

NN INC
Form 10-Q/A
February 27, 2008

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

FORM 10-Q/A

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

For the quarterly period ended September 30, 2007

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 Number)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated

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filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer Accelerated filer Non-accelerated filer

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

As of November 5, 2007, there were 16,279,997 shares of the registrant’s common stock, par value \$0.01 per share, outstanding.

Explanatory Note

The purpose of this amendment on Form 10-Q/A to the Quarterly Report on Form 10-Q of NN, Inc. for the quarter ended September 30, 2007 is to restate our unaudited Condensed Consolidated Balance Sheet as of September 30, 2007 and the related Consolidated Statements of Income, Consolidated Statements of Changes in Stockholders' Equity and Consolidated Statements of Cash Flows, for the three months and nine months ended September 30, 2007 to correct an error in asset groups and cash flow assumptions used to test impairment of a customer contract intangible asset under SFAS 144. See Note 2 to the Company's unaudited consolidated financial statements for additional information.

No attempt has been made in this Form 10-Q/A to modify or update other disclosures presented in the original report on Form 10-Q, except as required to reflect the effects of the restatement. Information not affected by the restatement is unchanged and reflects the disclosures made at the time of the original filing of the Form 10-Q on November 9, 2007. Accordingly, this Form 10-Q/A should be read in conjunction with our filings made with the Securities and Exchange Commission subsequent to the filing of the original Form 10-Q, including any amendments to those filings. The following items have been amended as a result of the restatement:

- Part I—Item 1—Financial Statements
- Part I—Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations
- Part 1—Item 4—Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer, with the assistance of other members of management, have re-evaluated the effectiveness of the Company's disclosure controls and procedures as of September 30, 2007, and, based on this re-evaluation, have determined that the Company's disclosure controls and procedures were ineffective as a result of a material weakness in internal control over financial reporting with respect to the accounting for the impairment of customer intangible assets.

NN, Inc.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

NN, Inc.
Consolidated Statements of Income and Comprehensive Income
(Unaudited)

(Thousands of Dollars, Except Per Share Data)	Three Months Ended September 30, As restated		Nine Months Ended September 30, As restated	
	2007	2006	2007	2006
Net sales	\$ 99,021	\$ 74,870	\$ 314,267	\$ 244,441
Cost of products sold (exclusive of depreciation and amortization shown separately below)	80,264	58,693	251,274	189,597
Selling, general and administrative	8,423	7,178	27,406	21,922
Depreciation and amortization	5,771	4,192	16,951	12,779
Restructuring and impairment charges	1,362	--	14,698	--
Gain on disposal of assets	(11)	--	(23)	(726)
Income (loss) from operations	3,212	4,807	3,961	20,869
Interest expense	1,496	916	4,821	2,923
Other income, net	(154)	(550)	(150)	(310)
Income (loss) before provision for income taxes	1,870	4,441	(710)	18,256
Provision for income taxes	1,472	1,808	5,501	6,908
Net income (loss)	398	2,633	(6,211)	11,348
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	5,348	(867)	8,775	6,777
Comprehensive income (loss)	\$ 5,746	\$ 1,766	\$ 2,564	\$ 18,125
Basic income (loss) per common share:	\$ 0.02	\$ 0.15	\$ (0.37)	\$ 0.66
Weighted average shares outstanding	16,765	17,105	16,808	17,147
Diluted income (loss) per common share:	\$ 0.02	\$ 0.15	\$ (0.37)	\$ 0.65
Weighted average shares outstanding	16,904	17,339	16,986	17,389
Cash dividends per common share	\$ 0.08	\$ 0.08	\$ 0.24	\$ 0.24

The accompanying notes are an integral part of the financial statements.

NN, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

(Thousands of Dollars)	September 30, 2007 As restated	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,481	\$ 11,681
Accounts receivable, net of allowances of \$1,331 and \$1,278, respectively	71,420	63,442
Inventories, net	47,836	43,538
Other current assets	7,575	7,203
Total current assets	135,312	125,864
Property, plant and equipment, net	157,403	156,447
Goodwill, net	38,510	46,147
Intangible assets, net	9,601	10,131
Other assets	3,105	4,112
Total assets	\$ 343,931	\$ 342,701
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 44,952	\$ 52,576
Accrued salaries, wages and benefits	16,674	13,519
Income taxes	1,313	94
Current maturities of long-term debt	8,151	851
Other current liabilities	8,763	7,829
Total current liabilities	79,853	74,869
Non-current deferred tax liability	20,643	16,334
Long-term debt	97,514	80,711
Related party debt	--	21,305
Accrued pension and other	17,015	16,313
Total liabilities	215,025	209,532
Total stockholders' equity	128,906	133,169
Total liabilities and stockholders' equity	\$ 343,931	\$ 342,701

The accompanying notes are an integral part of the financial statements.

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

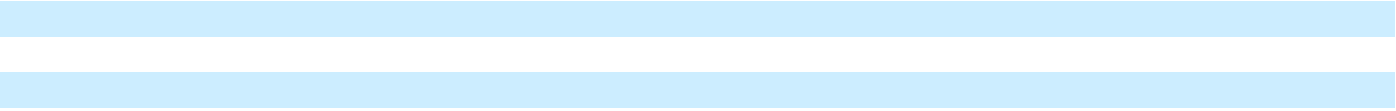
(Thousands of Dollars and Shares)	Common Stock					
	Number Of Shares	Par Value	Additional Paid in Capital	Retained Earnings As restated	Accumulated Other Comprehensive Income	Total As restated
Balance, January 1, 2007	16,842	\$ 169	\$ 53,473	\$ 64,178	\$ 15,349	\$ 133,169
Shares issued	24	--	292	--	--	292
Net Loss, as restated	--	--	--	(6,211)	--	(6,211)
Amortization of restricted stock awards	--	--	180	--	--	180
Forfeiture of restricted stock	(3)	--	--	--	--	--
Repurchase of outstanding shares	(309)	(3)	(3,153)	--	--	(3,156)
Stock option expense	--	--	502	--	--	502
Dividends declared	--	--	--	(4,045)	--	(4,045)
Cumulative effect of adoption of FIN 48	--	--	--	(600)	--	(600)
Cumulative translation gain	--	--	--	--	8,775	8,775
Balance, September 30, 2007	16,554	\$ 166	\$ 51,294	\$ 53,322	\$ 24,124	\$ 128,906

The accompanying notes are an integral part of the financial statements.

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

(Thousands of Dollars)	Nine Months Ended September 30,	
	As restated	2006
Operating Activities:		
Net income (loss)	\$ (6,211)	\$ 11,348
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	16,951	12,779
Amortization of debt issue costs	158	427
Gain on disposal of property, plant and equipment	(23)	(726)
Compensation expense from issuance of restricted stock and incentive stock options	682	321
Restructuring and impairment charges	14,698	--
Deferred income tax	61	--
Changes in operating assets and liabilities:		
Accounts receivable	(5,375)	(772)
Inventories	(2,689)	2,201
Accounts payable	(10,007)	(4,869)
Other assets and liabilities	2,555	2,042
Net cash provided by operating activities	10,800	22,751
Investing Activities:		
Acquisition of property, plant and equipment	(12,841)	(11,766)
Proceeds from disposals of property, plant and equipment	51	3,120
Acquisition of intangibles and goodwill	(302)	(1,855)
Net cash used by investing activities	(13,092)	(10,501)
Financing Activities:		
Increase in cash from book overdraft	94	1,055
Repayment of long-term debt	(883)	(4,668)
Proceeds from short-term debt	1,586	243
Principal payment on capital lease	(28)	(24)
Repurchase of common stock	(3,156)	(2,534)
Proceeds from issuance of stock	292	696
Proceeds from long term debt	23,400	4,600
Debt issuance cost paid	(251)	(457)
Dividends paid	(4,045)	(4,118)
Repayment of related party debt	(18,638)	--
Net cash used by financing activities	(1,629)	(5,207)
Effect of exchange rate changes on cash and cash equivalents	721	603
Net Change in Cash and Cash Equivalents	(3,200)	7,646
Cash and Cash Equivalents at Beginning of Period	11,681	10,856
Cash and Cash Equivalents at End of Period	\$ 8,481	\$ 18,502



The accompanying notes are an integral part of the financial statements.

NN, Inc.
Notes To Consolidated Financial Statements
(In Thousands, Except Share and Per Share Data)
(unaudited)

Note 1. Interim Financial Statements

The accompanying consolidated financial statements of NN, Inc. (the "Company") have not been audited, except that the balance sheet at December 31, 2006 is derived from the Company's consolidated audited financial statements. In the opinion of the Company's management, the financial statements reflect all adjustments necessary to fairly state the results of operations for the three and nine month periods ended September 30, 2007 and 2006, the Company's financial position at September 30, 2007 and December 31, 2006, and the cash flows for the nine month periods ended September 30, 2007 and 2006. These adjustments are of a normal recurring nature and are, in the opinion of management, necessary for fair statement of the financial position and operating results for the interim periods. As used in this Quarterly Report on Form 10-Q, the terms "NN", "the Company", "we", "our", or "us" mean NN, Inc. and its subsidiaries.

Certain information and footnote disclosures normally included in the 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 and unaudited, consolidated financial statements should be read in conjunction with our audited consolidated financial statements and the notes thereto included in our most recent annual report on Form 10-K for the year ended December 31, 2006 which we filed with the Securities and Exchange Commission on March 16, 2007.

The results for the three and nine month periods ended September 30, 2007 are not necessarily indicative of results for the year ending December 31, 2007 or any other future periods.

Note 2. Restatement of Form 10-Q filed November 9, 2007

In preparing our financial statements for the three and nine months ended September 30, 2007, management concluded that, due to the lower than expected sales of the Precision Metal Components segment in the third quarter, that the carrying amount of certain long-lived assets may not be recoverable. As a result, management performed impairment tests in the third quarter in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS 144").

An impairment charge of \$5,600 (\$3,696 after-tax) was initially recorded in the third quarter, which related to a customer relationship intangible asset that had been recorded in conjunction with the November 30, 2006 acquisition of Whirlaway Corporation. After performing the impairment tests based on the Company's assumptions and interpretation of the provisions of SFAS 144, management determined that these intangible assets were impaired and consequently recorded non-cash charges to write these assets down to the value supported by a fair value analysis based on their forecasted cash flows.

Also, during the quarter ending June 30, 2007, management concluded that due to the internal restructuring of the Metal Bearing Components segment in the second quarter that the carrying amount of certain long-lived assets may not be recoverable. As a result, management performed impairment tests in accordance with the provisions of SFAS 144. An impairment charge of \$1,933 (\$1,453 after-tax) was initially recorded in the second quarter, which related to a customer contract intangible asset recorded in conjunction with the October 2005 acquisition of the assets of SNR

Roulements. After performing the impairment tests based on the Company's assumptions and interpretation of the provisions of SFAS 144, management determined that these intangible assets were impaired and consequently recorded non-cash charges to write these intangible assets down to the value supported by a fair value analysis based on their forecasted cash flows.

During the preparation of its year-end financial statements and in response to a comment letter issued by the Division of Corporation Finance of the Securities and Exchange Commission related to a routine review of the Company's third quarter 10-Q filings, management re-evaluated the assessment of asset groups used to determine the grouping of long-lived assets and the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities to test for impairment pursuant to SFAS

NN, Inc.
Notes To Consolidated Financial Statements
(In Thousands, Except Share and Per Share Data)
(unaudited)

144 paragraph 10. After this re-evaluation, management determined that different asset groups and cash flow assumptions should have been utilized in its assessment of whether the carrying value of its asset groups was recoverable. Upon testing the new asset groups for recoverability, management has determined that the undiscounted cash flows indicated the asset groups are recoverable. Accordingly, the previously recorded non-cash impairment charges related to these intangible assets were not supported and should be reversed. The Company has determined that the Precision Metal Component's customer relationship intangible asset should be amortized over a remaining useful life of ten years, which has been revised from its originally assumed life of twenty years. The Company has determined that the Metal Bearing Components contract intangible should continue to be amortized over the remainder of its original useful life of five years.

After discussions between management and the Audit Committee of the Board of Directors of NN, Inc. on February 20, 2008, management, at the direction of the Audit Committee, concluded that the Company should restate its previously issued financial statements for the three and nine months ended September 30, 2007.

The following tables summarize financial statement line items within the Consolidated Statements of Income and Comprehensive Income for the three and nine month periods ended September 30, 2007, the Condensed Consolidated Balance Sheets as of September 30, 2007 and the Consolidated Statements of Cash flow for the nine months ended September 30, 2007 that were amended with the restated 10-Q/A for the three and nine month period ended September 30, 2007.

Consolidated Statements of Income and Comprehensive Income

(Thousands of Dollars, Except Per Share Data)	Three Months Ended September 30 2007, As		Nine Months Ended September 30 2007, As	
	Originally Reported	As restated	Originally Reported	As restated
Depreciation and amortization	\$ 5,542	\$ 5,771	16,723	\$ 16,951
Restructuring and impairment charges	7,069	1,362	22,338	14,698
Income (loss) from operations	(2,266)	3,212	(3,451)	3,961
Income (loss) before provision for income taxes	(3,608)	1,870	(8,122)	(710)
Provision for income taxes	(400)	1,472	3,150	5,501
Net income (loss)	(3,208)	398	(11,272)	(6,211)
Foreign currency translation gain	5,244	5,348	8,671	8,775
Comprehensive income	2,036	5,746	(2,601)	2,564
Basic and Diluted Earnings Per Share	\$ (0.19)	\$ 0.02	\$ (0.67)	\$ (0.37)

Condensed Consolidated Balance Sheets

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(Thousands of Dollars)	September 30,2007	
	As Originally Reported	As restated
Intangible assets, net	\$ 2,087	\$ 9,601
Other assets	5,487	3,105
Total assets	338,799	343,931
Income Taxes	1,346	1,313