

DARLING INTERNATIONAL INC

Form 10-Q

August 09, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

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 001-13323

DARLING INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction

of incorporation or organization)

36-2495346

(I.R.S. Employer

Identification Number)

251 O'Connor Ridge Blvd., Suite 300

Irving, Texas

(Address of principal executive offices)

75038

(Zip Code)

Registrant's telephone number, including area code: (972) 717-0300

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 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 ☒ 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

☒

Non-accelerated filer

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Large accelerated  
filer

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 Exchange Act).    Yes            No ☒

There were 117,618,937 shares of common stock, \$0.01 par value, outstanding at August 2, 2012.

DARLING INTERNATIONAL INC. AND SUBSIDIARIES  
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012

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## DARLING INTERNATIONAL INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

June 30, 2012 and December 31, 2011

(in thousands, except shares)

	June 30, 2012 (unaudited)	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$72,254	\$38,936
Restricted cash	367	365
Accounts receivable, net	97,436	95,807
Inventories	56,160	50,830
Income taxes refundable	789	17,042
Other current assets	12,654	9,235
Deferred income taxes	8,394	7,465
Total current assets	248,054	219,680
Property, plant and equipment, less accumulated depreciation of \$301,323 at June 30, 2012 and \$278,400 at December 31, 2011	422,664	400,222
Intangible assets, less accumulated amortization of \$96,346 at June 30, 2012 and \$82,364 at December 31, 2011	351,349	362,914
Goodwill	381,369	381,369
Investment in unconsolidated subsidiary	46,359	21,733
Other assets	29,413	31,112
	\$1,479,208	\$1,417,030
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$10	\$10
Accounts payable, principally trade	71,329	60,402
Accrued expenses	63,338	66,845
Total current liabilities	134,677	127,257
Long-term debt, net of current portion	250,015	280,020
Other non-current liabilities	56,725	58,245
Deferred income taxes	42,603	31,133
Total liabilities	484,020	496,655
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value; 150,000,000 shares authorized; 118,280,617 and 117,591,822 shares issued at June 30, 2012 and at December 31, 2011, respectively	1,183	1,176
Additional paid-in capital	597,767	587,685
Treasury stock, at cost; 665,581 and 543,384 shares at June 30, 2012 and at December 31, 2011, respectively	(7,624)	(5,588)
Accumulated other comprehensive loss	(28,940)	(30,904)
Retained earnings	432,802	368,006

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Total stockholders' equity	995,188	920,375
	\$1,479,208	\$1,417,030

The accompanying notes are an integral part of these consolidated financial statements.

## DARLING INTERNATIONAL INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

Three months and six months ended June 30, 2012 and July 2, 2011

(in thousands, except per share data)

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Net sales	\$436,674	\$470,610	\$823,782	\$910,508
Costs and expenses:				
Cost of sales and operating expenses	314,138	325,204	590,607	626,555
Selling, general and administrative expenses	36,894	34,092	74,263	64,785
Depreciation and amortization	21,674	19,055	42,434	38,736
Total costs and expenses	372,706	378,351	707,304	730,076
Operating income	63,968	92,259	116,478	180,432
Other expense:				
Interest expense	(5,753)	(7,745)	(12,678)	(21,973)
Other income/(expense), net	270	(854)	(338)	(1,460)
Total other expense	(5,483)	(8,599)	(13,016)	(23,433)
Equity in net loss of unconsolidated subsidiary	(656)	(1,174)	(892)	(1,174)
Income before income taxes	57,829	82,486	102,570	155,825
Income taxes	21,604	30,259	37,774	57,036
Net income	\$36,225	\$52,227	\$64,796	\$98,789
Basic income per share	\$0.31	\$0.45	\$0.55	\$0.88
Diluted income per share	\$0.31	\$0.44	\$0.55	\$0.87

The accompanying notes are an integral part of these consolidated financial statements.

DARLING INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Three months and six months ended June 30, 2012 and July 2, 2011

(in thousands)

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Net income	\$36,225	\$52,227	\$64,796	\$98,789
Other comprehensive income (loss):				
Pension adjustments, net of tax	742	431	1,484	862
Natural gas swap derivative adjustments, net of tax	314	(75)	321	(114)
Interest rate swap derivative adjustment, net of tax	17	186	159	381
Total other comprehensive income	1,073	542	1,964	1,129
Total comprehensive income	\$37,298	\$52,769	\$66,760	\$99,918

The accompanying notes are an integral part of these consolidated financial statements.

## DARLING INTERNATIONAL INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended June 30, 2012 and July 2, 2011

(in thousands)

(unaudited)

	June 30, 2012	July 2, 2011	
Cash flows from operating activities:			
Net income	\$64,796	\$98,789	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	42,434	38,736	
Loss/(gain) on disposal of property, plant, equipment and other assets	629	(64)	)
Deferred taxes	10,541	10,832	
Increase in long-term pension liability	167	415	
Stock-based compensation expense	4,926	2,204	
Write-off deferred loan costs	725	4,184	
Deferred loan cost amortization	1,519	1,697	
Equity in net loss of unconsolidated subsidiary	892	1,174	
Changes in operating assets and liabilities, net of effects from acquisitions:			
Restricted cash	(2	(3	)
Accounts receivable	(1,629	(23,536	)
Escrow receivable	—	16,267	
Income taxes refundable/payable	16,253	(7,909	)
Inventories and prepaid expenses	(8,734	(21,037	)
Accounts payable and accrued expenses	6,598	(1,957	)
Other	3,745	(1,288	)
Net cash provided by operating activities	142,860	118,504	
Cash flows from investing activities:			
Capital expenditures	(53,496	(27,870	)
Acquisition	(2,000	(164	)
Investment in unconsolidated subsidiary	(25,518	(10,741	)
Gross proceeds from disposal of property, plant and equipment and other assets	2,516	665	
Net cash used by investing activities	(78,498	(38,110	)
Cash flows from financing activities:			
Payments on long-term debt	(30,005	(240,005	)
Borrowings from revolving credit facility	—	131,000	
Payments on revolving credit facility	—	(271,000	)
Deferred loan costs	—	(267	)
Issuance of common stock	64	293,189	
Minimum withholding taxes paid on stock awards	(2,214	(1,205	)
Excess tax benefits from stock-based compensation	1,111	1,136	
Net cash used by financing activities	(31,044	(87,152	)
Net increase/(decrease) in cash and cash equivalents	33,318	(6,758	)
Cash and cash equivalents at beginning of period	38,936	19,202	
Cash and cash equivalents at end of period	\$72,254	\$12,444	



Supplemental disclosure of cash flow information:

Cash paid during the period for:

Interest	\$ 10,904	\$ 16,023
Income taxes, net of refunds	\$ 10,786	\$ 53,780

The accompanying notes are an integral part of these consolidated financial statements.

## DARLING INTERNATIONAL INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2012

(unaudited)

#### (1) General

Darling International Inc., a Delaware corporation (“Darling”, and together with its subsidiaries, the “Company”), is a leading provider of rendering, cooking oil and bakery waste recycling and recovery solutions to the nation's food industry. The Company collects and recycles animal by-products, bakery waste and used cooking oil from poultry and meat processors, commercial bakeries, grocery stores, butcher shops, and food service establishments and provides grease trap cleaning services to many of the same establishments. The Company operates over 120 processing and transfer facilities located throughout the United States to process raw materials into finished products such as protein (primarily meat and bone meal (“MBM”) and poultry meal (“PM”)), hides, fats (primarily bleachable fancy tallow (“BFT”), poultry grease (“PG”) and yellow grease (“YG”)) and bakery by-products (“BBP”) as well as a range of branded and value-added products. The Company sells these products domestically and internationally, primarily to producers of animal feed, pet food, fertilizer, bio-fuels and other consumer and industrial ingredients including oleo-chemicals, soaps and leather goods for use as ingredients in their products or for further processing. The accompanying consolidated financial statements for the three and six month periods ended June 30, 2012 and July 2, 2011, have been prepared in accordance with generally accepted accounting principles in the United States by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The information furnished herein reflects all adjustments (consisting only of normal recurring accruals) that are, in the opinion of management, necessary to present a fair statement of the financial position and operating results of the Company as of and for the respective periods. However, these operating results are not necessarily indicative of the results expected for a full fiscal year. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. However, management of the Company believes, to the best of their knowledge, that the disclosures herein are adequate to make the information presented not misleading. The Company has determined that there were no subsequent events that would require disclosure or adjustments to the accompanying consolidated financial statements through the date the financial statements were issued. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements contained in the Company’s Form 10-K for the fiscal year ended December 31, 2011.

#### (2) Summary of Significant Accounting Policies

##### (a) Basis of Presentation

The consolidated financial statements include the accounts of Darling and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

##### (b) Fiscal Periods

The Company has a 52/53 week fiscal year ending on the Saturday nearest December 31. Fiscal periods for the consolidated financial statements included herein are as of June 30, 2012, and include the 13 and 26 weeks ended June 30, 2012, and the 13 and 26 weeks ended July 2, 2011.

##### (c) Reclassifications

Certain prior year immaterial amounts have been reclassified to conform to the current year presentation.

(d) Earnings Per Share

Basic income per common share is computed by dividing net income by the weighted average number of common shares including non-vested and restricted shares outstanding during the period. Diluted income per common share is computed by dividing net income by the weighted average number of common shares including non-vested and restricted shares outstanding during the period increased by dilutive common equivalent shares determined using the treasury stock method. As a result of the use of weighted average number of shares the full effect of the issuance of 24,193,548 shares as discussed in Note 9 are not in the earnings per share calculation set forth below for fiscal 2011.

Net Income per Common Share (in thousands, except per share data)  
Three Months Ended

	June 30, 2012			July 2, 2011		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic:						
Net Income	\$36,225	117,613	\$0.31	\$52,227	117,064	\$0.45
Diluted:						
Effect of dilutive securities:						
Add: Option shares in the money and dilutive effect of non-vested stock		867			973	
Less: Pro forma treasury shares		(339 )			(365 )	
Diluted:						
Net income	\$36,225	118,141	\$0.31	\$52,227	117,672	\$0.44

Net Income per Common Share (in thousands, except per share data)  
Six Months Ended

	June 30, 2012			July 2, 2011		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic:						
Net Income	\$64,796	117,458	\$0.55	\$98,789	112,795	\$0.88
Diluted:						
Effect of dilutive securities:						
Add: Option shares in the money and dilutive effect of non-vested stock		870			986	
Less: Pro forma treasury shares		(343 )			(381 )	
Diluted:						
Net income	\$64,796	117,985	\$0.55	\$98,789	113,400	\$0.87

For the three months ended June 30, 2012 and July 2, 2011, respectively, 211,890 and 72,157 outstanding stock options were excluded from diluted income per common share as the effect was antidilutive. For the three months ended June 30, 2012 and July 2, 2011, respectively, 112,296 and 326,526 shares of non-vested stock were excluded from diluted income per common share as the effect was antidilutive.

For the six months ended June 30, 2012 and July 2, 2011, respectively, 211,890 and 50,387 outstanding stock options were excluded from diluted income per common share as the effect was antidilutive. For the six months ended June 30, 2012 and July 2, 2011, respectively, 117,746 and 350,125 shares of non-vested stock were excluded from diluted income per common share as the effect was antidilutive.

### (3) Acquisition

On June 8, 2012, the Company completed its acquisition of substantially all of the assets of RVO BioPur, LLC ("BioPur"). Headquartered in Waterbury, Connecticut, BioPur provides used cooking oil collection and grease trap services to restaurants and food service establishments in the New England area of the Company's existing East coast operations. Pro forma results of operations for the BioPur acquisition have not been presented because the effect is not deemed material to revenues and net income of the Company for any fiscal period presented.



#### (4) Investment in Unconsolidated Subsidiary

The Company announced on January 21, 2011 that a wholly-owned subsidiary of Darling entered into a limited liability company agreement with a wholly-owned subsidiary of Valero Energy Corporation (“Valero”) to form Diamond Green Diesel Holdings LLC (the “Joint Venture”). The Joint Venture is owned 50% / 50% with Valero and was formed to design, engineer, construct and operate a renewable diesel plant (the “Facility”), which will be capable of producing approximately 9,300 barrels per day of renewable diesel fuel and certain other co-products, to be located adjacent to Valero's refinery in Norco, Louisiana. The Joint Venture is in the process of constructing the Facility under an engineering, procurement and construction contract that is intended to fix the Company's maximum economic exposure for the cost of the Facility.

On May 31, 2011, the Joint Venture and Diamond Green Diesel LLC, a wholly-owned subsidiary of the Joint Venture (“Opco”), entered into (i) a facility agreement (the “Facility Agreement”) with Diamond Alternative Energy, LLC, a wholly-owned subsidiary of Valero (the “Lender”), and (ii) a loan agreement (the “Loan Agreement”) with the Lender, which will provide the Joint Venture with a 14 year multiple advance term loan facility of approximately \$221,300,000 (the “JV Loan”) to support the design, engineering and construction of the Facility, which is now under construction. The Facility Agreement and the Loan Agreement prohibit the Lender from assigning all or any portion of the Facility Agreement or the Loan Agreement to unaffiliated third parties. Opco has also pledged substantially all of its assets to the Lender, and the Joint Venture has pledged all of Opco's equity interests to the Lender, until the JV Loan has been paid in full and the JV Loan has terminated in accordance with its terms.

Pursuant to sponsor support agreements executed in connection with the Facility Agreement and the Loan Agreement, each of the Company and Valero are committed to contributing approximately \$93.2 million of the estimated aggregate costs of approximately \$407.7 million for the completion of the Facility. The Company is also required to pay for 50% of any cost overruns incurred in connection with the construction of the Facility, including relating to any project scope changes and working capital funding. As of the date of this report, it is anticipated that the project will incur an additional \$8.1 million in costs related to project scope changes, of which the Company will be responsible for 50%. As of June 30, 2012 under the equity method of accounting, the Company has an investment in the Joint Venture of approximately \$46.4 million on the consolidated balance sheet and has recorded approximately \$0.9 million and 1.2 million in losses in the unconsolidated subsidiary for the six months ended June 30, 2012 and July 2, 2011, respectively.

#### (5) Contingencies

The Company is a party to several lawsuits, claims and loss contingencies arising in the ordinary course of its business, including assertions by certain regulatory and governmental agencies related to permitting requirements and air, wastewater and storm water discharges from the Company's processing facilities.

The Company's workers compensation, auto and general liability policies contain significant deductibles or self-insured retentions. The Company estimates and accrues its expected ultimate claim costs related to accidents occurring during each fiscal year and carries this accrual as a reserve until these claims are paid by the Company.

As a result of the matters discussed above, the Company has established loss reserves for insurance, environmental and litigation matters. At June 30, 2012 and December 31, 2011, the reserves for insurance, environmental and litigation contingencies reflected on the balance sheet in accrued expenses and other non-current liabilities were approximately \$39.9 million and \$38.0 million, respectively. The Company has insurance recovery receivables of approximately \$9.6 million as of June 30, 2012 and December 31, 2011, related to these liabilities. The Company's management believes these reserves for contingencies are reasonable and sufficient based upon present governmental regulations and information currently available to management; however, there can be no assurance that final costs

related to these matters will not exceed current estimates. The Company believes that the likelihood is remote that any additional liability from these lawsuits and claims that may not be covered by insurance would have a material effect on the financial statements.

Lower Passaic River Area. The Company has been named as a third party defendant in a lawsuit pending in the Superior Court of New Jersey, Essex County, styled New Jersey Department of Environmental Protection, The Commissioner of the New Jersey Department of Environmental Protection Agency and the Administrator of the New Jersey Spill Compensation Fund, as Plaintiffs, vs. Occidental Chemical Corporation, Tierra Solutions, Inc., Maxus Energy Corporation, Repsol YPF, S.A., YPF, S.A., YPF Holdings, Inc., and CLH Holdings, as Defendants (Docket No. L-009868-05) (the “Tierra/Maxus Litigation”). In the Tierra/Maxus Litigation, which was filed on December 13, 2005, the plaintiffs seek to recover from the defendants past and future cleanup and removal costs, as well as unspecified economic damages, punitive damages, penalties and a variety of other forms of relief, purportedly arising from the alleged discharges into the Passaic River of a particular type of dioxin and other unspecified hazardous substances. The damages

being sought by the plaintiffs from the defendants are likely to be substantial. On February 4, 2009, two of the defendants, Tierra Solutions, Inc. ("Tierra") and Maxus Energy Corporation ("Maxus"), filed a third party complaint against over 300 entities, including the Company, seeking to recover all or a proportionate share of cleanup and removal costs, damages or other loss or harm, if any, for which Tierra or Maxus may be held liable in the Tierra/Maxus Litigation. Tierra and Maxus allege that Standard Tallow Company, an entity that the Company acquired in 1996, contributed to the discharge of the hazardous substances that are the subject of this case while operating a former plant site located in Newark, New Jersey. The Company is investigating these allegations, has entered into a joint defense agreement with many of the other third-party defendants and intends to defend itself vigorously. The court has issued a trial plan that contemplates a liability trial for third-party defendants (including the Company) in April 2013, with additional proceedings if necessary to allocate costs between third-party defendants in January 2014. Additionally, in December 2009, the Company, along with numerous other entities, received notice from the United States Environmental Protection Agency (EPA) that the Company (as successor-in-interest to Standard Tallow Company) is considered a potentially responsible party with respect to alleged contamination in the lower Passaic River area which is part of the Diamond Alkali Superfund Site located in Newark, New Jersey. In the letter, EPA requested that the Company join a group of other parties in funding a remedial investigation and feasibility study at the site. As of the date of this report, the Company has not agreed to participate in the funding group. The Company's ultimate liability for investigatory costs, remedial costs and/or natural resource damages in connection with the lower Passaic River area cannot be determined at this time; however, as of the date of this report, there is nothing that leads the Company to believe that these matters will have a material effect on the Company's financial position or results of operation.

Fresno Facility Permit Issue. The Company has been named as a defendant and a real party in interest in a lawsuit filed on April 9, 2012 in the Superior Court of the State of California, Fresno County, styled Concerned Citizens of West Fresno vs. The City of Fresno and Darling International Inc. In the complaint, the plaintiff alleges that the City of Fresno has failed to enforce its own zoning ordinances and engaged in a number of discriminatory practices against the citizens of West Fresno. In addition, the complaint alleges that the Company's Fresno facility is operating without a proper use permit. Rendering operations have been conducted on the site since 1955, and the Company believes that it possesses all of the required federal, state and local permits to continue to operate the facility in the manner currently conducted and intends to defend itself vigorously in this matter. While management cannot predict the ultimate outcome of this matter, management does not believe the outcome will have a material effect on the Company's financial condition or results of operations.

#### (6) Business Segments

The Company sells its products domestically and internationally and operates within two industry segments: Rendering and Bakery. The measure of segment profit (loss) includes all revenues, operating expenses (excluding certain amortization of intangibles), and selling, general and administrative expenses incurred at all operating locations and excludes general corporate expenses. Included in corporate activities are general corporate expenses and the amortization of intangibles. Assets of corporate activities include cash, unallocated prepaid expenses, deferred taxes, prepaid pension, and miscellaneous other assets.

#### Rendering

Rendering operations process poultry, animal by-products and used cooking oil into fats (primarily BFT, PG and YG), protein (primarily MBM and PM (feed grade and pet food)) and hides. Fat was approximately \$226.1 million and \$245.5 million of net sales for the three months ended June 30, 2012 and July 2, 2011, respectively and approximately \$420.1 million and \$481.7 million of net sales for the six months ended June 30, 2012 and July 2, 2011, respectively. Protein was approximately \$121.3 million and \$120.4 million of net sales for the three months ended June 30, 2012 and July 2, 2011, respectively and \$224.8 million and \$230.5 million of net sales for the six months ended June 30, 2012 and July 2, 2011, respectively. Rendering operations also provides grease trap servicing. Included in the



Rendering Segment is the National Service Center (“NSC”). The NSC schedules services such as fat and bone and used cooking oil collection and trap cleaning for contracted customers using the Company's resources or third party providers.

#### Bakery

Bakery products are collected from large commercial bakeries that produce a variety of products, including cookies, crackers, cereal, bread, dough, potato chips, pretzels, sweet goods and biscuits, among others. The Company processes the raw materials into BBP, including Cookie Meal®, an animal feed ingredient primarily used in poultry rations.

## Business Segment Net Sales (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Rendering	\$371,481	\$392,675	\$693,793	\$764,245
Bakery	65,193	77,935	129,989	146,263
Total	\$436,674	\$470,610	\$823,782	\$910,508

## Business Segment Profit/(Loss) (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Rendering	\$73,061	\$93,398	\$137,639	\$182,354
Bakery	13,093	18,541	24,145	33,509
Corporate Activities	(44,176)	(51,967)	(84,310)	(95,101)
Interest expense	(5,753)	(7,745)	(12,678)	(21,973)
Net Income	\$36,225	\$52,227	\$64,796	\$98,789

## Business Segment Assets (in thousands):

	June 30, 2012	December 31, 2011
Rendering	\$1,096,658	\$1,092,988
Bakery	166,205	165,885
Corporate Activities	216,345	158,157
Total	\$1,479,208	\$1,417,030

## (7) Income Taxes

The Company has provided income taxes for the three-month periods ended June 30, 2012 and July 2, 2011, based on its estimate of the effective tax rate for the entire 2012 and 2011 fiscal years.

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

The Company periodically assesses whether it is more likely than not that it will generate sufficient taxable income to realize its deferred income tax assets. In making this determination, the Company considers all available positive and negative evidence and makes certain assumptions. The Company considers, among other things, its deferred tax liabilities, the overall business environment, its historical earnings and losses, current industry trends and its outlook for future years. Although the Company is unable to carryback any of its net operating losses, based upon recent favorable operating results and future projections, the Company believes it is more likely than not that certain net

operating losses can be carried forward and utilized and other deferred tax assets will be realized.

The Company's major taxing jurisdiction is the U.S. (federal and state). The Company is currently under federal examination by the Internal Revenue Service for fiscal 2009 and 2010. The Company is also currently being examined by several state tax agencies. Although the final outcome of these examinations is not yet determinable, the Company does not anticipate that any of the federal or state examinations will have a significant impact on the Company's results of operations or financial position. In addition, the Company does not reasonably expect any material changes to the Company's unrecognized tax positions in the next twelve months. The statute of limitations for the Company's federal and material state returns remains open for examination for tax years 2007 to 2011.

## (8)Debt

## Credit Facilities

Senior Secured Credit Facilities. On December 17, 2010, the Company entered into a credit agreement (the "Credit Agreement") consisting of a five-year senior secured revolving loan facility and a six-year senior secured term loan facility. On March 25, 2011, the Company amended its Credit Agreement to increase the aggregate available principal amount under the revolving loan facility from \$325.0 million to \$415.0 million (approximately \$75.0 million of which will be available for a letter of credit sub-facility and \$15.0 million of which will be available for a swingline sub-facility) and to add additional stepdowns to the pricing grid providing lower spread margins to the applicable base or Libor rate under the Credit Agreement based on defined leverage ratio levels. As of June 30, 2012, the Company had availability of \$389.7 million under the revolving loan facility, taking into account no outstanding borrowings and letters of credit issued of \$25.3 million. As of June 30, 2012, the Company had repaid all of the original \$300.0 million term loan issued under the Credit Agreement, including \$30.0 million repaid in the first quarter of fiscal 2012. The amounts that have been repaid on the term loan may not be reborrowed. As a result of the term loan payments, the Company incurred a write-off of a portion of the senior term loan facilities deferred loan costs of approximately \$0.7 million and \$4.2 million in the six month periods ending June 30, 2012 and July 2, 2011, respectively, which is included in interest expense. The revolving credit facility has a five-year term ending December 17, 2015. The Company used the original proceeds of the term loan facility and a portion of the revolving loan facility to pay a portion of the consideration of its prior year acquisitions, to pay related fees and expenses and to provide for working capital needs and general corporate purposes.

The Credit Agreement allows for borrowings at per annum rates based on the following loan types. With respect to any revolving facility loan, i) an alternate base rate means a rate per annum equal to the greatest of (a) the prime rate (b) the federal funds effective rate (as defined in the Credit Agreement) plus ½ to 1% and (c) the adjusted London Inter-Bank Offer Rate ("LIBOR") for a month interest period plus 1%, plus in each case, a margin determined by reference to a pricing grid under the Credit Agreement and adjusted according to the Company's adjusted leverage ratio, and, ii) Eurodollar rate loans bear interest at a rate per annum based on the then applicable LIBOR multiplied by the statutory reserve rate plus a margin determined by reference to a pricing grid and adjusted according to the Company's adjusted leverage ratio. With respect to an alternate base rate loan that is a term loan, at no time will the alternate base rate be less than 2.50% per annum, plus the term loan alternate base rate margin of 2.50%. With respect to a LIBOR loan that is a term loan, at no time will the LIBOR rate applicable to the term loans (before giving effect to any adjustment for reserve requirements) be less than 1.50% per annum, plus the term loan LIBOR margin of 3.50%.

The Credit Agreement contains various customary representations and warranties by the Company, which include customary use of materiality, material adverse effect and knowledge qualifiers. The Credit Agreement also contains (a) certain affirmative covenants that impose certain reporting and/or performance obligations on the Company, (b) certain negative covenants that generally prohibit, subject to various exceptions, the Company from taking certain actions, including, without limitation, incurring indebtedness, making investments, incurring liens, paying dividends, and engaging in mergers and consolidations, sale leasebacks and sales of assets, (c) financial covenants such as maximum total leverage ratio and a minimum fixed charge coverage ratio and (d) customary events of default (including a change of control). Obligations under the Credit Agreement may be declared due and payable upon the occurrence of such customary events of default.

Senior Notes. On December 17, 2010, Darling issued \$250.0 million aggregate principal amount of its 8.5% Senior Notes due 2018 (the "Restricted Notes") under an indenture with U.S. Bank National Association, as trustee. Darling used the net proceeds from the sale of the Restricted Notes to finance in part the cash portion of the purchase price paid in connection with Darling's acquisition of Griffin Industries, Inc. The Company will pay 8.5% annual cash

interest on the Restricted Notes on June 15 and December 15 of each year, commencing June 15, 2011. Other than for extraordinary events such as change of control and defined assets sales, the Company is not required to make any mandatory redemption or sinking fund payments on the Restricted Notes.

The original holders of the Restricted Notes were given the benefit of registration rights pursuant to a registration rights agreement (the "Notes Registration Rights Agreement") with the representative of the initial purchasers. In accordance with the terms of the Notes Registration Rights Agreement, on June 15, 2011, the Company filed a registration statement on Form S-4 to offer to exchange all outstanding Restricted Notes for \$250.0 million 8.5% Senior Notes due 2018 (the "Exchange Notes" and collectively with the Restricted Notes, the "Notes"). The exchange offer was made effective June 27, 2011 and expired July 27, 2011 with the Company offering to exchange all outstanding Restricted Notes that were validly tendered and not withdrawn prior to the expiration or termination of the exchange offer for an equal principal

amount of the applicable Exchange Notes. All of the Notes have been exchanged. The terms of the Exchange Notes are substantially identical in all material respects to those of the applicable outstanding Restricted Notes, except that transfer restrictions, registration rights and additional interest provisions relating to the Restricted Notes do not apply to the Exchange Notes. The Exchange Notes have been issued under the same indenture as the Restricted Notes. The Company did not receive any proceeds from the exchange offer. The Exchange Notes may be sold in the over-the-counter market, in negotiated transactions or through a combination of such methods. The Company does not plan to list the Notes on a national market.

The Company may at any time and from time to time purchase Notes in the open market or otherwise. The Notes are redeemable, in whole or in part, at any time on or after December 15, 2014 at the redemption prices specified in the indenture. Prior to December 15, 2014, the Company may redeem some or all of the Notes at a redemption price of 100% of the principal amount of the Notes redeemed, plus accrued and unpaid interest to the redemption date and an applicable premium as specified in the indenture.

The indenture contains covenants limiting Darling's ability and the ability of its restricted subsidiaries to, among other things; incur additional indebtedness or issue preferred stock; pay dividends on or make other distributions or repurchase of Darling's capital stock or make other restricted payments; create restrictions on the payment of dividends or other amounts from Darling's restricted subsidiaries to Darling or Darling's other restricted subsidiaries; make loans or investments; enter into certain transactions with affiliates; create liens; designate Darling's subsidiaries as unrestricted subsidiaries; and sell certain assets or merge with or into other companies or otherwise dispose of all or substantially all of Darling's assets.

The indenture also provides for customary events of default, including, without limitation, payment defaults, covenant defaults, cross acceleration defaults to certain other indebtedness in excess of specified amounts, certain events of bankruptcy and insolvency and judgment defaults in excess of specified amounts. If any such event of default occurs and is continuing under the indenture, the Trustee or the holders of at least 25% in principal amount of the total outstanding Notes may declare the principal, premium, if any, interest and any other monetary obligations on all the then outstanding Notes issued under the indenture to be due and payable immediately.

The Credit Agreement and the Notes consisted of the following elements at June 30, 2012 and December 31, 2011, respectively (in thousands):

	June 30, 2012	December 31, 2011
Senior Notes:		
8.5% Senior Notes due 2018	\$250,000	\$250,000
Senior Secured Credit Facilities:		
Term Loan	\$—	\$30,000
Revolving Credit Facility:		
Maximum availability	\$415,000	\$415,000
Borrowings outstanding	—	—
Letters of credit issued	25,309	23,440
Availability	\$389,691	\$391,560

The obligations under the Credit Agreement are guaranteed by Darling National LLC, a Delaware limited liability company ("Darling National"), Griffin Industries LLC, a Kentucky limited liability company ("Griffin"), and its subsidiary, Craig Protein Division, Inc ("Craig Protein") and are secured by substantially all of the property of the Company, including a pledge of 100% of the stock of all material domestic subsidiaries and 65% of the capital stock

of certain foreign subsidiaries. The Notes are guaranteed on an unsecured basis by Darling's existing restricted subsidiaries, including Darling National, Griffin and all of its subsidiaries, other than Darling's foreign subsidiaries, its captive insurance subsidiary and any inactive subsidiary with nominal assets. The Notes rank equally in right of payment to any existing and future senior debt of Darling. The Notes will be effectively junior to existing and future secured debt of Darling and the guarantors, including debt under the Credit Agreement, to the extent of the value of assets securing such debt. The Notes will be structurally subordinated to all of the existing and future liabilities (including trade payables) of each of the subsidiaries of Darling that do not guarantee the Notes. The guarantees by the guarantors (the "Guarantees") rank equally in right of payment to any existing and future senior indebtedness of the guarantors. The Guarantees will be effectively junior to existing and future secured debt of the guarantors including debt under the Credit Agreement, to the extent the value of the assets

securing such debt. The Guarantees will be structurally subordinated to all of the existing and future liabilities (including trade payables) of each of the subsidiaries of each guarantor that do not guarantee the Notes.

As of June 30, 2012, the Company believes it is in compliance with all of the financial covenants, as well as all of the other covenants contained in the Credit Agreement and the Notes Indenture.

#### (9) Stockholders' Equity

On January 27, 2011, the Company entered into an underwritten public offering for 24,193,548 shares of its common stock, at a price to the public of \$12.70 per share, pursuant to an effective shelf registration statement. The offering closed on February 2, 2011. In addition, certain former stockholders of Griffin Industries, Inc. (pursuant to such stockholders' contractual registration rights) granted the underwriters a 30-day option, which the underwriters subsequently exercised in full, to purchase from them up to an additional 3,629,032 shares of Darling common stock to cover over-allotments. The Company used the net proceeds of approximately \$292.7 million from the offering to repay all of its then outstanding revolver balance and a portion of its term loan facility under the Company's Credit Agreement. Darling did not receive any proceeds from the sale of shares by the former stockholders of Griffin Industries, Inc.

#### (10) Derivatives

The Company's operations are exposed to market risks relating to commodity prices that affect the Company's cost of raw materials, finished product prices and energy costs and the risk of changes in interest rates.

The Company makes limited use of derivative instruments to manage cash flow risks related to interest expense, natural gas usage, diesel fuel usage and inventory. The Company does not use derivative instruments for trading purposes. Interest rate swaps are entered into with the intent of managing overall borrowing costs by reducing the potential impact of increases in interest rates on floating-rate long-term debt. Natural gas swaps and options are entered into with the intent of managing the overall cost of natural gas usage by reducing the potential impact of seasonal weather demands on natural gas that increases natural gas prices. Heating oil swaps and options are entered into with the intent of managing the overall cost of diesel fuel usage by reducing the potential impact of seasonal weather demands on diesel fuel that increases diesel fuel prices. Inventory swaps and options are entered into with the intent of managing seasonally high concentrations of MBM, PM, BFT, PG, YG and BBP inventories by reducing the potential impact of decreasing prices. At June 30, 2012, the Company had natural gas swaps outstanding that qualified and were designated for hedge accounting as well as heating oil swaps and heating oil and corn options that did not qualify and were not designated for hedge accounting.

Entities are required to report all derivative instruments in the statement of financial position at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding the instrument. If certain conditions are met, entities may elect to designate a derivative instrument as a hedge of exposures to changes in fair value, cash flows or foreign currencies. If the hedged exposure is a cash flow exposure, the effective portion of the gain or loss on the derivative instrument is reported initially as a component of other comprehensive income (outside of earnings) and is subsequently reclassified into earnings when the forecasted transaction affects earnings. Any amounts excluded from the assessment of hedge effectiveness as well as the ineffective portion of the gain or loss are reported in earnings immediately. If the derivative instrument is not designated as a hedge, the gain or loss is recognized in earnings in the period of change.

#### Cash Flow Hedges



On May 19, 2006, the Company entered into two interest rate swap agreements that were considered cash flow hedges according to FASB authoritative guidance. In December 2010, as a result of the Merger and entry into a new Credit Agreement the term loan that specifically related to these interest swap transactions was repaid. As such, the Company discontinued the interest rate swaps and paid approximately \$2.0 million representing the fair value of these two interest swap transactions at the discontinuance date with the effective portion recorded in accumulated other comprehensive loss to be reclassified to income over the remaining original term of the interest swaps which ended April 7, 2012.

In fiscal 2011 and the first six month of fiscal 2012, the Company entered into natural gas swap contracts that are considered cash flow hedges. Under the terms of the natural gas swap contracts the Company fixed the expected purchase cost of a portion of its plants expected natural gas usage into the third quarter of fiscal 2012. As of June 30, 2012, some of the contracts have expired and settled according to the contracts while the remaining contract positions and activity are disclosed below.

The Company estimates the amount that will be reclassified from accumulated other comprehensive loss at June 30, 2012 into earnings over the next 12 months will be approximately \$0.1 million. As of June 30, 2012, approximately \$0.3 million of losses have been reclassified into earnings as a result of the discontinuance of cash flow hedges.

The following table presents the fair value of the Company's derivative instruments under FASB authoritative guidance as of June 30, 2012 and December 31, 2011 (in thousands):

Derivatives not Designated as Hedges	Balance Sheet Location	Asset Derivatives Fair Value	
		June 30, 2012	December 31, 2011
Heating oil swaps and options	Other current assets	\$42	\$6
Total asset derivatives not designated as hedges		\$42	\$6
Total asset derivatives		\$42	\$6
Derivatives Designated as Hedges	Balance Sheet Location	Liability Derivatives Fair Value	
		June 30, 2012	December 31, 2011
Natural gas swaps	Accrued expenses	\$141	\$669
Total liability derivatives designated as hedges		\$141	\$669
Derivatives not Designated as Hedges			
Natural gas swaps	Accrued expenses	\$—	\$143
Heating oil swaps and options	Accrued expenses	156	24
Corn options	Accrued expenses	85	—
Total liability derivatives not designated as hedges		\$241	\$167
Total liability derivatives		\$382	\$836

The effect of the Company's derivative instruments on the consolidated financial statements as of and for the three months ended June 30, 2012 and July 2, 2011 is as follows (in thousands):

Derivatives Designated as Cash Flow Hedges	Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) (a)		Gain or (Loss) Reclassified From Accumulated OCI into Income (Effective Portion) (b)		Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (c)	
	2012	2011	2012	2011	2012	2011

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Interest rate swaps	\$—	\$—	\$(28	)\$(303	)\$—	\$—	
Natural gas swaps	217	(18	)(295	)105	—	(9	)
Total	\$217	\$(18	)\$(323	)\$(198	)\$—	\$(9	)

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Amount recognized in accumulated OCI (effective portion) is reported as accumulated other comprehensive (a) income/(loss) of approximately \$0.2 million and less than \$0.1 million recorded net of taxes of approximately \$0.1 million and less than \$0.1 million as of June 30, 2012 and July 2, 2011, respectively.

Gains and (losses) reclassified from accumulated OCI into income (effective portion) for interest rate swaps and (b) natural gas swaps is included in interest expense and cost of sales, respectively, in the Company's consolidated statements of operations.

Gains and (losses) recognized in income on derivatives (ineffective portion) for interest rate swaps and natural gas (c) swaps is included in other, net in the Company's consolidated statements of operations.

The effect of the Company's derivative instruments on the consolidated financial statements as of and for the six months ended June 30, 2012 and July 2, 2011 is as follows (in thousands):

Derivatives Designated as Cash Flow Hedges	Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) (a)		Gain or (Loss) Reclassified From Accumulated OCI into Income (Effective Portion) (b)		Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (c)	
	2012	2011	2012	2011	2012	2011
Interest rate swaps	\$—	\$—	\$(260	) \$(622	) \$—	\$—
Natural gas swaps	(483	)(231	)(1,008	)(45	) 3	(1
Total	\$(483	)(231	)(1,268	)(667	) \$3	\$(1

Amount recognized in accumulated OCI (effective portion) is reported as accumulated other comprehensive (a) income/(loss) of approximately \$0.5 million and approximately \$0.2 million recorded net of taxes of approximately \$0.2 million and approximately \$0.1 million as of June 30, 2012 and July 2, 2011, respectively.

Gains and (losses) reclassified from accumulated OCI into income (effective portion) for interest rate swaps and (b) natural gas swaps is included in interest expense and cost of sales, respectively, in the Company's consolidated statements of operations.

Gains and (losses) recognized in income on derivatives (ineffective portion) for interest rate swaps and natural gas (c) swaps is included in other, net in the Company's consolidated statements of operations.

At June 30, 2012, the Company had forward purchase agreements in place for purchases of approximately \$8.2 million of natural gas and diesel fuel. These forward purchase agreements have no net settlement provisions and the Company intends to take physical delivery of the underlying product. Accordingly, the forward purchase agreements are not subject to the requirements of fair value accounting because they qualify and the Company has elected to account for these as normal purchases as defined in the FASB authoritative guidance.

# (11) Revenue Recognition

The Company recognizes revenue on sales when products are shipped and the customer takes ownership and assumes risk of loss. Certain customers may be required to prepay prior to shipment in order to maintain payment protection related to certain foreign and domestic sales. These amounts are recorded as unearned revenue and recognized when the products have shipped and the customer takes ownership and assumes risk of loss. The Company has formula arrangements with certain suppliers whereby the charge or credit for raw materials is tied to published finished product commodity prices after deducting a fixed processing fee incorporated into the formula and is recorded as a cost of sale by line of business. The Company recognizes revenue related to grease trap servicing in the month the

trap service occurs.

## (12) Comprehensive Income

The Company follows Financial Accounting Standards Board ("FASB") authoritative guidance for reporting and presentation of comprehensive income or loss and its components. Other comprehensive income (loss) is derived from adjustments that reflect pension adjustments, natural gas derivative adjustments and interest rate swap derivative adjustments. The components of other comprehensive income (loss) and the related tax impacts for the three months ended June 30, 2012 and July 2, 2011 are as follows (in thousands):

	Before-Tax Amount		Tax (Expense) or Benefit		Net-of-Tax Amount	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Defined benefit pension plans						
Amortization of prior service cost	\$22	\$22	\$(8)	\$(8)	\$14	\$14
Amortization of actuarial loss	1,189	681	(461)	(264)	728	417
Total defined benefit pension plans	1,211	703	(469)	(272)	742	431
Natural gas swap derivatives						
Loss reclassified to net income	295	(105)	(114)	41	181	(64)
Loss activity recognized in other comprehensive loss	217	(18)	(84)	7	133	(11)
Total natural gas swap derivatives	512	(123)	(198)	48	314	(75)
Interest rate swap derivatives						
Loss reclassified to net income	28	303	(11)	(117)	17	186
Other Comprehensive income (loss)	\$1,751	\$883	\$(678)	\$(341)	\$1,073	\$542

The components of other comprehensive income (loss) and the related tax impacts for the six months ended June 30, 2012 and July 2, 2011 are as follows (in thousands):

	Before-Tax Amount		Tax (Expense) or Benefit		Net-of-Tax Amount	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Defined benefit pension plans						
Amortization of prior service cost	\$44	\$44	\$(16)	\$(16)	\$28	\$28
Amortization of actuarial loss	2,378	1,362	(922)	(528)	1,456	834
Total defined benefit pension plans	2,422	1,406	(938)	(544)	1,484	862
Natural gas swap derivatives						
Loss reclassified to net income	1,008	45	(390)	(17)	618	28
Loss activity recognized in other comprehensive loss	(483)	(231)	186	89	(297)	(142)
Total natural gas swap derivatives	525	(186)	(204)	72	321	(114)
Interest rate swap derivatives						
Loss reclassified to net income	260	622	(101)	(241)	159	381

Other Comprehensive income (loss)	\$3,207	\$1,842	\$(1,243)	\$(713)	) \$1,964	\$1,129
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## (13) Employee Benefit Plans

The Company has retirement and pension plans covering substantially all of its employees. Most retirement benefits are provided by the Company under separate final-pay noncontributory and contributory defined benefit and defined contribution plans for all salaried and hourly employees (excluding those covered by union-sponsored plans) who meet service and age requirements. Defined benefits are based principally on length of service and earnings patterns during the five years preceding retirement. During the third quarter of fiscal 2011, as part of the initiative to combine the Darling and Griffin retirement benefit programs, the Company's Board of Directors authorized the Company to proceed with the restructuring of its retirement benefit program effective January 1, 2012, to include the closing of Darling's salaried and hourly defined benefit plans to new participants as well as the freezing of service and wage accruals thereunder effective December 31, 2011 (a curtailment of these plans for financial reporting purposes) and the enhancing of benefits under the Company's defined contribution plans. However, the Company-sponsored hourly union plan has not been curtailed.

Net pension cost for the three and six months ended June 30, 2012 and July 2, 2011 includes the following components (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Service cost	\$82	\$295	\$163	\$590
Interest cost	1,363	1,513	2,726	3,026
Expected return on plan assets	(1,678)	(1,722)	(3,355)	(3,444)
Amortization of prior service cost	22	22	44	44
Amortization of net loss	1,189	681	2,378	1,362
Net pension cost	\$978	\$789	\$1,956	\$1,578

The Company's funding policy for employee benefit pension plans is to contribute annually not less than the minimum amount required nor more than the maximum amount that can be deducted for federal income tax purposes. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. Based on actuarial estimates at June 30, 2012, the Company expects to contribute approximately \$2.9 million to its pension plans to meet funding requirements during the next twelve months. Additionally, the Company has made tax deductible discretionary and required contributions to its pension plans for the six months ended June 30, 2012 and July 2, 2011 of approximately \$0.9 million and \$0.6 million, respectively.

The Company participates in various multi-employer pension plans which provide defined benefits to certain employees covered by labor contracts. These plans are not administered by the Company and contributions are determined in accordance with provisions of negotiated labor contracts to meet their pension benefit obligations to their participants. The Company's contributions to each individual multi-employer plan represent less than 5% of the total contributions to each such plan. Based on the most currently available information, the Company has determined that, if a withdrawal were to occur, withdrawal liabilities on two of the plans in which the Company currently participates could be material to the Company, with one of these material plans certified as critical or red zone. With respect to the other multi-employer pension plans in which the Company participates and which are not individually significant, five plans have certified as critical or red zone, one plan has certified as endangered or yellow zone and one plan has certified as seriously endangered or orange zone as defined by the Pension Protection Act of 2006.

In June 2009, the Company received a notice of a mass withdrawal termination and a notice of initial withdrawal liability from a multi-employer plan in which it participated. The Company had anticipated this event and as a result had accrued approximately \$3.2 million as of January 3, 2009 based on the most recent information that was probable



and estimable for this plan. The plan had given a notice of redetermination liability in December 2009. In fiscal 2010, the Company received further third party information confirming the future payout related to this multi-employer plan. As a result, the Company reduced its liability to approximately \$1.2 million. In fiscal 2010, another underfunded multi-employer plan in which the Company participates gave notification of partial withdrawal liability. As of June 30, 2012, the Company has an accrued liability of approximately \$1.0 million representing the present value of scheduled withdrawal liability payments under this multi-employer plan. While the Company has no ability to calculate a possible current liability for under-funded multi-employer plans that could terminate or could require additional funding under the Pension Protection Act of 2006, the amounts could be material.

## (14) Fair Value Measurements

FASB authoritative guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The following table presents the Company's financial instruments that are measured at fair value on a recurring and nonrecurring basis as of June 30, 2012 and are categorized using the fair value hierarchy under FASB authoritative guidance. The fair value hierarchy has three levels based on the reliability of the inputs used to determine the fair value.

(In thousands of dollars)		Fair Value Measurements at June 30, 2012 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Derivative instruments	\$42	\$—	\$42	\$—
Total Assets	\$42	\$—	\$42	\$—
Liabilities:				
Derivative instruments	\$382	\$—	\$382	\$—
Senior Notes	280,625	—	280,625	—
Total Liabilities	\$281,007	\$—	\$281,007	\$—

Derivative assets consist of the Company's heating oil swap and option contracts, which represents the difference between observable market rates of commonly quoted intervals for similar assets and liabilities in active markets and the fixed swap rate considering the instruments term, notional amount and credit risk. See Note 10 Derivatives for breakdown by instrument type.

Derivative liabilities consist of the Company's natural gas swap and heating oil swap and heating oil and corn option contracts, which represents the difference between observable market rates of commonly quoted intervals for similar assets and liabilities in active markets and the fixed swap rate considering the instruments term, notional amount and credit risk. See Note 10 Derivatives for breakdown by instrument type.

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximates fair value due to the short maturity of these instruments and as such have been excluded from the table above. The carrying amount for the Company's other debt is not deemed to be significantly different than the fair value and all other instruments have been recorded at fair value.

The fair value of the senior notes is based on market quotation from a third-party bank.

## (15) New Accounting Pronouncements

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. The ASU amends ASC Topic 220, Comprehensive Income. The new standard eliminates the option to report other comprehensive income and its components in the statement of changes in equity and instead requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. Reclassification adjustments between net income and other comprehensive income must be shown on the face of the statement(s), with no resulting change in net earnings. In December 2011, the FASB issued ASU No. 2011-12, Deferral of Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No.

2011-05. This ASU amends ASC Topic 220, Comprehensive Income. The new standard deferred the requirement to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income while the FASB further deliberates this aspect of the proposal. This update is effective for the Company on January 1, 2012 and must be applied retrospectively. The Company adopted this standard as of March 31, 2012. The adoption did not have a material impact on the Company's consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-08, Testing Goodwill for Impairment. The ASU amends ASC Topic 350, Intangibles - Goodwill and Other. The new standard is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a "qualitative" assessment to determine whether further impairment testing is necessary. Specifically, an entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. This standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permissible. The Company adopted this standard in the first quarter of 2012 and the adoption did not have a material impact on the Company's consolidated financial statements.

In July 2012, the FASB issued ASU No. 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment. The ASU amends ASC Topic 350, Intangibles - Goodwill and Other. The new standard is intended to reduce the cost and complexity of performing an impairment test for indefinite-lived intangible assets by providing entities an option to perform a "qualitative" assessment to determine whether further impairment testing is necessary. The new standard allows an entity to first assess qualitative factors to determine if it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If based on its qualitative assessment an entity concludes it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, quantitative impairment testing is required. However, if an entity concludes otherwise, quantitative impairment testing is not required. The standards update is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company is currently evaluating the impact of adopting this standard.

#### (16) Guarantor Financial Information

The Company's Notes (see Note 8) are guaranteed on an unsecured basis by the Company's 100% directly and indirectly owned subsidiaries Darling National, Griffin and its subsidiary Craig Protein (collectively, the "Guarantors"). The Guarantors fully and unconditionally guaranteed the Notes on a joint and several basis. The following financial statements present condensed consolidating financial data for (i) Darling, the issuer of the Notes, (ii) the combined Guarantors, (iii) the combined other subsidiaries of the Company that did not guarantee the Notes (the "Non-guarantors"), and (iv) eliminations necessary to arrive at the Company's consolidated financial statements, which include condensed consolidated balance sheets as of June 30, 2012 and December 31, 2011, and the condensed consolidating statements of operations, the condensed consolidating statements of comprehensive income and the condensed consolidating statements of cash flows for the three and six months ended June 30, 2012 and July 2, 2011.

Condensed Consolidating Balance Sheet  
As of June 30, 2012  
(in thousands)

	Issuer	Guarantors	Non-guarantors	Eliminations	Consolidated
<b>ASSETS</b>					
Total current assets	\$ 140,396	\$ 417,313	\$ 2,857	\$ (312,512 )	\$ 248,054
Investment in subsidiaries	1,371,568	—	—	(1,371,568 )	—
Property, plant and equipment, net	132,807	289,857	—	—	422,664
Intangible assets, net	15,814	335,253	282	—	351,349
Goodwill	21,860	359,243	266	—	381,369
Investment in unconsolidated subsidiary	—	—	46,359	—	46,359
Other assets	28,717	696	—	—	29,413
	\$ 1,711,162	\$ 1,402,362	\$ 49,764	\$ (1,684,080 )	\$ 1,479,208
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Total current liabilities	\$ 366,825	\$ 78,973	\$ 1,391	\$ (312,512 )	\$ 134,677
Long-term debt, net of current portion	250,000	15	—	—	250,015
Other noncurrent liabilities	56,546	—	179	—	56,725
Deferred income taxes	42,603	—	—	—	42,603
Total liabilities	715,974	78,988	1,570	(312,512 )	484,020
<b>Stockholders' equity:</b>					
Common stock, additional paid-in capital and treasury stock	591,326	1,022,544	53,524	(1,076,068 )	591,326
Retained earnings and accumulated other comprehensive loss	403,862	300,830	(5,330 )	(295,500 )	403,862
Total stockholders' equity	995,188	1,323,374	48,194	(1,371,568 )	995,188
	\$ 1,711,162	\$ 1,402,362	\$ 49,764	\$ (1,684,080 )	\$ 1,479,208

Condensed Consolidating Balance Sheet  
As of December 31, 2011  
(in thousands)

	Issuer	Guarantors	Non-guarantors	Eliminations	Consolidated
<b>ASSETS</b>					
Total current assets	\$ 124,675	\$ 347,989	\$ 3,980	\$ (256,964	) \$ 219,680
Investment in subsidiaries	1,286,175	—	—	(1,286,175	) —
Property, plant and equipment, net	119,898	280,324	—	—	400,222
Intangible assets, net	14,747	347,874	293	—	362,914
Goodwill	21,860	359,243	266	—	381,369
Investment in unconsolidated subsidiary	—	—	21,733	—	21,733
Other assets	27,725	3,387	—	—	31,112
	\$ 1,595,080	\$ 1,338,817	\$ 26,272	\$ (1,543,139	) \$ 1,417,030
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Total current liabilities	\$ 317,561	\$ 63,718	\$ 2,942	\$ (256,964	) \$ 127,257
Long-term debt, net of current portion	280,000	20	—	—	280,020
Other noncurrent liabilities	46,011	12,052	182	—	58,245
Deferred income taxes	31,133	—	—	—	31,133
Total liabilities	674,705	75,790	3,124	(256,964	) 496,655
<b>Stockholders' equity:</b>					
Common stock, additional paid-in capital and treasury stock	583,273	1,022,544	27,982	(1,050,526	) 583,273
Retained earnings and accumulated other comprehensive loss	337,102	240,483	(4,834	) (235,649	) 337,102
Total stockholders' equity	920,375	1,263,027	23,148	(1,286,175	) 920,375
	\$ 1,595,080	\$ 1,338,817	\$ 26,272	\$ (1,543,139	) \$ 1,417,030

Condensed Consolidating Statements of Operations  
For the three months ended June 30, 2012  
(in thousands)

	Issuer	Guarantors	Non-guarantors	Eliminations	Consolidated	
Net sales	\$184,570	\$300,190	\$3,721	\$(51,807)	)\$436,674	
Cost and expenses:						
Cost of sales and operating expenses	142,905	219,470	3,570	(51,807	)314,138	
Selling, general and administrative expenses	18,927	17,933	34	—	36,894	
Depreciation and amortization	5,816	15,853	5	—	21,674	
Total costs and expenses	167,648	253,256	3,609	(51,807	)372,706	
Operating income	16,922	46,934	112	—	63,968	
Interest expense	(5,752	)(1	)—	—	(5,753	)
Other, net	(588	)878	(20	)—	270	)
Equity in net loss of unconsolidated subsidiary	—	—	(656	)—	(656	)
Earnings in investments in subsidiaries	29,519	—	—	(29,519	)—	)

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Income/(loss) before taxes	40,101	47,811	(564	) (29,519	) 57,829
Income taxes (benefit)	3,876	17,938	(210	) —	21,604
Net income (loss)	\$36,225	\$29,873	\$(354	) \$(29,519	) \$36,225

Condensed Consolidating Statements of Operations  
For the six months ended June 30, 2012  
(in thousands)

	Issuer	Guarantors	Non-guarantors	Eliminations	Consolidated
Net sales	\$337,558	\$573,699	\$6,275	\$(93,750)	)\$823,782
Cost and expenses:					
Cost of sales and operating expenses	264,002	414,283	6,072	(93,750)	)590,607
Selling, general and administrative expenses	39,712	34,478	73	—	74,263
Depreciation and amortization	12,112	30,311	11	—	42,434
Total costs and expenses	315,826	479,072	6,156	(93,750)	)707,304
Operating income	21,732	94,627	119	—	116,478
Interest expense	(12,677)	)(1	)—	—	(12,678)
Other, net	(1,230)	)905	(13)	)—	(338)
Equity in net loss of unconsolidated subsidiary	—	—	(892)	)—	(892)
Earnings in investments in subsidiaries	59,851	—	—	(59,851)	)—
Income/(loss) from operations before taxes	67,676	95,531	(786)	) (59,851)	) 102,570
Income taxes (benefit)	2,880	35,184	(290)	)—	37,774
Net income (loss)	\$64,796	\$60,347	\$(496)	) \$(59,851)	)\$64,796

Condensed Consolidating Statements of Operations  
For the three months ended July 2, 2011  
(in thousands)

	Issuer	Guarantors	Non-guarantors	Eliminations	Consolidated
Net sales	\$183,604	\$327,243	\$4,683	\$(44,920)	)\$470,610
Cost and expenses:					
Cost of sales and operating expenses	135,223	230,413	4,489	(44,921)	)325,204
Selling, general and administrative expenses	17,524	16,527	41	—	34,092
Depreciation and amortization	5,571	13,473	11	—	19,055
Total costs and expenses	158,318	260,413	4,541	(44,921)	)378,351
Operating income	25,286	66,830	142	1	92,259
Interest expense	(7,745)	)—	—	—	(7,745)
Other, net	(750)	)(205	)102	(1	)(854)
Equity in net loss of unconsolidated subsidiary	—	—	(1,174)	)—	(1,174)
Earnings in investments in subsidiaries	41,588	—	—	(41,588)	)—
Income/(loss) before taxes	58,379	66,625	(930)	) (41,588)	)82,486
Income taxes (benefit)	6,152	24,448	(341)	)—	30,259
Net income (loss)	\$52,227	\$42,177	\$(589)	) \$(41,588)	)\$52,227



Condensed Consolidating Statements of Operations  
For the six months ended July 2, 2011  
(in thousands)

	Issuer	Guarantors	Non-guarantors	Eliminations	Consolidated
Net sales	\$358,259	\$634,357	\$11,232	\$(93,340)	)\$910,508
Cost and expenses:					
Cost of sales and operating expenses	267,211	441,938	10,746	(93,340)	)626,555
Selling, general and administrative expenses	32,711	31,993	81	—	64,785
Depreciation and amortization	11,755	26,970	11	—	38,736
Total costs and expenses	311,677	500,901	10,838	(93,340)	)730,076
Operating income	46,582	133,456	394	—	180,432
Interest expense	(21,972)	)(1	)—	—	(21,973)
Other, net	(1,274)	)(281	)95	—	(1,460)
Equity in net loss of unconsolidated subsidiary	—	—	(1,174)	)—	(1,174)
Earnings in investments in subsidiaries	83,995	—	—	(83,995)	)—
Income/(loss) from operations before taxes	107,331	133,174	(685)	)(83,995)	)155,825
Income taxes (benefit)	8,542	48,745	(251)	)—	57,036
Net income (loss)	\$98,789	\$84,429	\$(434)	)(83,995)	)\$98,789

Condensed Consolidating Statements of Comprehensive Income (Loss)  
For the three months ended June 30, 2012  
(in thousands)

	Issuer	Guarantors	Non-guarantors	Eliminations	Consolidated
Net income	\$36,225	\$29,873	\$(354)	)(29,519)	)\$36,225
Other comprehensive income (loss):					
Pension adjustments, net of tax	742	—	—	—	742
Natural gas swap derivative adjustments, net of tax	314	—	—	—	314
Interest rate swap derivative adjustment, net of tax	17	—	—	—	17
Total other comprehensive income (loss)	1,073	—	—	—	1,073
Total comprehensive income (loss)	\$37,298	\$29,873	\$(354)	)(29,519)	)\$37,298

Condensed Consolidating Statements of Comprehensive Income (Loss)  
For the six months ended June 30, 2012  
(in thousands)

	Issuer	Guarantors	Non-guarantors	Eliminations	Consolidated
Net income	\$64,796	\$60,347	\$(496)	)(59,851)	)\$64,796
Other comprehensive income (loss):					
Pension adjustments, net of tax	1,484	—	—	—	1,484
Natural gas swap derivative adjustments, net of tax	321	—	—	—	321

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Interest rate swap derivative adjustment, net of tax	159	—	—	—	159
Total other comprehensive income (loss)	1,964	—	—	—	1,964
Total comprehensive income (loss)	\$66,760	\$60,347	\$(496	) \$(59,851	) \$66,760

Condensed Consolidating Statements of Comprehensive Income (Loss)

For the three months ended July 2, 2011

(in thousands)

	Issuer	Guarantors	Non-guarantors	Eliminations	Consolidated
Net income	\$52,227	\$42,177	\$(589	) \$(41,588	) \$52,227
Other comprehensive income (loss):					