DARLING INGREDIENTS INC.
Form 10-Q
August 07, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)
/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 28, 2014
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 INGREDIENTS INC.
(Exact name of registrant as specified in its charter)
(Formerly Darling International Inc.)

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

Large accelerated filer	X	Accelerated filer	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

There were 164,658,062 shares of common stock, $0.01 par value, outstanding at July 31, 2014.

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DARLING INGREDIENTS INC. AND SUBSIDIARIES
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 28, 2014

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DARLING INGREDIENTS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
June 28, 2014 and December 28, 2013
(in thousands, except share data)

	June 28, 2014 (unaudited)	December 28, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$143,785	$870,857
Restricted cash	350	354
Accounts receivable, net	467,392	112,844
Inventories	431,529	65,133
Prepaid expenses	26,296	14,223
Income taxes refundable	26,448	14,512
Other current assets	33,022	32,290
Deferred income taxes	18,955	17,289
Total current assets	1,147,777	1,127,502
Property, plant and equipment, less accumulated depreciation of $467,749 at June 28, 2014 and $381,314 at December 28, 2013	1,697,058	666,573
Intangible assets, less accumulated amortization of $146,900 at June 28, 2014 and $105,070 at December 28, 2013	1,037,479	588,664
Goodwill	1,442,299	701,637
Investment in unconsolidated subsidiaries	147,662	115,114
Other assets	76,077	44,643
Deferred income taxes	6,443	—
	$5,554,795	$3,244,133
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$68,616	$19,888
Accounts payable, principally trade	313,171	43,742
Income taxes payable	7,830	—
Accrued expenses	167,552	113,174
Total current liabilities	557,169	176,804
Long-term debt, net of current portion	2,302,655	866,947
Other non-current liabilities	98,241	40,671
Deferred income taxes	472,863	138,759
Total liabilities	3,430,928	1,223,181
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value; 250,000,000 shares authorized; 165,917,726 and 165,261,003 shares issued at June 28, 2014 and at December 28, 2013, respectively	1,659	1,653
Additional paid-in capital	1,470,908	1,454,250
Treasury stock, at cost; 1,259,664 and 993,578 shares at	(18,685)	(13,271)

June 28, 2014 and at December 28, 2013, respectively		
Accumulated other comprehensive loss	(16,199)	(29,423)
Retained earnings	587,697	607,743
Total Darling's stockholders' equity	2,025,380	2,020,952
Noncontrolling interests	98,487	—
Total stockholders' equity	$2,123,867	$2,020,952
	$5,554,795	$3,244,133

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

DARLING INGREDIENTS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
Three and six months months ended June 28, 2014 and June 29, 2013
(in thousands, except per share data)
(unaudited)

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net sales	$1,006,959	$423,593	$1,938,394	$869,015
Costs and expenses:				
Cost of sales and operating expenses	747,966	309,922	1,492,945	632,608
Selling, general and administrative expenses	111,845	40,793	217,248	83,086
Acquisition and integration costs	4,165	—	20,113	—
Depreciation and amortization	67,498	22,076	133,167	43,943
Total costs and expenses	931,474	372,791	1,863,473	759,637
Operating income	75,485	50,802	74,921	109,378
Other expense:				
Interest expense	(26,571)	(5,669)	(85,428)	(11,294)
Foreign currency gain/ (loss)	11	—	(13,803)	—
Other income/ (expense), net	(887)	(418)	(2,025)	649
Total other expense	(27,447)	(6,087)	(101,256)	(10,645)
Equity in net income/ (loss) of unconsolidated subsidiaries	2,040	(1,962)	7,117	(3,157)
Income/ (loss) before income taxes	50,078	42,753	(19,218)	95,576
Income tax expense/ (benefit)	15,503	16,335	(2,787)	36,753
Net income/ (Loss)	34,575	26,418	(16,431)	58,823
Net (income)/ loss attributable to noncontrolling interests	(1,818)	—	(3,615)	—
Net income/ (loss) attributable to Darling	$32,757	$26,418	$(20,046)	$58,823
Basic income/ (loss) per share	$0.20	$0.22	$(0.12)	$0.50
Diluted income/ (loss) per share	$0.20	$0.22	$(0.12)	$0.50

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

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DARLING INGREDIENTS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/ (LOSS)
Three and six months months ended June 28, 2014 and June 29, 2013
(in thousands)
(unaudited)

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net income/ (loss)	$34,575	$26,418	$(16,431)	$58,823
Other comprehensive income, net of tax:				
Foreign currency translation	(6,931)	—	13,684	—
Pension adjustments	321	805	641	1,610
Natural gas swap derivative adjustments	(11)	(209)	(124)	(61)
Corn option derivative adjustments	621	358	(977)	1,307
Total other comprehensive income/ (loss), net of tax	(6,000)	954	13,224	2,856
Total comprehensive income/ (loss)	$28,575	$27,372	$(3,207)	$61,679

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

DARLING INGREDIENTS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Six months ended June 28, 2014 and June 29, 2013
(in thousands)
(unaudited)

	June 28, 2014	June 29, 2013
Cash flows from operating activities:		
Net income/ (loss)	$(16,431)	$58,823
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	133,167	43,943
Gain on disposal of property, plant, equipment and other assets	(839)	(627)
Gain on insurance proceeds from insurance settlements	—	(1,981)
Deferred taxes	(12,882)	23,539
Increase/ (decrease) in long-term pension liability	(6,519)	600
Stock-based compensation expense	14,583	4,875
Write-off deferred loan costs	4,330	—
Deferred loan cost amortization	4,911	1,537
Equity in net (income)/ loss of unconsolidated subsidiaries	(7,117)	3,157
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(36,920)	6,259
Income taxes refundable/payable	(3,181)	(273)
Inventories and prepaid expenses	(2,806)	(3,880)
Accounts payable and accrued expenses	(25,218)	(333)
Other	(4,054)	(6,459)
Net cash provided by operating activities	41,024	129,180
Cash flows from investing activities:		
Capital expenditures	(103,531)	(54,689)
Acquisitions, net of cash acquired	(2,075,651)	—
Investment in unconsolidated subsidiary	—	(44,959)
Gross proceeds from disposal of property, plant and equipment and other assets	2,308	1,292
Proceeds from insurance settlement	—	1,981
Payments related to routes and other intangibles	(7,312)	(649)
Net cash used by investing activities	(2,184,186)	(97,024)
Cash flows from financing activities:		
Proceeds from long-term debt	1,821,196	—
Payments on long-term debt	(287,066)	(40)
Borrowings from revolving credit facility	170,143	—
Payments on revolving credit facility	(257,254)	—
Net cash overdraft financing	9,529	—
Deferred loan costs	(44,865)	—
Issuance of common stock	417	32
Minimum withholding taxes paid on stock awards	(5,495)	(2,529)
Excess tax benefits from stock-based compensation	1,329	703
Net cash provided/ (used) by financing activities	1,407,934	(1,834)
Effect of exchange rate changes on cash and cash equivalents	8,156	—
Net increase/ (decrease) in cash and cash equivalents	(727,072)	30,322

Cash and cash equivalents at beginning of period	870,857	103,249
Cash and cash equivalents at end of period	$143,785	$133,571
Supplemental disclosure of cash flow information:		
Accrued capital expenditures	$(2,300)	$(1,074)
Cash paid during the period for:		
Interest, net of capitalized interest	$47,851	$9,756
Income taxes, net of refunds	$11,301	$17,713

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

DARLING INGREDIENTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
June 28, 2014
(unaudited)

(1) General

On May 6, 2014, the stockholders of Darling International Inc. approved changing the name of the company from Darling International Inc. to Darling Ingredients Inc. The change became effective on May 6, 2014. Darling Ingredients Inc., a Delaware corporation ("Darling", and together with its subsidiaries, the "Company"), is a global developer and producer of sustainable natural ingredients from edible and inedible bio-nutrients, creating a wide range of ingredients and customized specialty solutions for customers in the pharmaceutical, food, pet food, feed, technical, fuel, bioenergy and fertilizer industries. As further discussed in Note 3, on January 7, 2014, the Company acquired the VION Ingredients business division ("VION Ingredients") of VION Holding, N.V., a Dutch limited liability company ("VION"), by purchasing all of the shares of VION Ingredients International (Holding) B.V., and VION Ingredients Germany GmbH, and 60% of Best Hides GmbH (collectively, the "VION Companies"), pursuant to a Sale and Purchase Agreement dated October 5, 2013, as amended, between Darling and VION (the "VION Acquisition"). The VION Ingredients business is now conducted under the name Darling Ingredients International. In addition, on October 28, 2013, Darling completed the acquisition of substantially all of the assets of Rothsay ("Rothsay"), a division of Maple Leaf Foods, Inc. ("MFI"), a Canadian corporation, pursuant to an Acquisition Agreement between MFI and Darling dated August 23, 2013 (the "Rothsay Acquisition").

The Company's business is now conducted through a global network of over 200 locations across five continents. Effective December 29, 2013, the Company's business operations were reorganized into three new segments, Feed Ingredients, Food Ingredients and Fuel Ingredients, in order to better align its business with the underlying markets and customers that the Company serves. All historical periods have been recast to reflect the changes to the segment reporting structure. Comparative segment revenues and related financial information are presented in Note 14 to the consolidated financial statements.

The accompanying consolidated financial statements for the six month periods ended June 28, 2014 and June 29, 2013, have been prepared by the Company in accordance with generally accepted accounting principles in the United States ("GAAP") 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 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 28, 2013. Note that because of the 2013 and 2014 acquisitions described above, the audited consolidated financial statements contained in the Company's Form 10-K for the fiscal year ended December 28, 2013 may not be comparable to the unaudited consolidated financial statements contained herein.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements include the accounts of Darling and its consolidated subsidiaries. Noncontrolling interests represents the outstanding ownership interest in the Company's consolidated subsidiaries that are not owned by the Company. In the accompanying Consolidated Statements of Operations, the noncontrolling interest in net income (loss) of the consolidated subsidiaries is shown as an allocation of the Company's net income and is presented separately as "Net income/(loss) attributable to noncontrolling interests". In the Company's Consolidated Balance Sheets, noncontrolling interests represents the ownership interests in the Company consolidated subsidairies' net assets held by parties other than the Company. These ownership interests are presented separately as "Noncontrolling interests" within "Stockholders' Equity." 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 28, 2014, and include the 13 and 26 weeks ended June 28, 2014, and the 13 and 26 weeks ended June 29, 2013.

(c) 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 service revenue in the fiscal month the service occurs.

(d) Foreign Currency Translation and Remeasurement

Foreign currency translation is included as a component of accumulated other comprehensive income and reflects the adjustments resulting from translating the foreign currency denominated financial statements of foreign subsidiaries into U.S. dollars. The functional currency of the Company's foreign subsidiaries is the currency of the primary economic environment in which the entity operates, which is generally the local currency of the country. Accordingly, assets and liabilities of the foreign subsidiaries are translated to U.S. dollars at fiscal period end exchange rates, including intercompany foreign currency transactions that are of long-term investment nature. Income and expense items are translated at average exchange rates occurring during the period. Changes in exchange rates that affect cash flows and the related receivables or payables are recognized as transaction gains and losses in determining net income. The Company incurred net foreign currency translation gains of approximately $13.7 million in the six months ended June 28, 2014 and no currency translation gains and losses in the six months ended June 29, 2013. In addition, the Company incurred foreign currency losses in the statement of operations of approximately $13.8 million in the six months ended June 28, 2014, with $12.6 million representing a loss on a hedge transaction during the first quarter of fiscal 2014.

(e) Reclassifications

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

(f) Earnings Per Share

Basic income/ (loss) per common share is computed by dividing net income attributable to Darling by the weighted average number of common shares including non-vested and restricted shares outstanding during the period. Diluted income/ (loss) per common share is computed by dividing net income attributable to Darling by the weighted average number of common shares outstanding during the period increased by dilutive common equivalent shares determined using the treasury stock method.

	Net Income per Common Share (in thousands, except per share data)					
	Three Months Ended					
		June 28, 2014			June 29, 2013	
	Income	Shares	Per Share	Income	Shares	Per Share
Basic:						
Net Income allocable to Darling	$32,757	164,600	$0.20	$26,418	118,196	$0.22

Diluted:						
Effect of dilutive securities:						
Add: Option shares in the money and dilutive effect of non-vested stock awards		1,071			690	
Less: Pro forma treasury shares		(574)			(298)	
Diluted:						
Net income allocable to Darling	$32,757	165,097	$0.20	$26,418	118,588	$0.22

	Net Income/ (loss) per Common Share (in thousands, except per share data) Six Months Ended					
		June 28, 2014			June 29, 2013	
	Loss	Shares	Per Share	Income	Shares	Per Share
Basic:						
Net Income/ (loss) allocable to Darling	$(20,046)	164,469	$(0.12)	$58,823	118,056	$0.50
Diluted:						
Effect of dilutive securities:						
Add: Option shares in the money and dilutive effect of non-vested stock		—			688	
Less: Pro forma treasury shares		—			(304)	
Diluted:						
Net income/ (loss) allocable to Darling	$(20,046)	164,469	$(0.12)	$58,823	118,440	$0.50

For the three months ended June 28, 2014 and June 29, 2013, respectively, 163,078 and 331,367 outstanding stock options were excluded from diluted income/ (loss) per common share as the effect was antidilutive. For the three months ended June 28, 2014 and June 29, 2013, respectively, 740,988 and 58,942 shares of non-vested stock and stock equivalents were excluded from diluted income/ (loss) per common share as the effect was antidilutive.

For the six months ended June 28, 2014 and June 29, 2013, respectively, 975,799 and 261,498 outstanding stock options were excluded from diluted income/ (loss) per common share as the effect was antidilutive. For the six months ended June 28, 2014 and June 29, 2013, respectively, 919,798 and 61,735 shares of non-vested stock and stock equivalents were excluded from diluted income/ (loss) per common share as the effect was antidilutive.

(3) Acquisitions

On January 7, 2014, the Company acquired the VION Ingredients business division from VION by purchasing shares of the VION Companies as described in Note 1, pursuant to a Sale and Purchase Agreement dated October 5, 2013, as amended, between Darling and VION. The VION Ingredients business is now conducted under the name Darling Ingredients International. Darling Ingredients International is a worldwide leader in the development and production of specialty ingredients from animal by-products for applications in pharmaceuticals, food, pet food, feed, fuel, bioenergy and fertilizer. Darling Ingredients International operates a global network of 67 production facilities across five continents covering all aspects of animal by-product processing through six brands: Rendac (bioenergy), Sonac (bone products, proteins, fats, edible fats and plasma products), Ecoson (bioenergy), Rousselot (gelatin and collagen hydrolysates), CTH (natural casings) and Best Hides (hides and skins). Darling Ingredients International's specialized portfolio of over 400 products covers all animal origin raw material types and thereby offers a comprehensive, single source solution for suppliers. Darling Ingredients International's business has leading positions across Europe with operations in the Netherlands, Belgium, Germany, Poland and Italy under the Rendac and Sonac brand names. Value-added products include edible fats, blood plasma powder, hemoglobin, bone products, protein meals and fats. Rousselot is a global leading market provider of gelatin for the pharmaceutical, food and technical industries with operations in Europe, the United States, South America and China. CTH is a market leader in natural casings for the sausage industry with operations in Europe, China and the United States. The purchase of the VION Companies allows the Company to have a global reach. The purchase price for the transaction was approximately €1.6 billion in cash (approximately $2.2 billion at the exchange rate of €1.00:USD$1.3605). The purchase price was financed through (i) borrowings under the Company's senior secured revolving credit facility and term loan facilities; (ii) proceeds from the Company's $874.0 million public common stock offering in the fourth quarter of fiscal 2013; and (iii) proceeds from the private offering of $500.0 million aggregate principal amount of the Company's 5.375% Senior Notes due 2022, that closed on January 2, 2014.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed in the VION Acquisition as of January 7, 2014 (unaudited) (in thousands):

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Accounts receivable	$318,272
Inventory	375,306
Deferred tax asset	18,852
Property and equipment	1,017,112
Identifiable intangibles	481,278
Goodwill	740,573
Investment in unconsolidated subsidiaries	27,069
Other long term assets	1,101
Accounts payable	(337,437)
Current portion of long-term debt	(22,399)
Accrued expenses	(17,310)
Deferred tax liability	(361,861)
Long debt obligations	(6,906)
Other non-current liabilities	(58,996)
Noncontrolling interests	(99,648)
Purchase price, net of cash acquired	$2,075,006

Preliminarily, $241.7 million of the goodwill was assigned to the Feed Ingredients segment, $388.1 million to the Food Ingredients segment and $110.7 million to the Fuel Ingredients segment. Of the VION Acquisition goodwill, approximately 33% is expected to be deductible for tax purposes. Identifiable intangibles include trademarks and trade names with indefinite lives of approximately $32.0 million and definite lived intangible assets including routes of approximately $209.4 million with a weighted average useful life of 10 years, $225.6 million in permits with a weighted average useful life of 15 years and patents and other intangibles of approximately $14.4 million with a weighted average useful life of 8 years. The VION Acquisition is a taxable stock sale and as a result there were deferred taxes that were created. Due to the complexity and timing of the VION Acquisition, the Company is still assessing the provisional amounts recorded for assets acquired and accrued liabilities assumed; thus, the final determination of the value of assets acquired and liabilities assumed may result in retrospective adjustments to the values presented above with a corresponding adjustment to goodwill and if material, retrospective adjustments to earnings would be required.

The Company also incurred selling and general administrative expenses as part of the Rothsay Acquisition and the VION Acquisition for consulting and legal expenses and integration expenses in the amount of approximately $20.1 million during the first six months of fiscal 2014.

The amount of revenue and net income/loss from the VION Acquisition included in the Company’s consolidated statement of operations for the six months ended June 28, 2014 were $1,028.5 million and a loss of approximately $14.0 million, respectively.

On October 28, 2013, Darling completed the acquisition of substantially all of the assets of Rothsay for approximately CAD $640.2 million (approximately USD$612.6 million at the exchange rate of CAD$1.00:USD$0.9569) comprised of cash of CAD$644.5 million less a contingent receivable of approximately CAD$4.3 million due to overpayment for working capital, which was returned by MFI in the first quarter of fiscal 2014. The cash portion of the Rothsay Acquisition was funded through a combination of borrowings under Darling's senior secured revolving credit facility and term loan facility. Rothsay has a network of five rendering plants in Manitoba, Ontario and Nova Scotia and a biodiesel operation in Quebec, Canada. The Rothsay Acquisition not only adds significant scale by expanding the Company's geographic footprint into Canada, but also provides the Company with an opportunity for synergies by sharing best practices between Rothsay and the Company's existing operations and by improving efficiencies.

As a result of the Rothsay Acquisition and the VION Acquisition, effective October 28, 2013 and January 7, 2014, respectively, the Company began including the operations of the Rothsay Acquisition and the VION Acquisition into the Company's consolidated financial statements. The following table presents selected pro forma information, for comparative purposes, assuming the Rothsay Acquisition and the VION Acquisition had occurred on December 30, 2012 for the periods presented (unaudited) (in thousands, except per share data):

	Three Months Ended June 29, 2013	Six Months Ended June 29, 2013
Net sales	$1,036,230	$2,073,834
Income from continuing operations	64,305	141,146
Net income	38,684	84,713
Earnings per share		
Basic	$0.23	$0.51
Diluted	$0.23	$0.51

The selected unaudited pro forma information is not necessarily indicative of the consolidated results of operations for future periods or the results of operations that would have been realized had the VION Acquisition and the Rothsay Acquisition actually occurred on December 30, 2012 and excludes certain nonrecurring transactions directly related to the acquisitions.

The Company notes the acquisitions discussed below are not considered related businesses and therefore, are not required to be treated as a single business combination. Pro forma results of operations for these acquisitions have not been presented because the effect of each acquisition individually is not deemed material to revenues and net income of the Company for any fiscal period presented.

On August 26, 2013, a wholly-owned subsidiary of Darling, Darling AWS LLC, a Delaware limited liability company, acquired all of the shares of Terra Holding Company, a Delaware corporation, and its wholly owned subsidiaries, Terra Renewal Services, Inc., an Arkansas corporation ("TRS"), and EV Acquisition, Inc., an Arkansas corporation (the "Terra Transaction"). The Terra Transaction increased the Company's rendering portfolio by adding an additional grease collection business to the Company's existing Feed Ingredients segment and adding an industrial residuals business as a new line of service for the Company's feed raw material suppliers within the Feed Ingredients segment.

Effective August 26, 2013, the Company began including the operations acquired in the Terra Transaction into the Company's consolidated financial statements. The Company paid approximately $122.1 million in cash including an additional $0.7 million for working capital in the first quarter of fiscal 2014, for assets and assumed liabilities consisting of property, plant and equipment of $27.7 million, intangible assets of $46.2 million, goodwill of $61.1 million, deferred tax liability of $19.5 million and working capital of $6.6 million on the closing date. The goodwill from the Terra Transaction was assigned to the Feed Ingredients segment and is not deductible for tax purposes, though TRS has approximately $5.2 million of goodwill deductible for tax purposes related to prior acquisitions. The identifiable intangibles have a weighted average life of 12 years.

(4) Inventories

A summary of inventories follows (in thousands):

	June 28, 2014	December 28, 2013
Finished product	$295,987	$57,681
Work in process	85,718	—
Supplies and other	49,824	7,452
	$431,529	$65,133

Following the VION Acquisition, the Company began to carry larger amounts of inventories as compared to historical periods because the gelatin and casing business purchased in the VION Acquisition traditionally have required longer processing periods to produce the end product and greater available inventory than Darling's historical products require. The Company's work in process inventory represents inventory in the Food Ingredients segment that is in various stages of processing.

(5) Investment in Unconsolidated Subsidiaries

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 “DGD Joint Venture”). The DGD Joint Venture is owned 50% / 50% with Valero and was formed to design, engineer, construct and operate a renewable diesel plant (the “DGD Facility”), which is capable of producing approximately 9,300 barrels per day of renewable diesel fuel and certain other co-products, and is located adjacent to Valero's refinery in Norco, Louisiana. The DGD Joint Venture reached mechanical completion and began the production of renewable diesel in late June 2013.

On May 31, 2011, the DGD Joint Venture and Diamond Green Diesel LLC, a wholly-owned subsidiary of the DGD 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 provided the DGD 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 DGD Facility, which is now in production. 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 DGD 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.

In addition to the DGD Joint Venture, the Company has investments in other unconsolidated subsidiaries that were acquired in the VION Acquisition that are insignificant to the Company. Selected financial information for the Company's DGD Joint Venture is as follows (in thousands):

Three Months Ended June 30, 2014		Three Months Ended June 30, 2013	
Revenues	Net Income	Revenues	Net Loss
$148,064	$2,958	$42	$(3,923)

As of June 30, 2014		Six Months Ended June 30,2014		Six Months Ended June 30, 2013	
Total Assets	Members' Equity	Revenues	Net Income	Revenues	Net Loss
$497,146	$242,535	$267,721	$12,307	$42	$(6,314)

As of June 28, 2014 under the equity method of accounting, the Company has an investment in the DGD Joint Venture of approximately $121.3 million on the consolidated balance sheet and has recorded approximately $6.2 million of income and $3.2 million in losses in the unconsolidated subsidiary for the six months ended June 28, 2014 and June 29, 2013, respectively.

(6) Subsequent Event

On August 3, 2014, a fire occurred at the Diamond Green Diesel facility in Norco, LA. The fire was isolated and extinguished and no one was injured. The preliminary assessment of the incident appears to indicate that no major damage occurred to any of the vessels. Damage appears to be relatively isolated and will require some piping, mechanical and electrical replacements. The cause of the fire remains unknown at this time. The facility is currently shut down, and while it is early in the preliminary assessment phase, we believe that the facility may be operational within 60 days. The DGD Joint Venture is in the process of reviewing its insurance policies, including property damage and business interruption, for available coverage under such policies. Any claims made under such policies will be subject to the terms and conditions of the underlying policy, including applicable deductibles and waiting periods.

Additionally, a decision has been made to move forward with a limited turnaround during this downtime to replace some catalyst in the Eco-finer unit along with several debottlenecking and metallurgical upgrades that should result in a nameplate capacity increase of approximately 10% for winter production.

(7) Debt

Debt consists of the following (in thousands):

	June 28, 2014	December 28, 2013
Amended Credit Agreement and Former Credit Agreement:		
Revolving Credit Facility	$ 200,018	$ 286,676
Term Loan A	336,421	340,030
Term Loan B	1,294,442	—
5.375% Senior Notes due 2022	500,000	—
8.5% Senior Notes due 2018	—	250,000
Other Notes and Obligations	40,390	10,129
	2,371,271	886,835
Less Current Maturities	68,616	19,888
	$ 2,302,655	$ 866,947

At June 28, 2014, the Company had outstanding debt under a term loan facility and revolving credit facility denominated in Canadian dollars of CAD$148.1 million and CAD$48.0 million, respectively. See below for discussion relating to the Company's debt agreements. In addition, at June 28, 2014, the Company had capital lease obligations denominated in Canadian dollars included in debt. The current capital lease obligation and long-term capital lease obligation in Canadian dollars was approximately CAD$3.2 million and CAD$6.1 million, respectively.

At June 28, 2014, the Company had outstanding debt under a term loan facility denominated in euros of €510.0 million

Senior Secured Credit Facilities. On January 6, 2014, Darling, Darling International Canada Inc. ("Darling Canada") and Darling International NL Holdings B.V. ("Darling NL") entered into a Second Amended and Restated Credit Agreement (the "Amended Credit Agreement"), restating its then existing Amended and Restated Credit Agreement (the "Former Credit Agreement") dated September 27, 2013, with the lenders from time to time party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and the other agents from time to time party thereto.

The Amended Credit Agreement provides for senior secured credit facilities in the aggregate principal amount of $2.65 billion comprised of (i) the Company's $350.0 million term loan A facility, (ii) the Company's $1.3 billion term loan B facility and (iii) the Company's $1.0 billion five-year revolving loan facility (approximately $250.0 million of which is available for a letter of credit sub-facility and $50.0 million of which is available for a swingline sub-facility) (collectively, the "Senior Secured Credit Facilities"). The Amended Credit Agreement also permits Darling and the other borrowers thereunder to incur ancillary facilities provided by any revolving lender party to the Senior Secured Credit Facilities (with certain restrictions). Up to $350.0 million of the revolving loan facility is available to be borrowed by Darling in U.S. dollars, Canadian dollars, euros and other currencies to be agreed and available to each applicable lender, to be borrowed in Canadian dollars by Darling Canada and to be borrowed in U.S. dollars, euros and other currencies to be agreed and available to each applicable lender by Darling NL and certain other foreign subsidiaries of Darling who were added as borrowers following January 6, 2014. On January 6, 2014, $600.0 million of the term loan B facility was borrowed in U.S. dollars by Darling and the euro equivalent of $700.0 million of the term loan B facility was borrowed in euros by Darling NL. Those borrowings under the term loan B facility are currently outstanding. The proceeds of the term loan B facility and a portion of the revolving loan facility were used by Darling to pay a portion of the consideration for the VION Acquisition. The revolving loan facility will also be used for working capital needs, general corporate purposes and other purposes not prohibited by the Amended Credit

Agreement.

As of June 28, 2014, the Company has borrowed all $350.0 million of the term loan A facility which, when repaid, cannot be reborrowed. The term loan A facility is repayable in quarterly installments as follows: for the first eight quarters, 1.25% of the original principal amount of the term loan A facility, for the ninth through sixteenth quarters, 1.875% of the original principal amount of the term loan A facility, and for each quarterly installment after such sixteenth installment until September 27, 2018, 3.75% of the original principal amount of the term loan A facility. The term loan A facility will mature on September 27, 2018.

As of June 28, 2014, the Company has borrowed all $1.3 billion under the terms of the term loan B facility, which when repaid, cannot be reborrowed. The term loan B facility is repayable in quarterly installments of 0.25% of the aggregate principal amount of the relevant term loan B facility on the last day of each March, June, September and December of each year commencing on the last day of each month falling on or after the last day of the first full quarter of the closing date of the VION Acquisition and continuing until the last day of each quarter period ending immediately prior to the term loan B maturity date; and one final installment in the amount of the relevant term loan B facility then outstanding, due on the term loan B maturity date. The term loan B facility will mature on January 7, 2021.

The interest rate applicable to any borrowings under the term loan A facility and the revolving loan facility will equal either LIBOR/euro interbank offered rate/CDOR plus 2.50% per annum or base rate/Canadian prime rate plus 1.50% per annum, subject to certain step-downs based on the Company's total leverage ratio. The interest rate applicable to any borrowings under the term loan B facility will equal (a) for U.S. dollar term loans, either the base rate plus 1.50% or LIBOR plus 2.50%, and (b) for euro term loans, the euro interbank offered rate plus 2.75%, in each case subject to a step-down based on Darling’s total leverage ratio. For term loan B loans, the LIBOR rate shall not be less than 0.75%.

At June 28, 2014, the Company had $197.5 million outstanding under the term loan A facility at LIBOR plus a margin of 2.5% per annum for a total of 2.75% per annum and had $155.0 million outstanding under the revolver at LIBOR plus a margin of 2.5% per annum for a total of 2.6875% per annum. The Company had $600.0 million outstanding under the term loan B facility at LIBOR plus a margin of 2.5% per annum for a total of 3.25% per annum. The Company had CAD$148.1 million outstanding under the term loan A facility at CDOR plus a margin of 2.5% per annum for a total of 3.864% per annum and had CAD$48.0 million outstanding under the revolver at CDOR plus a margin of 2.5% per annum for a total of 3.84% per annum. The Company had €510.0 million outstanding under the term loan B facility at LIBOR plus a margin of 2.75% per annum for a total of 3.5% per annum. As of June 28, 2014, the Company had availability of $767.3 million under the Credit Agreement taking into account amounts borrowed and letters of credit issued of $32.7 million. In addition, the Company has capitalized approximately $36.1 million of deferred loan costs during the first six months of fiscal 2014.

The Amended Credit Agreement contains various customary representations and warranties by the Company, which include customary use of materiality, material adverse effect and knowledge qualifiers. The Amended Credit Agreement also contains (a) certain affirmative covenants that impose certain reporting and/or performance obligations on Darling and its subsidiaries, (b) certain negative covenants that generally prohibit, subject to various exceptions, Darling and its restricted subsidiaries from taking certain actions, including, without limitation, incurring indebtedness, making investments, incurring liens, paying dividends and engaging in mergers and consolidations, sale and leasebacks and asset dispositions, (c) financial covenants, which include a maximum total leverage ratio, a maximum secured leverage ratio and a minimum interest coverage ratio and (d) customary events of default (including a change of control) for financings of this type. Obligations under the Senior Secured Credit Facilities may be declared due and payable upon the occurrence and during the continuance of customary events of default.

Pursuant to the Second Amended and Restated Security Agreement, dated as of January 6, 2014 (the "Security Agreement"), by and among Darling, its domestic subsidiaries signatory thereto and any other domestic subsidiary who may become a party thereto and JPMorgan Chase Bank, N.A., as administrative agent, the Senior Secured Credit Facilities are secured, subject to certain carveouts and exceptions, by a first priority lien on substantially all of the assets of Darling and such domestic subsidiaries. The obligations of Darling Canada, Darling NL and any other foreign borrower under the Senior Secured Credit Facilities will also be secured by a first priority lien on certain assets of certain of Darling’s foreign subsidiaries (including, after the VION Acquisition, certain of the subsidiaries acquired from VION) organized in Canada, Belgium, Germany, the Netherlands and Brazil, subject to certain carveouts and exceptions.

Pursuant to the Second Amended and Restated Guaranty Agreement, dated as of January 6, 2014 (the "Guaranty Agreement"), (a) the obligations of Darling under the Senior Secured Credit Facilities are guaranteed by certain of Darling’s wholly-owned domestic subsidiaries and (b) the obligations of Darling Canada, Darling NL and any other foreign borrower under the Senior Secured Credit Facilities are guaranteed by Darling and certain of its domestic and foreign wholly-owned subsidiaries, in each case subject to certain carveouts and exceptions.

Senior Notes due 2022. On December 18, 2013, Darling Escrow Corporation ("Darling Escrow Sub"), a Delaware corporation and wholly-owned subsidiary of Darling entered into a purchase agreement (the “Original Purchase Agreement”) with the initial purchasers party thereto (the "Initial Purchasers"), for the sale of $500.0 million aggregate principal amount of its 5.375% Notes due 2022 (the "5.375% Notes"). On January 2, 2014, the 5.375% Notes, which were offered in a private offering in connection with the VION Acquisition, were issued pursuant to a 5.375% Notes Indenture, dated as of January 2, 2014 (the "Original Indenture"), among Darling Escrow Sub, the Subsidiary Guarantors (as defined in the Original Indenture) party thereto from time to time and U.S. Bank National Association, as trustee (the "Trustee"), with the gross proceeds from the offering of the 5.375% Notes and certain additional amounts deposited in

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an escrow account pending the satisfaction of certain conditions, including the completion of the VION Acquisition, which occurred on January 7, 2014.

On January 8, 2014 (the "Notes Closing Date"), Darling Escrow Sub merged (the "Notes Merger") with and into Darling (with Darling as the survivor of the Notes Merger), pursuant to an Agreement and Plan of Merger, dated January 8, 2014, between Darling Escrow Sub and Darling.

In connection with the completion of the Notes Merger, pursuant to the provisions of the Original Indenture and the Original Purchase Agreement, Darling Escrow Sub, Darling and certain of Darling’s subsidiaries: Craig Protein Division, Inc. ("Craig Protein"), Darling AWS LLC, Darling National LLC ("Darling National"), Darling Northstar LLC, Darling Global Holdings Inc., EV Acquisition, Inc., Griffin Industries LLC ("Griffin"), Terra Holding Company and TRS (such subsidiaries, the "Guarantors") entered into a supplemental indenture with the Trustee (the "Supplemental Indenture," and together with the Original Indenture, the "Indenture"), pursuant to which, upon effectiveness of the Notes Merger, Darling assumed all the obligations of Darling Escrow Sub under the 5.375% Notes and the Indenture and the Guarantors guaranteed the 5.375% Notes and agreed to be bound by the terms of the Indenture applicable to subsidiary guarantors of the 5.375% Notes. In addition, in accordance with the provisions of the Original Purchase Agreement, upon the completion of the Notes Merger, Darling and the Guarantors became parties to the Original Purchase Agreement, by entering into a Joinder to the Purchase Agreement, dated as of the Notes Closing Date (together with the Original Purchase Agreement, the "Purchase Agreement"), with the Initial Purchasers. Upon satisfaction of the escrow release conditions on the Closing Date, the proceeds from the offering of the 5.375% Notes were released from the escrow account in accordance with Darling’s written instructions. Darling used a portion of the proceeds from the offering of the 5.375% Notes to pay the Initial Purchasers’ commission related to the offering of the 5.375% Notes and certain fees and expenses (including bank fees and expenses) related to the financing of the VION Acquisition and for purposes of satisfying, discharging and redeeming its 8.5% Notes due 2018 discussed below.

Darling used the remaining proceeds of the 5.375% Notes to pay certain other fees and expenses related to the completion of the VION Acquisition and its related financings, to repay a portion of the borrowings under its revolving credit facility used to fund a portion of the consideration for the VION Acquisition and for general corporate purposes, which may include the repayment of indebtedness.

The Purchase Agreement contains customary representations, warranties and agreements by Darling and the Guarantors. In addition, Darling and the Guarantors have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act"), or to contribute to payments the Initial Purchasers may be required to make because of any of those liabilities.

The 5.375% Notes will mature on January 15, 2022. Darling will pay interest on the 5.375% Notes on January 15 and July 15 of each year, commencing on July 15, 2014. Interest on the 5.375% Notes will accrue at a rate of 5.375% per annum and be payable in cash. Other than for extraordinary events such as change of control and defined assets sales, the Company is not required to make mandatory redemption or sinking fund payments on the 5.375% Notes

The 5.375% Notes are currently guaranteed on an unsecured senior basis by the Guarantors, which constitute all of Darling’s existing restricted subsidiaries that guarantee the Amended Credit Agreement (other than Darling’s foreign subsidiaries). Under the Indenture, each restricted subsidiary of Darling (other than Darling’s foreign subsidiaries and certain of Darling’s subsidiaries that engage solely in the financing of receivables and are so designated by Darling) is required to guarantee the 5.375% Notes (a) if the Amended Credit Agreement is outstanding and such restricted subsidiary guarantees the Amended Credit Agreement and (b) if the Amended Credit Agreement is not outstanding, if such restricted subsidiary incurs or guarantees certain indebtedness in excess of $50.0 million.

Darling may at any time and from time to time purchase the 5.375% Notes in the open market or otherwise. Darling may redeem some or all of the 5.375% Notes at any time prior to January 15, 2017, at a redemption price equal to 100% of the principal amount of the 5.375% Notes redeemed, plus accrued and unpaid interest to the redemption date and an Applicable Premium as specified in the Indenture.

On and after January 15, 2017, Darling may redeem all or, from time to time, a part of the 5.375% Notes (including any additional 5.375% Notes), upon not less than 30 nor more than 60 days' notice at the following redemption prices (expressed as a percentage of principal amount), plus accrued and unpaid interest on the 5.375% Notes, if any, to, but excluding, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve-month period beginning on January 15 of the years indicated below:

Year	Percentage
2017	104.031%
2018	102.688%
2019	101.344%
2020 and thereafter	100.000%

In addition, prior to January 15, 2017, Darling may on one or more occasions redeem up to 40% of the original principal amount of the 5.375% Notes (calculated after giving effect to the issuance of any additional 5.375% Notes) with the net cash proceeds of one or more equity offerings at a redemption price equal to 105.375% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but excluding, the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that at least 50% of the original principal amount of the 5.375% Notes (calculated after giving effect to the issuance of any additional 5.375% Notes) remains outstanding after each such redemption; provided further that the redemption occurs within 90 days after the closing of such equity offering.

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 5.375% Notes may declare the principal, premium, if any, interest and any other monetary obligations on all the then outstanding 5.375% Notes issued under the Indenture to be due and payable immediately.

Holders of the 5.375% Notes have the benefit of registration rights. In connection with the assumption of the 5.375% Notes by Darling and the guarantee of the 5.375% Notes by the Guarantors, on the Notes Closing Date, Darling and the Guarantors became parties to, and Darling assumed all of Darling Escrow Sub’s obligations under, a registration rights agreement, dated as of January 2, 2014 (the "Original Registration Rights Agreement"), among Darling Escrow Sub, and the Initial Purchasers, by entering into a Joinder to the Registration Rights Agreement, dated as of the Closing Date (the "Registration Rights Agreement Joinder” and together with the Original Registration Rights Agreement, the “Registration Rights Agreement"), with the Initial Purchasers. Under the Registration Rights Agreement, Darling and the Guarantors have agreed to consummate a registered exchange offer for the 5.375% Notes under the Securities Act within 270 days after the Notes Closing Date. Darling and the Guarantors have agreed to file and keep effective for a certain time period under the Securities Act a shelf registration statement for the resale of the 5.375% Notes if an exchange offer cannot be effected and under certain other circumstances. Darling will be required to pay additional interest on the 5.375% Notes if it fails to timely comply with its obligations under the Registration Rights Agreement until such time as it complies. Darling has filed a registration statement with the SEC in connection with the exchange offer and expects to commence the exchange offer during the third quarter of 2014.

Senior Notes due 2018. On December 17, 2010, Darling issued $250.0 million aggregate principal amount of its 8.5% Senior Notes due 2018 (the "8.5% Notes") under an indenture with U.S. Bank National Association, as trustee. On February 7, 2014, the Company completed the redemption of the 8.5% Notes for $280.4 million, which included a redemption premium of approximately $27.3 million and accrued and unpaid interest of approximately $3.1 million.

The Credit Agreement and the Senior Notes due 2022 and 2018 consisted of the following elements at June 28, 2014 and December 28, 2013, respectively (in thousands):

	June 28, 2014	December 28, 2013
Senior Notes:		
5.375% Senior Notes due 2022	$500,000	$—
8.5% Senior Notes due 2018	$—	$250,000
Senior Secured Credit Facilities:		
Term Loan A	$336,421	$340,030
Term Loan B	$1,294,442	$—
Revolving Credit Facility:		
Maximum availability	$1,000,000	$1,000,000
Borrowings outstanding	200,018	286,676
Letters of credit issued	32,663	32,662
Availability	$767,319	$680,662

The obligations of the Company under the Amended Credit Agreement are guaranteed by the Guarantors, each of which is a wholly-owned subsidiary of Darling, and are secured, subject to certain exceptions, by a perfected first priority security interest in all tangible and intangible personal property of Darling and the Guarantors, including a pledge of 100% of the equity interests of certain domestic subsidiaries and 65% of the equity interests of certain foreign subsidiaries. The 5.375% Notes are guaranteed by each of the foregoing subsidiaries, and effective as of January 6, 2014, the 5.375% Notes are secured on an equal and ratable basis with Darling's and the guarantor obligations under the Amended Credit Agreement. The 5.375% Notes and the guarantees thereof rank equally in right of payment to any existing and future senior debt of Darling and the Guarantors, including debt that is secured by the collateral for the Amended Credit Agreement and the 5.375% Notes. The 5.375% Notes and the guarantees thereof will be effectively junior to existing and future debt of Darling and the Guarantors that is secured by assets that do not constitute collateral for the Amended Credit Agreement and the 5.375% Notes, to the extent of the value of the assets securing such debt. The 5.375% Notes and the guarantees thereof 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 5.375% Notes.

The Company's financial covenants are first effective for fiscal quarter ending June 28, 2014, which is the first full fiscal quarter after January 6, 2014. As of June 28, 2014, 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 Indenture.

(8) Income Taxes

The Company has provided income taxes for the six month periods ended June 28, 2014 and June 29, 2013, based on its estimate of the effective tax rate for the entire 2014 and 2013 fiscal years. For fiscal 2014, the Company’s effective tax rate is significantly affected by the VION Acquisition including non-deductible acquisition costs, Subpart F income and entities that are subject to income tax at various tax rates in their countries of operation that differ from the U.S. statutory tax rate.

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’s net deferred tax liability increased by approximately $326.0 million in the six month period ended June 28, 2014 principally due to deferred tax liabilities acquired in the stock acquisition resulting in carryover tax basis in the VION Acquisition including the accumulated earnings of certain foreign joint ventures. The Company expects to indefinitely reinvest the earnings of its foreign subsidiaries outside of the United States and has generally not provided deferred income taxes on the accumulated earnings of its foreign subsidiaries.

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. Certain VION Companies acquired as part of the VION Acquisition have deferred tax assets for tax loss carryforwards, and the Company has recorded valuation allowances in respect to those losses in the purchase accounting for the acquisition to the extent it has been determined that it is not more likely than not that the deferred tax assets will be realized.

Unrecognized tax benefits represent the difference between tax positions taken or expected to be taken in a tax return and the benefits recognized for financial statement purposes. The Company’s uncertain tax positions increased by $5.9 million during the six month period ended June 28, 2014 primarily related to the recording of positions from the VION Acquisition in purchase accounting. At June 28, 2014, the Company had $4.6 million of gross unrecognized tax benefits and $2.0 million of related accrued interest and penalties. It is reasonably possible within the next twelve months that the Company’s gross unrecognized tax benefits may decrease by up to $2.1 million, excluding interest and penalties, primarily due to potential settlements and expiration of certain statutes of limitations.

The Company’s major taxing jurisdictions include the United States (federal and state), Canada, the Netherlands, Belgium, Brazil, Germany, France and China. The Company is subject to regular examination by various tax authorities and although the final outcome of these examinations is not yet determinable, the Company does not anticipate that any of the examinations will have a significant impact on the Company's results of operations or financial position. The statute of limitations for the Company’s major tax jurisdictions is open for varying periods, but is generally closed through the 2005 tax year.

(9) Other 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, corn option adjustments and interest rate swap derivative adjustments. The components of other comprehensive income (loss) and the related tax impacts for the three and six months months ended June 28, 2014 and June 29, 2013 are as follows (in thousands):

	Three Months Ended					
	Before-Tax Amount		Tax (Expense) or Benefit		Net-of-Tax Amount	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Defined benefit pension plans						
Amortization of prior service cost	$4	$15	$(2)	$(6)	$2	$9
Amortization of actuarial loss	520	1,300	(201)	(504)	319	796
Total defined benefit pension plans	524	1,315	(203)	(510)	321	805
Natural gas swap derivatives						
Loss/(gain) reclassified to net income	—	(244)	—	94	—	(150)
Gain/(loss) activity recognized in other comprehensive income (loss)	(17)	(97)	6	38	(11)	(59)
Total natural gas swap derivatives	(17)	(341)	6	132	(11)	(209)
Corn option derivatives						
Loss/(gain) reclassified to net income	(32)	(866)	12	336	(20)	(530)
Gain/(loss) activity recognized in other comprehensive income (loss)	1,046	1,450	(405)	(562)	641	888

Total corn option derivatives	1,014	584	(393)	(226)	621	358
Foreign currency translation	(6,931)	—	—	—	(6,931)	—
Other comprehensive income (loss)	$(5,410)	$1,558	$(590)	$(604)	$(6,000)	$954

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	Six Months Ended					
	Before-Tax Amount		Tax (Expense) or Benefit		Net-of-Tax Amount	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Defined benefit pension plans						
Amortization of prior service cost	$8	$30	$(4)	$(12)	$4	$18
Amortization of actuarial loss	1,039	2,600	(402)	(1,008)	637	1,592
Total defined benefit pension plans	1,047	2,630	(406)	(1,020)	641	1,610
Natural gas swap derivatives						
Loss/(gain) reclassified to net income	(357)	(187)	139	72	(218)	(115)
Gain/(loss) activity recognized in other comprehensive income (loss)	155	87	(61)	(33)	94	54
Total natural gas swap derivatives	(202)	(100)	78	39	(124)	(61)
Corn option derivatives						
Loss/(gain) reclassified to net income	(1,324)	(908)	513	352	(811)	(556)
Gain/(loss) activity recognized in other comprehensive income (loss)	(273)	3,041	107	(1,178)	(166)	1,863
Total corn option derivatives	(1,597)	2,133	620	(826)	(977)	1,307
Interest rate swap derivatives						
Loss reclassified to net income	13,684	—	—	—	13,684	—
Other Comprehensive income (loss)	$12,932	$4,663	$292	$(1,807)	$13,224	$2,856

The following table presents the amounts reclassified out of each component of other comprehensive income (loss), net of tax for the three and six months months ended June 28, 2014 and June 29, 2013 as follows (in thousands):

	Three Months Ended		Six Months Ended		
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013	Statement of Operations Classification
Derivative instruments					
Natural gas swap derivatives	$—	$244	$357	$187	Cost of sales and operating expenses
Corn option derivatives	32	866	1,324	908	Cost of sales and operating expenses
	32	1,110	1,681	1,095	Total before tax
	(12)	(430)	(652)	(424)	Income taxes
	20	680	1,029	671	Net of tax
Defined benefit pension plans					
Amortization of prior service cost	$(4)	$(15)	$(8)	$(30)	(a)
	(520)	(1,300)	(1,039)	(2,600)	(a)

Amortization of actuarial loss					
	(524)	(1,315)	(1,047)	(2,630)	Total before tax
	203	510	406	1,020	Income taxes
	(321)	(805)	(641)	(1,610)	Net of tax
Total reclassifications	$(301)	$(125)	$388	$(939)	Net of tax

(a) These items are included in the computation of net periodic pension cost. See Note 10 Employee Benefit Plans for additional information.

The following table presents changes in each component of accumulated comprehensive income (loss) as of June 28, 2014 as follows (in thousands):

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	Six Months Ended June 28, 2014							
	Foreign Currency Translation		Derivative Instruments		Defined Benefit Pension Plans		Total	
Accumulated Other Comprehensive Income (loss) December 28, 2013, net of tax	$(14,502	)	$1,448		$(16,369	)	$(29,423	)
Other comprehensive gain before reclassifications	13,684		(72	)	—		13,612	
Amounts reclassified from accumulated other comprehensive income (loss)	—		(1,029	)	641		(388	)
Net current-period other comprehensive income	13,684		(1,101	)	641		13,224	
Accumulated Other Comprehensive Income (loss) June 28, 2014, net of tax	(818	)	$347		$(15,728	)	$(16,199	)

(10) Employee Benefit Plans

The Company has retirement and pension plans covering a substantial number 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 Darling's then existing 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. The Company-sponsored hourly union plan has not been curtailed; however, several locations of the Company-sponsored hourly union plan have been curtailed as a result of collective bargaining renewals for those sites.

As a result of the Rothsay Acquisition, certain employees of MFI became employees of the Company. Pursuant to the terms of the purchase and sale agreement, the pension benefits of these employees in respect to service prior to October 28, 2013 remain the responsibility of MFI. Benefits and rights accruing to these employees on and after October 28, 2013 (including earning increases on benefits accrued for non-Quebec employees prior to October 28, 2013) are the responsibility of the Company. The three plans created with an initial date of October 28, 2013 are the Darling International Canada Inc. Pension Plan for Eligible Salaried and Hourly Non-Union Employees; the Darling International Canada Inc. Pension Plan for Eligible Unionized Employees; and the Darling Supplemental Employees Retirement Plan.

Additionally, as a result of the VION Acquisition, employees of VION Ingredients became employees of Darling Ingredients International. Pursuant to the terms of the sale and purchase agreement of the VION Acquistion, Darling assumed approximately $31.3 million of pension and postretirement benefit plan obligations.

Net pension cost for the three and six months months ended June 28, 2014 and June 29, 2013 includes the following components (in thousands):

	Pension Benefits Three Months Ended	Pension Benefits Six Months Ended

	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Service cost	$1,452	$76	$2,898	$153
Interest cost	3,332	1,318	6,658	2,636
Expected return on plan assets	(379)	(1,819)	(762)	(3,638)
Amortization of prior service cost	4	15	8	30
Amortization of net loss	520	1,300	1,040	2,600
Net pension cost	$4,929	$890	$9,842	$1,781

	Other Post Retirement Benefits Three Months Ended		Other Post Retirement Benefits Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Service cost	$44	$—	$88	$—
Interest cost	21	—	42	—
Net pension cost	$65	$—	$130	$—

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 and foreign 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 28, 2014, the Company expects to contribute approximately $15.5 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 28, 2014 and June 29, 2013 of approximately $8.0 million and $0.2 million, respectively.

The Company participates in various multiemployer 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 multiemployer 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 multiemployer pension plans in which the Company participates and which are not individually significant, four plans have certified as critical or red zone, two plans have certified as endangered or yellow zone and one plan has certified as seriously endangerd 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 multiemployer 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 multiemployer plan. As a result, the Company reduced its liability to approximately $1.2 million. In fiscal 2010, another under-funded multiemployer plan in which the Company participates gave notification of partial withdrawal liability. As of June 28, 2014, the Company has an accrued liability of approximately $0.8 million representing the present value of scheduled withdrawal liability payments under this multiemployer plan. While the Company has no ability to calculate a possible current liability for under-funded multiemployer plans that could terminate or could require additional funding under the Pension Protection Act of 2006, the amounts could be material.

(11) 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 and foreign currency exchange rates.

The Company makes limited use of derivative instruments to manage cash flow risks related to natural gas usage, diesel fuel usage, inventory, forecasted sales and foreign currency exchange rates. The Company does not use derivative instruments for trading purposes. 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. Corn options and future contracts are entered into with the intent of managing U.S. forecasted sales of bakery by-products ("BBP") by reducing the impact of changing prices. Foreign currency forward contracts are entered into to mitigate the foreign exchange rate risk for transactions designated in a currency other than the local functional currency. At June 28, 2014, the Company had corn option contracts and natural gas contracts outstanding that qualified and were designated for hedge accounting as well as heating oil swap contracts, corn options contracts and foreign currency forward contracts 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

In fiscal 2013 and the first six months of fiscal 2014, 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 U.S. plants' forecasted natural gas usage into the fourth quarter of fiscal 2014. As of June 28, 2014, some of the contracts have expired and settled according to the contracts while the remaining contract positions and activity are disclosed below.

In fiscal 2013 and the first six months of fiscal 2014, the Company entered into corn option contracts that are considered cash flow hedges. Under the terms of the corn option contracts, the Company hedged a portion of its U.S. forecasted sales of BBP through fiscal 2014. As of June 28, 2014, some of the contracts have settled while the remaining contract positions and activity are disclosed below. From time to time, the Company may enter into corn option contracts in the future.

As of June 28, 2014, the Company had the following outstanding forward contract amounts that were entered into to hedge the future payments of intercompany note transactions, foreign currency transactions in currencies other than the functional currency and forecasted transactions in currencies other than the function currency. All of these transactions are currently not designated for hedge accounting. (in thousands):

Functional Currency Type	Amount	Contract Currency Type	Amount
Brazilian real	12,600	Euro	4,000
Brazilian real	23,354	U.S. dollar	10,250
Euro	250,999	U.S. dollar	343,858
Euro	16,516	Polish zloty	69,698
Euro	4,556	Japanese yen	637,802
Euro	28,249	Chinese renminbi	242,054
Euro	6,829	Australian dollar	9,950
Euro	2,800	British pound	2,248

The Company estimates the amount that will be reclassified from accumulated other comprehensive gain at June 28, 2014 into earnings over the next 12 months will be approximately $0.6 million. As of June 28, 2014, no amounts 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 28, 2014 and December 28, 2013 (in thousands):

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Derivatives Designated as Hedges	Balance Sheet Location	Asset Derivatives Fair Value June 28, 2014	December 28, 2013
Corn options	Other current assets	$761	$2,349
Natural gas swaps	Other current assets	—	120
Total asset derivatives designated as hedges		$761	$2,469
Derivatives Not Designated as Hedges			
Foreign currency contracts	Other current assets	$2,052	$27,516
Heating oil swaps and options	Other current assets	51	43
Corn options	Other current assets	15	—
Total asset derivatives not designated as hedges		$2,118	$27,559
Total asset derivatives		$2,879	$30,028

Derivatives Designated as Hedges	Balance Sheet Location	Liability Derivatives Fair Value June 28, 2014	December 28, 2013
Corn options and futures	Accrued expenses	$—	$1
Natural gas swaps	Accrued expenses	18	—
Total liability derivatives designated as hedges		$18	$1
Derivatives Not Designated as Hedges			
Foreign currency contracts	Accrued expenses	$986	$—
Heating oil swaps and options	Accrued expenses	38	2
Total liability derivatives not designated as hedges		$1,024	$2
Total liability derivatives		$1,042	$3

The effect of the Company's derivative instruments on the consolidated financial statements as of and for the three months ended June 28, 2014 and June 29, 2013 is as follows (in thousands):

Derivatives Designated as Cash Flow Hedges	Gain or (Loss) Recognized in Other Comprehensive Income ("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)	
	2014	2013	2014	2013	2014	2013
Corn options	$1,046	$1,450	$32	$866	$355	$(288)
Natural gas swaps	(17)	(97)	—	244	(4)	(7)

Total	$1,029	$1,353	$32	$1,110	$351	$(295)

(a) Amount recognized in accumulated OCI (effective portion) is reported as accumulated other comprehensive income/ (loss) of approximately $1.0 million and approximately $1.4 million recorded net of taxes of approximately $0.4 million and less than $0.5 million as of June 28, 2014 and June 29, 2013, respectively.

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

(c) Gains and (losses) recognized in income on derivatives (ineffective portion) for corn options and natural gas swaps is included in other income/ (expense), 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 28, 2014 and June 29, 2013 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)	
	2014	2013	2014	2013	2014	2013
Corn options	$(273)	$3,041	$1,324	$908	$731	$(34)
Natural gas swaps	155	87	357	187	(5)	(8)
Total	$(118)	$3,128	$1,681	$1,095	$726	$(42)

(a) Amount recognized in accumulated OCI (effective portion) is reported as accumulated other comprehensive income/ (loss) of approximately $(0.1) million and approximately $3.1 million recorded net of taxes of approximately less than $(0.1) million and $1.2 million as of June 28, 2014 and June 29, 2013, respectively.

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

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

At June 28, 2014, the Company had forward purchase agreements in place for purchases of approximately $6.2 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.

(12) 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 28, 2014 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.

		Fair Value Measurements at June 28, 2014 Using		
(In thousands of dollars)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Derivative instruments	$2,879	$—	$2,879	$—
Total Assets	$2,879	$—	$2,879	$—
Liabilities:				

Derivative instruments	$1,042	$—	$1,042	$—
Senior notes	521,250	—	521,250	—
Term loan A	338,945	—	338,945	—
Term loan B	1,296,538	—	1,296,538	—
Revolver debt	197,017	—	197,017	—
Total Liabilities	$2,354,792	$—	$2,354,792	$—

Derivative assets consist of the Company’s heating oil swap contracts, soybean option contracts, corn option contracts and foreign currency 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 11 Derivatives for breakdown by instrument type.

Derivative liabilities consist of the Company’s corn option contracts and foreign currency 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 11 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, term loan A, term loan B and revolver debt is based on market quotation from a third-party bank.

(13) 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 28, 2014 and December 28, 2013, the reserves for insurance, environmental and litigation contingencies reflected on the balance sheet in accrued expenses and other non-current liabilities were approximately $66.3 million and $35.5 million, respectively. The Company has insurance recovery receivables of approximately $8.8 million as of June 28, 2014 and December 28, 2013, 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 Company's financial position, results of operations or cash flows.

Lower Passaic River Area. The Company had been named as a third party defendant in a lawsuit filed 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”). As previously disclosed, the Company paid the State of New Jersey $195,000 to settle this matter, which amount was accrued in the first quarter of 2013 and was being held in escrow by the Superior Court pending any appeal of the Superior Court’s order approving the settlement. The payment was released from escrow in May 2014, thereby concluding this matter. 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, results of operations or cash flows.

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. Darling International Inc. The complaint, as subsequently amended, alleges that the Company's Fresno facility is operating without a proper use permit and seeks, among other things, injunctive relief. The complaint had at one time also alleged that the Company's Fresno facility constitutes a continuing private and public nuisance, but the plaintiff has since amended the complaint to drop these allegations. The City of Fresno was also named as a defendant in the original complaint but has since had a judgment entered in its favor and is no longer a defendant in the lawsuit; however, in December 2013 the City of Fresno filed a motion to intervene as a plaintiff in this matter. The Superior Court heard the motion on February 4, 2014, and entered an order on February 18, 2014 denying the motion. 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 that its operations do not constitute a private or public nuisance. Accordingly, the Company intends to defend itself vigorously in this matter. Discovery has begun and this matter was scheduled for trial in July 2014; however, the parties have agreed to stay the litigation while they participate in a mediation process. 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, results of operations or cash flows.

(14) Business Segments

Effective December 29, 2013, the Company's business operations were reorganized into three industry segments: Feed Ingredients, Food Ingredients and Fuel Ingredients, in order to better align its business with the underlying markets and customers that the Company serves. All historical periods have been recast for the changes to the segment reporting structure. The Company sells its products domestically and internationally. 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 certain intangibles. Assets of corporate activities include cash, unallocated prepaid expenses, deferred tax assets, prepaid pension, and miscellaneous other assets.

Feed Ingredients
Feed Ingredients consists principally of (i) the Company's U.S. ingredients business, including the Company's used cooking oil, trap grease and food residuals collection businesses, the Rothsay ingredients business, and the ingredients and specialty products businesses conducted by Darling Ingredients International under the Sonac name (proteins, fats, and plasma products) and (ii) the Company's bakery residuals business. Feed Ingredients operations process animal by-products and used cooking oil into fats, protein and hides.

Food Ingredients
Food Ingredients consists principally of (i) the gelatin and collagen hydrolysates business conducted by Darling Ingredients International under the Rousselot name, (ii) the natural casings and meat-by-products business conducted by Darling Ingredients International under the CTH name and (iii) certain specialty products businesses conducted by Darling Ingredients International under the Sonac name.

Fuel Ingredients
The Company's Fuel Ingredients segment consists of (i) the Company's biofuel business conducted under the Dar Pro® and Rothsay names (ii) the bioenergy business conducted by Darling Ingredients International under the Ecoson and Rendac names and (iii) the Company's investment in the DGD Joint Venture.

Year-to-date business segment presentation reflects certain immaterial reclassifications to the first quarter of fiscal 2014 to conform to the second quarter fiscal 2014 presentation.

Business Segments (in thousands):

	Feed Ingredients	Food Ingredients	Fuel Ingredients	Corporate	Total
Three Months Ended June 28, 2014					
Net Sales	$599,884	$329,541	$77,534	$—	$1,006,959
Cost of sales and operating expenses	431,549	256,153	60,278	(14)	747,966
Gross Margin	168,335	73,388	17,256	14	258,993
Selling, general and administrative expense	53,963	42,447	5,998	9,437	111,845
Acquisition costs	—	—	—	4,165	4,165
Depreciation and amortization	39,866	19,628	5,819	2,185	67,498
Segment operating income/ (loss)	74,506	11,313	5,439	(15,773)	75,485
Equity in net income of unconsolidated subsidiaries	561	—	1,479	—	2,040
Segment income	75,067	11,313	6,918	(15,773)	77,525
Total other expense					(27,447)
Income before income taxes					$50,078

	Feed Ingredients	Food Ingredients	Fuel Ingredients	Corporate	Total
Three Months Ended June 29, 2013					
Net Sales	$421,366	$—	$2,227	$—	$423,593
Cost of sales and operating expenses	308,326	—	1,679	(83)	309,922
Gross Margin	113,040	—	548	83	113,671
Selling, general and administrative expense	33,108	—	95	7,590	40,793
Acquisition costs	—	—	—	—	—
Depreciation and amortization	21,535	—	31	510	22,076
Segment operating income/ (loss)	58,397	—	422	(8,017)	50,802
Equity in net income of unconsolidated subsidiaries	—	—	(1,962)	—	(1,962)
Segment income	58,397	—	(1,540)	(8,017)	48,840
Total other expense					(6,087)
Income before income taxes					$42,753

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	Feed Ingredients	Food Ingredients	Fuel Ingredients	Corporate	Total
Six Months Ended June 28, 2014					
Net Sales	$1,169,687	$624,824	$143,883	$—	$1,938,394
Cost of sales and operating expenses	869,197	512,148	111,630	(30)	1,492,945
Gross Margin	300,490	112,676	32,253	30	445,449
Selling, general and administrative expense	110,167	76,437	11,133	19,511	217,248
Acquisition costs	—	—	—	20,113	20,113
Depreciation and amortization	78,425	37,069	13,196	4,477	133,167
Segment operating income/ (loss)	111,898	(830)	7,924	(44,071)	74,921
Equity in net income of unconsolidated subsidiaries	964	—	6,153	—	7,117
Segment income	112,862	(830)	14,077	(44,071)	82,038
Total other expense					(101,256)
Income/ (loss) before income taxes					$(19,218)
Segment assets at June 28, 2014	$2,786,197	$1,881,335	$743,597	$143,666	$5,554,795

	Feed Ingredients	Food Ingredients	Fuel Ingredients	Corporate	Total
Six Months Ended June 29, 2013					
Net Sales	$865,148	$—	$3,867	$—	$869,015
Cost of sales and operating expenses	629,659	—	3,040	(91)	632,608
Gross Margin	235,489	—	827	91	236,407
Selling, general and administrative expense	67,194	—	191	15,701	83,086
Acquisition costs	—	—	—	—	—
Depreciation and amortization	42,173	—	62	1,708	43,943
Segment operating income/ (loss)	126,122	—	574	(17,318)	109,378
Equity in net income of unconsolidated subsidiaries	—	—	(3,157)	—	(3,157)
Segment income	126,122	—	(2,583)	(17,318)	106,221
Total other expense					(10,645)
Income before income taxes					$95,576
Segment assets at December 28, 2013	$1,986,564	$—	$179,722	$1,077,847	$3,244,133

(15) Immaterial Correction of Prior Period Financial Statements

During the period ended June 28, 2014, the Company determined an immaterial correction was required for the previously-issued financial statements for the three months ended March 29, 2014. The immaterial correction did not impact the Company's operating income, net income, or earnings per share as it only represented a $10.5 million adjustment increasing selling, general and administrative expense and decreasing cost of sales and operating expense; however, the immaterial corrections did impact the segments gross margin calculation.

The Company determined that entities acquired in the VION Acquisition inadvertently included certain selling, general and administrative expenses in cost of sales and operating expenses in the three month period ended March 29, 2014. In addition, the year-to-date business segment presentation reflects certain immaterial reclassifications to the first quarter of fiscal 2014 to conform to the second quarter fiscal 2014 presentation. The following table reflects the impact of the Statement of Operations reclassifications for the three months ended March 29, 2014 as previously reported and as adjusted (in thousands):

As previously reported:

Three Months Ended March 29, 2014	Feed Ingredients	Food Ingredients	Fuel Ingredients	Corporate	Total
Cost of sales and operating expenses	$446,039	$235,358	$74,177	$(121)	$755,453
Selling, general and administrative expense	$52,376	$27,795	$4,815	$9,943	$94,929

Adjustments:

Three Months Ended March 29, 2014	Feed Ingredients	Food Ingredients	Fuel Ingredients	Corporate	Total
Cost of sales and operating expenses	$(3,373)	$(5,520)	$(1,581)	$—	$(10,474)
Selling, general and administrative expense	$3,373	$5,520	$1,581	$—	$10,474

As adjusted:

Three Months Ended March 29, 2014	Feed Ingredients	Food Ingredients	Fuel Ingredients	Corporate	Total
Cost of sales and operating expenses	$442,666	$229,838	$72,596	$(121)	$744,979
Selling, general and administrative expense	$55,749	$33,315	$6,396	$9,943	$105,403

(16) Related Party Transactions

Lease Agreements

Darling, through its wholly-owned subsidiary Griffin Industries, leases two real properties located in Butler, Kentucky and real properties located in each of Jackson, Mississippi and Henderson, Kentucky from Martom Properties, LLC, an entity owned in part by Martin W. Griffin, the Company's Executive Vice President – Chief Operations Officer, North America. Each of these leases was entered into as of December 17, 2010. The lease term for each of the Butler properties and the Jackson property is thirty years, and the Company has the right to renew such leases for two additional terms of ten years each. The annual rental payment for each of the Butler properties is $30,000 for the first five years of the lease term and is increased by the increase in the consumer price index every five years thereafter. The annual rental payment for the Jackson property is $221,715 for the first five years of the lease term and is increased by the increase in the consumer price index every five years thereafter. The lease term for the Henderson property is ten years, and the Company has the right to renew such lease for four additional terms of five years each. The annual rental payment for the Henderson property is $60,000 for the first five years of the lease term and is increased by the increase in the consumer price index every five years thereafter. Under the terms of each lease, the Company has a right of first offer and right of first refusal for each of the properties.

Raw Material Agreement

The Company entered into a Raw Material Agreement with the DGD Joint Venture in May 2011 pursuant to which the Company will offer to supply certain animal fats and used cooking oil at market prices, up to the DGD Joint Venture's full operational requirement of feedstock, but the DGD Joint Venture is not obligated to purchase the raw material offered by the Company. Additionally, the Company may offer other feedstocks to the DGD Joint Venture, such as inedible corn oil, purchased on a resale basis. For the three months months ended June 28, 2014 and June 29, 2013, the Company has recorded sales to the DGD Joint Venture of approximately $42.0 million and $5.0 million, respectively. For the six months ended June 28, 2014 and June 29, 2013, the company has recorded sales to the DGD Joint Venture of approximately $83.6 million and $10.2 million, respectively. At June 28, 2014 and December 28, 2013, the Company has $17.7 million and $14.6 million in outstanding receivables due from the DGD Joint Venture, respectively. In addition, the Company has eliminated approximately $6.4 million of additional sales for the six months ended June 28, 2014 to defer the Company's portion of profit of approximately $1.6 million on those sales relating to inventory assets still remaining on the DGD Joint Venture's balance sheet at June 28, 2014.

(17) New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which will supersede nearly all existing revenue recognition guidance under GAAP. The new ASU introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, this ASU requires disclosures sufficient to enable the users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This ASU allows for either full retrospective or modified retrospective adoption and will become effective for the Company for the annual reporting period beginning after December 15, 2016, with early adoption not permitted. The Company is currently evaluating the impact of this standard.

In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The ASU amends ASC Topic 740, Income Taxes The new standard requires, unless certain conditions exist, an unrecognized tax benefit to be presented as a reduction to a deferred tax asset in the financial statements for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The standard will become effective for the Company prospectively for annual periods beginning after December 15, 2013, and interim periods within those years, with early adoption permitted. Retrospective application is also permitted. The Company adopted this standard in the first quarter of fiscal 2014. The adoption did not have a material impact on the Company's consolidated financial statements.

(18) Guarantor Financial Information

The Company's 5.375% Notes (see Note 7) are guaranteed on an unsecured basis by Darling's 100% directly and indirectly owned subsidiaries Darling National, Griffin and its subsidiary Craig Protein , Darling AWS LLC, Terra Holding Company, Darling Global Holdings Inc., Darling Northstar LLC, TRS, EV Acquisition, Inc., Rousselot Inc., Rousselot Peabody Inc., Rousselot Dubuque Inc. and Sonac USA LLC (collectively, the "Guarantors"). The Guarantors fully and unconditionally guaranteed the 5.375% Notes on a joint and several basis. The following financial statements present condensed consolidating financial data for (i) Darling, the issuer of the 5.375% Notes, (ii) the combined Guarantors, (iii) the combined other subsidiaries of the Company that did not guarantee the 5.375% 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 28, 2014 and December 28, 2013, 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 28, 2014 and June 29, 2013.

Condensed Consolidating Balance Sheet
As of June 28, 2014
(in thousands)

	Issuer	Guarantors	Non-guarantors	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	$59,167	$16,240	$68,378	$—	$143,785
Restricted cash	103	—	247	—	350
Accounts receivable	42,899	589,740	315,487	(480,734)	467,392
Inventories	20,913	99,072	311,544	—	431,529
Income taxes refundable	23,596	—	2,852	—	26,448
Prepaid expenses	14,551	1,052	10,693	—	26,296
Other current assets	2,052	14	240,168	(209,212)	33,022
Deferred income taxes	15,300	—	3,655	—	18,955
Total current assets	178,581	706,118	953,024	(689,946)	1,147,777
Investment in subsidiaries	3,718,984	1,871,439	2,704,580	(8,295,003)	—
Property, plant and equipment, net	204,130	402,030	1,090,898	—	1,697,058
Intangible assets, net	22,057	326,100	689,322	—	1,037,479
Goodwill	21,860	595,243	825,196	—	1,442,299
Investment in unconsolidated subsidiaries	—	—	147,662	—	147,662
Other assets	58,632	575,436	609,475	(1,167,466)	76,077
Deferred taxes	—	—	6,443	—	6,443
	$4,204,244	$4,476,366	$7,026,600	$(10,152,415)	$5,554,795
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current portion of long-term debt	$20,000	$85	$257,743	$(209,212)	$68,616
Accounts payable	475,910	30,772	261,199	(454,710)	313,171
Income taxes payable	—	—	7,830	—	7,830
Accrued expenses	81,719	20,231	91,626	(26,024)	167,552
Total current liabilities	$577,629	$51,088	$618,398	$(689,946)	$557,169
Long-term debt, net of current portion	1,432,500	14	2,037,607	(1,167,466)	2,302,655
Other noncurrent liabilities	35,219	4,676	58,346	—	98,241
Deferred income taxes	133,516	—	339,347	—	472,863
Total liabilities	2,178,864	55,778	3,053,698	(1,857,412)	3,430,928
Total stockholders' equity	2,025,380	4,420,588	3,972,902	(8,295,003)	2,123,867
	$4,204,244	$4,476,366	$7,026,600	$(10,152,415)	$5,554,795

Condensed Consolidating Balance Sheet
As of December 28, 2013
(in thousands)

	Issuer	Guarantors	Non-guarantors	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	$857,267	$6,117	$7,473	$—	$870,857
Restricted cash	102	—	252	—	354
Accounts receivable	41,464	484,091	16,092	(428,803)	112,844
Inventories	20,799	36,314	8,020	—	65,133
Income taxes refundable	14,397	—	115	—	14,512
Prepaid expenses	9,347	3,794	1,082	—	14,223
Other current assets	31,248	15	1,027	—	32,290
Deferred income taxes	15,107	—	2,182	—	17,289
Total current assets	989,731	530,331	36,243	(428,803)	1,127,502
Investment in subsidiaries	2,140,869	63,116	—	(2,203,985)	—
Property, plant and equipment, net	172,533	356,772	137,268	—	666,573
Intangible assets, net	15,896	340,611	232,157	—	588,664
Goodwill	21,860	424,244	255,533	—	701,637
Investment in unconsolidated subsidiary	—	—	115,114	—	115,114
Other assets	40,588	373,699	1,352	(370,996)	44,643
	$3,381,477	$2,088,773	$777,667	$(3,003,784)	$3,244,133
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current portion of long-term debt	$10,000	$87	$9,801	$—	$19,888
Accounts payable	425,117	21,236	22,939	(425,550)	43,742
Accrued expenses	85,165	20,178	11,084	(3,253)	113,174
Total current liabilities	520,282	41,501	43,824	(428,803)	176,804
Long-term debt, net of current portion	680,000	55	557,888	(370,996)	866,947
Other noncurrent liabilities	36,381	—	4,290	—	40,671
Deferred income taxes	123,862	—	14,897	—	138,759
Total liabilities	1,360,525	41,556	620,899	(799,799)	1,223,181
Total stockholders' equity	2,020,952	2,047,217	156,768	(2,203,985)	2,020,952
	$3,381,477	$2,088,773	$777,667	$(3,003,784)	$3,244,133

Condensed Consolidating Statements of Operations
For the three months ended June 28, 2014
(in thousands)