxes. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Financial statements for the year ended December 31, 2009, reflect full valuation allowances against the deferred tax assets of most of the jurisdictions in which we operate. During 2009, we recognized tax benefits at only two jurisdictions, the Pinerolo Plant and the Veenendaal Plant. (See Note 12 of the Notes to Consolidated Financial Statements.)

Impairment of Long-Lived Assets. Our long-lived assets include property, plant and equipment and certain intangible assets subject to amortization. The recoverability of the long-term assets is dependent on the performance of the companies which we have acquired or built, as well as the performance of the markets in which these companies operate. In assessing potential impairment for these assets, we will consider these factors as well as forecasted financial performance based, in large part, on management business plans and projected financial information which are subject to a high degree of management judgment and complexity. Future adverse changes in market conditions or adverse operating results of the underlying assets could result in having to record additional impairment charges not previously recognized. (See Notes 5 and 10 of the Notes to Consolidated Financial Statements.)

Pension Obligations. We use several assumptions in determining our 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 benefit increase as well as the remaining service period of active employees. (See Note 7 of the Notes to Consolidated Financial Statements.)

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Results of Operations

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

	As a Percentage of Net Sales Year ended December 31,					
	2009		2008		2007	
Net sales	100.0	%	100.0	%	100.0	%
Cost of product sold (exclusive of depreciation shown separately below)	90.8		81.1		80.0	
Selling, general and administrative expenses	10.5		8.5		8.7	
Depreciation and amortization	8.6		6.6		5.4	
(Gain) loss on disposal of assets	0.2		(1.0)		0.0	
Impairment of goodwill	--		7.1		2.4	
Restructuring and impairment charges, excluding goodwill impairments	1.9		2.8		0.8	
Income (loss) from operations	(12.0)		(5.1)		2.7	
Interest expense	2.4		1.2		1.5	
Other (income) expense	0.1		(0.2)		(0.0)	
Income (loss) before provision (benefit) for income taxes	(14.5)		(6.1)		1.2	
Provision (benefit) for income taxes	(0.9)		(2.0)		1.5	
Net loss	(13.6)	%	(4.1)	%	(0.3)	%

Off Balance Sheet Arrangements

We have operating lease commitments for machinery, office equipment, vehicles, manufacturing and office space which expire on varying dates. The following is a schedule by year of future minimum lease payments as of December 31, 2009 under operating leases that have initial or remaining non-cancelable lease terms in excess of one year (in thousands).

Year ending December 31,		
2010	$	4,390
2011		3,033
2012		1,594
2013		1,278
2014		1,180
Thereafter		6,245
Total minimum lease payments	$	17,720

Sales Concentration

Sales to various U.S. and foreign divisions of SKF, which is one of the largest bearing manufacturers in the world, accounted for approximately 36% of consolidated net sales in 2009. During 2009, our ten largest customers accounted for approximately 76% of our consolidated net sales. None of our other customers individually accounted for more than 10% of our consolidated net sales for 2009. The loss of all or a substantial portion of sales to these customers would cause us to lose a substantial portion of our revenue and have a corresponding negative impact on our operating profit margin due to operation leverage these customers provide. This could lead to sales volumes not being high enough to cover our current cost structure or to provide adequate operating cash flows or cause us to incur additional restructuring and/or impairment costs. Due to a limit on the amount of excess bearing component production capacity in the markets we serve, we believe it would be difficult for any of our top ten customers to change suppliers in the short term.

Certain long-term supply agreements with Schaeffler Group (INA), with SKF to supply precision balls in Europe, and with SKF providing for the purchase of steel rollers and metal retainers manufactured at our Veenendaal Plant have all expired at December 31, 2009. We are currently supplying product at agreed upon commercial terms, similar to the expired contracts, and anticipate continuing to do so for the foreseeable future.

Economic Impacts on the three and twelve month periods ended December 31, 2009

For the year ended December 31, 2009, our sales decreased approximately 37% due to the effects of the 2008/2009 global recession and related reductions in inventory balances throughout the automotive and industrial supply chains we serve. During the second half of 2009, we experienced somewhat of a rebound with an approximately 21% increase in sales from the first half of 2009 due primarily to increased order levels by our customers. In particular, the fourth quarter of 2009 sales levels were 31% higher, excluding foreign exchange effects, than the second quarter of 2009 sales levels, which were the low point of 2009. During the first half of 2009, sales were down approximately 50% from the corresponding prior year period.

We believe the increase in sales that occurred during the second half of 2009, compared to the level during the first half of 2009 discussed above, was due both to customers adopting more normalized ordering patterns and increased demand in the end markets we serve. It is unclear what portion of the increase was due to ordering patterns versus demand. We believe that during 2009, demand for our products has decreased more than actual demand in the end markets we serve. We refer to this as the “de-stocking effect” and believe it is due to reduction in overall inventory levels throughout the supply chain. In most cases, we are several tiers down the supply chain from the ultimate consumer. Thus, we are affected by our customers’ and their customers’ order patterns. We believe during 2009 that those companies that were higher in the supply chain reduced production and order levels to control their inventory balances. We are not certain how long this current de-stocking process within the supply chain will last or even if, during the second half of 2009, it has begun to be replaced by more normalized ordering patterns.

The reduction in sales volume was the main cause of the net loss of $35.3 million for the year ended December 31, 2009. In response to the sales decrease, we focused aggressively on reducing costs and expenses. However, a significant portion of our cost structure cannot be reduced in the short term. In particular, at our manufacturing locations in Western Europe, it is very difficult to reduce employment levels in line with reductions in sales and production volumes. In these locations, we limited production costs by scheduling the production facilities on rolling shutdowns and by temporarily allowing workers to not report to work under existing government programs. In addition to the reduction in sales volume, the net income of the year ended December 31, 2009 was further impacted by a $7.1 million valuation allowance placed on, and effectively eliminating, all U.S. based deferred tax assets and related current year tax benefits from incurred losses. Finally, the year ended December 31, 2009 was negatively impacted by the restructuring charges totaling $5.0 million ($4.0 million after tax) related to two plant closures and reduction in labor force at another manufacturing location, as part of our response to reduce fixed cost due to the global recession.

During the year ended December 31, 2009, cost of products sold was 91% of sales. This is a much higher percentage of sales than in prior years due to the volume losses discussed above. Returning to a historically normal profitability range wherein cost of products sold is approximately 78% to 80% of sales will depend mostly upon sales volumes returning to normalized levels. As sales increase, we will be better able to leverage our existing fixed cost base, as discussed above, thus reducing cost of products sold as a percentage of sales.

Additionally, pricing pressures from our customers and competitors and non-material inflation will have, and has had, a negative impact on the relationship of sales to cost of products sold with either selling prices decreasing and/or product cost increasing. Over the last few years we have combated these negative effects with price increases to selected customers and/or in selected markets and through our formal cost reduction and productivity enhancement program which has more than offset non-material inflation since adoption in 2004.

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Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008.

OVERALL RESULTS

	Consolidated NN, Inc.			
(In Thousands of Dollars)	2009	2008	Change	
Net sales	$ 259,383	$ 424,837	$ (165,454)	
Foreign exchange effects				(8,297)
Volume				(155,759)
Price				112
Mix				(179)
Material inflation pass-through				(1,331)
Cost of products sold (exclusive of depreciation and amortization shown separately below)	235,466	344,685	(109,219)	
Foreign exchange effects				(7,037)
Volume				(96,608)
Cost reduction				(9,224)
Mix				470
Inflation				3,180
Selling, general, and administrative	27,273	36,068	(8,795)	
Foreign exchange effects				(835)
Reductions in spending				(7,960)
Depreciation and amortization	22,186	27,981	(5,795)	
Foreign exchange effects				(423)
Reduction in expense				(5,372)
Restructuring and impairment charges	4,977	42,065	(37,088)	
Interest expense, net	6,359	5,203	1,156	
(Gain) loss on disposal of assets	493	(4,138)	4,631	
Reduction of unamortized debt issue cost	604	--	604	
Other income, net	(351)	(850)	499	
Loss before benefit for income taxes	(37,624)	(26,177)	(11,447)	
Benefit for income taxes	(2,290)	(8,535)	6,245	
Net loss	$ (35,334)	$ (17,642)	$ (17,692)	

Net Sales. The volume losses were due to reductions in end market demand in the markets we serve and due to a reduction in overall inventory within the supply chain as discussed above. In addition, sales were lower as the value of the Euro relative to the U.S. Dollar has decreased 6% from 2008. Changes related to price/mix were all normal in nature although such changes had less of an impact given the depressed sales levels. The impact on sales from

material pass through was negative as material prices have decreased since 2008 and these reductions are being passed to our customers.

Cost of Products Sold (exclusive of depreciation and amortization). The majority of the decreases were due to the same sales volume reductions mentioned above. In addition, the aforementioned reduction in value of the Euro reduced Euro based production costs relative to the U.S. Dollar.

While many of our production costs adjust with reductions in sales and production, a portion of our production costs are fixed in nature or cannot be reduced without incurring additional significant restructuring costs. Additionally, current production levels are much lower than our capacity. Any abnormal costs from under-utilization of capacity and fixed production costs are expensed in the period incurred. The main driver of the fixed component of costs was labor cost at our Western European manufacturing locations. We actively reduced labor costs where possible considering local and national labor rules and regulations of the countries in which we operate. Production costs were further reduced by the effects of planned cost reduction projects. Despite the lower sales and production levels, we continue to achieve results from planned cost reduction projects at levels consistent with management expectations.

Selling, General and Administrative Expenses. The majority of the reduction was from wage cost reductions. The wage cost reductions were achieved through a combination of salary cuts ranging from 10% to 20% for a portion of 2009, elimination of all bonus opportunities for 2009 and headcount reductions. In addition, discretionary expenses were reduced company wide.

Depreciation and Amortization. Depreciation and amortization in 2009 was lower than 2008 as 2008 included accelerated depreciation on certain abandoned assets totaling $3.5 million that was a one-time effect to 2008. Additionally, 2009 depreciation expense was lower from the carry-over effects of the year end 2008 impairments and accelerated depreciation of fixed assets mentioned above. Finally, 2009 depreciation expense was lower due to reduced levels of spending on capital expenditures in 2009.

Interest expense. Interest expense was higher due to increases in the interest rate spread charged on our LIBOR credit facility and our senior notes. The interest rate was increased upon amendment to our credit facilities on March 13, 2009. In addition, we amortized $0.9 million of additional capitalized loan costs, due to the amended credit facilities, into interest expense during 2009.

Restructuring and impairment charges. During the year ended December 31, 2009, we incurred $1.1 of restructuring and impairment costs related to the closures of the Kilkenny Plant and the Hamilton Plant and $3.8 million in restructuring charges related to the reduction in labor force at our Veenendaal Plant. (See Footnote 2 of the Notes to Consolidated Financial Statements). During the year ended December 31, 2008, goodwill, certain intangible assets, and certain long lived tangible assets were subject to impairment charges of $38.4 million. In addition, restructuring charges of $2.2 million and impairment charges of $1.4 million on long lived assets were recorded related to the closure of the Kilkenny plant.

Gain on disposal of assets: During 2008, the Veenendaal Plant (part of the Metal Bearing Components Segment) sold excess land with a book value of $1.6 million for proceeds of $5.6 million and a resulting gain of $4.0 million.

Provision for income taxes. For the year ended December 31, 2009, the difference between the 2008 effective tax rate of 33% and our 2009 effective tax rate of 6% was mainly due to not recognizing the tax benefits incurred during 2009 at our U.S. locations and three of our foreign locations. We have placed valuation allowances on these deferred tax benefits as the recoverability of these tax benefits in the near future is not certain. (See Footnote 12 of the Notes to Consolidated Financial Statements).

RESULTS BY SEGMENT

METAL BEARING COMPONENTS SEGMENT

(In Thousands of Dollars)	Year ended December 31, 2009	2008	Change	
Net sales	$ 183,605	$ 321,660	$ (138,055)	
Foreign exchange effects				(8,297)
Volume				(128,097)
Price				(150)
Mix				(490)
Material inflation pass-through				(1,021)
Segment net income (loss)	$ (16,108)	$ 14,647	$ (30,755)	

The largest sales decrease during 2009 was in our European operations of the segment with a 44% decrease in sales compared to 2008. The U.S. operations experienced sales reductions averaging 40% compared to 2008 and at our Asia operation sales increased 30% as compared to 2008. Sales were down in part due to reduced demand in the end markets served by the segment from the global recession. Additionally, the segment's sales were reduced due to de-stocking within the supply chain. The reduction in value of the Euro relative to the U.S. Dollar of 6% further

negatively impacted sales by reducing the value of Euro denominated sales at our European operations. The reduction in sales related to the decrease in cost of material had little impact on segment net loss as these savings were passed on in the form of price decreases to our customers under existing agreements.

The 2008 segment net income includes restructuring and impairment charges, net of tax, of $3.7 million. Additionally, 2008 segment net income was impacted by a favorable net gain of $1.6 million in non-operating items, including a $3.0 million after tax gain on sale of excess land and a $1.1 million tax benefit related to reducing certain deferred tax liabilities at our Italian operation under a new Italian tax law. Partially offsetting these favorable impacts was the accelerated depreciation of certain long-lived tangible assets that were abandoned in the fourth quarter of 2008 totaling $2.5 million after tax. The 2009 segment net loss was increased by after tax restructuring charges of $4.0 million related to the Kilkenny Plant closure and the reduction in force at our Veenendaal Plant. Eliminating these restructuring charges and non-operating items, the 2009 segment net loss was $28.9 million unfavorable to the 2008 net income.

The unfavorable impact on segment net income in 2009 was primarily caused by the 40% reduction in sales volume experienced in 2009 and the related production inefficiencies and under-utilization of fixed production costs. During the second half of 2009, these impacts were not as pronounced given increased sales and production volumes experienced during the second half and due to higher levels of savings from planned cost reduction projects. The negative effects from the lost sales income and production inefficiencies were partially offset by reductions in salaries, elimination of 2009 bonus opportunities, and reductions in travel and other discretionary costs.

PRECISION METAL COMPONENTS SEGMENT

(In Thousands of Dollars)	Year ended December 31, 2009	2008	Change	
Net sales	$ 45,003	$ 64,235	$ (19,232)	
Volume				$ (19,232)
Segment net loss	$ (4,391)	$ (7,353)	$ 2,962	

The majority of the decrease in sales was due to much lower U.S. automotive and industrial market demand experienced during 2009. In addition, sales were negatively impacted by de-stocking within the supply chain.

The 2008 segment net loss included $7.8 million of impairment charges, net of tax. Factoring out the impairment charges, the segment had a net income of $0.4 million. The reduced sales volume and related production inefficiencies and under-utilization of fixed production costs were the main causes of the segment loss in 2009. Planned cost reduction projects, net of inflation, and reductions in selling and administration cost partially offset the volume impacts. Additionally, the segment net loss was increased by $1.5 million as tax benefits from losses incurred in 2009 were not recognized due to valuation allowances being placed on the related deferred tax assets.

PLASTIC AND RUBBER COMPONENTS SEGMENT

(In Thousands of Dollars)	Year ended December 31, 2009	2008	Change	
Net sales	$ 30,775	$ 38,942	$ (8,167)	
Volume				(8,429)
Price/Mix				262
Segment net loss	$ (2,091)	$ (17,223)	$ 15,132	

The volume reduction for this segment was also related to lower U.S. automotive and industrial end market demand and lower customer orders from supply chain de-stocking.

The 2008 segment net loss included $16.6 million of impairment charges, net of tax. Factoring out the impairment charges, the segment incurred a loss of $0.6 million in 2008. Segment net loss in 2009 was negatively affected by the volume decreases and related costs from under-utilization of fixed production cost and manufacturing inefficiencies. Additionally, the segment net loss was increased by $0.7 million as tax benefits from losses incurred in 2009 were not recognized due to valuation allowances being placed on the related deferred tax assets.

Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007.

Overview of the Three and Twelve Month Periods Ended December 31, 2008

The three month period ended December 31, 2008 was affected by the sudden and significant reduction in demand for our products in all geographic markets served. During the fourth quarter of 2008, overall demand was down approximately 30% from 2007 sales levels in the two main geographic markets served, the U.S. and Europe. Demand was down in both automotive and industrial end markets served by us due to the global economic downturn. As a result, our total sales were down 29% compared to the same three month period of 2007.

In order to minimize the impact of this unprecedented sales volume reduction, we took actions to reduce costs and conserve cash. The actions included the reduction of capital expenditures, elimination of discretionary spending, suspension of our regular quarterly dividend, closure of two production facilities, wage and salary reductions and employee layoffs.

For the three month period ended December 31, 2008, sales decreased $30.8 million from the equivalent period of 2007. Of this reduction, $30.1 million was directly related to lower sales volume from the depressed automotive and industrial end market demand experienced in the period.

For the three month period ended December 31, 2008, we had a loss from operations, excluding non-operating charges and benefits, of $2.6 million versus net income of $4.0 for the three month period ended December 31, 2007. The majority of the variance between the years was directly related to lower sales volume from the economic downturn.

Prior to the three month period ended December 31, 2008, we had reported record revenues and earnings for the nine month period ended September 30, 2008. Thus, the results of the year ended December 31, 2008 were significantly impacted by the aforementioned 30% reductions in sales volume directly related to the economic downturn and depressed demand for automotive and industrial products experienced during the three month period ended December 31, 2008.

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OVERALL RESULTS

(In Thousands of Dollars)	Consolidated NN, Inc.			
	2008	2007	Change	
Net sales	$ 424,837	$ 421,294	$ 3,543	
Foreign exchange effects				17,575
Volume				(22,536)
Price				1,518
Mix				539
Material inflation pass-through				6,447
Cost of products sold (exclusive of depreciation and amortization shown separately below)	344,685	337,024	7,661	
Foreign exchange effects				14,440
Volume				(7,205)
Cost reduction				(12,994)
Mix				687
Inflation				12,733
Selling, general, and administrative	36,068	36,473	(405)	
Foreign exchange effects				1,012
Reductions in wage related cost and discretionary spending				(1,417)
Depreciation and amortization	27,981	22,996	4,985	
Foreign exchange effects				1,148
Additional depreciation				3,837
Restructuring and impairment charges	42,065	13,636	28,429	
Interest expense, net	5,203	6,373	(1,170)	
Gain on disposal of assets	(4,138)	(71)	(4,067)	
Other income, net	(850)	(386)	(464)	
Income (loss) before provision (benefit) for income taxes	(26,177)	5,249	(31,426)	
Provision (benefit)for income taxes	(8,535)	6,422	(14,957)	
Net loss	$ (17,642)	$ (1,173)	$ (16,469)	

Net Sales. As discussed above, the significant sales volume decrease experienced in the three month period ended December 31, 2008 had a major impact on the full year 2008 sales levels. There was $30.1 million in volume lost in the fourth quarter of 2008 due to the economic downturn and related reduction in demand for automotive and industrial end market products. Prior to the fourth quarter, sales volume had increased by $7.5 million year to date primarily in our Metal Bearings Components Segment from market share gains and strong levels of industrial end

market demand in North America and in Europe to a lesser extent.

Partially offsetting the negative volume was the positive effect due to the appreciation in value of Euro denominated sales relative to the U.S. Dollar. Finally, sales were positively affected by price increases from passing through raw material inflation to customers, price increases given to certain non-contractual customers and favorable product mix to existing customers.

Cost of Products Sold (exclusive of depreciation and amortization). As discussed above, the significant sales volume reduction experienced in the three month period ended December 31, 2008 had a major impact on cost of products sold. The magnitude of the reductions and short period in which the reductions occurred limited our ability to reduce fixed production costs. We took aggressive actions to reduce costs including drastically reducing plant operating days. The reduction in cost of products sold directly related to the economic downturn was $14.6 million. Prior to the fourth quarter, cost of product sold had increased by $7.3 million due to higher sales volume mentioned above.

Apart from the volume impacts, cost of products sold increased due to the increase in value of Euro denominated costs relative to the U.S. Dollar. In addition, raw material, labor and utility inflation experienced during 2008 increased cost of products sold. Offsetting these increases were favorable impacts from our Level 3 cost reduction program and other planned projects focused on reducing manufacturing costs at all locations and from operating improvements at our three newest operations: Whirlaway, China, and Slovakia.

Selling, General and Administrative Expenses. Spending on wage related costs was substantially reduced in the three month period ended December 31, 2008. Costs for management bonuses and stock based compensation were reduced due to the fourth quarter 2008 operating performance. In addition, during the fourth quarter of 2008, most discretionary spending was eliminated. The increase in the value of Euro denominated costs relative to the U.S. Dollar partially offset the reductions.

Depreciation and Amortization. We accelerated depreciation during the three month period ended December 31, 2008, on certain assets to adjust to their new estimated useful lives. The accelerated depreciation totaled $3.5 million and was related to assets that were abandoned and ceased to be used on or before December 31, 2008. Additionally, depreciation expense was higher due to the increase in the value of the Euro based depreciation and amortization relative to the U.S. Dollar. Finally, depreciation expense increased for assets placed in service at our new plants in China and Slovakia.

Restructuring and impairment charges. During 2008, goodwill, certain intangible assets, and certain long lived tangible assets were subject to impairment charges of $38.4 million. In addition, restructuring charges of $2.2 million and impairment charges of $1.4 million on long lived assets were recorded related to the closure of the Kilkenny plant. During 2007, we impaired certain goodwill and fixed asset balances related to the Metal Bearing Components Segment totaling $13.4 million.

Interest expense. Interest expense was lower in 2008 versus 2007 primarily due to decreases in the base LIBOR interest rate which reduced the cost of borrowing under our variable rate credit agreement and due to debt repayments made in 2008.

Gain on disposal of assets. During 2008, the Veenendaal Plant (part of the Metal Bearing Components Segment) sold excess land with a book value of $1.6 million for proceeds of $5.6 million and a resulting gain of $4.0 million.

Provision for income taxes. The year ended December 31, 2008 effective rate of 33% was lower than the year ended December 31, 2007 effective rate of 122%. The majority of the difference between the 2008 and 2007 rates was with the 2008 impairment losses. We did not apply valuation reserves to the deferred tax benefits as management believed, at that time, those benefits would be recognized either through realized deferred tax liabilities or from expected future tax deductions. The 2007 impairment charges had minimal tax benefits due to valuation reserves placed on the deferred tax benefits related to the impairment and severance charges and other related tax benefits as the locations incurring these benefits were not expected to generate significant future taxable income.

RESULTS BY SEGMENT

METAL BEARING COMPONENTS SEGMENT

(In Thousands of Dollars)	Year ended December 31,			
	2008	2007	Change	
Net sales	$ 321,660	$ 303,059	$ 18,601	
Foreign exchange effects				17,575
Volume				(7,677)
Price				672
Mix				539
Material inflation pass-through				7,492
Segment net income	$ 14,647	$ 4,958	$ 9,689	

The fourth quarter economic downturn led to a reduction in sales volume of $21.5 million. Prior to the fourth quarter, sales volume had increased in the Metal Bearing Components Segment $13.8 million due to higher demand in North America, Europe and Asia from new programs, market share gains, and strong European and North American industrial end market demand compared to 2007. Sales were positively affected by the favorable impacts from the rise in value of Euro based sales relative to the U.S. dollar, primarily in the first nine months of the year. Finally, sales increased due to price increases related to passing through raw material inflation to customers, from price increases given to certain non-contractual customers and favorable product and customer mix.

The 2008 and 2007 segment net incomes include restructuring and impairment charges, net of tax, of $3.7 million and $13.5 million, respectively. Additionally, 2008 segment net income was impacted by a favorable net $1.6 million in non-operating items. The first was a $3.0 million after tax gain on sale of excess land. The second was a $1.1 million tax benefit related to reducing certain deferred tax liabilities at our Italian operation under a new Italian tax law. Partially offsetting these favorable impacts was the accelerated depreciation of certain long-lived tangible assets that were abandoned in the fourth quarter of 2008 totaling $2.5 million after tax.

Factoring out the non-operating benefits and restructuring charges above, 2008 segment net income was $1.7 million lower than the prior year. The 2008 results were negatively impacted by the fourth quarter economic downturn. As much of the segment's manufacturing cost base is in Western Europe, we have less ability to proactively reduce labor and labor related costs there than in other geographic areas in which we operate due to country and plant specific labor rules. Partially offsetting the fourth quarter decline were planned cost reduction initiatives at all locations, in particular at our Asia and Slovakia operations, which had a positive impact, net of inflation, to segment income.

The 2008 restructuring and impairment charges for the segment, net of tax are $2.2 million of severance and other employment related cost and non-cash impairment charges of $1.4 million on long lived assets both related to the closure of the segment's Kilkenny Plant. The 2007 restructuring and impairment charges, net of tax included $13.5 million in non-cash charges related to impairment of goodwill and fixed assets to levels supported by projected cash flows after restructuring activity within the segment.

PRECISION METAL COMPONENTS SEGMENT

(In Thousands of Dollars)	Year ended December 31,			
	2008	2007	Change	
Net sales	$ 64,235	$ 67,384	$ (3,149)	
Volume				(3,149)
Segment net loss	$ (7,353)	$ (1,450)	$ (5,903)	

The reduction in sales volume to customers that serve the U.S. automotive market, particularly light trucks, began for this segment during the second and third quarters of 2008. The sales reduction intensified in the fourth quarter with the more than 30% reduction in automotive build rates in the U.S. As a result, sales volume was $3.9 million less in the fourth quarter of 2008 compared to the fourth quarter of 2007 primarily due to the economic downturn.

The 2008 segment net loss included $7.8 million of impairment charges, net of tax. Factoring out the impairment charges, segment net income was favorable to the prior year by $1.9 million. Despite lower sales volumes, the segment's net loss decreased primarily due to production efficiencies in labor and manufacturing supplies experienced in 2008 through the application of our Level 3 and other cost improvement programs. In addition, interest cost was lower for the segment due to positive cash flow and lower base interest rates.

The 2008 impairment charges, net of tax are from the impairment of all of the segment's goodwill, the full impairment of the customer relationship intangible asset, and the impairment of certain long lived tangible assets.

PLASTIC AND RUBBER COMPONENTS SEGMENT

(In Thousands of Dollars)	Year ended December 31, 2008	2007	Change	
Net sales	$ 38,942	$ 50,851	$ (11,909)	
Volume				(11,710)
Price				(199)
Segment net income (loss)	$ (17,223)	$ 2,242	$ (19,465)	

Revenues in the Plastic and Rubber Components Segment were down due to lower sales volume to customers that sell products to U.S. automotive manufacturers. The lower sales were due to a general downturn in that market and due to the effects of a strike at a major U.S. automotive supplier that occurred earlier in the year, which affected several of our customers' sales volumes. While the lower sales volumes were occurring during most of 2008 for the segment, the reduction intensified in the fourth quarter of 2008 due to impact from the global recession. During the fourth quarter, we experienced sales volumes $4.7 million less than the fourth quarter of 2007.

The 2008 segment net loss included $16.6 million of impairment charges, net of tax. Factoring out the impairment charges, the segment incurred a loss of $0.6 million in 2008. The segment net loss was negatively affected by the volume decreases in sales. Planned cost reduction projects, net of inflation, partially offset the volume impacts. The 2008 impairment charges, net of tax are from the impairment of all of the segment's goodwill.

Changes in Financial Condition from December 31, 2008 to December 31, 2009

From December 31, 2008 to December 31, 2009, our total assets and current assets decreased $41.4 million and $26.3 million, respectively. The appreciation in the value of Euro denominated account balances relative to the U.S. Dollar caused total assets and current assets to increase approximately $4.0 million and $1.3 million, respectively, from December 31, 2008. Excluding the foreign exchange effects, accounts receivable was lower by $1.8 million due to a five day decrease in days sales outstanding at December 31, 2009 from timing of customers collections and reduction in overdue receivables. Even though sales for 2009 were 37% lower than 2008, fourth quarter 2009 sales levels were slightly higher than fourth quarter 2008 sales levels. Thus, the large reduction sales volume experienced for the full year of 2009 had little overall effect on the 2009 receivable balance. The net overdue receivables have fallen from approximately 12% of total accounts receivable at December 31, 2008 to approximately 10% of total accounts receivable at December 31, 2009 due to focused collection activity during 2009 to maximize cash flow and liquidity. Inventories were lower by $20.3 million from planned reductions in inventory levels in response to the reductions in sales and production volumes and to maximize cash flow and liquidity. Factoring out foreign exchange effects, property, plant and equipment decreased $18.2 million as year to date capital spending was lower than depreciation and a building and certain machinery with net book values of $1.0 million were disposed of during 2009.

From December 31, 2008 to December 31, 2009, our total liabilities decreased $8.4 million. The appreciation in the value of Euro denominated account balances relative to the U.S. Dollar caused total liabilities to increase approximately $2.4 million from December 31, 2008. The main driver of the decrease in liabilities was the $10.1 million decrease in total debt from December 31, 2008. This reduction in debt was achieved by focusing on reductions in working capital, especially inventory, reductions in capital spending, and temporarily eliminating our dividend among other activities to insure liquidity during the global recession. Excluding the foreign exchange effects, accounts payable was down $2.1 due to timing of payments to certain vendors. The reductions in total debt and accounts payable were partially offset by the addition of the accrual for restructuring charges at our Veneendaal

plant totaling $2.5 million.

Working capital, which consists principally of accounts receivable and inventories offset by accounts payable and current maturities of long-term debt, was $29.8 million at December 31, 2009 as compared to a $61.3 million at December 31, 2008. The ratio of current assets to current liabilities deceased from 1.97:1 at December 31, 2008 to 1.44:1 at December 31, 2009. Excluding the current maturities of long-term debt and cash and cash equivalents, working capital decreased by $26.6 million due primarily to the $1.8 million decrease in accounts receivable balances and the $20.3 million decrease in inventory levels offset by the $2.1 million decrease in accounts payable (all discussed above).

Cash flow provided by operations was $14.8 million for 2009 compared with cash flow provided by operations of $27.5 million for 2008. The unfavorable variance in cash flow provided by operations was due to the large loss incurred in 2009 from the approximately 37% reduction in sales volume. Partially offsetting this impact were the favorable effects from reducing net working capital in 2009 versus increasing net working capital in 2008. The working capital reductions, as discussed above, were in response to the approximately 37% reduction in sales volume and for the purpose of maintaining liquidity during the global recession.

During the fourth quarter of 2008, we recorded approximately $39.8 million ($25.8 million after tax) of non-cash impairment costs. These charges included the full impairment of goodwill at our Precision Metal Components Segment and at our Plastic and Rubber Components Segment, full impairment of the customer relationship intangible in our Precision Metal Components Segment, and the impairment of certain long lived tangible assets at our Precision Metal Components Segment and our Kilkenny Plant.

Liquidity and Capital Resources

During the year ended December 31, 2009, in consideration of the weak overall economic environment, particularly in the automotive and industrial end markets in which we operate, and the resulting significant decline in sales in all operating segments and reduced projected results for future periods, we implemented certain actions to manage our liquidity position. These actions included: obtaining amendments to our existing credit agreements to align covenant levels with the expected weaker operating performance in 2009 and 2010, suspending our quarterly dividend to shareholders, reducing capital spending, establishing programs to reduce working capital needs, reducing or eliminating discretionary spending where possible, reducing permanent employment levels, reducing working hours for many facilities, downsizing plant operations and accelerating plant closures. In addition, we temporarily reduced, for a portion of 2009, the compensation of the Board of Directors and the Chief Executive Officer by 20% and compensation of other managers and employees where legally and contractually possible by 10% to 15%. We also eliminated any bonus opportunities for 2009.

Amounts outstanding under our $90.0 million credit facility and our $40.0 million senior notes as of December 31, 2009 were $58.4 million and $28.6 million, respectively. See Note 6 of the Notes to Consolidated Financial Statements. We were in compliance with all covenants related to the amended and restated $90 million credit facility and the amended and restated $40 million senior notes as of December 31, 2009.

The table below summarizes the financial covenants of the two amended and restated credit agreements applicable to the Company as of December 31, 2009:

Financial Covenants	Required Covenant Level	Actual Covenant Level
Funded indebtedness to capitalization ratio	Not to exceed 0.60 to 1.00	0.54 to 1.00
Minimum EBITDA	EBITDA shall not be less than ($7,842) for the most recently completed four fiscal quarters	(3,993)
Capital expenditures	Not to exceed $3,500 (excluding $935 of capital projects funded by customer advances)	3,320

During the first quarter of 2009, we entered into an amended and restated $90 million revolving credit facility expiring September 2011 with Key Bank as administrative agent. In addition, we entered into a June 30, 2009 amendment to exclude $0.9 million of capital projects funded by customer advances and to waive a technicality related to a weekly

reporting requirement. The amended agreement was entered into to conform the covenants to our then current outlook for the twelve months from March 31, 2009 through March 31, 2010 in a difficult economic cycle. In addition to the reduction in availability from $135 million to $90 million, the interest rate was amended to LIBOR plus an applicable margin of 4.0%. The financial and nonfinancial covenants were also amended to relax certain financial covenants and to secure the facility with assets of the Company in addition to pledges of stock of certain foreign and domestic subsidiaries and guarantees of certain domestic subsidiaries. Finally, the new agreement placed greater restrictions on our usage of cash flows including prohibiting share repurchases, dividends and investments and/or acquisitions without the approval of credit facility participants and until such time as we meet certain earnings and financial covenant levels. In addition to these amendments, 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 merger, acquisition and other fundamental changes in our business including a “material adverse change” clause, which if triggered would accelerate the maturity of the debt. The facility has a $10 million swing line feature to meet short term cash flow needs. Any borrowings under this swing line are considered short term. Costs associated with entering into the revolving credit facility are capitalized and amortized into interest expense over the life of the facility. As of December 31, 2009 and 2008, $2.1 million and $0.5 million respectively, of net capitalized loan origination costs were on the balance sheet within other non-current assets. In addition, $0.1 million in unamortized debt issuance cost from the original facility was eliminated during the first quarter of 2009.

During the first quarter of 2009, the senior note agreement was also amended. The amended agreement was entered into to conform the covenants to our then current outlook for the twelve months from March 31, 2009 through March 31, 2010 in a difficult economic cycle. The term, principal balance, and principal payment schedule all remain the same as the original agreement. The interest rate was increased from 4.89% to 8.50%. In addition, the financial and non-financial covenants were amended and additional collateralization and restrictions on usage of cash flows were added to the agreement in line with the amended $90 million revolving credit facility. In addition to the amendments, the 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 including a “material adverse change” clause, which if triggered would accelerate the maturity of the debt. Interest is paid semi-annually and the note matures on April 26, 2014. As of December 31, 2009, $28.6 million remained outstanding. Annual principal payments of approximately $5.7 million began on April 26, 2008 and extend through the date of maturity. We incurred costs as a result of issuing these notes which have been recorded as a component of other non-current assets and are being amortized over the term of the notes. The unamortized balance at December 31, 2009 and 2008 was $0.4 million and $0.5 million respectively. Additionally, $0.5 million in unamortized debt issuance cost from the original issuance was written off in 2009.

During the first quarter of 2010, we amended both the $90 million revolving credit facility and the $40 million senior notes. The primary purpose of these amendments was to re-establish covenant levels through the expiration of the revolving credit facility in September 2011 to reflect our current business outlook. The primary financial covenants are the same for both credit agreements through September 2011, the expiration of the revolving credit facility. After September 2011, the covenants for the senior note agreement revert back the covenants in the original agreement. It is likely the covenant levels of the senior note agreement for 2012 through 2014 may no longer be appropriate for our business at that time and these covenant levels may need to be renegotiated in the future.

As a result of the amendments, the $90 million revolving credit facility was reduced to $85 million as of the amendment date, and it will reduce further by $1 million at the end of each of the three fiscal quarters beginning with the December 31, 2010 quarter end and ending with the June 30, 2011 quarter end, after which the total commitment will be $82 million. Neither the commitment amount nor the payment terms of the senior notes were changed. The amendments provided a restriction on restructuring of foreign subsidiaries and removed certain subsidiaries from participation in the credit agreement. Also as a result of the amendments, the interest rate was amended to LIBOR plus an applicable margin of 4.75%. The interest rate on the senior notes was not changed and remains at 8.5%.

The amended financial covenants for both credit facilities for the periods ending March 31, 2010 through September 20, 2011, computed on a “trailing twelve month” basis where applicable, are as follows:

Financial Covenants	Required Covenant Level
Interest coverage ratio	0.42 to 1.00 for the period ending March 31, 2010; 0.95 to 1.00 for the period ending June 30, 2010; 1.57 to 1.00 for the period ending September 30, 2010; 1.71 to 1.00 for the period ending December 31, 2010; 2.23 to 1.00 for the period ending March 31, 2011 and 2.76 for each period ending June 30, 2011 and thereafter.
Funded indebtedness to capitalization ratio	0.60 to 1.00 through June 29, 2010; 0.61 to 1.00 on June 30, 2010 through September 29, 2010; 0.62 to 1.00 on September 30, 2010 through March 30, 2011; 0.61 to 1.00 on March 31, 2011 through June 29, 2011 and 0.60 to 1.00 on June 30, 2011 and thereafter.
Leverage ratio	6.50 to 1.00 for the period ending September 30, 2010; 5.57 to 1.00 for the period ending December 31, 2010; 3.94 to 1.00 for the period ending March 31, 2011; and 2.77 to 1.00 for the period ending June 30, 2011.
Minimum EBITDA	

$603 for the most recently completed four fiscal quarters ending March 31, 2010; $7,245 for the most recently completed four fiscal quarters ending June 30, 2010; $15,106 for the most recently completed four fiscal quarters ending September 30, 2010; $17,623 for the most recently completed four fiscal quarters ending December 31, 2010; $24,904 for the most recently completed four fiscal quarters ending March 31, 2011; and $32,077 for the most recently completed four fiscal quarters ending June 30, 2011 and thereafter.

Capital expenditures	$5,015 for the fiscal quarter ending March 31, 2010; $8,178 on a cumulative basis for the two fiscal quarter period ending June 30, 2010; $12,867 on a cumulative basis for the three fiscal quarter period ending September 30, 2010; $16,705 on a cumulative basis for the four fiscal quarter period ending December 31, 2010; $2,637 for the fiscal quarter ending March 31, 2011 and $5,274 on a cumulative basis for the two fiscal quarter period ending June 30, 2011.
Minimum asset coverage ratio	The company shall not suffer or permit as of the last day of any fiscal quarter the minimum asset coverage ratio to be less than 1.05 to 1.00

*These covenant levels are not applicable at December 31, 2009, but are presented here for informational purposes.

In relation to entering into the amended and restated credit agreements mentioned above, we forecasted improved levels of revenue and cash flow from 2009 based on our recent sales levels, current economic conditions, published economic forecasts and input from our major customers. However, the forecasted sales levels are below sales levels achieved during 2008. These forecasts were used to set new financial and operating covenants in our amended credit facilities through the end of the credit agreement in September 2011. However, further deterioration of market conditions and sales levels beyond those reflected on our forecasts for revenue and cash flow could result in us failing to meet these covenants, which could cause a material adverse impact on our liquidity and financial position. We can provide no assurances we will be in compliance with the covenants, as amended March 5, 2010, during future periods.

Even though we have sufficient availability to borrow under our existing credit agreements at this time, we have experienced a significant loss of revenue and have sustained significant losses of income during the global economic recession that began to impact us in the fourth quarter of 2008 and is continuing as of the date of this report. As a result, we have sustained a significant weakening of our financial condition. Additionally, we are dependent on the continued provision of financing from our revolving credit lenders and our fixed rate lender in order to remain solvent. The lenders have set revised covenant levels, through September 2011, that provide little flexibility in the case we do not meet our projections (although at the date of this report we are in compliance with all such covenants). Failure to achieve results in line with our projections could limit the amount we can borrow under the agreements even if we are not in default. There is a substantial risk that if projections are not achieved, the lenders may not amend the credit agreements, which would accelerate the due date of the loans, putting us in default. We believe that it is unlikely that new lenders could be found to replace the existing lenders in case of an uncured default. In such situation, we would be technically insolvent and would need to seek a recapitalization of the Company. If such transaction could not be successfully completed, we would most likely have to file for protection under bankruptcy laws in the U.S. and other jurisdictions. Although we believe that fundamental business prospects for the Company are positive, there can be no assurance that the current financial projections can be met or that recapitalization could be achieved.

Prior to the first quarter 2009 credit agreement amendments , cash generated by foreign subsidiaries had been used primarily for general purposes including investments in property, plant and equipment and prepayment of the former Euro term loan. With the 2009 credit amendments, discussed above, the majority of the foreign subsidiaries are now direct borrowers under the credit facilities. As such, it is anticipated that a portion of future foreign earnings will be used to repay the existing loans. The remaining undistributed foreign earnings are deemed to be permanently reinvested.

Our arrangements with our domestic customers typically provide that payments are due within 30 to 60 days following the date of our shipment of goods, while arrangements with foreign customers of our domestic business (other than foreign customers that have entered into an inventory management program with us) generally provide that payments are due within 60 to 120 days following the date of shipment. Under the Metal Bearing Components

Segment's inventory management program with certain European customers, payments typically are due within 30 days after the customer uses the product. Our arrangements with European customers regarding due dates vary from 30 to 90 days following date of sale with an average of approximately 55 days outstanding. Our sales and receivables can be influenced by seasonality due to our relative percentage of European business coupled with many foreign customers slowing production during the month of August. For information concerning our quarterly results of operations for the years ended December 31, 2009 and 2008, see Note 15 of the Notes to Consolidated Financial Statements.

We invoice and receive payment from many of our customers in Euro as well as other currencies. Additionally, we are party to various third party and intercompany loans, payables and receivables denominated in currencies other than the U.S. Dollar. In 2009, the fluctuation of the Euro against the U.S. Dollar negatively impacted sales and net loss. As a result of these sales, loans, payables and receivables, our foreign exchange transaction and translation risk has increased. Various strategies to manage this risk are available to management including producing and selling in local currencies and hedging programs. As of December 31, 2009, 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.

Sales to various U.S. and foreign divisions of SKF, which is one of the largest bearing manufacturers in the world, accounted for approximately 36% of consolidated net sales in 2009. During 2009, our ten largest customers accounted for approximately 76% of our consolidated net sales. None of our other customers individually accounted for more than 10% of our consolidated net sales for 2009. The loss of all or a substantial portion of sales to these customers would cause us to lose a substantial portion of our revenue and have a corresponding negative impact on our operating profit margin due to operation leverage these customers provide. This could lead to sales volumes not being high enough to cover our current cost structure or provide adequate operating cash flows or cause us to incur additional restructuring and impairment cost. Due to a limit on the amount of excess bearing component capacity, in the markets we serve, we believe it would be difficult for any of our top ten customers to change suppliers in the short term.

During 2009, we spent approximately $4.3 million on capital expenditures. During 2010, we plan to spend approximately $16.7 million on capital expenditures, the majority of which is related to new or expanded business. We believe that funds generated from operations and borrowings will be sufficient to finance our working capital needs and projected capital expenditure requirements through the next twelve months.

Due to the impacts of the global economic recession and the resulting reduction in revenue and operating losses, our Eltmann Plant could reach a point of technical insolvency or illiquidity within the next 12 to 24 months. If this occurs, local laws could require the subsidiary to file for bankruptcy unless the Company provides additional support in the form of financial guarantees or additional funding of operations. During the first quarter of 2010, the company took certain actions in this regard including subordination of certain intercompany obligations and committing to additional equity contributions under certain circumstances. If in the future the Eltmann Plant should be required to file for bankruptcy, the Company could potentially lose the value of the net assets of Eltmann of approximately $0.1 million at December 31, 2009. The Company believes that in the event of bankruptcy, there could be a temporary disruption of normal product flow to customers, but that it is unlikely that such an event would have a long-term significant impact given the current level of excess capacity within the Company’s European plants.

During the first quarter of 2010, we announced the closure of the Tempe Plant. The Tempe Plant was acquired in the 2006 acquisition of Whirlaway and had sales of approximately $12.0 million for calendar year 2009. The closing will impact approximately 130 employees. Current economic conditions coupled with the long-term manufacturing strategy for our Whirlaway business necessitated a consolidation of our manufacturing resources in Ohio. We expect to incur cash charges of approximately $2.5 million in severance, equipment relocation and other closing costs during 2010 related to this closure. In addition, we expect to incur up to $3.0 million in accelerated depreciation during 2010 related to machinery that will be abandoned as part of the closure. As of December 31, 2009, the total net assets of this location were $7.9 million. We do not anticipate any other potential impairment of the remaining fixed assets which will be relocated to our other plants.

The table below sets forth our contractual obligations and commercial commitments as of December 31, 2009 (in thousands):

Certain Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Long-term debt including current portion	$ 86,963	$ 9,405	$ 66,128	$ 11,430	$ --
Expected interest payments	10,350	4,834	4,717	799	--
Operating leases	17,720	4,390	4,627	2,458	6,245
Capital leases	4,181	266	531	531	2,853
Expected pension contributions and benefit payments	2,831	198	460	534	1,639
Other long-term obligations (1)	38,000	38,000	--	--	--
Total contractual cash obligations	$ 160,045	$ 57,093	$ 76,463	$ 15,752	$ 10,737

(1) Other Long-Term Obligations consists of steel purchase commitments at our European operations (See Note 14 of the Notes to Consolidated Financial Statements.)

We have approximately $1.7 million in unrecognized tax benefits and related penalties and interest accrued within the liabilities section of our balance sheet. We are unsure when or if at all these amounts might be paid to U.S. and/or foreign taxing authorities. Accordingly, these amounts have been excluded from the table above. See Note 12 in the Notes to Consolidated Financial Statements for additional details.

Functional Currencies

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

Seasonality and Fluctuation in Quarterly Results

Our net sales historically have been seasonal in nature, due to a significant portion of our sales being to European customers that significantly slow production during the month of August. For information concerning our quarterly results of operations for the years ended December 31, 2009 and 2008, see Note 15 of the Notes to Consolidated Financial Statements.

Inflation and Changes in Prices

The cost base of our operations has been materially affected by steel inflation during recent years, but due to the ability to pass on this steel inflation to our customers the overall financial impact has been minimized. The prices for steel, engineered resins and other raw materials which we purchase are subject to material change. Our typical pricing arrangements with steel suppliers are subject to adjustment every six months. We typically reserve the right to adjust

product prices periodically in the event of changes in our raw material costs. In the past, we have been able to minimize the impact on our operations resulting from the steel price fluctuations by taking such measures.

Recently Issued Accounting Standards

The FASB issued guidance on business combinations, effective January 1, 2009, which retains the fundamental requirements that the acquisition method of accounting be used for all business combinations. However, the new guidance provides for the following: an acquirer will record 100% of assets and liabilities of an acquired business, including goodwill, at fair value, regardless of the level of interest acquired; certain contingent assets and liabilities will be recognized at fair value at the acquisition date; contingent consideration will be recognized at fair value on the acquisition date with changes in fair value to be recognized in earnings upon settlement; acquisition-related transaction and restructuring costs will be expensed as incurred; reversals of valuation allowances related to acquired deferred tax assets and changes to acquired income tax uncertainties will be recognized in earnings; and when making adjustments to finalize preliminary accounting, acquirers will revise any previously issued post-acquisition financial information in future financial statements to reflect any adjustments as if they occurred on the acquisition date. This new guidance applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

Item 6A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to changes in financial market conditions in the normal course of our business due to our outstanding debt balances as well as transacting in various foreign currencies. To mitigate our exposure to these market risks, we have established policies, procedures and internal processes governing our management of financial market risks. We are exposed to changes in interest rates primarily as a result of our borrowing activities. At December 31, 2009, we had $28.6 million of fixed rate senior notes outstanding and $58.4 million outstanding under the variable rate revolving credit facilities. At December 31, 2009, a one-percent increase in the interest rate charged on our outstanding variable rate borrowings would result in interest expense increasing annually by approximately $0.6 million. The nature and amount of our borrowings may vary as a result of future business requirements, market conditions and other factors.

Translation of our operating cash flows denominated in foreign currencies is impacted by changes in foreign exchange rates. Our Metal Bearing Component Segment invoices and receives payment in currencies other than the U.S. Dollar including the Euro. Additionally, we participate in various third party and intercompany loans, payables and receivables denominated in currencies other than the U.S. Dollar. In 2009, the fluctuation of the Euro against the U.S. Dollar negatively impacted revenue and net loss but positively impacted assets and liabilities. To help reduce exposure to foreign currency fluctuation, we have incurred debt in Euros in the past and have, from time to time, used foreign currency hedges to hedge currency exposures when these exposures meet certain discretionary levels. We did not use any currency hedges in 2009, nor did we hold a position in any foreign currency hedging instruments as of December 31, 2009.

Item 7. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income (loss), of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of NN, Inc. and its subsidiaries at December 31, 2009 and December 31, 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP
Raleigh, North Carolina
March 31, 2010

NN, Inc.
Consolidated Balance Sheets
December 31, 2009 and 2008
(In thousands)

Assets	2009	2008
Current assets:		
Cash and cash equivalents	$ 8,744	$ 11,052
Accounts receivable, net	49,412	50,484
Inventories, net	33,275	53,173
Income tax receivable	3,196	2,565
Other current assets	3,656	5,858
Current deferred tax asset	--	1,489
Total current assets	98,283	124,621
Property, plant and equipment, net	129,715	145,690
Goodwill, net	9,278	8,908
Intangible assets, net	1,506	2,098
Non current deferred tax assets	260	993
Other non-current assets	3,610	1,730
Total assets	$ 242,652	$ 284,040
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 38,048	$ 39,415
Accrued salaries, wages and benefits	14,469	12,745
Current maturities of long-term debt	9,405	6,916
Current portion of obligation under capital lease	266	266
Other liabilities	6,301	4,013
Total current liabilities	68,489	63,355
Non-current deferred tax liability	3,558	4,939
Long-term debt, net of current portion	77,558	90,172
Accrued pension	14,308	13,826
Obligation under capital lease, net of current portion	1,820	1,872
Other non-current liabilities	116	117
Total liabilities	165,849	174,281
Commitments and Contingencies (Note 14)		
Stockholders' equity:		
Common stock - $0.01 par value, authorized 45,000 shares, issued and outstanding 16,268 in 2009 and 2008.	163	163
Additional paid-in capital	49,861	49,524
Retained earnings	259	35,593
Accumulated other comprehensive income	26,520	24,479
Total stockholders' equity	76,803	109,759
Total liabilities and stockholders' equity	$ 242,652	$ 284,040

See accompanying notes to consolidated financial statements

NN, Inc.
Consolidated Statements of Operations and Comprehensive Income (Loss)
Years ended December 31, 2009, 2008 and 2007
(In thousands, except per share data)

	2009	2008	2007
Net sales	$ 259,383	$ 424,837	$ 421,294
Cost of products sold (exclusive of depreciation shown separately below)	235,466	344,685	337,024
Selling, general and administrative	27,273	36,068	36,473
Depreciation and amortization	22,186	27,981	22,996
(Gain) loss on disposal of assets	493	(4,138)	(71)
Impairment of goodwill	--	30,029	10,016
Restructuring and impairment charges, excluding goodwill impairments	4,977	12,036	3,620
Income (loss) from operations	(31,012)	(21,824)	11,236
Interest expense	6,359	5,203	6,373
Reduction of unamortized debt issue cost	604	--	--
Other income	(351)	(850)	(386)
Income (loss) before provision (benefit) for income taxes	(37,624)	(26,177)	5,249
Provision (benefit) for income taxes	(2,290)	(8,535)	6,422
Net loss	$ (35,334)	$ (17,642)	$ (1,173)
Other comprehensive income (loss):			
Actuarial gain (loss) recognized in change of projected benefit obligation (net of tax of $0, $0 and 248, respectively)	(315)	(58)	656
Foreign currency translation gain (loss)	2,356	(3,232)	11,764
Comprehensive income (loss)	$ (33,293)	$ (20,932)	$ 11,247
Basic loss per share:			
Net loss	$ (2.17)	$ (1.11)	$ (0.07)
Weighted average shares outstanding	16,268	15,895	16,749
Diluted loss per share:			
Net loss	$ (2.17)	$ (1.11)	$ (0.07)
Weighted average shares outstanding	16,268	15,895	16,749
Cash dividends per common share	$ 0.00	$ 0.24	$ 0.32

See accompanying notes to consolidated financial statements

NN, Inc.
Consolidated Statements of Changes in Stockholders' Equity
Years ended December 31, 2009, 2008 and 2007
(In thousands)

	Common Stock				Accumulated	
	Number of Shares	Par Value	Additional paid in capital	Retained Earnings	Other Comprehensive Income	Total
Balance, December 31, 2006	16,842	$ 169	$ 53,473	$ 64,178	$ 15,349	$ 133,169
Shares issued	24	--	292	--	--	292
Net loss	--	--	--	(1,173)	--	(1,173)
Amortization of restricted stock awards	--	--	309	--	--	309
Forfeiture of restricted stock	(3)	--	--	--	--	--
Repurchase of outstanding shares	(1,008)	(10)	(9,712)	--	--	(9,722)
Stock option expense	--	--	670	--	--	670
Dividends declared	--	--	--	(5,322)	--	(5,322)
Effect of adoption of FIN 48	--	--	--	(600)	--	(600)
Actuarial gain recognized in change of projected benefit obligation (net of tax $248)	--	--	--	--	656	656
Financial statement translation gain	--	--	--	--	11,764	11,764
Balance, December 31, 2007	15,855	$ 159	$ 45,032	$ 57,083	$ 27,769	$ 130,043
Shares issued	498	5	3,857	--	--	3,862

Tax benefit on options exercised	--	--	1,197	--	--	1,197
Net loss	--	--	--	(17,642)	--	(17,642)
Restricted stock awards expense	--	--	(196)	--	--	(196)
Stock option expense	--	--	647	--	--	647
Dividends declared	--	--	--	(3,848)	--	(3,848)
Financial statement translation loss	--	--	--	--	(3,232)	(3,232)
Actuarial loss recognized in change of projected benefit obligation (net of tax $0)	--	--	--	--	(58)	(58)
Repurchase of shares	(85)	(1)	(1,013)	--	--	(1,014)
Balance, December 31, 2008	16,268	$ 163	$49,524	$35,593	$24,479	$109,759
Net loss	--	--	--	(35,334)	--	(35,334)
Stock option expense	--	--	337	--	--	337
Actuarial loss recognized in change of projected benefit obligation (net of tax $0)	--	--	--	--	(315)	(315)
Financial statement translation gain	--	--	--	--	2,356	2,356
Balance, December 31, 2009	16,268	$ 163	$49,861	$259	$26,520	$76,803

See accompanying notes to consolidated financial statements

NN, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2009, 2008 and 2007
(In thousands)

	2009	2008	2007
Cash flows from operating activities:			
Net loss	$ (35,334)	$ (17,642)	$ (1,173)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	22,186	27,981	22,996
Amortization of debt issue costs	1,147	244	219
(Gain) loss on disposals of property, plant and equipment	493	(4,138)	(71)
Allowance for doubtful accounts	(119)	239	496
Compensation expense from issuance of restricted stock and incentive stock options	337	451	979
Deferred income tax expense (benefit)	841	(14,558)	(1,183)
Capitalized interest and non cash interest and other expenses	157	176	66
Non-cash restructuring and impairment charges	2,853	41,784	13,426
Write-off of unamortized debt issue costs	604	--	--
Changes in operating assets and liabilities:			
Accounts receivable	1,481	12,521	(837)
Inventories	20,318	(2,095)	(5,974)
Income tax receivable	(631)	(2,565)	--
Other current assets	1,821	578	260
Other assets	(355)	(123)	801
Accounts payable	(2,128)	(10,875)	(5,533)
Other liabilities	1,118	(4,467)	(2,878)
Net cash provided by operating activities	14,789	27,511	21,594
Cash flows from investing activities:			
Cash paid to acquire business, net of cash received	--	--	(94)
Acquisition of property, plant and equipment	(4,255)	(18,498)	(18,856)
Proceeds from disposals of property, plant and equipment	521	5,778	74
Acquisition of intangible asset	--	--	(173)
Net cash used by investing activities	(3,734)	(12,720)	(19,049)

Cash flows from financing activities:			
Proceeds from long-term debt	--	--	26,400
Debt issue costs paid	(3,293)	(35)	(251)
Proceeds from bank overdrafts	--	--	612
Repayment of long-term debt	(12,614)	(9,714)	--
Proceeds (repayment) of short-term debt, net	2,850	(4,034)	4,610
Proceeds from issuance of stock and exercise of stock options	--	3,862	292
Cash dividends paid	--	(3,848)	(5,322)
Other financing activity	(51)	(46)	(38)
Payment of related party debt	--	--	(18,638)
Repurchase of common stock	--	(1,014)	(9,722)
Net cash used by financing activities	(13,108)	(14,829)	(2,057)
Effect of exchange rate changes on cash flows	(255)	(1,939)	860
Net change in cash and cash equivalents	(2,308)	(1,977)	1,348
Cash and cash equivalents at beginning of period	11,052	13,029	11,681
Cash and cash equivalents at end of period	$ 8,744	$ 11,052	$ 13,029
Supplemental schedule of non-cash investing and financing activities:			
Restricted stock expense (income) ($0 in 2009, $(196) in 2008, and $309 in 2007) and stock option expense ($337 in 2009, $647 in 2008, and $670 in 2007) included in stockholders' equity	$ 337	$ 451	$ 979
Windfall tax benefits on incentive stock options	$ --	$ 1,216	$ 8
Reduced note payable to customer with offsetting reduction to accounts receivable ($411 in 2009, $1,384 in 2008 and $1,390 in 2007) and an increase to interest expense ($50 in 2009, $176 in 2008 and $186 in 2007)	$ 361	$ 1,208	$ 1,204
Adjusted the goodwill balance related to Whirlaway acquisition for final fair value of assets and liabilities acquired.	--	--	$ 1,828
Increase in unrecognized tax benefits upon the adoption of FIN 48 charged to beginning retained earnings	--	--	$ 600
Cash paid for interest and income taxes was as follows:			

Interest	$ 4,678	$ 4,937	$ 6,174
Income taxes	$ 353	$ 8,024	$ 8,404
Income tax refunds received from taxing authorities	$ 2,653	$ --	$ --

See accompanying notes to consolidated financial statements

1) Summary of Significant Accounting Policies and Practices

(a) Description of Business

NN, Inc. (the "Company") is a manufacturer of precision balls, cylindrical and tapered rollers, bearing retainers, plastic injection molded products, precision bearing seals and precision metal components. The Company's balls, rollers, retainers, and bearing seals are used primarily in the domestic and international anti-friction bearing industry. The Company's plastic injection molded products are used in the bearing components, automotive components, electronic instrument cases and other molded components used in a variety of applications. The precision metal components products are used in the HVAC, automotive, and appliance industries.

Beginning in the fourth quarter of 2008 and continuing during the year ended December 31, 2009, in consideration of the weak overall economic environment (particularly in the automotive and industrial end markets in which the Company operates) and the resulting significant decline in sales in all operating segments and reduced projected results for future periods, we implemented certain actions to manage our liquidity position. These actions included: obtaining amendments to our existing credit agreements to align covenant levels with the expected weaker operating performance over 2009 and 2010, suspending our quarterly dividend to shareholders, reducing capital spending, establishing programs to reduce working capital needs, reducing or eliminating discretionary spending where possible, reducing permanent employment levels, reducing working hours for many facilities, downsizing plant operations and accelerating plant closures. In addition, for a portion of 2009, we reduced the compensation of the Board of Directors and the Chief Executive Officer by 20% and the compensation of other managers and employees where legally and contractually possible by 10% to 15%. We also eliminated any bonus opportunities for 2009.

We have experienced a significant loss of revenue and have sustained significant losses of income during the global economic recession that began to impact the Company in the fourth quarter of 2008 and is continuing as of the date of this report. As a result, we have sustained a significant weakening of our financial condition. Additionally, we are dependent on the continued provision of financing from our revolving credit lenders and our fixed rate lender in order to remain solvent. The lenders have set revised covenant levels, through September 2011, that provide little flexibility in the case that our projections are not met (although at the date of this report we are in compliance with all such covenants). There is a substantial risk that if projections are not achieved, the lenders may not amend the credit agreements, which would accelerate the due date of the loans, putting the Company in default. We believe that it is unlikely that new lenders could be found to replace the existing lenders in case of an uncured default. In such situation, the Company would be technically insolvent and would need to seek a recapitalization of the Company. If such transaction could not be successfully completed, the Company would most likely have to file for protection under bankruptcy laws in the U.S. and other jurisdictions. Although management believes that fundamental business prospects for the Company are positive, there can be no assurance that the current financial projections can be met or that recapitalization could be achieved.

(b) Cash and Cash Equivalents

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

(c) Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Our policy is to expense abnormal amounts of idle facility expense, freight, handling cost, and waste. In addition, we allocate fixed production overheads based on the normal capacity of our facilities. During 2009, the inventory valuations were developed using normalized production capacities for each of our manufacturing locations and the costs from excess capacity or under-utilization of fixed production overheads were expensed in the period incurred

and are not included as a component of inventory valuation.

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

(d) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Assets to be disposed of are stated at lower of depreciated cost or fair market value less estimated selling costs. Expenditures for maintenance and repairs are charged to expense as incurred. Major renewals and betterments are capitalized. When a property item is retired, its cost and related accumulated depreciation are removed from the property accounts and any gain or loss is recorded in the statement of operations. The Company reviews the carrying values of long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. During the years ended December 31, 2009, 2008 and 2007, the Company recorded impairment charges of $235, $4,197, and $3,410, respectively (See Notes 2 and 5 for further details). Property, plant and equipment includes tools, molds and dies principally used in our Plastic and Rubber Components and Precision Metal Components Segments that are the property of the Company.

Depreciation is provided on the straight-line method over the estimated useful lives of the depreciable assets for financial reporting purposes. Accelerated depreciation methods are used for income tax purposes. In the event we abandon and cease to use certain property, plant, and equipment, depreciation estimates are revised and, in most cases, depreciation expense will be accelerated to reflect the shorten useful live of the asset. During the year ended December 31, 2008, we recognized $3,509 in accelerated depreciation for property, plant and equipment that was abandoned and ceased to be used. (See Note 5).

(e) Revenue Recognition

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

(f) Accounts Receivable

Accounts receivable are recorded upon recognition of a sale of goods and ownership and risk of loss is assumed by the customer. Substantially all of the Company's accounts receivable are due primarily from the core served markets: bearing manufacturers, automotive industry, electronics, industrial, agricultural and aerospace. We experienced $(0.1) million, $0.2 million, and $0.5 million of bad debt expense (income) during 2009, 2008 and 2007, respectively. In establishing allowances for doubtful accounts, we perform credit evaluations of our customers, considering numerous inputs when available including the customers' financial position, past payment history, relevant industry trends, cash flows, management capability, historical loss experience and economic conditions and prospects. Accounts receivable are written off or reserves established when considered to be uncollectible or at risk of being uncollectible.

(g) Income Taxes

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

ended December 31, 2009 financial statements reflect full valuation allowances against the net deferred tax assets of all our U.S. operations, and our German, Slovakian, and Chinese operations. Based on recent negative financial performance at these locations, we determined that there is a likelihood these locations. We would be unable to generate sufficient profits in the near future to allow realization of existing deferred tax assets.

(h) Net Income (Loss) Per Common Share

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

(i) Stock Incentive Plan

The cost of the options and restricted stock awards are expensed as compensation expense over the vesting periods based on the fair value at the grant date. (See Note 8) We use a financial pricing model, the Black Sholes model, to determine the fair value of our stock options as our options are not traded in open markets.

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

(j) Principles of Consolidation

The Company's consolidated financial statements include the accounts of NN, Inc. and its subsidiaries. All of the Company's subsidiaries are 100% owned and all are included in the consolidated financial statements for the years end December 31, 2009, 2008, and 2007. All significant inter-company profits, transactions, and balances have been eliminated in consolidation.

(k) Foreign Currency Translation

Assets and liabilities of the Company's foreign subsidiaries are translated at current exchange rates, while revenue, costs and expenses are translated at average rates prevailing during each reporting period. Translation adjustments arising from the translation of foreign subsidiary financial statements are reported as a component of other comprehensive income and accumulated other comprehensive income within stockholders' equity. In addition, transactions denominated in foreign currencies are initially recorded at the current exchange rate at the date of the transaction. The balances are adjusted to the current exchange rate as of each balance sheet date and as of the date when the transaction is consummated. Any transaction gains or losses are expensed in either cost of products sold or selling, general and administrative lines in the Consolidated Statement of Operations and Comprehensive Income (Loss) as incurred.

(l) Goodwill and Other Indefinite Lived Intangible Assets

The Company recognizes the excess of the purchase price of an acquired entity over the fair value of the net identifiable assets as goodwill. Goodwill is tested for impairment on an annual basis as of October 1 and between annual tests if a triggering event occurs. The impairment test is performed at the reporting unit level for the one unit that still has goodwill. U.S. GAAP prescribes a two-step process for testing for goodwill impairments. The first step is to determine if the carrying value of the reporting unit with goodwill is less than the related fair value of the reporting unit. The fair value of the reporting unit is determined through use of discounted cash flow methods and market based multiples of earning and sales methods obtained from a grouping of comparable publicly trading companies. We believe this methodology of valuation is consistent with how market participants would value reporting units. The discount rate and market based multiples used are specifically developed for the units tested regarding the level of risk and end markets served. Even though we do use other observable inputs (Level 2 inputs under the US GAAP hierarchy) the calculation of fair value for goodwill would be most consistent with Level 3 under the US GAAP hierarchy.

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

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

Our indefinite lived intangible asset is accounted for similarly to goodwill. This asset is tested for impairment at least annually by comparing the fair value to the carrying value, using the relief from royalty rate method, and if the fair value is less than the carrying value, an impairment charge is recognized for the difference.

(m) Definite Lived Intangible Assets

The Company recognizes 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. The Company reviews the lives of intangible assets each reporting period and, if necessary, recognizes impairment losses if the carrying amount of an intangible asset is not recoverable from expected future cash flows and its carrying amount exceeds its fair value. (See Notes 2 and 10).

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

Long-lived tangible and intangible assets subject to amortization are tested for recoverability when changes in circumstances indicate the carrying value of these assets may not be recoverable. A test for recoverability is also performed when management has committed to a plan to dispose of a reporting unit or asset group. Assets to be held and used are tested for recoverability when indications of impairment are evident. Recoverability of a long-lived tangible and intangible asset is evaluated by comparing its carrying value to the future estimated undiscounted cash flows expected to be generated by the asset or asset group. If the asset is not recoverable the asset is considered impaired and adjusted to fair value which is then depreciated/amortized over its remaining useful live. Assets to be disposed of are carried at the lesser of carrying value or fair value less costs of disposal. (See Notes 2, 5 and 10).

(o) Use of Estimates in the Preparation of Financial Statements

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

(p) Fair Value Measurements

On January 1, 2008, we adopted the provision of U.S. GAAP that pertains to recording financial liabilities subject to recurring fair value measurement at the price that would be paid to transfer a liability in an orderly transaction between market participants. However, at that time we elected not to adopt the fair value method of accounting for our existing financial liabilities. On January 1, 2009, we began recording all non-financial assets and liabilities (principally goodwill and long lived tangible and intangible assets) subject to fair value measurement under the same principles. These fair value principles prioritize valuation inputs across three broad levels. Level 1inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company's assumptions used to measure assets and liabilities at fair value. An asset or liability's classification within the various levels is determined based on the lowest level input that is significant to the fair value measurement.

(q) Recently Issued Accounting Standards

The FASB issued guidance on business combinations, effective January 1, 2009, which retains the fundamental requirements that the acquisition method of accounting be used for all business combinations. However, the new guidance provides for the following: an acquirer will record 100% of assets and liabilities of acquired business, including goodwill, at fair value, regardless of the level of interest acquired; certain contingent assets and liabilities will be recognized at fair value at the acquisition date; contingent consideration will be recognized at fair value on the acquisition date with changes in fair value to be recognized in earnings upon settlement; acquisition-related transaction and restructuring costs will be expensed as incurred; reversals of valuation allowances related to acquired deferred tax assets and changes to acquired income tax uncertainties will be recognized in earnings; and when making adjustments to finalize preliminary accounting, acquirers will revise any previously issued post-acquisition financial information in future financial statements to reflect any adjustments as if they occurred on the acquisition date. This new guidance applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

2) Impairment of Goodwill and Restructuring and Impairment Charges, excluding Goodwill Impairments

Below is a summary of all the impairment and restructuring charges reported in the Consolidated Statement of Operations and Comprehensive Income (Loss) during the years ended December 31, 2009, 2008, and 2007:

(In Thousands of Dollars)	2009	2008	2007
Impairment of goodwill	$ --	$ 30,029	$ 10,016
Impairment of intangible assets	$ --	$ 5,592	$ --
Impairment of tangible assets	235	4,197	3,410
Restructuring charges	4,742	2,247	210
Restructuring and impairment charges, excluding goodwill impairment	$ 4,977	$ 12,036	$ 3,620

The above charges are discussed in detail below.

Restructuring Activity

On November 26, 2008, we announced the closure of our Kilkenny Plant. The closure was part of our long term strategy to rationalize our European operations. We view the rationalization of manufacturing operations in Europe as a necessary action to adjust our global manufacturing capacity to current and long term market requirements. The closure affected 68 employees and was completed during 2009. We recorded restructuring charges during the fourth quarter of 2008 of $2,247 related to severance and other employment cost for the 68 employees. Additionally, we incurred $763 in restructuring cost during the year ended December 31, 2009 principally for site closure and other associated cost.

During the first quarter of 2009, we closed our Hamilton Plant. This closure affected 11 employees and $130 in severance and other associated closure costs were incurred during the first quarter of 2009. Of this amount, $108 was for employee severance cost which was paid in the second quarter of 2009.

During the third quarter of 2009, we informed our employees of the Veenendaal Plant of our intention to begin a reorganization of the plant's labor force due to the economic downturn. During the year ended December 31, 2009, we incurred severance charges of $3,849 which covers the elimination of 53 permanent positions or 17% of the workforce. The majority of the severance cost was or will be paid out during the fourth quarter of 2009 and first quarter of 2010.

The following table summarizes the 2009 and 2008 activity related to the three restructuring programs discussed above:

(In Thousands of Dollars)	Reserve Balance at 1/01/09	Charges	Paid in 2009	Currency Impacts	Reserve Balance at 12/31/2009
Severance and other employee costs	$ 2,058	$ 4,008	$ (3,448)	$ (236)	$ 2,382
Site closure and other associated cost	--	734	(734)	--	--
Total	$ 2,058	$ 4,742	$ (4,182)	$ (236)	$ 2,382

	Reserve Balance at 1/01/08	Charges	Paid in 2008	Currency Impacts	Reserve Balance at 12/31/08
Severance and other employee costs	$ --	$ 2,247	$ (281)	$ 92	$ 2,058
Total	$ --	$ 2,247	$ (281)	$ 92	$ 2,058

These severance cost were recorded in the Restructuring and Impairment Charges, Excluding Goodwill Impairments line as a component of loss from operations. The reserve balance for severance and other employee cost are reported within the Accrued salaries, wages and benefits line of the Consolidated Balance Sheets.

As a result of the decision to close the Kilkenny facility, we performed a test of recoverability, during the year ended December 31, 2008, of the long-lived assets associated with that facility. This test was pursuant to the provisions of U.S. GAAP which require that interim tests of asset recoverability be performed under certain circumstances. As a result of the test, we concluded that $1,447 of production equipment was impaired and we adjusted these assets to the estimated fair market value. Additionally, during the year ended December 31, 2009, we further adjusted the fair value of the building and land to its current estimated fair value resulting in a $235 charge. These impairment charges were reported in the Restructuring and Impairment Charges, Excluding Goodwill Impairments line as a component of loss from operations in both 2009 and 2008.

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

During the fourth quarter of 2008, we recorded $30,029 of non-cash impairment charges related to the impairment of goodwill. Goodwill was impaired at our Precision Metal Components reporting unit and at both reporting units of our Plastic and Rubber Components Segment (see Note 9). In addition, we recorded approximately $5,592 of non-cash impairment charges related to the full impairment of the customer relationship intangible at our Precision Metal Components reporting unit (see Note 10). Finally, we recorded $2,750 of non-cash impairment charges related to the impairment of property, plant and equipment at our Precision Metal Components reporting unit (see Note 5).

These impairments were triggered by the significant financial impact the global economic recession had on these segments during the three month period ended December 31, 2008 and expected impact in future periods.

During the second quarter of 2007, we knew the excess capacity at four of our six ball precision steel ball plants would lead to a reduction in cash flow in certain plants. As such, we performed tests of the recoverability of the goodwill and long-lived assets associated with the affected facilities. As a result, we recorded approximately $13,336 of non-cash impairment costs. These charges include the write-down to estimated fair market value of certain excess production equipment of $3,320 and the full impairment of goodwill at one European reporting unit of $10,016 to

levels supported by projected cash flows after the realignment of production. These impairments were calculated using present value of expected future cash flows methods pursuant to U.S. GAAP for the goodwill and estimates of fair value pursuant to U.S. GAAP for the fixed assets.

During the third quarter of 2007, we recorded approximately $210 of cash restructuring charges and approximately $90 of non-cash impairment charges related to the write-down to estimated fair value of certain excess production equipment as part of the Metal Bearings Components Segment restructuring.

3) Accounts Receivable and Sales Concentrations

	December 31, 2009	December 31, 2008
Trade	$ 49,885	$ 51,119
Less - allowance for doubtful accounts	473	635
Accounts receivable, net	$ 49,412	$ 50,484

Activity in the allowance for doubtful accounts is as follows:

Description	Balance at beginning of year	Additions (reductions)	Write-offs	Currency Impacts	Balance at end of year
December 31, 2009					
Allowance for doubtful accounts	$ 635	$ (119)	$ (48)	$ 5	$ 473
December 31, 2008					
Allowance for doubtful accounts	$ 1,412	$ 239	$ (1,004)	$ (12)	$ 635
December 31, 2007					
Allowance for doubtful accounts					