NN INC
Form 10-K
March 31, 2009

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, 2008

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 (State or other jurisdiction of incorporation or organization)	62-1096725 (I.R.S. Employer Identification No.)
2000 Waters Edge Drive Johnson City, Tennessee (Address of principal executive offices)	37604 (Zip Code)

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ¨ No 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 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 x Non-accelerated filer ¨ 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, 2008, based on the closing price on the NASDAQ Stock Market LLC on that date was approximately $222,308,972.

The number of shares of the registrant's common stock outstanding on March 31, 2009 was 16,267,924.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Proxy Statement with respect to the 2009 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 2008, Metal Bearing Components accounted for 76% of total NN, Inc. sales. Sales of balls and rollers accounted for approximately 70% of our total net sales with 52% of sales from balls and 18% of sales from rollers. Sales of metal bearing retainers accounted for 6% of net sales. See Note 12 of the Notes to Consolidated Financial Statements. Through a series of acquisitions, 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 precision electronic connectors. We also manufacture rubber seals for use in various automotive and industrial applications. In 2008, plastic products accounted for 5% of net sales and rubber seals accounted for 4% 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") (See Note 2 of the Notes to Consolidated Financial Statements.) Whirlaway is a high precision metal components and assemblies manufacturer that supplies customers serving the air conditioning, appliance, automotive, commercial refrigeration and diesel engine 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 15% of net sales in 2008.

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")
- Kilkenny, Ireland Ball Plant ("Kilkenny 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")

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, Hamilton, Ohio Metal Components Plant (“Hamilton Plant”) *
- Whirlaway Corporation, Tempe, Arizona Metal Components Plant, formerly known as Triumph LLC (“Tempe Plant”)

*Production ceased in the first quarter of 2009, we are currently in the process of closing this manufacturing operation.

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

Recent Developments

On November 26, 2008, we announced the closure of our precision steel ball manufacturing facility located in Kilkenny, Ireland. 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.

During the first quarter of 2009, we entered into an amended and restated $90.0 million revolving credit facility maturing September 2011 with Key Bank as administrative agent. The amended facility was entered into to conform our financial covenants to our current outlook in this difficult economic cycle.

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 68%, 67%, and 74% of net Metal Bearing Component Segment sales in 2008, 2007, and 2006, respectively.

Steel Rollers. We manufacture tapered rollers at our Veenendaal Plant and cylindrical rollers at our Erwin Plant. Most cylindrical rollers are made to specific customer requirements for diameter and length, so there is very little overlap of common cylindrical rollers matching two or more customers’ needs. 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. Cylindrical rollers accounted for approximately 4% of consolidated net sales in each year of 2008, 2007, and 2006, respectively. Tapered rollers are used 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. Tapered rollers accounted for approximately 14%, 14% and 16% of consolidated net sales in 2008, 2007 and 2006, 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. We manufacture plastic retainers at our Lubbock Plant.

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 three Whirlaway plants in Ohio (one was closed in the first quarter of 2009) and one plant in Arizona. The precision metal components offered include 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, commercial refrigeration, automotive engine, diesel engine fuel systems, 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 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 78% of our revenue. Only one of these customers, SKF, had sales levels that were 10% or greater of total net sales. In 2008, 36% of our products were sold to customers in North America, 51% to customers in Europe, and the remaining 13% to customers located throughout the rest of the world, primarily Asia and Latin America. Sales to various U.S. and foreign divisions of SKF accounted for approximately 41% of net sales in 2008.

Certain customers have contracted to purchase a majority of their bearing component requirements from us, although only a few are contractually obligated to purchase any specific amounts. Certain agreements are in effect with some of our largest customers, which provide for prices that may be offset by material cost fluctuations. 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.

The two-year agreement with Schaeffler Group (INA) effective as of July 1, 2006 expired as of June 30, 2008 and we are currently supplying product at agreed upon commercial terms. In May 2007, a new contract was signed with SKF to supply precision balls in Europe with terms retroactively applied to January 1, 2007 and effective until December 31, 2009.

The five-year supply agreement with SKF providing for the purchase of steel rollers and metal retainers manufactured at our Veenendaal Plant expired during 2008 and we are in the process of negotiating a new agreement with SKF covering tapered rollers and metal retainers.

During 2008, the Metal Bearing Components Segment sold products to approximately 300 customers located in 30 different countries. Approximately 88% of the net sales in 2008 were to customers outside the United States. Approximately 68% of net sales in 2008 were to customers within Europe. Sales to the top ten customers accounted for approximately 84% of the net sales in 2008. Sales to SKF accounted for approximately 53% of net sales of the segment in 2008.

During 2008, the Plastic and Rubber Components Segment sold its products to over 70 customers located principally in North America. Approximately 22% 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 76% of the Segment's net sales in 2008.

During 2008, the Precision Metal Components Segment sold its products to 21 customers located in three countries. Approximately 97% of all sales were to customers located within the United States. Sales to the segment's top ten customers accounted for approximately 89% of the segment's net sales in 2008.

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

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

The following table presents a breakdown of our net sales for fiscal years 2008, 2007 and 2006:

(In Thousands)	2008	2007	2006
Metal Bearing Components Segment	$ 321,660	$ 303,059	$ 272,299
Percentage of Total Sales	75.7%	72.0%	82.4%
Precision Metal Components Segment	64,235	67,384	4,722
Percentage of Total Sales	15.1%	16.0%	1.4%
Plastic and Rubber Components Segment	38,942	50,851	53,304
Percentage of Total Sales	9.2%	12.0%	16.2%
Total	$ 424,837	$ 421,294	$ 330,325
Percentage of Total Sales	100%	100%	100%

The increase in value of Euro denominated sales resulted in net sales increasing $18.9 million in 2008, $19.6 million in 2007 and $1.6 million in 2006 when converted to U.S. Dollars.

The Precision Metal Components Segment includes only one month of revenue in 2006. Based on pro-forma results, 2006 revenues would have been $77.7 million or 19% of the total pro-forma sales. (See Note 2 of the Notes to Consolidated Financial Statements)

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. Within the Metal Bearing Components Segment, our global sales organization includes nine direct sales and 13 customer service representatives. 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 our domestic customers typically provide that payments are due within 30 days following the date of shipment of goods. With respect to foreign customers of our domestic business, payments generally are due within 90 to 120 days following the date of shipment in order to allow for additional freight time and customs clearance. For 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

As of December 31, 2008, we employed a total of 1,967 full-time employees. Our Metal Bearing Components Segment employed 263 in the U.S., 926 in Europe, and 101 in China; our Plastic and Rubber Components Segment employed 278, all in the U.S.; and our Precision Metal Components Segment employed 391, all in the U.S. In addition, there were eight 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. We consider our relations with our employees worldwide to be excellent.

We signed a new agreement with the union representatives of our workers at our Eltmann Plant for significant contract revisions including new wage rates and increased working hours during February 2008. During February 2009, production ceased at the Kilkenny, Ireland plant of the Metal Bearing Components Segment and the plant is in the process of being closed. The entire work force of the manufacturing location, 68 employees, will be 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 20 employees.

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, 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 the Company's rubber seal products are less fragmented than its plastic injection molding products. The bearing seal market is comprised of approximately six major competitors that range from small privately held companies to large global enterprises. Bearing seal manufacturers compete on design, service, quality and price. Our primary competitors in the U.S. bearing seal market are 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 2008, 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 15 of the Notes to Consolidated Financial Statements), while the principal supplier of metal strip is Thyssen. Our other steel requirements are purchased principally from foreign steel manufacturers. 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 15 of the Notes to Consolidated Financial Statements).

Because 52100 Steel is principally produced by foreign 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. More recently steel price increases have abated on the basis of reduced scrap prices and overall reduction in global demand for steel products. Our contracts with key customers provide for steel price adjustments as incurred.

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, aluminum, gray and ductile iron castings, and mechanical tubing. Some material is purchased directly under customer global contracts, some is consigned by the customer, and some is purchased directly from a mill.

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.

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, Kilkenny Plant, and Pinerolo Plant are ISO 14000 certified and received the EPD (Environmental Product Declaration.) The Veenendaal Plant is also ISO 14000 certified. 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 wastes 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 investigation at a former waste recycling facility used by us. See Item 3. and Note 15. in the Notes to Consolidated Financial Statements.

Executive Officers of the Registrant

Our executive officers are:

Name	Age	Position
Roderick R. Baty	55	Chairman of the Board, Chief Executive Officer and President
Frank T. Gentry, III	53	Vice President – General Manager U.S. Ball and Roller Division
Robert R. Sams	51	Vice President – Sales
James H. Dorton	52	Vice President – Corporate Development and Chief Financial Officer
William C. Kelly, Jr.	50	Vice President – Chief Administrative Officer, Secretary, and Treasurer

Nicola Trombetti	48	Vice President – Managing Director of NN Europe
Thomas G. Zupan	53	Vice President – Precision Metal Components Division
James Anderson	44	Vice President – Plastic and Rubber Components 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 – General Manager U.S. Ball and Roller Division in 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 Managing Director in June 2004 and was elected a Corporate Vice President in June 2005. Prior to being named NN Europe Managing Director 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.

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.

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, we experienced a sudden and significant reduction in customer orders driven by reductions in automotive and industrial end market demand. At the same time, our Plastic and Rubber Components and our Precision Metal Components Segments have continued to be negatively impacted by reductions in North American automotive demand that began in the three month period ended June 30, 2008 and worsened during the second half of 2008.

Our company has never been affected by a recession that has impacted both of our key geographic markets of the U.S. and Europe simultaneously. Continued sudden and significant reductions in sales to our customers 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.

In addition, our ability to sustain our existing committed credit facilities and our ability to obtain new credit to finance our operations and growth plans could be impaired depending on our performance against established financial covenants including our results of operations.

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. The reduction in available credit is due to many factors including the global economic slowdown 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 adversly 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 overseas 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, and 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 contracts with key customers allow us to pass along steel price increases as incurred.

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 41% of consolidated net sales in 2008. No other customers accounted for more than 10% of sales. During 2008, our ten largest customers accounted for approximately 78% 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 decline in the value of the Euro relative to the U.S. Dollar will negatively impact our consolidated financial results, which are denominated in U.S. Dollars.

In addition, due to the typical slower summer manufacturing season in Europe, we expect that revenues in the third fiscal quarter 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 this risk, 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 the majority of our future growth objectives, with the remainder resulting from internal growth and increased market penetration. For recent acquisitions see Note 2 of the Notes to Consolidated Financial Statements. 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, prohibits acquisitions without prior approval of the participants of the credit facility 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 certain large bearing manufacturers and the balance represented by independent manufacturers. Captive manufacturers make components for internal use and for sale to third parties. All of the captive manufacturers, and many independent manufacturers, are significantly larger and have greater resources than do we. Our competitors are continuously exploring and implementing improvements in technology and manufacturing processes in order to improve product quality, and our ability to remain competitive will depend, among other things, on whether we are able to keep pace with such quality improvements in a cost effective manner.

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

We have expanded our 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. See Note 3 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 regular 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

ItemProperties
2.

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	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, Ireland plant ceased on February 6, 2009 and was moved to other European Metal Bearing Components operations. The plant is being made ready for sale.

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
Hamilton Plant	U.S.A.	19,000	Owned
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 20 of the Notes to Consolidated Financial Statements). Production at the Hamilton Plant was stopped and the facility was sold during the first quarter of 2009. Production was moved to the Wellington plant.

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

ItemLegal Proceedings
3.

On March 20, 2006, the Company received correspondence from the Environmental Protection Agency (“EPA”) requesting information regarding Alternate Energy Resources, Inc. (“AER”), a former waste recycling vendor used by the Company’s 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 the Company, EPA initially contacted fifty-four other companies (“Potentially Responsible Parties” or PRPs”) who also sent waste to AER. Most of these PRPs, including the Company, have entered into a consent order with EPA to investigate and remediate the site proactively. To date, each participating PRP has signed a joint defense agreement and has contributed to retaining an environmental consultant who has prepared a remedial investigation, which has been accepted by EPA. In addition, a Feasibility Study, which outlines remedial options, has been submitted to EPA for approval. Once approved, costs associated with the chosen remediation will be known and the PRPs will be able to discuss proper allocation of the cost of cleanup, based on formula including both volume and the nature of the waste sent to AER for disposal. As of the date hereof, the Company does not know the amount of its allocated share. However, we believe our contribution to the remediation of the site, if any, would be approximately 1.083% or less of the volume of waste sent to the facility and we assert that our waste was non-hazardous.

ItemSubmission of Matters to a Vote of Security Holders
4.

No matters were submitted for a vote of stockholders during the fourth quarter of 2008.

Part II

ItemMarket for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity
5. 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 16, 2009, there were approximately 2,000 holders of the Common Stock. On March 16, 2009, the closing per share stock price as reported by NASDAQ was $0.97.

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 2008 and 2007.

	Close Price		
	High	Low	Dividend
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
2007			
First Quarter	$ 13.27	$ 11.40	$ 0.08
Second Quarter	12.78	11.65	0.08
Third Quarter	12.51	9.00	0.08
Fourth Quarter	10.67	8.07	0.08

The following graph compares the cumulative total shareholder return on our common stock (consisting of stock price performance and reinvested dividends) from December 31, 2003 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, 2003 through December 31, 2008. 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, 2003. 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 12/31/08)

Assumes $100 invested at the close of trading on December 31, 2003 in NN, Inc. common stock, Standard & Poors 500 and Value Line Machinery Index.

*Cumulative total return assumes reinvestment of dividends.

	Cumulative Return				
	12/31/2004	12/31/2005	12/31/2006	12/31/2007	12/31/2008
NN, Inc.	108.12	89.17	107.36	83.81	20.76