NN INC
Form 10-Q
August 04, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

OR

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

For the transition period from __________ to __________

Commission File Number 0-23486

NN, Inc.

(Exact name of registrant as specified in its charter)

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

207 Mockingbird Lane

Johnson City, Tennessee 37604

(Address of principal executive offices, including zip code)

(423) 434-8310

(Registrant s telephone number, including area code)

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

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 (§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 x No ¨

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 definitions 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 ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of July 27, 2016, there were 27,125,168 shares of the registrant s common stock, par value $0.01 per share, outstanding.

NN, Inc.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

NN, Inc.

Condensed Consolidated Statements of Net Income and Comprehensive Income (Loss)

(Unaudited)

(in thousands, except per share data)	Three Months ended June 30, 2016	Three Months ended June 30, 2015	Six Months ended June 30, 2016	Six Months ended June 30, 2015
Net sales	$ 214,272	$ 164,856	$ 426,498	$ 328,601
Cost of products sold (exclusive of depreciation and amortization shown separately below)	156,794	128,708	316,548	258,025
Selling, general and administrative	21,592	13,962	42,304	25,961
Depreciation and amortization	15,136	8,597	32,484	17,091
Restructuring and impairment charges	4,047		6,585	
Income from operations	16,703	13,589	28,577	27,524
Interest expense	16,165	6,021	32,587	11,959
Other (income) expense, net	(824)	19	(1,953)	1,419
Income (loss) before provision (benefit) for income taxes and share of net income from joint venture	1,362	7,549	(2,057)	14,146
Provision (benefit) expense for income taxes	674	1,617	(46)	3,073
Share of net income from joint venture	1,343	1,021	2,743	1,882
Net income	$ 2,031	$ 6,953	$ 732	$ 12,955
Other comprehensive income (loss):				
Change in fair value of interest rate hedge	(79)	(61)	(1,081)	(1,625)
Foreign currency translation gain (loss)	(2,925)	4,065	3,794	(12,231)
Other comprehensive income (loss)	(3,004)	4,004	2,713	(13,856)
Comprehensive income (loss)	$ (973)	$ 10,957	$ 3,445	$ (901)
Basic income per share:				
Net income	$ 0.08	$ 0.36	$ 0.03	$ 0.68

Weighted average shares outstanding		27,024		19,215		26,923		19,064
Diluted income per share:								
Net income	$	0.07	$	0.36	$	0.03	$	0.67
Weighted average shares outstanding		27,187		19,582		27,050		19,416
Cash dividends per common share	$	0.07	$	0.07	$	0.14	$	0.14

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

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NN, Inc.

Condensed Consolidated Balance Sheets

(Unaudited)

(in thousands, except per share data)	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash	$ 15,080	$ 15,087
Accounts receivable, net	147,053	123,005
Inventories	118,784	119,836
Income tax receivable	4,046	3,989
Current deferred tax assets		6,696
Other current assets	12,920	11,568
Total current assets	297,883	280,181
Property, plant and equipment, net	323,244	318,968
Goodwill, net	448,690	449,898
Intangible assets, net	267,769	282,169
Non-current deferred tax assets		742
Investment in joint venture	41,205	38,462
Other non-current assets	10,950	10,147
Total assets	$ 1,389,741	$ 1,380,567
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 65,862	$ 69,101
Accrued salaries, wages and benefits	23,392	21,125
Income taxes payable	2,042	5,350
Current maturities of long-term debt	19,537	11,714
Current portion of obligation under capital lease	4,101	4,786
Other current liabilities	23,941	21,275
Total current liabilities	138,875	133,351
Non-current deferred tax liabilities	112,256	117,459
Long-term debt, net of current portion	801,213	795,400
Accrued post-employment benefits	6,045	6,157
Obligation under capital lease, net of current portion	7,656	9,573
Other	6,290	4,746
Total liabilities	1,072,335	1,066,686

Total stockholders equity	317,406	313,881
Total liabilities and stockholders equity	$ 1,389,741	$ 1,380,567

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

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NN, Inc.

Condensed Consolidated Statements of Changes in Stockholders Equity

(Unaudited)

(in thousands of dollars and shares)	Common Stock Number of shares	Par value	Additional paid in capital	Retained earnings	Accumulated other comprehensive income	Non-controlling interest	Total
Balance, December 31, 2015	26,849	$ 269	$ 277,582	$ 55,151	$ (19,153)	$ 32	$ 313,881
Net income (loss)				732			732
Dividends paid				(3,773)			(3,773)
Stock option expense			494				494
Shares issued for option exercises	145	1	1,524				1,525
Restricted and performance based stock compensation expense	152	1	1,990				1,991
Restricted shares forgiven for taxes and forfeited	(21)		(157)				(157)
Foreign currency translation gain					3,794		3,794
Change in fair value of interest rate hedge					(1,081)		(1,081)
Balance, June 30, 2016	27,125	$ 271	$ 281,433	$ 52,110	$ (16,440)	$ 32	$ 317,406

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

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NN, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(in thousands of dollars)	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Cash flows from operating activities:		
Net income	$ 732	$ 12,955
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	32,484	17,091
Amortization of debt issuance costs	1,986	1,146
Joint venture net income in excess of cash received	(2,743)	(1,882)
Compensation expense from issuance of restricted stock and incentive stock options	2,485	1,771
Deferred income tax expense (benefit)	2,235	
Non-cash restructuring and impairment charges	1,891	
Changes in operating assets and liabilities:		
Accounts receivable	(24,048)	(17,393)
Inventories	1,713	1,305
Accounts payable	(3,239)	(6,317)
Other assets and liabilities	(1,872)	(4,399)
Net cash provided by operating activities	11,624	4,277
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(18,223)	(16,166)
Proceeds from measurement period adjustments to previous acquisition	1,635	
Proceeds from disposals of property, plant and equipment	215	433
Cash paid to acquire businesses, net of cash received		(8,966)
Capital contributions to joint venture		(1,372)
Net cash used by investing activities	(16,373)	(26,071)
Cash flows from financing activities:		
Debt issue costs paid		(136)
Dividends Paid	(3,773)	(2,676)
Proceeds from long-term debt	11,000	8,517
Repayment of long-term debt	(5,875)	
Proceeds of short-term debt, net	6,580	1,453
Proceeds from issuance of stock and exercise of stock options	1,525	1,831
Principal payments on capital lease	(2,462)	(2,618)
Net cash provided by financing activities	6,995	6,371

Effect of exchange rate changes on cash flows	(2,253)	(485)
Net change in cash and cash equivalents	(7)	(15,908)
Cash and cash equivalents at beginning of year	15,087	37,317
Cash and cash equivalents at end of year	$ 15,080	$ 21,409

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

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NN, Inc.

Notes to Condensed Consolidated Financial Statements

June 30, 2016 and 2015

(In thousands, except per share data)

Note 1. Interim Financial Statements

We are a diversified industrial company and a leading global manufacturer of high precision bearing components, industrial plastic products and precision metal components to a variety of markets on a global basis. We have 41 manufacturing plants in North America, Western Europe, Eastern Europe, South America and China. Our business is aggregated into three reportable segments, the Precision Bearing Components Group (formerly known as our Metal Bearing Components Group), the Precision Engineered Products Group (formerly known as our Plastics and Rubber Components Group) and the Autocam Precision Components Group. As used in this Quarterly Report on Form 10-Q, the terms NN , the Company , we , our , or us mean NN, Inc. and its subsidiaries.

The accompanying Condensed Consolidated Financial Statements of NN, Inc. have not been audited, except that the Condensed Consolidated Balance Sheet at December 31, 2015 was derived from our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 (the 2015 Annual Report), which was filed with the U.S. Securities and Exchange Commission, or the SEC, on March 15, 2016. In our opinion, these Condensed Consolidated Financial Statements reflect all adjustments necessary to fairly state the results of operations for the three and six month periods ended June 30, 2016 and 2015, our financial position at June 30, 2016 and December 31, 2015, and the cash flows for the three and six month periods ended June 30, 2016 and 2015 on a basis consistent with our audited consolidated financial statements. These adjustments are of a normal recurring nature and are, in the opinion of management, necessary to present fairly our financial position and operating results for the interim periods.

Included in Selling, general and administrative expense line item within the Condensed Consolidated Statement of Net Income during the three months ended June 30, 2016 is an out of period adjustment in the amount of $0.4 million, to correct compensation expense recorded with respect to share based awards previously granted to executives who, either at the time of such grant or during the applicable vesting period, were eligible to retire from the Company, upon which the vesting of all or a portion of these awards would be accelerated.

Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted from the interim financial statements presented in this Quarterly Report on Form 10-Q. These unaudited, Condensed Consolidated Financial Statements should be read in conjunction with our audited consolidated financial statements and the notes thereto included in our 2015 Annual Report. The results for the six months ended June 30, 2016 are not necessarily indicative of results for the year ending December 31, 2016 or any other future periods.

Newly Adopted Accounting Standards

During the first quarter of 2016, we adopted the following Accounting Standard Updates (ASU), and as necessary, certain reclassifications have been made to conform to the current year presentation:

We adopted ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03), which provides guidance on simplifying the presentation of debt issuance costs on the balance sheet. To simplify presentation of debt issuance costs, the amendments in ASU 2015-03 require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. In accordance with ASU 2015-03, we are applying the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented was adjusted to reflect the period-specific effects of applying the new guidance.

We adopted ASU No. 2015-11, Inventory (Topic 330) - Simplifying the Measurement of Inventory (ASU 2015-11), which simplifies the subsequent measurement of inventories by replacing the lower of cost or market test with a lower of cost and net realizable value test. The subsequent measurement of inventory test, historically three measurements under lower of cost or market, is replaced by lower of cost and net realizable value test. Thus, we will compare the cost of inventory to only one measure, its net realizable value. When evidence exists that the net realizable value of inventory is less than its cost (due to damage, physical deterioration, obsolescence, changes in price levels or other causes), we will recognize the difference as a loss in earnings in the period in which it occurs. In accordance with ASU 2015-11, we are applying the new guidance on a prospective basis.

We adopted ASU No. 2015-16, Business Combinations (Topic 805) - Simplifying the Accounting for Measurement-Period Adjustments (ASU 2015-16), which eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, we will recognize a measurement-period adjustment during the period in which we determine the amount of the adjustment, including the effect on earnings of any amounts it would have recorded in previous periods if the accounting had been completed at the acquisition date. In accordance with ASU 2015-16, we are applying the new guidance on a prospective basis to adjustments to provisional amounts that occur after December 31, 2015. That is, ASU 2015-16 applies to open measurement periods, regardless of the acquisition date.

We adopted ASU No. 2015-17, Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes (ASU 2015-17). We will classify all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. In addition, we will no longer allocate valuation allowances between current and noncurrent deferred tax assets because those allowances also will be classified as noncurrent. We have elected to apply ASU 2015-17 on a prospective basis. Therefore, the prior periods were not retroactively adjusted.

Issuance of New Accounting Standards

In 2014, the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) issued the joint revenue recognition standard. Since its release, there have been multiple proposed and finalized amendments made to the revenue recognition standard. In 2016, the FASB and IASB also issued separate lease accounting standards. The revenue recognition standard is effective for public companies beginning January 1, 2018 with full retrospective or modified retrospective adoption permitted. Both standards will significantly change current revenue and lease accounting practices, processes, systems, controls, and disclosures and take time and resources to adopt.

On February 25, 2016, the FASB issued ASU 2016-02, Leases (ASU 2016-02). ASU 2016-02 creates Topic 842, Leases, in the FASB Accounting Standards Codification (FASB ASC) and supersedes FASB ASC 840, Leases. Entities that hold numerous equipment and real estate leases, in particular those with numerous operating leases, will be most affected by the new guidance. The leasing accounting standard is effective for public companies beginning January 1, 2019 with modified retrospective adoption required and early adoption permitted. The amendments in ASU 2016-02 are expected to impact balance sheets at many companies by adding lease-related assets and liabilities. This may affect compliance with contractual agreements and loan covenants.

We are currently evaluating the impacts of the revenue recognition and lease accounting standards on our financial position or results of operations and related disclosures.

Except for per share data or as otherwise indicated, all dollar amounts presented in the tables in these Notes to the Condensed Consolidated Financial Statements are in thousands.

Note 2. Acquisitions

PEP

As reported in our 2015 Annual Report we completed the acquisition of Precision Engineered Products Holdings, Inc. (PEP) on October 19, 2015. During the six months ended June 30, 2016, we finalized certain working capital adjustments and fixed assets. The changes primarily arose from differences noted during acquisition integration. As a result, we adjusted the preliminary allocation of the purchase price initially recorded at the PEP acquisition date to reflect these measurement period adjustments. The income taxes continue to be reviewed regarding finalization of fair market value.

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The following table summarizes the purchase price allocation for the PEP acquisition:

	As Reported on December 31, 2015	Subsequent Adjustments to fair value	Restated as of June 30, 2016
Consideration:			
Cash paid	$ 621,196	$	$ 621,196
Cash adjustment		(1,635)	(1,635)
Total consideration	621,196	(1,635)	619,561
Fair value of assets acquired and liabilities assumed on October 19, 2015:			
Current assets	$ 69,331	$ 661	$ 69,992
Property, plant and equipment	56,163	(962)	55,201
Intangible assets subsect to amortization	240,490		240,490
Other non-current assets	1,500		1,500
Goodwill	364,450	(1,334)	363,116
Total assets acquired	731,934	(1,635)	730,299
Current liabilities	21,131		21,131
Non-current deferred tax liabilities	87,578		87,578
Other non-current liabilities	2,029		2,029
Total liabilities assumed	110,738		110,738
Net assets acquired	$ 621,196	$ (1,635)	$ 619,561

In accordance with ASU 2015-16 as noted above in Note 1, we have recognized measurement-period adjustments during the period in which we determine the amount of the adjustment, including the effect on earnings of any amounts it would have recorded in previous periods if the accounting had been completed at the acquisition date.

Note 3. Inventories

Inventories are comprised of the following:

	June 30, 2016	December 31, 2015
Raw materials	$ 52,149	$ 50,204

Work in process	33,262	30,604
Finished goods	33,373	39,028
Inventories	$ 118,784	$ 119,836

Inventories on consignment at customer locations as of June 30, 2016 and December 31, 2015 totaled $5.0 million for both dates.

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the average cost method. The inventory valuations above were developed using normalized production capacities for each of our manufacturing locations. Any costs from abnormal excess capacity or under-utilization of fixed production overheads are expensed in the period incurred and are not included as a component of inventory valuation.

Note 4. Net Income Per Share

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Net income (loss)	$ 2,031	$ 6,953	$ 732	$ 12,955
Weighted average shares outstanding	27,024	19,215	26,923	19,064
Effect of dilutive stock options	163	367	127	352
Diluted shares outstanding	27,187	19,582	27,050	19,416
Basic net income (loss) per share	$ 0.08	$ 0.36	$ 0.03	$ 0.68
Diluted net income (loss) per share	$ 0.07	$ 0.36	$ 0.03	$ 0.67

For both the three and six month periods ended June 30, 2016, approximately 0.9 million potentially dilutive stock options had the effect of being anti-dilutive and were excluded from the calculation of diluted earnings per share. For both the three and six month periods ended June 30, 2016, approximately 0.7 million potentially dilutive stock options had the effect of being anti-dilutive and were excluded from the calculation of diluted earnings per share.

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Note 5. Segment Information

The segment information and the accounting policies of each segment are the same as those described in the notes to the consolidated financial statements entitled Segment Information and Summary of Significant Accounting Policies and Practices, respectively, included in our 2015 Annual Report. Our business is aggregated into three reportable segments, the Precision Bearing Components Group (formerly known as our Metal Bearing Components Group), the Precision Engineered Products Group (formerly known as our Plastics and Rubber Components Group) and the Autocam Precision Components Group. We account for inter-segment sales and transfers at current market prices. We did not have any significant inter-segment transactions during the three and six month periods ended June 30, 2016 and 2015.

	Precision Bearing Components Group	Autocam Precision Components Group	Precision Engineered Components Group	Corporate and Consolidations	Total
Three Months ended June 30, 2016					
Revenues from external customers	$ 65,157	$ 82,991	$ 66,124	$	$ 214,272
Income (loss) from operations	$ 6,474	$ 7,770	$ 10,782	$ (8,323)	$ 16,703
Six Months ended June 30, 2016					
Revenues from external customers	$ 129,902	$ 166,981	$ 129,615	$	$ 426,498
Income (loss) from operations	$ 12,800	$ 14,297	$ 16,203	$ (14,723)	$ 28,577
Total assets	$ 226,943	$ 423,703	$ 733,439	$ 5,656	$ 1,389,741
Three Months ended June 30, 2015					
Revenues from external customers	$ 69,261	$ 86,471	$ 9,124	$	$ 164,856
Income (loss) from operations	$ 9,403	$ 9,095	$ 501	$ (5,410)	$ 13,589
Six Months ended June 30, 2015					
Revenues from external customers	$ 142,496	$ 169,093	$ 17,012	$	$ 328,601
Income (loss) from operations	$ 18,491	$ 16,813	$ 714	$ (8,494)	$ 27,524
Total assets	$ 209,986	$ 439,526	$ 28,202	$ 31,226	$ 708,940

Note 6. Long-Term Debt and Short-Term Debt

Long-term debt and short-term debt at June 30, 2016 and December 31, 2015 consisted of the following:

	June 30, 2016	Restated December 31, 2015
Borrowings under our $575.0 million Senior Secured Term Loan B bearing interest the greater of 1% or 3 month LIBOR (0.65% at June 30, 2016) plus an applicable margin of 4.75% at June 30, 2016, expiring October 19, 2022, net of debt issuance costs of $19.5 million at June 30, 2016 and $20.6 million at December 31, 2015.	$ 551,227	$ 552,957
Borrowings under our $100.0 million Senior Secured Revolver bearing interest at LIBOR (0.44% at June 30, 2016) plus an applicable margin of 3.50% at June 30, 2016, expiring October 19, 2020, net of debt issuance costs of $2.6 million at June 30, 2016 and $2.9 million at December 31, 2015.	20,083	3,547
Borrowings under our $250.0 million Senior Notes bearing interest at 10.25%, maturing on November 1, 2020, net of debt issuance costs of $5.4 million at June 30, 2016 and $5.9 million at December 31, 2015.	244,573	244,088
French Safeguard Obligations (Autocam)	493	2,000
Brazilian lines of credit and equipment notes (Autocam)	798	826
Chinese line of credit (Autocam)	3,576	3,696
Total debt	820,750	807,114
Less current maturities of long-term debt	19,537	11,714
Long-term debt, excluding current maturities of long-term debt	$ 801,213	$ 795,400

On October 19, 2015, concurrent with the PEP acquisition, we: (i) entered into a new senior secured term loan facility in the amount of up to $525 million with a seven year maturity (the New Term Loan Credit Facility); (ii) entered into a new senior secured revolving credit facility in the amount of up to $100 million with a five year maturity (the New Senior Secured Revolving Credit Facility and together with the New Term Loan Credit Facility, the New Senior Credit Facilities); and (iii) issued $300 million of 10.25% senior notes due 2020 (the Senior Notes). The New Senior Credit Facilities replaced our existing credit facilities. On November 9, 2015, an incremental term loan of $50 million was drawn on the New Term Loan Credit Facility and the proceeds were used to repurchase approximately $50 million of the Senior Notes.

The interest applicable to borrowings under the New Senior Credit Facilities are based upon a fluctuating rate of interest measured by reference to either, at our option, (i) a base rate, plus an applicable margin, or (ii) the greater of the London Interbank Offered Rate (LIBOR) or 1.0%, plus an applicable margin. The initial applicable margin for all borrowings under the New Term Loan Credit Facility is 3.75% per annum with respect to base rate borrowings and 4.75% per annum with respect to LIBOR borrowings. The initial applicable margin for New Senior Secured Revolving Credit Facility borrowings is 2.5% per annum with respect to base rate borrowings and 3.5% per annum with respect to LIBOR borrowings, which shall be in effect until we provide a compliance certificate, as required by the credit agreement. Thereafter, the applicable margin shall be determined by reference to a ratio of our consolidated leverage ratio. Our obligations under the New Senior Credit Facilities are guaranteed by certain of our direct and indirect, existing and future domestic subsidiaries, subject to customary exceptions and limitations. The New Senior Credit Facilities are secured by a first priority lien over substantially all of NN s and each guarantor s assets, subject to certain customary exceptions. The New Senior Credit Facilities are subject to negative covenants that, among other things subject to certain exceptions, limit our ability and the ability of its restricted subsidiaries to: (i) incur liens; (ii) incur indebtedness; (iii) make investments and acquisitions, (iv) merge, liquidate or dissolve, (v) sell assets, including capital stock of subsidiaries; (vi) pay dividends on capital stock or redeem, repurchase or retire capital stock; (viii) alter our business; (viii) engage in transactions with our affiliates; and (ix) enter into agreements limiting subsidiary dividends and distributions. In the event borrowings under the New Senior Secured Revolving Credit Facility exceed 30.0% of the aggregate commitments under the revolver, we will become subject to a financial covenant that requires us to maintain a specified consolidated net leverage ratio. The credit agreement provides that we have the right to request one or more increases in the revolving loan commitments or term loan commitment up to $100.0 million in the aggregate. In total, we have paid debt issuance costs of $21.1 million related to the New Term Loan Credit Facility and $2.3 million related to the New Senior Secured Revolving Credit Facility, which are being amortized into interest expense over the life of the New Senior Credit Facilities.

The Senior Notes will mature on November 1, 2020. Interest is payable semi-annually in arrears on May 1 and November 1 of each year, and commenced on May 1, 2016. Under the Senior Notes, we received proceeds of $293.3 million net of a discount of $6.8

million, which is being amortized into interest expense over the life of the Senior Notes. We have paid a total of $7.3 million in debt issuance costs, which includes the $6.8 million of debt discount, all of which is being amortized into interest expense over the life of the Senior Notes. The Senior Notes will be guaranteed by each existing direct and indirect domestic restricted subsidiaries (excluding immaterial subsidiaries). The Senior Notes and guarantees will be senior unsecured obligations of the issuer and the guarantors, respectively, and will rank pari passu in right of payments with all existing and future senior debt and senior to all existing and future subordinated debt of the issuer and guarantors. The Senior Notes and guarantees will be effectively subordinated to all existing and future secured debt of the issuer and guarantors to the extent of the assets securing such debt. In addition, the Senior Notes and the guarantees will be structurally subordinated to all indebtedness and other liabilities and preferred stock of our subsidiaries that do not guarantee the Senior Notes. The Senior Notes have not been registered under the Securities Act of 1933, as amended (the Securities Act), or any state securities law and may not be offered or sold within the United States or to, or for the benefit of, a U.S. person (as defined by Regulation S under the Securities Act) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. The Senior Notes were offered and sold only to persons reasonably believed to be qualified institutional buyers (as defined in Rule 144A under the Securities Act) and to persons outside the United States under Regulations S. Under the registration rights agreement related to the Senior Notes, we were required to use our commercially reasonable efforts to register notes having substantially identical terms (other than restrictions on transfer and additional interest) as the Senior Notes with the SEC as part of an offer to exchange registered exchange notes for the Senior Notes. Additionally, we were to use our commercially reasonable effort to file a registration statement for the exchange notes with the SEC and cause that registration statement to be declared effective 300 days of the issue date of the Senior Notes. On June 10, 2016, the registration rights agreement related to the Senior Notes was amended and restated in its entirety to provide for demand registration upon request by the holders of the Senior Notes in lieu of requiring registration and the subsequent exchange offer as described above. Pursuant to the terms of the amended and restated registration rights agreement, if we fail to register notes substantially identical to the Senior Notes upon demand, then the annual interest rate on the Senior Notes will increase by 0.25%. The annual interest rate on the Senior Notes will increase by an additional 0.25% for each subsequent 90-day period during which a registration default continues, up to a maximum additional interest rate of 1.0% per year.

As part of the merger with Autocam, we assumed certain foreign credit facilities. These facilities relate to local borrowings in France, Brazil and China. These facilities are with financial institutions in the countries in which foreign plants operate and are meant to fund working capital and equipment purchases in those countries. Below is a description of the credit facilities.

Our French operation (acquired with Autocam) has liabilities with certain creditors subject to Safeguard protection. The liabilities are being paid annually over a 10-year period until 2019 and carry a zero percent interest rate. Amounts due as of June 30, 2016 to those creditors opting to be paid over a 10-year period totaled $0.5 million and are included in current maturities of long-term debt of $0.4 million and long-term debt, net of current portion of $0.1 million.

The Brazilian equipment notes represent borrowings from certain Brazilian banks to fund equipment purchases for Autocam s Brazilian plants. These credit facilities have annual interest rates ranging from 2.5% to 9.1%.

The Chinese line of credit is a working capital line of credit with a Chinese bank bearing an annual interest rate of 4.95%.

As discussed in Note 1, we have adopted ASU 2015-03, which provides guidance on simplifying the presentation of debt issuance costs on the balance sheet. To simplify presentation of debt issuance costs, the amendments in ASU 2015-03 require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The table below displays the audited debt footnote amounts for the year ended December 31, 2015 restated for the adoption of ASU 2015-03. The debt issuance costs were reclassified from other non-current assets and directly applied to the associated liability.

	Audited December 31, 2015	ASU 2015-13 Reclass	Restated December 31, 2015
Borrowings under our $575.0 million Senior Secured Term Loan B	$ 562,580	$ (9,623)	$ 552,957
Borrowings under our $100.0 million Senior Secured Revolver	6,462	(2,915)	3,547
Borrowings under our $250.0 million Senior Notes	244,509	(421)	244,088
French Safeguard Obligations (Autocam)	2,000		2,000
Brazilian lines of credit and equipment notes (Autocam)	826		826
Chinese line of credit (Autocam)	3,696		3,696
Total debt	820,073		807,114
Less current maturities of long-term debt	11,714		11,714
Long-term debt, excluding current maturities of long-term debt	$ 808,359		$ 795,400

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Note 7. Goodwill, net

The changes in the carrying amount of goodwill, net for the six months ended June 30, 2016 are as follows:

	Precision Bearing Components Group	Autocam Precision Components Group	Precision Engineered Products Group	Total
Balance as of December 31, 2015	$ 9,111	$ 73,992	$ 366,795	$ 449,898
Currency impacts	126			126
Goodwill changes from measurement period			(1,334)	(1,334)
Balance as of June 30, 2016	$ 9,237	$ 73,992	$ 365,461	$ 448,690

The goodwill balances are tested for impairment on an annual basis during the fourth quarter and between annual tests if a triggering event occurs. As noted in Note 2. Acquisitions, some measurement period adjustments to goodwill were made for the PEP acquisition. As of June 30, 2016, there were no indications of impairment at the reporting units with goodwill balances.

Note 8. Intangible Assets, Net

The changes in the carrying amount of intangible assets, net for the six months ended June 30, 2016 are as follows:

	Precision Bearing Components Group	Autocam Precision Components Group	Precision Engineered Products Group	Total
Balance as of December 31, 2015	$ 1,952	$ 46,417	$ 233,800	$ 282,169
Amortization	(104)	(1,819)	(12,624)	(14,547)
Currency impacts	19	128		147
Balance as of June 30, 2016	$ 1,867	$ 44,726	$ 221,176	$ 267,769

Note 9. Shared-Based Compensation

During the three and six months ended June 30, 2016 and 2015, approximately $1.5 million and $2.5 million in 2016 and $1.0 million and $1.8 million in 2015, respectively, of compensation expense was recognized in selling, general and administrative expense for all share-based awards. During the six months ended June 30, 2016, there were 152,510 restricted stock awards, 167,000 option awards, and 202,330 performance based awards to non-executive directors, officers and certain other key employees. During the six months ended June 30, 2015, there were 114,475 restricted stock awards, 54,600 option awards and 71,550 performance based awards to non-executive directors, officers and certain other key employees.

The shares of restricted stock granted during the six months ended June 30, 2016, vest pro-rata over three years for officers and certain other key employees and over one year for non-executive directors. During the three and six months ended June 30, 2016 and 2015, we incurred $0.7 million and $1.4 million in 2016 and $0.6 million and $1.1 million in 2015, respectively, in expense related to restricted stock. The fair value of the shares issued was determined by using the grant date closing price of our common stock.

The performance stock units granted during the six months ended June 30, 2016 will be satisfied in the form of shares of common stock during 2019 depending on meeting certain performance and/or market conditions. We are recognizing the compensation expense over the three-year period in which the performance and market conditions are measured. During the three and six months ended June 30, 2016 and 2015, we incurred $0.5 million and $.06 million in 2016 and $0.2 million and $0.2 million in 2015, respectively, in expense related to performance stock units. The fair value of the performance share units issued was determined by using the grant date closing price of our common stock for the units with a performance condition and a Monte Carlo valuation model for the units that have a market condition.

We incurred $0.3 million and $0.5 million in 2016 and $0.2 million and $0.5 million in 2015 of stock option expense in the three and six months ended June 30, 2016 and 2015, respectively. The fair value of our options cannot be determined by market value, because our options are not traded in an open market. Accordingly, we utilized the Black Scholes financial pricing model to estimate the fair value.

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The following table provides a reconciliation of option activity for the three months ended June 30, 2016:

Options	Shares (000)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2016	1,034	$ 12.09		
Granted	167	$ 11.31		
Exercised	(145)	$ 10.55		