

DARLING INTERNATIONAL INC

Form 10-Q

November 07, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 28, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-13323

DARLING INTERNATIONAL INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

36-2495346  
(I.R.S. Employer  
Identification Number)

251 O'Connor Ridge Blvd., Suite 300  
Irving, Texas  
(Address of principal executive offices)

75038  
(Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes

No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Non-accelerated filer

Edgar Filing: DARLING INTERNATIONAL INC - Form 10-Q

Large accelerated  
filer

Accelerated  
filer

Smaller reporting  
company

(Do not check if a smaller  
reporting company)

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

There were 118,215,166 shares of common stock, \$0.01 par value, outstanding at October 31, 2013.

1

---

DARLING INTERNATIONAL INC. AND SUBSIDIARIES  
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 28, 2013

TABLE OF CONTENTS

|  | Page No. |
|--|----------|
| <u>PART I: FINANCIAL INFORMATION</u>   |          |
| <u>Item 1. FINANCIAL STATEMENTS</u>  |          |
| <u>Consolidated Balance Sheets</u><br><u>September 28, 2013 (unaudited) and December 29, 2012</u>  | 3        |
| <u>Consolidated Statements of Operations (unaudited)</u><br><u>Three and Nine Months Ended September 28, 2013 and September 29, 2012</u>           | 4        |
| <u>Consolidated Statements of Comprehensive Income (unaudited)</u><br><u>Three and Nine Months Ended September 28, 2013 and September 29, 2012</u> | 5        |
| <u>Consolidated Statements of Cash Flows (unaudited)</u><br><u>Nine Months Ended September 28, 2013 and September 29, 2012</u>                     | 6        |
| <u>Notes to Consolidated Financial Statements (unaudited)</u>  | 7        |
| <u>Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF<br/>FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>   | 30       |
| <u>Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES<br/>ABOUT MARKET RISK</u>  | 50       |
| <u>Item 4. CONTROLS AND PROCEDURES</u>   | 51       |
| <u>PART II: OTHER INFORMATION</u>  |          |
| <u>Item 6. EXHIBITS</u>  | 53       |
| <u>Signatures</u>  | 54       |

## DARLING INTERNATIONAL INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

September 28, 2013 and December 29, 2012

(in thousands, except share data)

|   | September 28,<br>2013 | December 29,<br>2012 |
|---|-----------------------|----------------------|
|   | (unaudited)           |                      |
| <b>ASSETS</b>   |                       |                      |
| Current assets:   |                       |                      |
| Cash and cash equivalents   | \$8,011               | \$103,249            |
| Restricted cash   | 358                   | 361                  |
| Accounts receivable, net  | 106,693               | 98,131               |
| Inventories   | 71,280                | 65,065               |
| Prepaid expenses  | 14,267                | 9,256                |
| Income taxes refundable   | 5,171                 | —                    |
| Other current assets  | 4,193                 | 1,591                |
| Deferred income taxes   | 14,358                | 12,609               |
| Total current assets  | 224,331               | 290,262              |
| Property, plant and equipment, less accumulated depreciation of<br>\$361,585 at September 28, 2013 and \$326,201 at December 29, 2012                                       | 522,262               | 453,927              |
| Intangible assets, less accumulated amortization of<br>\$94,446 at September 28, 2013 and \$73,021 at December 29, 2012   | 364,415               | 337,402              |
| Goodwill  | 446,742               | 381,369              |
| Investment in unconsolidated subsidiary   | 116,250               | 62,495               |
| Other assets  | 39,635                | 26,961               |
|   | \$1,713,635           | \$1,552,416          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                       |                      |
| Current liabilities:  |                       |                      |
| Current portion of long-term debt   | \$86                  | \$82                 |
| Accounts payable, principally trade   | 48,554                | 54,014               |
| Accrued expenses  | 99,595                | 77,588               |
| Total current liabilities   | 148,235               | 131,684              |
| Long-term debt, net of current portion  | 250,076               | 250,142              |
| Other non-current liabilities   | 51,086                | 61,539               |
| Deferred income taxes   | 105,931               | 46,615               |
| Total liabilities   | 555,328               | 489,980              |
| Commitments and contingencies   |                       |                      |
| Stockholders' equity:   |                       |                      |
| Common stock, \$0.01 par value; 150,000,000 shares authorized;<br>119,176,005 and 118,622,650 shares issued at September 28, 2013<br>and at December 29, 2012, respectively | 1,192                 | 1,186                |
| Additional paid-in capital  | 611,789               | 603,836              |
| Treasury stock, at cost; 960,839 and 807,659 shares at<br>September 28, 2013 and at December 29, 2012, respectively   | (12,631               | ) (10,033            |
| Accumulated other comprehensive loss  | (27,293               | ) (31,329            |

Edgar Filing: DARLING INTERNATIONAL INC - Form 10-Q

|                            |             |             |
|----------------------------|-------------|-------------|
| Retained earnings          | 585,250     | 498,776     |
| Total stockholders' equity | 1,158,307   | 1,062,436   |
|                            | \$1,713,635 | \$1,552,416 |

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

3

---

## DARLING INTERNATIONAL INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

Three and nine months ended September 28, 2013 and September 29, 2012

(in thousands, except per share data)

(unaudited)

|  | Three Months Ended    |                       | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 28,<br>2013 | September 29,<br>2012 | September 28,<br>2013 | September 29,<br>2012 |
| Net sales  | \$425,786             | \$452,732             | \$1,294,801           | \$1,276,514           |
| Costs and expenses:                                      |                       |                       |                       |                       |
| Cost of sales and operating expenses                     | 310,089               | 327,909               | 942,697               | 918,516               |
| Selling, general and administrative expenses             | 42,588                | 38,523                | 124,843               | 112,786               |
| Acquisition costs  | 8,326                 | —                     | 9,157                 | —                     |
| Depreciation and amortization                            | 23,131                | 20,524                | 67,074                | 62,958                |
| Total costs and expenses                                 | 384,134               | 386,956               | 1,143,771             | 1,094,260             |
| Operating income   | 41,652                | 65,776                | 151,030               | 182,254               |
| Other expense:   |                       |                       |                       |                       |
| Interest expense   | (5,313                | ) (5,868              | ) (16,607             | ) (18,546             |
| Other income/(expense), net                              | (3,268                | ) 232                 | (2,619                | ) (106                |
| Total other expense                                      | (8,581                | ) (5,636              | ) (19,226             | ) (18,652             |
| Equity in net income/(loss) of unconsolidated subsidiary | 11,953                | (833                  | ) 8,796               | (1,725                |
| Income before income taxes                               | 45,024                | 59,307                | 140,600               | 161,877               |
| Income taxes   | 17,373                | 22,135                | 54,126                | 59,909                |
| Net income   | \$27,651              | \$37,172              | \$86,474              | \$101,968             |
| Basic income per share                                   | \$0.23                | \$0.32                | \$0.73                | \$0.87                |
| Diluted income per share                                 | \$0.23                | \$0.31                | \$0.73                | \$0.86                |

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

## DARLING INTERNATIONAL INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Three and nine months ended September 28, 2013 and September 29, 2012

(in thousands)

(unaudited)

|  | Three Months Ended    |                       | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 28,<br>2013 | September 29,<br>2012 | September 28,<br>2013 | September 29,<br>2012 |
| Net income                                   | \$27,651              | \$37,172              | \$86,474              | \$101,968             |
| Other comprehensive income, net of tax:      |                       |                       |                       |                       |
| Pension adjustments                          | 806                   | 742                   | 2,416                 | 2,226                 |
| Natural gas swap derivative adjustments      | 49                    | 83                    | (12                   | ) 404                 |
| Corn option derivative adjustments           | 325                   | —                     | 1,632                 | —                     |
| Interest rate swap derivative adjustment     | —                     | —                     | —                     | 159                   |
| Total other comprehensive income, net of tax | 1,180                 | 825                   | 4,036                 | 2,789                 |
| Total comprehensive income                   | \$28,831              | \$37,997              | \$90,510              | \$104,757             |

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

## DARLING INTERNATIONAL INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine months ended September 28, 2013 and September 29, 2012

(in thousands)

(unaudited)

|   | September 28,<br>2013 | September 29,<br>2012 |   |
|---|-----------------------|-----------------------|---|
| Cash flows from operating activities:   |                       |                       |   |
| Net income  | \$86,474              | \$101,968             |   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                       |                       |   |
| Depreciation and amortization   | 67,074                | 62,958                |   |
| Loss/(gain) on disposal of property, plant, equipment and other assets            | (798                  | ) 1,063               |   |
| Gain on insurance proceeds from insurance settlements                             | (1,981                | ) (1,906              | ) |
| Deferred taxes  | 33,707                | 15,652                |   |
| Decrease in long-term pension liability   | (2,830                | ) (319                | ) |
| Stock-based compensation expense  | 7,394                 | 7,409                 |   |
| Write-off deferred loan costs   | —                     | 725                   |   |
| Deferred loan cost amortization   | 2,312                 | 2,280                 |   |
| Equity in net (income)/loss of unconsolidated subsidiary                          | (8,796                | ) 1,725               |   |
| Changes in operating assets and liabilities, net of effects from acquisitions:    |                       |                       |   |
| Accounts receivable   | 949                   | (3,456                | ) |
| Income taxes refundable/payable   | (5,974                | ) 15,259              |   |
| Inventories and prepaid expenses  | (9,565                | ) (15,361             | ) |
| Accounts payable and accrued expenses   | 10,603                | 8,482                 |   |
| Other   | (9,864                | ) 91                  |   |
| Net cash provided by operating activities   | 168,705               | 196,570               |   |
| Cash flows from investing activities:   |                       |                       |   |
| Capital expenditures  | (85,719               | ) (84,154             | ) |
| Acquisitions, net of cash acquired  | (121,440              | ) (3,000              | ) |
| Investment in unconsolidated subsidiary   | (44,959               | ) (34,416             | ) |
| Gross proceeds from disposal of property, plant and equipment and other assets    | 1,666                 | 2,989                 |   |
| Proceeds from insurance settlements   | 1,981                 | 1,906                 |   |
| Payments related to routes and other intangibles                                  | (2,374                | ) —                   |   |
| Net cash used by investing activities   | (250,845              | ) (116,675            | ) |
| Cash flows from financing activities:   |                       |                       |   |
| Payments on long-term debt  | (62                   | ) (30,013             | ) |
| Deferred loan costs   | (11,138               | ) —                   |   |
| Issuance of common stock  | 32                    | 64                    |   |
| Minimum withholding taxes paid on stock awards                                    | (2,649                | ) (3,365              | ) |
| Excess tax benefits from stock-based compensation                                 | 719                   | 2,169                 |   |
| Net cash used by financing activities   | (13,098               | ) (31,145             | ) |
| Net increase/(decrease) in cash and cash equivalents                              | (95,238               | ) 48,750              |   |
| Cash and cash equivalents at beginning of period                                  | 103,249               | 38,936                |   |
| Cash and cash equivalents at end of period  | \$8,011               | \$87,686              |   |
| Supplemental disclosure of cash flow information:                                 |                       |                       |   |
| Accrued capital expenditures  | \$(2,119              | ) \$—                 |   |
| Cash paid during the period for:  |                       |                       |   |



Edgar Filing: DARLING INTERNATIONAL INC - Form 10-Q

|   |          |          |
|---|----------|----------|
| Interest, net of capitalized interest   | \$9,160  | \$10,096 |
| Income taxes, net of refunds            | \$30,282 | \$27,783 |
| Non-Cash Financing Activities           |          |          |
| Debt issued for service contract assets | \$—      | \$226    |

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

6

---

DARLING INTERNATIONAL INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 28, 2013

(unaudited)

(1) General

Darling International Inc., a Delaware corporation (“Darling”, and together with its subsidiaries, the “Company”), is a leading provider of rendering, used cooking oil and bakery residual recycling and recovery solutions to the nation's food industry. The Company collects and recycles animal by-products, bakery residual and used cooking oil from poultry and meat processors, commercial bakeries, grocery stores, butcher shops, and food service establishments and provides grease trap cleaning services to many of the same establishments. The Company operates over 120 processing and transfer facilities located throughout the United States to process raw materials into finished products such as protein (primarily meat and bone meal (“MBM”) and poultry meal (“PM”)), hides, fats (primarily bleachable fancy tallow (“BFT”), poultry grease (“PG”) and yellow grease (“YG”)) and bakery by-products (“BBP”) as well as a range of branded and value-added products. The Company sells these products domestically and internationally, primarily to producers of animal feed, pet food, fertilizer, bio-fuels and other consumer and industrial ingredients including oleo-chemicals, soaps and leather goods for use as ingredients in their products or for further processing. The accompanying consolidated financial statements for the three and nine month periods ended September 28, 2013 and September 29, 2012, have been prepared by the Company in accordance with generally accepted accounting principles in the United States 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 29, 2012.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

(b) Fiscal Periods

The Company has a 52/53 week fiscal year ending on the Saturday nearest December 31. Fiscal periods for the consolidated financial statements included herein are as of September 28, 2013, and include the 13 and 39 weeks ended September 28, 2013, and the 13 and 39 weeks ended September 29, 2012.

(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 revenue related to grease trap servicing and industrial residual removal in the fiscal month the trap service or industrial residual removal occurs.

## (d) Reclassifications

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

## (e) Earnings Per Share

Basic income per common share is computed by dividing net income by the weighted average number of common shares including non-vested and restricted shares outstanding during the period. Diluted income per common share is computed by dividing net income by the weighted average number of common shares 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  |         |           |                       |         |           |
|   | September 28,<br>2013   |         |           | September 29,<br>2012 |         |           |
|   | Income  | Shares  | Per Share | Income                | Shares  | Per Share |
| Basic:  |   |         |           |                       |         |           |
| Net Income  | \$27,651  | 118,208 | \$0.23    | \$37,172              | 117,678 | \$0.32    |
| Diluted:  |   |         |           |                       |         |           |
| Effect of dilutive securities:  |   |         |           |                       |         |           |
| Add: Option shares in the money and dilutive effect of non-vested stock |   | 690     |           |                       | 792     |           |
| Less: Pro forma treasury shares   |   | (418 )  |           |                       | (296 )  |           |
| Diluted:  |   |         |           |                       |         |           |
| Net income  | \$27,651  | 118,480 | \$0.23    | \$37,172              | 118,174 | \$0.31    |
|   |   |         |           |                       |         |           |
|   | Net Income per Common Share (in thousands, except per share data) |         |           |                       |         |           |
|   | Nine Months Ended   |         |           |                       |         |           |
|   | September 28,<br>2013   |         |           | September 29,<br>2012 |         |           |
|   | Income  | Shares  | Per Share | Income                | Shares  | Per Share |
| Basic:  |   |         |           |                       |         |           |
| Net Income  | \$86,474  | 118,156 | \$0.73    | \$101,968             | 117,531 | \$0.87    |
| Diluted:  |   |         |           |                       |         |           |
| Effect of dilutive securities:  |   |         |           |                       |         |           |
| Add: Option shares in the money and dilutive effect of non-vested stock |   | 688     |           |                       | 844     |           |
| Less: Pro forma treasury shares   |   | (296 )  |           |                       | (326 )  |           |
| Diluted:  |   |         |           |                       |         |           |
| Net income  | \$86,474  | 118,548 | \$0.73    | \$101,968             | 118,049 | \$0.86    |

For the three months ended September 28, 2013 and September 29, 2012, respectively, 331,367 and 207,890 outstanding stock options were excluded from diluted income per common share as the effect was antidilutive. For the three months ended September 28, 2013 and September 29, 2012, respectively, 55,465 and 100,615 shares of non-vested stock were excluded from diluted income per common share as the effect was antidilutive.

For the nine months ended September 28, 2013 and September 29, 2012, respectively, 284,787 and 211,890 outstanding stock options were excluded from diluted income per common share as the effect was antidilutive. For the nine months ended September 28, 2013 and September 29, 2012, respectively, 59,853 and 111,675 shares of

non-vested stock were excluded from diluted income per common share as the effect was antidilutive.

8

---

### (3) Acquisitions

The Company notes the acquisitions discussed below are not considered related businesses, 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 will increase the Company's rendering portfolio by adding to the Company's existing rendering segments grease collection businesses and add an industrial residuals business as a new line of service for the Company's rendering raw material suppliers within the rendering 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 \$121.4 million in cash for assets and assumed liabilities consisting of property, plant and equipment of \$27.2 million, intangible assets of \$46.1 million, goodwill of \$65.4 million, deferred tax liability of \$23.9 million and working capital of \$6.6 million on the closing date. The goodwill from the Terra Transaction was assigned to the Rendering 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. Final determination of the value of assets acquired and liabilities assumed may result in adjustments to the values presented above with a corresponding adjustment to goodwill.

On June 8, 2012, the Company completed its acquisition of substantially all of the assets of RVO BioPur, LLC ("BioPur"). Headquartered in Waterbury, Connecticut, BioPur provides used cooking oil collection and grease trap services to restaurants and food service establishments in the New England area of the Company's existing East coast operations.

### (4) Subsequent Events

On October 28, 2013, Darling completed the acquisition of substantially all of the assets of Rothsay, a division of Maple Leaf Foods Inc., a Canadian corporation ("MFI"), for approximately CAD \$645 million in cash through borrowings under the Senior Secured Facilities. Rothsay has a network of five rendering plants in Manitoba, Ontario and Nova Scotia and a biodiesel operation in Quebec, Canada. Rothsay is the leading recycler of animal by-products in Canada and provides an essential service for the efficient and environmentally responsible collecting, processing and recapture of edible and inedible by-products. These products are sold in domestic and international markets, including the U.S., Europe, Mexico and South America. Rothsay also manufactures biodiesel for domestic and international markets.

On October 5, 2013, Darling and VION Holding N.V., a Dutch limited liability company ("VION"), entered into a Sale and Purchase Agreement (the "SPA"), pursuant to which Darling will acquire all of the shares of VION Ingredients Nederland (Holding) B.V., VION Ingredients International (Holding) B.V., and VION Ingredients Germany GmbH (collectively, the "Vion Companies") for approximately EUR 1.6 billion, upon the terms and subject to the conditions set forth in the SPA. Each of the Vion Companies is a wholly-owned subsidiary of VION. At the consummation of the contemplated transaction, the Vion Companies will directly or indirectly own all of the shares of the VION subsidiaries in VION's Ingredients division and the interests in various operating joint ventures in VION's Ingredients division (collectively, the "Group Companies"). The Group Companies together conduct the business of the development, production, and marketing and sale of products of animal origin (the "Ingredients Business"). Vion

Ingredients is a worldwide leader in the development and production of specialty ingredients from animal origin for applications in pharmaceuticals, food, feed, pet food, fertilizer and bio-energy. Vion Ingredients' global network of 58 facilities on five continents covers all aspects of animal byproduct processing through six brands including Ecoson (green power), Rendac (rendering/energy), Sonac (proteins, fats, edible fats and blood products), Rousselot (gelatin), CTH (natural casings), and Best Hides (hides).

In connection with the SPA, on October 5, 2013, Darling received commitments pursuant to commitment letters (the "Commitments") from JPMorgan Chase Bank, N.A. ("JPMorgan"), Bank of Montreal, acting under its trade name BMO Capital Markets ("BMO") and Goldman Sachs Bank USA with respect to a \$1.2 billion term loan B facility and a \$1.3 billion senior unsecured bridge facility, to finance the transaction. The Commitments are subject to the satisfaction of certain closing conditions and execution of definitive documentation regarding such loans.

Darling and VION have each made customary representations, warranties, and covenants in the SPA, including, among others, VION's covenants (i) to use all reasonable efforts to cause each Group Company to conduct the Ingredients Business in the ordinary and usual course between the execution of the SPA and the closing, subject to certain exceptions, (ii) to avoid incurring any loss or making any payment under any cash pool or netting arrangement of the benefit of any party other than the Group Companies, (iii) to cause all positions under foreign exchange agreements to be unwound on customary terms by the closing, and (iv) not to solicit any of the employees of the Ingredients Business for a certain period of time.

The closing is subject to the following customary conditions: (i) merger clearance from the relevant competition authorities, (ii) compliance with relevant works council and trade union procedures, and (iii) completion of the debt settlement plan and all the steps necessary to transfer the Ingredients Business to the Group Companies and carve out any other business from the Group Companies.

The foregoing description of the SPA is not a complete description of all of the parties' rights and obligations under the SPA and is qualified in its entirety by the SPA, a copy of which was filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on October 10, 2013.

In November 2013, the Company entered into foreign currency exchange forward contracts to mitigate the foreign exchange rate risk of the expected acquisition price of the Vion Companies. Under the terms of the exchange contracts, the Company exchanged U.S. dollars for EUR 650.0 million at a fixed weighted average price of approximately 1.349 with a maturity date of early January 2014.

#### (5) Investment in Unconsolidated Subsidiary

The Company announced on January 21, 2011 that a wholly-owned subsidiary of Darling entered into a limited liability company agreement with a wholly-owned subsidiary of Valero Energy Corporation ("Valero") to form Diamond Green Diesel Holdings LLC (the "Joint Venture"). The Joint Venture is owned 50% / 50% with Valero and was formed to design, engineer, construct and operate a renewable diesel plant (the "Facility"), which 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 Joint Venture reached mechanical completion and began the production of renewable diesel in late June 2013.

On May 31, 2011, the Joint Venture and Diamond Green Diesel LLC, a wholly-owned subsidiary of the Joint Venture ("Opco"), entered into (i) a facility agreement (the "Facility Agreement") with Diamond Alternative Energy, LLC, a wholly-owned subsidiary of Valero (the "Lender"), and (ii) a loan agreement (the "Loan Agreement") with the Lender, which provided the Joint Venture with a 14 year multiple advance term loan facility of approximately \$221,300,000 (the "JV Loan") to support the design, engineering and construction of the Facility, which is now 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 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.

Based on the sponsor support agreements executed in connection with the Facility Agreement and the Loan Agreement relating to the Joint Venture with Valero, the Company has contributed a total of approximately \$111.7 million for completion of the Facility including the Company's portion of cost overruns and working capital funding.

Selected financial information for the Company's Joint Venture is as follows:

|                          | Three Months Ended | Nine Months Ended  |
|--------------------------|--------------------|--------------------|
| As of September 30, 2013 | September 30, 2013 | September 30, 2013 |



Edgar Filing: DARLING INTERNATIONAL INC - Form 10-Q

| Total Assets | Partners' Capital | Revenues | Net Income | Revenues | Net Income |
|--------------|-------------------|----------|------------|----------|------------|
| \$482,779    | \$232,501         | \$96,475 | \$23,907   | \$96,517 | \$17,593   |

As of September 28, 2013 under the equity method of accounting, the Company has an investment in the Joint Venture of approximately \$116.3 million on the consolidated balance sheet and has recorded approximately \$8.8 million and \$12.0 million of income and \$1.7 million and \$0.8 million in losses in the unconsolidated subsidiary for the three and nine months ended September 28, 2013 and September 29, 2012, respectively.

## (6)Debt

## Credit Facilities

Senior Secured Credit Facilities. On September 27, 2013, the Company entered into an Amended and Restated Credit Agreement (the "Credit Agreement") restating its then existing credit agreement dated December 17, 2010 (as amended by the First Amendment dated March 25, 2011) with JPMorgan Chase Bank, N.A. The Credit Agreement provides for senior secured credit facilities (the "Senior Secured Facilities") in the aggregate principal amount of \$1.35 billion comprised of a five-year revolving loan facility of \$1.0 billion (approximately \$100.0 million of which will be available for a letter of credit sub-facility and \$50.0 million of which will be available for a swingline sub-facility) and a five-year delayed-draw term loan facility of \$350.0 million all of which is available as of September 28, 2013. The revolving loan facility is available to be borrowed by the Company in U.S. dollars and Canadian dollars, and up to \$225.0 million of the revolving loan facility is available to be borrowed in Canadian dollars by Darling International Canada Inc. ("Darling Canada"), a wholly owned subsidiary of the Company. \$200.0 million of the term loan facility is available to be borrowed in U.S. dollars by the Company and \$150.0 million of the term loan facility is available to be borrowed in Canadian dollars by Darling Canada. The Company and Darling Canada will use the proceeds of the term loan facility and a portion of the revolving loan facility to pay a portion of the consideration of Darling Canada's acquisition of the Rothsay division of Maple Leaf Foods Inc. ("Rothsay"), to pay related fees and expenses and to refinance certain existing indebtedness and will use the revolving loan facility to provide for working capital needs, general corporate purposes and for other purposes not prohibited by the Credit Agreement. Immediately following the Closing Date, there were no loans outstanding under the Credit Agreement. As of September 28, 2013, the Company had availability of \$967.3 million under the revolving loan facility, taking into account no outstanding borrowings and letters of credit issued of \$32.7 million. As of September 28, 2013, the Company had no outstanding borrowings under the delayed-draw term loan facility and has capitalized approximately \$12.0 million of deferred loan costs.

The interest rate applicable to any borrowings under the revolving loan facility and the term loan facility is variable based upon the Company's consolidated total leverage ratio and ranges from London Inter-Bank Offer Rate ("LIBOR")/Canadian Dealer Offered Rate ("CDOR") plus 1.50% to 2.75% per annum or base rate/Canadian prime rate plus 0.50% to 1.75% per annum. Base rate means a rate per annum equal to the greatest of (a) the prime rate in effect, (b) the federal funds effective rate (as defined in the Credit Agreement) plus ½ of 1% and (c) the adjusted LIBOR for a one month interest period plus 1%. Canadian prime rate means the rate per annum to be the higher of (i) the rate of interest per annum most recently announced or established by JPMorgan Chase Bank, N.A., Toronto Branch as its reference rate in effect on such day for determining interest rates for Canadian Dollar denominated commercial loans in Canada and (ii) the sum of the yearly interest rate to which the one-month CDOR rate is equivalent plus 1.0%.

The Credit Agreement contains various customary representations and warranties by the Company, which include customary use of materiality, material adverse effect and knowledge qualifiers. The Credit Agreement also contains (a) certain affirmative covenants that impose certain reporting and/or performance obligations on the Company and its restricted subsidiaries, (b) certain negative covenants that generally prohibit, subject to various exceptions, the Company 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 leasebacks and sales of assets, (c) financial covenants comprising a maximum total leverage ratio, a maximum secured leverage ratio and a minimum fixed charge coverage ratio and (d) customary events of default (including a change of control). Obligations under the Senior Secured Facilities may be declared due and payable upon the occurrence and during the continuance of such customary events of default.

In the first quarter of fiscal 2012, the Company repaid the remaining balance of \$30.0 million under the term loan incurred in 2010 and incurred a write-off of a portion of the deferred loan costs relating to such term loan of

approximately \$0.7 million in the nine-month period ending September 29, 2012, which is included in interest expense.

Senior Notes. On December 17, 2010, Darling issued \$250.0 million aggregate principal amount of its 8.5% Senior Notes due 2018 (the "Notes") under an indenture with U.S. Bank National Association, as trustee (the "Notes Indenture"). Darling used the net proceeds from the sale of the Notes to finance in part the cash portion of the purchase price paid in connection with Darling's acquisition of Griffin Industries, Inc. The Company will pay 8.5% annual cash interest on the Notes on June 15 and December 15 of each year. Other than for extraordinary events such as change of control and defined assets sales, the Company is not required to make any mandatory redemption or sinking fund payments on the Notes.

The Company may at any time and from time to time purchase Notes in the open market or otherwise. The Company may redeem some or all of the Notes at any time prior to December 15, 2014, at a redemption price equal to 100% of the principal amount of the Notes redeemed, plus accrued and unpaid interest to the redemption date and an Applicable Premium (as defined below) as of the date of redemption subject to the rights of holders on the relevant record date to receive interest due on the relevant interest payment date.

On and after December 15, 2014, the Company may redeem all or, from time to time, a part of the Notes (including any additional 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 Notes, if any, to 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 December 15 of the years indicated below:

| Year                | Percentage |
|---------------------|------------|
| 2014                | 104.250%   |
| 2015                | 102.125%   |
| 2016 and thereafter | 100.000%   |

In addition, until December 15, 2013, the Company may, at its option, redeem up to 35% of the original principal amount of the Notes with the net cash proceeds of one or more equity offerings at a redemption price equal to 108.5% of the principal amount thereof, plus accrued and unpaid interest, if any, to 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 65% of the original principal amount of the Notes remains outstanding immediately after each such redemption; provided further that the redemption occurs within 90 days after the closing of such equity offering.

The Company is permitted to redeem some or all of the Notes at any time prior to December 15, 2014, at a redemption price equal to 100% of the principal amount of the Notes redeemed, plus accrued and unpaid interest to the redemption date and an Applicable Premium (as defined in the Note Indenture) as of the date of redemption subject to the rights of holders on the relevant record date to receive interest due on the relevant interest payment date.

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 bankruptcy and insolvency events of default and judgment defaults in excess of specified amounts. If any such event of default occurs and is continuing under the indenture, the Trustee or the holders of at least 25% in principal amount of the total outstanding Notes may declare the principal, premium, if any, interest and any other monetary obligations on all the then outstanding Notes issued under the indenture to be due and payable immediately.

The Credit Agreement and the Notes consisted of the following elements at September 28, 2013 and December 29, 2012, respectively (in thousands):

Edgar Filing: DARLING INTERNATIONAL INC - Form 10-Q

|                                   | September 28,<br>2013 | December 29,<br>2012 |
|-----------------------------------|-----------------------|----------------------|
| Senior Notes:                     |                       |                      |
| 8.5% Senior Notes due 2018        | \$250,000             | \$250,000            |
| Senior Secured Credit Facilities: |                       |                      |
| Term Loan                         | \$—                   | \$—                  |
| Revolving Credit Facility:        |                       |                      |
| Maximum availability              | \$1,000,000           | \$415,000            |
| Borrowings outstanding            | —                     | —                    |
| Letters of credit issued          | 32,668                | 30,119               |
| Availability                      | \$967,332             | \$384,881            |

12

---

The obligations of the Company under the Credit Agreement are guaranteed by Darling National LLC, a Delaware limited liability company ("Darling National"), Griffin Industries LLC, a Kentucky limited liability company ("Griffin"), and its subsidiary, Craig Protein Division, Inc ("Craig Protein"), Darling AWS LLC, Terra Holding Company, Darling Global Holdings Inc., Darling Northstar LLC, Terra Renewal Services, Inc. and EV Acquisition, Inc., each of which is a wholly-owned subsidiary of the Company, and are secured, subject to certain exceptions, by a perfected first priority security interest in all tangible and intangible personal property of the Company 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 Notes are guaranteed by each of the foregoing subsidiaries, and effective as of September 27, 2013, the Notes are secured on an equal and ratable basis with the Company's and the guarantors' obligations under the Credit Agreement. The 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 Credit Agreement and the Notes. The 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 Credit Agreement and the Notes, to the extent of the value of the assets securing such debt. The 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 Notes.

As of September 28, 2013, the Company believes it is in compliance with all of the financial covenants, as well as all of the other covenants, contained in the Credit Agreement and the Notes Indenture.

#### (7) Income Taxes

The Company has provided income taxes for the three-month periods ended September 28, 2013 and September 29, 2012, based on its estimate of the effective tax rate for the entire 2013 and 2012 fiscal years.

The Company accounts for income taxes using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. At September 28, 2013 and December 29, 2012, the Company had net deferred tax liabilities of \$91.6 million and \$34.0 million, respectively. The increase in the net deferred tax liability is principally due to deferred liabilities acquired in the stock acquisition resulting in carryover tax basis in the Terra Transaction.

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

The Company's major taxing jurisdiction is the U.S. (federal and state). The Company is subject to regular examination by various tax authorities. The Company concluded an Internal Revenue Service examination for fiscal 2009 and 2010 tax years and paid approximately \$0.7 million of taxes, which was accrued prior to the first quarter of fiscal 2013. The statute of limitations for the Company's federal return is open for the 2011 and 2012 tax years. The

Company is under examination with respect to certain state tax jurisdictions, which it reasonably anticipates finalizing within the next twelve months. Although the final outcome of these examinations is not yet determinable, the Company does not anticipate that any of the state examinations will have a significant impact on the Company's results of operations or financial position. The statute of limitations for the Company's state returns is open for varying periods and jurisdictions, but is generally closed through the 2008 tax year. As of September 28, 2013, the Company has no unrecognized tax positions and does not reasonably expect any material changes to the Company's unrecognized tax positions in the next twelve months.

(8) 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

Edgar Filing: DARLING INTERNATIONAL INC - Form 10-Q

rate swap derivative adjustments. The components of other comprehensive income (loss) and the related tax impacts for the three and nine months ended September 28, 2013 and September 29, 2012 are as follows (in thousands):

|  | Three Months Ended |                    |                          |                    |                    |                    |
|--|--------------------|--------------------|--------------------------|--------------------|--------------------|--------------------|
|  | Before-Tax Amount  |                    | Tax (Expense) or Benefit |                    | Net-of-Tax Amount  |                    |
|  | September 28, 2013 | September 29, 2012 | September 28, 2013       | September 29, 2012 | September 28, 2013 | September 29, 2012 |
| Defined benefit pension plans  |                    |                    |                          |                    |                    |                    |
| Amortization of prior service cost                                   | \$ 15              | \$ 23              | \$(6                     | )\$ (9             | )\$ 9              | \$ 14              |
| Amortization of actuarial loss                                       | 1,300              | 1,189              | (503                     | )(461              | ) 797              | 728                |
| Total defined benefit pension plans                                  | 1,315              | 1,212              | (509                     | )(470              | ) 806              | 742                |
| Natural gas swap derivatives   |                    |                    |                          |                    |                    |                    |
| Loss/(gain) reclassified to net income                               | 95                 | 259                | (37                      | )(101              | ) 58               | 158                |
| Gain/(loss) activity recognized in other comprehensive income (loss) | (14                | )(123              | ) 5                      | 48                 | (9                 | )(75               |
| Total natural gas swap derivatives                                   | 81                 | 136                | (32                      | )(53               | ) 49               | 83                 |
| Corn option derivatives  |                    |                    |                          |                    |                    |                    |
| Loss/(gain) reclassified to net income                               | (2,155             | )—                 | 835                      | —                  | (1,320             | )—                 |
| Gain/(loss) activity recognized in other comprehensive income (loss) | 2,676              | —                  | (1,031                   | )—                 | 1,645              | —                  |
| Total corn option derivatives  | 521                | —                  | (196                     | )—                 | 325                | —                  |
| Interest rate swap derivatives                                       |                    |                    |                          |                    |                    |                    |
| Loss reclassified to net income                                      | —                  | —                  | —                        | —                  | —                  | —                  |
| Other comprehensive income (loss)                                    | \$ 1,917           | \$ 1,348           | \$(737                   | )(523              | )\$ 1,180          | \$ 825             |

|  | Nine Months Ended  |                    |                          |                    |                    |                    |
|--|--------------------|--------------------|--------------------------|--------------------|--------------------|--------------------|
|  | Before-Tax Amount  |                    | Tax (Expense) or Benefit |                    | Net-of-Tax Amount  |                    |
|  | September 28, 2013 | September 29, 2012 | September 28, 2013       | September 29, 2012 | September 28, 2013 | September 29, 2012 |
| Defined benefit pension plans          |                    |                    |                          |                    |                    |                    |
| Amortization of prior service cost     | \$ 45              | \$ 67              | \$(18                    | )(25               | )\$ 27             | \$ 42              |
| Amortization of actuarial loss         | 3,900              | 3,567              | (1,511                   | )(1,383            | ) 2,389            | 2,184              |
| Total defined benefit pension plans    | 3,945              | 3,634              | (1,529                   | )(1,408            | ) 2,416            | 2,226              |
| Natural gas swap derivatives           |                    |                    |                          |                    |                    |                    |
| Loss/(gain) reclassified to net income | (92                | )1,267             | 35                       | (491               | )(57               | ) 776              |
|  | 73                 | (606               | )(28                     | ) 234              | 45                 | (372               |



|  |         |         |          |           |          |         |
|--|---------|---------|----------|-----------|----------|---------|
| Gain/(loss) activity recognized in other comprehensive income (loss) |         |         |          |           |          |         |
| Total natural gas swap derivatives                                   | (19 )   | 661     | 7        | (257      | )(12     | )404    |
| Corn option derivatives  |         |         |          |           |          |         |
| Loss/(gain) reclassified to net income                               | (3,063  | )—      | 1,187    | —         | (1,876   | )—      |
| Gain/(loss) activity recognized in other comprehensive income (loss) |         |         |          |           |          |         |
| Total corn option derivatives  | 5,717   | —       | (2,209   | )—        | 3,508    | —       |
| Interest rate swap derivatives                                       |         |         |          |           |          |         |
| Loss reclassified to net income                                      | —       | 260     | —        | (101      | )—       | 159     |
| Other Comprehensive income (loss)                                    | \$6,580 | \$4,555 | \$(2,544 | )\$(1,766 | )\$4,036 | \$2,789 |

The following table presents the amounts reclassified out of each component of other comprehensive income (loss), net of tax for the three and nine months ended September 28, 2013 and September 29, 2012 as follows (in thousands):

|                                    | Three Months Ended    |                       | Nine Months Ended     |                       | Statement of Operations<br>Classification |
|------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|---|
|                                    | September 28,<br>2013 | September 29,<br>2012 | September 28,<br>2013 | September 29,<br>2012 |   |
| Derivative instruments             |                       |                       |                       |                       |   |
| Natural gas swap derivatives       | \$(95                 | )(259                 | )\$92                 | \$(1,267              | ) Cost of sales and operating expenses    |
| Corn option derivatives            | 2,155                 | —                     | 3,063                 | —                     | ) Cost of sales and operating expenses    |
| Interest rate swap derivatives     | —                     | —                     | —                     | (260                  | ) Interest expense                        |
|                                    | 2,060                 | (259                  | )3,155                | (1,527                | ) Total before tax                        |
|                                    | (798                  | )101                  | (1,222                | )592                  | Income taxes                              |
|                                    | 1,262                 | (158                  | )1,933                | (935                  | ) Net of tax                              |
| Defined benefit pension plans      |                       |                       |                       |                       |   |
| Amortization of prior service cost | \$(15                 | )(23                  | )\$(45                | )(67                  | ) (a)                                     |
| Amortization of actuarial loss     | (1,300                | )(1,189               | )(3,900               | )(3,567               | ) (a)                                     |
|                                    | (1,315                | )(1,212               | )(3,945               | )(3,634               | ) Total before tax                        |
|                                    | 509                   | 470                   | 1,529                 | 1,408                 | Income taxes                              |
|                                    | (806                  | )(742                 | )(2,416               | )(2,226               | ) Net of tax                              |
| Total reclassifications            | \$456                 | \$900                 | )\$(483               | )(3,161               | ) Net of tax                              |

(a) These items are included in the computation of net periodic pension cost. See Note 9 Employee Benefit Plans for additional information.

The following table presents changes in each component of accumulated comprehensive income (loss) as of September 28, 2013 as follows (in thousands):

|  | Nine Months Ended September 28, 2013 |                                     |            |
|--|--------------------------------------|-------------------------------------|------------|
|  | Derivative<br>Instruments            | Defined<br>Benefit<br>Pension Plans | Total      |
| Accumulated Other Comprehensive Income (loss) December 29, 2012, net of tax  | \$180                                | \$(31,509                           | )\$(31,329 |
| Other comprehensive gain before reclassifications                            | 3,553                                | —                                   | 3,553      |
| Amounts reclassified from accumulated other comprehensive income (loss)      | (1,933                               | )2,416                              | 483        |
| Net current-period other comprehensive income                                | 1,620                                | 2,416                               | 4,036      |
| Accumulated Other Comprehensive Income (loss) September 28, 2013, net of tax | \$1,800                              | \$(29,093                           | )\$(27,293 |

#### (9) Employee Benefit Plans

The Company has retirement and pension plans covering substantially all of its employees. Most retirement benefits are provided by the Company under separate final-pay noncontributory and contributory defined benefit and defined

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

Net pension cost for the three and nine months ended September 28, 2013 and September 29, 2012 includes the following components (in thousands):

15

---

|                                    | Three Months Ended    |                       | Nine Months Ended     |                       |
|------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                    | September 28,<br>2013 | September 29,<br>2012 | September 28,<br>2013 | September 29,<br>2012 |
| Service cost                       | \$77                  | \$82                  | \$230                 | \$245                 |
| Interest cost                      | 1,318                 | 1,362                 | 3,954                 | 4,088                 |
| Expected return on plan assets     | (1,819                | )(1,677               | )(5,457               | )(5,032               |
| Amortization of prior service cost | 15                    | 23                    | 45                    | 67                    |
| Amortization of net loss           | 1,300                 | 1,189                 | 3,900                 | 3,567                 |
| Net pension cost                   | \$891                 | \$979                 | \$2,672               | \$2,935               |

The Company's funding policy for employee benefit pension plans is to contribute annually not less than the minimum amount required nor more than the maximum amount that can be deducted for federal income tax purposes. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. Based on actuarial estimates at September 28, 2013, the Company expects to contribute approximately \$0.3 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 nine months ended September 28, 2013 and September 29, 2012 of approximately \$4.0 million and \$1.8 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 and two plans have certified as endangered or yellow 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 September 28, 2013, the Company has an accrued liability of approximately \$0.9 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.

#### (10) Derivatives

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

The Company makes limited use of derivative instruments to manage cash flow risks related to interest expense, natural gas usage, diesel fuel usage and inventory. The Company does not use derivative instruments for trading

purposes. Interest rate swaps are entered into with the intent of managing overall borrowing costs by reducing the potential impact of increases in interest rates on floating-rate long-term debt. Natural gas swaps and options are entered into with the intent of managing the overall cost of natural gas usage by reducing the potential impact of seasonal weather demands on natural gas that increases natural gas prices. Heating oil swaps and options are entered into with the intent of managing the overall cost of diesel fuel usage by reducing the potential impact of seasonal weather demands on diesel fuel that increase diesel fuel prices. Inventory swaps and options are entered into with the intent of managing seasonally high concentrations of MBM, PM, BFT, PG, YG and BBP inventories and managing forecasted sales of BBP by reducing the potential impact of changing prices. At September 28, 2013, the Company had corn option contracts and natural gas swaps outstanding that qualified and were designated for hedge accounting as well as heating oil swap 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

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

In fiscal 2012 and the first nine months of fiscal 2013, the Company entered into natural gas swap contracts that are considered cash flow hedges. Under the terms of the natural gas swap contracts, the Company fixed the expected purchase cost of a portion of its plants' forecasted natural gas usage into the fourth quarter of fiscal 2013. As of September 28, 2013, some of the contracts have expired and settled according to the contracts while the remaining contract positions and activity are disclosed below.

In fiscal 2012 and the first nine months of fiscal 2013, 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 forecasted sales of BBP into the third quarter of fiscal 2014. As of September 28, 2013, 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.

The Company estimates the amount that will be reclassified from accumulated other comprehensive gain at September 28, 2013 into earnings over the next 12 months will be approximately \$2.9 million. As of September 28, 2013, 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 September 28, 2013 and December 29, 2012 (in thousands):

| Derivatives Designated<br>as Hedges          | Balance Sheet<br>Location | Asset Derivatives Fair Value |                   |
|--|---------------------------|------------------------------|-------------------|
|  |                           | September 28, 2013           | December 29, 2012 |
| Corn options                                 | Other current assets      | \$3,118                      | \$490             |
| Natural gas swaps                            | Other current assets      | 18                           | 11                |
| Total asset derivatives designated as hedges |                           | \$3,136                      | \$501             |

Derivatives Not  
Designated as  
Hedges

|  |                      |          |        |
|--|----------------------|----------|--------|
| Heating oil swaps and options                    | Other current assets | \$ 147   | \$ 104 |
| Corn futures                                     | Other current assets | —        | 117    |
| Total asset derivatives not designated as hedges |                      | \$ 147   | \$ 221 |
| Total asset derivatives                          |                      | \$ 3,283 | \$ 722 |

17

---

| Derivatives Designated<br>as Hedges                  | Balance Sheet<br>Location | Liability Derivatives Fair Value |                   |
|--|---------------------------|----------------------------------|-------------------|
|  |                           | September 28, 2013               | December 29, 2012 |
| Natural gas swaps                                    | Accrued expenses          | \$29                             | \$21              |
| Total liability derivatives designated as hedges     |                           | \$29                             | \$21              |
| Derivatives Not Designated as Hedges                 |                           |                                  |                   |
| Heating oil swaps and options                        | Accrued expenses          | \$9                              | \$4               |
| Corn options   | Accrued expenses          | —                                | 119               |
| Total liability derivatives not designated as hedges |                           | \$9                              | \$123             |
| Total liability derivatives                          |                           | \$38                             | \$144             |

The effect of the Company's derivative instruments on the consolidated financial statements as of and for the three months ended September 28, 2013 and September 29, 2012 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) |      |
|--|---|--------|--|--------|---|------|
|  | 2013  | 2012   | 2013   | 2012   | 2013  | 2012 |
| Interest rate swaps                        | \$—   | \$—    | \$—  | \$—    | \$—   | \$—  |
| Corn options                               | 2,676   | —      | 2,155  | —      | 215   | 1    |
| Natural gas swaps                          | (14   | )(123  | )(95   | )(259  | )1  | 5    |
| Total                                      | \$2,662   | \$(123 | )\$2,060   | \$(259 | )\$216  | \$6  |

Amount recognized in accumulated OCI (effective portion) is reported as accumulated other comprehensive (a) income/(loss) of approximately \$2.7 million and approximately \$0.1 million recorded net of taxes of approximately \$1.0 million and less than \$0.1 million as of September 28, 2013 and September 29, 2012, respectively.

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

Gains and (losses) recognized in income on derivatives (ineffective portion) for interest rate swaps, corn options (c) 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 nine months ended September 28, 2013 and September 29, 2012 is as follows (in thousands):



| Derivatives<br>Designated as<br>Cash Flow Hedges | Gain or (Loss)<br>Recognized in OCI<br>on Derivatives<br>(Effective Portion) (a) |                | Gain or (Loss)<br>Reclassified From<br>Accumulated OCI<br>into Income<br>(Effective Portion) (b) |                 | Gain or (Loss)<br>Recognized in Income<br>on Derivatives<br>(Ineffective Portion and<br>Amount Excluded from<br>Effectiveness Testing) (c) |            |
|--|--|----------------|--|-----------------|--|------------|
|  | 2013   | 2012           | 2013   | 2012            | 2013   | 2012       |
|  | Interest rate swaps  | \$—            | \$—  | \$—             | \$(260)  | )\$—       |
| Corn options                                     | 5,717  | —              | 3,063  | —               | 249  | 1          |
| Natural gas swaps                                | 73   | (606)          | )92  | (1,267          | )8   | 8          |
| <b>Total</b>                                     | <b>\$5,790</b>   | <b>\$(606)</b> | <b>)\$3,155</b>  | <b>\$(1,527</b> | <b>)\$257</b>  | <b>\$9</b> |

Amount recognized in accumulated OCI (effective portion) is reported as accumulated other comprehensive (a) income/(loss) of approximately \$5.8 million and approximately \$0.6 million recorded net of taxes of approximately \$2.2 million and \$0.2 million as of September 28, 2013 and September 29, 2012, respectively.

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

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

At September 28, 2013, the Company had forward purchase agreements in place for purchases of approximately \$3.5 million of natural gas. These forward purchase agreements have no net settlement provisions and the Company intends to take physical delivery of the underlying product. Accordingly, the forward purchase agreements are not subject to the requirements of fair value accounting because they qualify and the Company has elected to account for these as normal purchases as defined in the FASB authoritative guidance.

#### (11) 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 September 28, 2013 and are categorized using the fair value hierarchy under FASB authoritative guidance. The fair value hierarchy has three levels based on the reliability of the inputs used to determine the fair value.

| (In thousands of dollars) | Total          | Fair Value Measurements at September 28, 2013 Using                     |  |  |
|---------------------------|----------------|---|--|--|
|                           |                | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Assets:</b>            |                |   |  |  |
| Derivative instruments    | \$3,283        | \$—   | \$3,283  | \$—  |
| <b>Total Assets</b>       | <b>\$3,283</b> | <b>\$—</b>  | <b>\$3,283</b>   | <b>\$—</b>   |
| <b>Liabilities:</b>       |                |   |  |  |
| Derivative instruments    | \$38           | \$—   | \$38   | \$—  |
| Senior Notes              | 276,875        | —   | 276,875  | —  |

|                   |           |     |           |     |
|-------------------|-----------|-----|-----------|-----|
| Total Liabilities | \$276,913 | \$— | \$276,913 | \$— |
|-------------------|-----------|-----|-----------|-----|

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

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

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

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

#### (12) 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 September 28, 2013 and December 29, 2012, the reserves for insurance, environmental and litigation contingencies reflected on the balance sheet in accrued expenses and other non-current liabilities were approximately \$35.7 million and \$37.0 million, respectively. The Company has insurance recovery receivables of approximately \$9.3 million as of September 28, 2013 and December 29, 2012, 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 has been named as a third party defendant in a lawsuit pending in the Superior Court of New Jersey, Essex County, styled New Jersey Department of Environmental Protection, The Commissioner of the New Jersey Department of Environmental Protection Agency and the Administrator of the New Jersey Spill Compensation Fund, as Plaintiffs, vs. Occidental Chemical Corporation, Tierra Solutions, Inc., Maxus Energy Corporation, Repsol YPF, S.A., YPF, S.A., YPF Holdings, Inc., and CLH Holdings, as Defendants (Docket No. L-009868-05) (the "Tierra/Maxus Litigation"). In the Tierra/Maxus Litigation, which was filed on December 13, 2005, the plaintiffs seek to recover from the defendants past and future cleanup and removal costs, as well as unspecified economic damages, punitive damages, penalties and a variety of other forms of relief, purportedly arising from the alleged discharges into the Passaic River of a particular type of dioxin and other unspecified hazardous substances. The damages being sought by the plaintiffs from the defendants are likely to be substantial. On February 4, 2009, two of the defendants, Tierra Solutions, Inc. ("Tierra") and Maxus Energy Corporation ("Maxus"), filed a third-party complaint against over 300 entities, including the Company, seeking to recover all or a proportionate share of cleanup and removal costs, damages or other loss or harm, if any, for which Tierra or Maxus may be held liable in the Tierra/Maxus Litigation. Tierra and Maxus allege that Standard Tallow Company, an entity that the Company acquired in 1996, contributed to the discharge of the hazardous substances that are the subject of this case while operating a former plant site located in Newark, New Jersey. The Company is investigating these allegations,

has entered into a joint defense agreement with many of the other third-party defendants and intends to defend itself vigorously. At a case management conference held in March 2013, the Court announced that most third-party defendants had reached a tentative settlement with the State of New Jersey which, if approved by the Court, would end the state court litigation as to participating third-party defendants. The Company has committed to join the settlement, pursuant to which the Company would pay the State of New Jersey \$195,000. This amount was accrued in the first quarter of 2013. The settlement is subject to court approval following a notice and comment period. It is anticipated that the settlement will be brought to the Court for approval sometime during the second half of 2013. All previously scheduled discovery and trial dates in the case have been stayed as to parties participating in the settlement. The scope of the Company's continued involvement in the litigation depends on whether the Court approves the settlement and dismisses the Company from the case, which is uncertain at this time. 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 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 party to the lawsuit. 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. 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 is currently scheduled for trial in February 2014. 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.

### (13) Business Segments

The Company sells its products domestically and internationally and operates within two industry segments: Rendering and Bakery. The measure of segment profit (loss) includes all revenues, operating expenses (excluding certain amortization of intangibles), and selling, general and administrative expenses incurred at all operating locations and excludes general corporate expenses.

Included in corporate activities are general corporate expenses and the amortization of intangibles. Assets of corporate activities include cash, unallocated prepaid expenses, deferred tax assets, prepaid pension, and miscellaneous other assets.

#### Rendering

Rendering operations process animal by-products and used cooking oil into fats (primarily BFT, PG and YG), protein (primarily MBM and PM (feed grade and pet food)) and hides. Fat was approximately \$195.4 million and \$205.9 million of net sales for the three months ended September 28, 2013 and September 29, 2012, respectively and approximately \$580.9 million and \$626.0 million of net sales for the nine months ended September 28, 2013 and September 29, 2012, respectively. Protein was approximately \$133.6 million and \$137.1 million of net sales for the three months ended September 28, 2013 and September 29, 2012, respectively and approximately \$410.6 million and \$361.9 million of net sales for the nine months ended September 28, 2013 and September 29, 2012, respectively. Rendering also provides grease trap servicing. Included in the Rendering Segment is the National Service Center ("NSC"). The NSC schedules services such as fat and bone and used cooking oil collection and trap cleaning for contracted customers using the Company's resources or third-party providers.

#### Bakery

Edgar Filing: DARLING INTERNATIONAL INC - Form 10-Q

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

Business Segment Net Sales (in thousands):

|           | Three Months Ended    |                       | Nine Months Ended     |                       |
|-----------|-----------------------|-----------------------|-----------------------|-----------------------|
|           | September 28,<br>2013 | September 29,<br>2012 | September 28,<br>2013 | September 29,<br>2012 |
| Rendering | \$362,077             | \$368,154             | \$1,079,848           | \$1,061,947           |
| Bakery    | 63,709                | 84,578                | 214,953               | 214,567               |
| Total     | \$425,786             | \$452,732             | \$1,294,801           | \$1,276,514           |

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

|                      | Three Months Ended    |                       | Nine Months Ended     |                       |
|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                      | September 28,<br>2013 | September 29,<br>2012 | September 28,<br>2013 | September 29,<br>2012 |
| Rendering            | \$65,053              | \$70,624              | \$196,951             | \$208,263             |
| Bakery               | 9,884                 | 18,641                | 38,067                | 42,786                |
| Corporate Activities | (41,973)              | )(46,225              | )(131,937             | )(130,535             |
| Interest expense     | (5,313)               | )(5,868               | )(16,607              | )(18,546              |
| Net Income           | \$27,651              | \$37,172              | \$86,474              | \$101,968             |

## Business Segment Assets (in thousands):

|                      | September 28,<br>2013 | December 29,<br>2012 |
|----------------------|-----------------------|----------------------|
| Rendering            | \$1,239,859           | \$1,088,775          |
| Bakery               | 168,710               | 170,566              |
| Corporate Activities | 305,066               | 293,075              |
| Total                | \$1,713,635           | \$1,552,416          |

## (14) Related Party Transactions

## Lease Agreements

Darling through its wholly-owned subsidiary Griffin Industries LLC, 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 – Co-Chief Operations Officer. 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 has entered into a Raw Material Agreement with the Joint Venture pursuant to which the Company will offer to supply certain animal fats and used cooking oil at market prices, up to the Joint Venture's full operational requirement of feedstock, but the Joint Venture is not obligated to purchase the raw material offered by the Company. Additionally, the Company may offer other feedstocks to the Joint Venture, such as inedible corn oil, purchased on a resale basis. For the three and nine months months ended September 28, 2013, the Company has recorded sales to the Joint Venture of approximately \$34.2 million and \$44.4 million, respectively. There were no sales to the Joint Venture for the three and nine months ended September 29, 2012. At September 28, 2013 and December 29, 2012, the

Company has \$8.3 million and \$0.3 million in outstanding receivables due from the Joint Venture, respectively. In addition, the Company has eliminated additional sales for the nine months ended September 28, 2013, of approximately \$7.3 million to the Joint Venture to defer the Company's portion of profit on those sales relating to inventory assets still remaining on the Joint Venture's balance sheet at September 28, 2013 of approximately \$1.3 million.

(15) New Accounting Pronouncements

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. The ASU amends ASC Topic 220, Comprehensive Income. The new standard eliminates the option to report other comprehensive income and its components in the statement of changes in equity and instead requires entities to present net income and other



comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. Reclassification adjustments between net income and other comprehensive income must be shown on the face of the statement(s), with no resulting change in net earnings. In December 2011, the FASB issued ASU No. 2011-12, Deferral of Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. This ASU amends ASC Topic 220, Comprehensive Income. The new standard deferred the requirement to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income while the FASB further deliberates this aspect of the proposal. This update is effective for the Company on January 1, 2012 and must be applied retrospectively. The Company adopted this standard as of March 31, 2012. The adoption did not have a material impact on the Company's consolidated financial statements. In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Out of Accumulated Other Comprehensive Income. This ASU amends ASC Topic 220, Comprehensive Income. This new standard requires an entity to report either on the income statement or disclose in the footnotes to the financial statement the effects on earnings from items that are reclassified out of other comprehensive income. This update was effective for the Company on December 30, 2012. The adoption did not have a material impact on the Company's consolidated financial statements.

In July 2012, the FASB issued ASU No. 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment. The ASU amends ASC Topic 350, Intangibles - Goodwill and Other. The new standard is intended to reduce the cost and complexity of performing an impairment test for indefinite-lived intangible assets by providing entities an option to perform a "qualitative" assessment to determine whether further impairment testing is necessary. The new standard allows an entity to first assess qualitative factors to determine if it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If based on its qualitative assessment an entity concludes it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, quantitative impairment testing is required. However, if an entity concludes otherwise, quantitative impairment testing is not required. The standards update is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company adopted this standard in the first quarter of fiscal 2013. The adoption did not have a material impact on the Company's consolidated financial statements.

#### (16) Guarantor Financial Information

The Company's Notes (see Note 6) are guaranteed on an unsecured basis by the Company'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, Terra Renewal Services, Inc. and EV Acquisition, Inc. (collectively, the "Guarantors"). The Guarantors fully and unconditionally guaranteed the Notes on a joint and several basis. The following financial statements present condensed consolidating financial data for (i) Darling, the issuer of the Notes, (ii) the combined Guarantors, (iii) the combined other subsidiaries of the Company that did not guarantee the Notes (the "Non-guarantors"), and (iv) eliminations necessary to arrive at the Company's consolidated financial statements, which include condensed consolidated balance sheets as of September 28, 2013 and December 29, 2012, 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 nine months ended September 28, 2013 and September 29, 2012.

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

|   | Issuer       | Guarantors   | Non-guarantors | Eliminations  | Consolidated |
|---|--------------|--------------|----------------|---------------|--------------|
| <b>ASSETS</b>                               |              |              |                |               |              |
| Total current assets                        | \$ 104,281   | \$ 509,978   | \$ 2,542       | \$(392,470)   | \$ 224,331   |
| Investment in subsidiaries                  | 1,701,426    | —            | —              | (1,701,426)   | —            |
| Property, plant and equipment, net          | 164,484      | 357,778      | —              | —             | 522,262      |
| Intangible assets, net                      | 14,787       | 349,374      | 254            | —             | 364,415      |
| Goodwill                                    | 21,860       | 424,616      | 266            | —             | 446,742      |
| Investment in unconsolidated subsidiary     | —            | —            | 116,250        | —             | 116,250      |
| Other assets                                | 36,711       | 2,924        | —              | —             | 39,635       |
|   | \$ 2,043,549 | \$ 1,644,670 | \$ 119,312     | \$(2,093,896) | \$ 1,713,635 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |              |              |                |               |              |
| Total current liabilities                   | \$ 478,392   | \$ 58,816    | \$ 3,497       | \$(392,470)   | \$ 148,235   |
| Long-term debt, net of current portion      | 250,000      | 76           | —              | —             | 250,076      |
| Other noncurrent liabilities                | 50,919       | —            | 167            | —             | 51,086       |
| Deferred income taxes                       | 105,931      | —            | —              | —             | 105,931      |
| Total liabilities                           | 885,242      | 58,892       | 3,664          | (392,470)     | 555,328      |
| Total stockholders' equity                  | 1,158,307    | 1,585,778    | 115,648        | (1,701,426)   | 1,158,307    |
|   | \$ 2,043,549 | \$ 1,644,670 | \$ 119,312     | \$(2,093,896) | \$ 1,713,635 |

Condensed Consolidating Balance Sheet  
As of December 29, 2012  
(in thousands)

|   | Issuer       | Guarantors   | Non-guarantors | Eliminations  | Consolidated |
|---|--------------|--------------|----------------|---------------|--------------|
| <b>ASSETS</b>                               |              |              |                |               |              |
| Total current assets                        | \$ 174,576   | \$ 455,604   | \$ 3,037       | \$(342,955)   | \$ 290,262   |
| Investment in subsidiaries                  | 1,449,577    | —            | —              | (1,449,577)   | —            |
| Property, plant and equipment, net          | 148,131      | 305,796      | —              | —             | 453,927      |
| Intangible assets, net                      | 14,497       | 322,634      | 271            | —             | 337,402      |
| Goodwill                                    | 21,860       | 359,243      | 266            | —             | 381,369      |
| Investment in unconsolidated subsidiary     | —            | —            | 62,495         | —             | 62,495       |
| Other assets                                | 26,530       | 431          | —              | —             | 26,961       |
|   | \$ 1,835,171 | \$ 1,443,708 | \$ 66,069      | \$(1,792,532) | \$ 1,552,416 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |              |              |                |               |              |
| Total current liabilities                   | \$ 414,755   | \$ 59,218    | \$ 666         | \$(342,955)   | \$ 131,684   |
| Long-term debt, net of current portion      | 250,000      | 142          | —              | —             | 250,142      |
| Other noncurrent liabilities                | 61,365       | —            | 174            | —             | 61,539       |
| Deferred income taxes                       | 46,615       | —            | —              | —             | 46,615       |
| Total liabilities                           | 772,735      | 59,360       | 840            | (342,955)     | 489,980      |
| Total stockholders' equity                  | 1,062,436    | 1,384,348    | 65,229         | (1,449,577)   | 1,062,436    |
|   | \$ 1,835,171 | \$ 1,443,708 | \$ 66,069      | \$(1,792,532) | \$ 1,552,416 |



Condensed Consolidating Statements of Operations  
For the three months ended September 28, 2013  
(in thousands)

|   | Issuer    | Guarantors | Non-guarantors | Eliminations | Consolidated |
|---|-----------|------------|----------------|--------------|--------------|
| Net sales   | \$182,331 | \$309,529  | \$2,293        | \$(68,367)   | )\$425,786   |
| Cost and expenses:                                |           |            |                |              |              |
| Cost of sales and operating expenses              | 140,213   | 235,902    | 2,341          | (68,367)     | )310,089     |
| Selling, general and administrative expenses      | 23,142    | 19,438     | 8              | —            | 42,588       |
| Acquisition costs                                 | 8,326     | —          | —              | —            | 8,326        |
| Depreciation and amortization                     | 6,035     | 17,091     | 5              | —            | 23,131       |
| Total costs and expenses                          | 177,716   | 272,431    | 2,354          | (68,367)     | )384,134     |
| Operating income                                  | 4,615     | 37,098     | (61)           | )—           | 41,652       |
| Interest expense                                  | (5,309)   | ) (4)      | )—             | —            | (5,313)      |
| Other, net  | (3,023)   | ) (239)    | ) (6)          | )—           | (3,268)      |
| Equity in net income of unconsolidated subsidiary | —         | —          | 11,953         | —            | 11,953       |
| Earnings in investments in subsidiaries           | 29,939    | —          | —              | (29,939)     | )—           |
| Income/(loss) before taxes                        | 26,222    | 36,855     | 11,886         | (29,939)     | )45,024      |
| Income taxes (benefit)                            | (1,429)   | )14,227    | 4,575          | —            | 17,373       |
| Net income (loss)                                 | \$27,651  | \$22,628   | \$7,311        | \$(29,939)   | )\$27,651    |

Condensed Consolidating Statements of Operations  
For the nine months ended September 28, 2013  
(in thousands)

|   | Issuer    | Guarantors | Non-guarantors | Eliminations | Consolidated |
|---|-----------|------------|----------------|--------------|--------------|
| Net sales   | \$503,595 | \$938,629  | \$8,188        | \$(155,611)  | )\$1,294,801 |
| Cost and expenses:                                |           |            |                |              |              |
| Cost of sales and operating expenses              | 388,463   | 701,804    | 8,041          | (155,611)    | )942,697     |
| Selling, general and administrative expenses      | 66,984    | 57,798     | 61             | —            | 124,843      |
| Acquisition costs                                 | 9,157     | —          | —              | —            | 9,157        |
| Depreciation and amortization                     | 17,990    | 49,067     | 17             | —            | 67,074       |
| Total costs and expenses                          | 482,594   | 808,669    | 8,119          | (155,611)    | )1,143,771   |
| Operating income                                  | 21,001    | 129,960    | 69             | —            | 151,030      |
| Interest expense                                  | (16,596)  | ) (11)     | )—             | —            | (16,607)     |
| Other, net  | (2,697)   | )108       | (30)           | )—           | (2,619)      |
| Equity in net income of unconsolidated subsidiary | —         | —          | 8,796          | —            | 8,796        |
| Earnings in investments in subsidiaries           | 85,424    | —          | —              | (85,424)     | )—           |
| Income/(loss) from operations before taxes        | 87,132    | 130,057    | 8,835          | (85,424)     | )140,600     |
| Income taxes (benefit)                            | 658       | 50,067     | 3,401          | —            | 54,126       |
| Net income (loss)                                 | \$86,474  | \$79,990   | \$5,434        | \$(85,424)   | )\$86,474    |



Condensed Consolidating Statements of Operations  
For the three months ended September 29, 2012  
(in thousands)

|   | Issuer    | Guarantors | Non-guarantors | Eliminations | Consolidated |   |
|---|-----------|------------|----------------|--------------|--------------|---|
| Net sales                                       | \$165,256 | \$330,013  | \$3,814        | \$(46,351)   | )\$452,732   |   |
| Cost and expenses:                              |           |            |                |              |              |   |
| Cost of sales and operating expenses            | 125,806   | 244,924    | 3,530          | (46,351)     | )327,909     |   |
| Selling, general and administrative expenses    | 20,396    | 18,093     | 34             | —            | 38,523       |   |
| Depreciation and amortization                   | 5,502     | 15,016     | 6              | —            | 20,524       |   |
| Total costs and expenses                        | 151,704   | 278,033    | 3,570          | (46,351)     | )386,956     |   |
| Operating income                                | 13,552    | 51,980     | 244            | —            | 65,776       |   |
| Interest expense                                | (5,867    | )(1        | )—             | —            | (5,868       | ) |
| Other, net                                      | (841      | )1,076     | (3             | )—           | 232          | ) |
| Equity in net loss of unconsolidated subsidiary | —         | —          | (833           | )—           | (833         | ) |
| Earnings in investments in subsidiaries         | 32,877    | —          | —              | (32,877      | )—           | ) |
| Income/(loss) before taxes                      | 39,721    | 53,055     | (592           | )(32,877     | )59,307      | ) |
| Income taxes                                    | 2,549     | 19,806     | (220           | )—           | 22,135       | ) |
| Net income (loss)                               | \$37,172  | \$33,249   | \$(372         | )\$(32,877   | )\$37,172    | ) |

Condensed Consolidating Statements of Operations  
For the nine months ended September 29, 2012  
(in thousands)

|   | Issuer    | Guarantors | Non-guarantors | Eliminations | Consolidated |   |
|---|-----------|------------|----------------|--------------|--------------|---|
| Net sales                                       | \$502,814 | \$903,712  | \$10,089       | \$(140,101)  | )\$1,276,514 |   |
| Cost and expenses:                              |           |            |                |              |              |   |
| Cost of sales and operating expenses            | 389,808   | 659,207    | 9,602          | (140,101)    | )918,516     |   |
| Selling, general and administrative expenses    | 60,108    | 52,571     | 107            | —            | 112,786      |   |
| Depreciation and amortization                   | 17,614    | 45,327     | 17             | —            | 62,958       |   |
| Total costs and expenses                        | 467,530   | 757,105    | 9,726          | (140,101)    | )1,094,260   |   |
| Operating income                                | 35,284    | 146,607    | 363            | —            | 182,254      |   |
| Interest expense                                | (18,544   | )(2        | )—             | —            | (18,546      | ) |
| Other, net                                      | (2,071    | )1,981     | (16            | )—           | (106         | ) |
| Equity in net loss of unconsolidated subsidiary | —         | —          | (1,725         | )—           | (1,725       | ) |
| Earnings in investments in subsidiaries         | 92,728    | —          | —              | (92,728      | )—           | ) |
| Income/(loss) from operations before taxes      | 107,397   | 148,586    | (1,378         | )(92,728     | )161,877     | ) |
| Income taxes (benefit)                          | 5,429     | 54,990     | (510           | )—           | 59,909       | ) |
| Net income (loss)                               | \$101,968 | \$93,596   | \$(868         | )\$(92,728   | )\$101,968   | ) |



## Condensed Consolidating Statements of Comprehensive Income (Loss)

For the three months ended September 28, 2013

(in thousands)

|  | Issuer   | Guarantors | Non-guarantors | Eliminations | Consolidated |
|--|----------|------------|----------------|--------------|--------------|
| Net income                                     | \$27,651 | \$22,628   | \$7,311        | \$(29,939)   | )\$27,651    |
| Other comprehensive income (loss), net of tax: |          |            |                |              |              |
| Pension adjustments                            | 806      | —          | —              | —            | 806          |
| Natural gas swap derivative adjustments        | 49       | —          | —              | —            | 49           |
| Corn option derivative adjustments             | 325      | —          | —              | —            | 325          |
| Total other comprehensive income, net of tax   | 1,180    | —          | —              | —            | 1,180        |
| Total comprehensive income (loss)              | \$28,831 | \$22,628   | \$7,311        | \$(29,939)   | )\$28,831    |

## Condensed Consolidating Statements of Comprehensive Income (Loss)

For the nine months ended September 28, 2013

(in thousands)

|  | Issuer   | Guarantors | Non-guarantors | Eliminations | Consolidated |
|--|----------|------------|----------------|--------------|--------------|
| Net income                                     | \$86,474 | \$79,990   | \$5,434        | \$(85,424)   | )\$86,474    |
| Other comprehensive income (loss), net of tax: |          |            |                |              |              |
| Pension adjustments                            | 2,416    | —          | —              | —            | 2,416        |
| Natural gas swap derivative adjustments        | (12)     | )—         | —              | —            | (12)         |
| Corn option derivative adjustments             | 1,632    | —          | —              | —            | 1,632        |
| Total other comprehensive income               | 4,036    | —          | —              | —            | 4,036        |
| Total comprehensive income (loss)              | \$90,510 | \$79,990   | \$5,434        | \$(85,424)   | )\$90,510    |

## Condensed Consolidating Statements of Comprehensive Income (Loss)

For the three months ended September 29, 2012

(in thousands)

|  | Issuer   | Guarantors | Non-guarantors | Eliminations | Consolidated |
|--|----------|------------|----------------|--------------|--------------|
| Net income                                     | \$37,172 | \$33,249   | \$(372)        | \$(32,877)   | )\$37,172    |
| Other comprehensive income (loss), net of tax: |          |            |                |              |              |
| Pension adjustments                            | 742      | —          | —              | —            | 742          |
| Natural gas swap derivative adjustments        | 83       | —          | —              | —            | 83           |
| Interest rate swap derivative adjustment       | —        | —          | —              | —            | —            |
| Total other comprehensive income, net of tax   | 825      | —          | —              | —            | 825          |
| Total comprehensive income (loss)              | \$37,997 | \$33,249   | \$(372)        | \$(32,877)   | )\$37,997    |



## Condensed Consolidating Statements of Comprehensive Income (Loss)

For the nine months ended September 29, 2012

(in thousands)

|  | Issuer    | Guarantors | Non-guarantors | Eliminations | Consolidated |
|--|-----------|------------|----------------|--------------|--------------|
| Net income                                     | \$101,968 | \$93,596   | \$(868         | ) \$(92,728  | ) \$101,968  |
| Other comprehensive income (loss), net of tax: |           |            |                |              |              |
| Pension adjustments                            | 2,226     | —          | —              | —            | 2,226        |
| Natural gas swap derivative adjustments        | 404       | —          | —              | —            | 404          |
| Interest rate swap derivative adjustment       | 159       | —          | —              | —            | 159          |
| Total other comprehensive income               | 2,789     | —          | —              | —            | 2,789        |
| Total comprehensive income (loss)              | \$104,757 | \$93,596   | \$(868         | ) \$(92,728  | ) \$104,757  |

## Condensed Consolidating Statements of Cash Flows

For the nine months ended September 28, 2013

(in thousands)

|  | Issuer   | Guarantors | Non-guarantors | Eliminations | Consolidated |   |
|--|----------|------------|----------------|--------------|--------------|---|
| Cash flows from operating activities:                                      |          |            |                |              |              |   |
| Net income   | \$86,474 | \$79,990   | \$5,434        | \$(85,424    | ) \$86,474   |   |
| Earnings in investments in subsidiaries                                    | (85,424  | )—         | —              | 85,424       | —            |   |
| Other operating cash flows   | 115,200  | (27,764    | ) (5,205       | )—           | 82,231       |   |
| Net cash provided by operating activities                                  | 116,250  | 52,226     | 229            | —            | 168,705      |   |
| Cash flows from investing activities:                                      |          |            |                |              |              |   |
| Capital expenditures   | (31,572  | ) (54,147  | )—             | —            | (85,719      | ) |
| Acquisitions   | —        | (121,440   | )—             | —            | (121,440     | ) |
| Investment in subsidiaries and affiliates                                  | (166,425 | )—         | (44,959        | ) 166,425    | (44,959      | ) |
| Gross proceeds from sale of property, plant and equipment and other assets | 897      | 769        | —              | —            | 1,666        |   |
| Proceeds from insurance settlements  | 1,531    | 450        | —              | —            | 1,981        |   |
| Payments related to routes and other intangibles                           | (2,374   | )—         | —              | —            | (2,374       | ) |
| Net cash used in investing activities                                      | (197,943 | ) (174,368 | ) (44,959      | ) 166,425    | (250,845     | ) |
| Cash flows from financing activities:                                      |          |            |                |              |              |   |
| Payments on long-term debt   | —        | (62        | )—             | —            | (62          | ) |
| Deferred loan costs  | (11,138  | )—         | —              | —            | (11,138      | ) |
| Issuances of common stock  | 32       | —          | —              | —            | 32           |   |
| Contributions from parent  | —        | 121,440    | 44,985         | (166,425     | )—           |   |
| Minimum withholding taxes paid on stock awards                             | (2,649   | )—         | —              | —            | (2,649       | ) |
| Excess tax benefits from stock-based compensation                          | 719      | —          | —              | —            | 719          |   |
| Net cash used in financing activities                                      | (13,036  | ) 121,378  | 44,985         | (166,425     | ) (13,098    | ) |
| Net increase/(decrease) in cash and cash equivalents                       | (94,729  | ) (764     | ) 255          | —            | (95,238      | ) |
|  | 96,945   | 5,577      | 727            | —            | 103,249      |   |

Cash and cash equivalents at beginning of  
year

|  |         |         |       |     |         |
|--|---------|---------|-------|-----|---------|
| Cash and cash equivalents at end of year | \$2,216 | \$4,813 | \$982 | \$— | \$8,011 |
|--|---------|---------|-------|-----|---------|

Condensed Consolidating Statements of Cash Flows  
For the nine months ended September 29, 2012  
(in thousands)

|  | Issuer    | Guarantors | Non-guarantors | Eliminations | Consolidated |
|--|-----------|------------|----------------|--------------|--------------|
| Cash flows from operating activities:                                      |           |            |                |              |              |
| Net income   | \$101,968 | \$93,596   | \$(868)        | \$(92,728)   | )\$101,968   |
| Earnings in investments in subsidiaries                                    | (92,728)  | )—         | —              | 92,728       | —            |
| Other operating cash flows   | 142,681   | (47,537)   | )(542)         | )—           | 94,602       |
| Net cash provided by operating activities                                  | 151,921   | 46,059     | (1,410)        | )—           | 196,570      |
| Cash flows from investing activities:                                      |           |            |                |              |              |
| Capital expenditures   | (37,183)  | )(46,971)  | )—             | —            | (84,154 )    |
| Acquisitions   | (3,000)   | )—         | —              | —            | (3,000 )     |
| Investment in subsidiaries and affiliates                                  | (34,441)  | )—         | (34,416)       | )34,441      | (34,416 )    |
| Gross proceeds from sale of property, plant and equipment and other assets | 1,580     | 1,409      | —              | —            | 2,989        |
| Proceeds from insurance settlements  | —         | 1,906      | —              | —            | 1,906        |
| Net cash used in investing activities                                      | (73,044)  | )(43,656)  | )(34,416)      | )34,441      | (116,675 )   |
| Cash flows from financing activities:                                      |           |            |                |              |              |
| Payments on long-term debt   | (30,000)  | )(13)      | )—             | —            | (30,013 )    |
| Issuances of common stock  | 64        | —          | —              | —            | 64           |
| Contributions from parent  | —         | —          | 34,441         | (34,441)     | )—           |
| Minimum withholding taxes paid on stock awards                             | (3,365)   | )—         | —              | —            | (3,365 )     |
| Excess tax benefits from stock-based compensation                          | 2,169     | —          | —              | —            | 2,169        |
| Net cash used in financing activities                                      | (31,132)  | )(13)      | )34,441        | (34,441)     | )(31,145 )   |
| Net increase/(decrease) in cash and cash equivalents                       | 47,745    | 2,390      | (1,385)        | )—           | 48,750       |
| Cash and cash equivalents at beginning of year                             | 35,207    | 1,773      | 1,956          | —            | 38,936       |
| Cash and cash equivalents at end of year                                   | \$82,952  | \$4,163    | \$571          | \$—          | \$87,686     |

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth below under the heading "Forward Looking Statements" and elsewhere in this report, and under the heading "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 29, 2012, and in the Company's other public filings with the SEC.

The following discussion should be read in conjunction with the historical consolidated financial statements and notes thereto.

### Overview

The Company is a leading provider of rendering, used cooking oil and bakery residual recycling and recovery solutions to the nation's food industry. The Company collects and recycles animal by-products, bakery residual and used cooking oil from poultry and meat processors, commercial bakeries, grocery stores, butcher shops, and food service establishments and provides grease trap cleaning services to many of the same establishments. The Company operates over 120 processing and transfer facilities located throughout the United States to process raw materials into finished products such as protein (primarily meat and bone meal ("MBM") and poultry meal ("PM")), hides, fats (primarily bleachable fancy tallow ("BFT"), poultry grease ("PG") and yellow grease ("YG")), and bakery by-product ("BBP") as well as a range of branded and value-added products. The Company sells these products domestically and internationally, primarily to producers of animal feed, pet food, fertilizer, bio-fuels and other consumer and industrial ingredients, including oleo-chemicals, soaps and leather goods for use as ingredients in their products or for further processing. All of the Company's finished products are commodities and are priced relative to competing commodities, primarily corn, soybean oil, inedible corn oil and soybean meal. Finished product prices will track as to nutritional and industry value to the ultimate customer's use of the product. The accompanying unaudited quarterly 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 29, 2012.

The Company's operating performance for the third quarter of fiscal 2013 remained in line with its second quarter fiscal 2013 performance despite a major resetting of global commodity values reducing the price of corn, soybeans and other commodity ingredients that compete with the Company's products to their lowest levels in four years. The Company's operating performance was consistent with second quarter of fiscal 2013 when adjusted for transaction expenses related to acquisitions and a non-operating settlement.

Rendering raw material volumes remained steady in the third quarter of fiscal 2013 relative to the second quarter of fiscal 2013. As anticipated, beef raw material tonnage declined slightly while poultry and yellow grease volumes improved in the third quarter of fiscal 2013 versus the second quarter of fiscal 2013.

During the third quarter of fiscal 2013 fat sales were up compared to the second quarter of fiscal 2013, while fat prices started the third quarter of fiscal 2013 steady before starting to decline rapidly late in the quarter as the size and impact of the new corn crop became certain. Exports for fats and greases remained sluggish. Protein prices for the most part remained steady with limited exports supporting values of MBM. Pet grade products felt their seasonal sluggishness as both aquaculture and pet food demand slowed.

The bakery segment business declined significantly in the third quarter of fiscal 2013 as compared to both the same period in fiscal 2012 and the second quarter of fiscal 2013. The Company's derivative position protecting the

Company's margin spread helped to partially offset rapidly declining cash corn prices. Early harvest and imports of corn to the southeast United States affected finished product prices for Cookie Meal®, a proprietary Darling product, and were the primary drivers of this segment's performance. Overall, volumes remained steady quarter-to-quarter while improving on a year-over-year basis.

Diamond Green Diesel, the Company's joint venture with Valero Energy Corporation, had its first full quarter of operations and posted very solid results. While still in shakedown mode, Diamond Green Diesel was able to operate at name plate capacity for part of the quarter prior to finding some excessive metallurgical wear in its main heat exchanger. After a brief shutdown, the venture returned to operation but production remained at a reduced rate for the balance of the quarter. During this time, additional work was done to verify metallurgical wear on other operating equipment and a decision was made to maintain production at the reduced level until several other pieces of equipment could be modified or replaced. It is anticipated the rate will return to or exceed name plate capacity of 9,300 barrels per day by mid November 2013. The

30

---

reduced run rate had a negative impact of approximately \$0.03 per share during the third quarter of fiscal 2013. Diamond Green Diesel commenced a shutdown on November 7, 2013 to replace the heat exchangers. The Company anticipates the unit will be back on line and operating at or above nameplate capacity by mid November. Additionally, the pre-treatment facility continues to exceed expectations and has proven capable of processing animal fats and vegetable oils.

Operating income decreased by \$24.1 million in the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012. The challenges faced by the Company as discussed below indicate there can be no assurance that operating results achieved by the Company in the third quarter of fiscal 2013 are indicative of future operating performance of the Company.

#### Summary of Critical Issues Faced by the Company during the Third Quarter of 2013

Lower finished product prices for PM (both feed grade and pet food), BFT, PG, YG and corn in the third quarter of fiscal 2013 as compared to the third quarter of fiscal 2012 are a sign of decreased demand in domestic and export markets for PM (both feed grade and pet food), BFT, PG, YG and corn, which is used to price BBP. Corn prices were down as corn supplies have increased. These lower prices were offset some by an overall increase in MBM. Overall, finished product prices were unfavorable to the Company's sales revenue, but this unfavorable result was partially offset by the positive impact on raw material cost, due to the Company's formula pricing arrangements with raw material suppliers, which index raw material cost to the prices of finished product derived from the raw material. The financial impact of finished goods prices on sales revenue and raw material cost is summarized below in Results of Operations. Comparative sales price information from the Jacobsen Index, an established trading exchange publisher (the "Jacobsen") used by management to monitor performance, is provided below in Summary of Key Indicators. Higher raw material volumes were collected from the Company's poultry suppliers that were more than offset by lower raw material volumes collected from the Company's beef and pork suppliers during the third quarter of fiscal 2013 as compared to the third quarter of fiscal 2012. Management believes the decrease in raw material volume is due to a decrease in beef and pork slaughter and processor rates by the Company's raw material suppliers during the quarter as a result of decreased demand. The financial impact of lower raw material volumes is summarized below in Results of Operations.

Energy prices for natural gas and diesel fuel increased during the third quarter of fiscal 2013 as compared to the third quarter of fiscal 2012. The financial impact of energy costs is summarized below in Results of Operations.

#### Summary of Critical Issues and Known Trends Faced by the Company in 2013 and Thereafter

##### Critical Issues and Challenges:

Integration of current year domestic acquisition activity as well as actual and expected future international acquisition activity may not achieve the desired growth and could result in unforeseen operating and integration difficulties that will require significant management resources for the remainder of fiscal 2013 and into future periods.

Finished product prices for MBM and PM (both feed grade and pet food) increased during the first nine months of fiscal 2013 as compared to the same period of fiscal 2012, while finished product prices for BFT, PG, YG and corn decreased during the first nine months of fiscal 2013 as compared to the same period of fiscal 2012. No assurance can be given that this increase in commodity prices for various proteins will continue in the future or that commodity prices for various fats, including BFT, PG, YG and corn, will not decrease further, as commodity prices are volatile by their nature. A decrease in commodity prices for some or all of the Company's products could have a significant impact on the Company's earnings for the remainder of fiscal 2013 and into future periods.

The Company collected higher raw material volumes in the first nine months of fiscal 2013 as compared to the first nine months of fiscal 2012, as slaughter and processor rates for the Company's poultry raw material suppliers increased. No assurance can be given that this increased activity from the Company's poultry raw material suppliers

will continue in the future. If raw material suppliers reduce their slaughter and processing rates in the future there could be a negative impact on the Company's ability to obtain raw materials for the Company's operations.

In July 2013, the Indonesia markets for MBM derived from U.S. beef reopened. The opening of this market for MBM derived from U.S. beef will impact the Company's West Coast MBM market which could have a positive

impact on the Company's earnings in future periods, although there can be no assurance that such positive impact will develop.

The Company consumes significant volumes of natural gas to operate boilers in its plants, which generate steam to heat raw material. Natural gas represents a significant component of factory cost included in cost of sales. The Company also consumes significant volumes of diesel fuel to operate its fleet of tractors and trucks used to collect raw material. Diesel fuel represents a significant component of collection costs included in cost of sales. Higher natural gas and diesel fuel prices were incurred during the first nine months of fiscal 2013 as compared to the same period of fiscal 2012. These prices can be volatile and there can be no assurance that these prices will not increase in the near future, thereby representing an ongoing challenge to the Company's operating results for future periods. A material increase in energy prices for natural gas and/or diesel fuel over a sustained period of time could materially adversely affect the Company's business, financial condition and results of operations.

#### Worldwide Government Policies

Pursuant to the requirements established by the Energy Independence and Security Act of 2007 ("EISA"), the Environmental Protection Agency ("EPA") finalized regulations for the Renewable Fuel Standard, which were published in the Federal Register on March 26, 2010 ("RFS2"). The regulations mandated the domestic use of biomass-based diesel (biodiesel or renewable diesel) of 1.0 billion gallons in 2012. Beyond 2012 the regulations require a minimum of 1.0 billion gallons of biomass-based diesel for each year through 2022, which amount is subject to increase by the EPA Administrator. On September 27, 2012, the EPA issued a final rule establishing the biomass-based diesel volume for calendar year 2013 to be 1.28 billion gallons, effective on November 26, 2012. In a subsequent final rule issued on August 15, 2013, the EPA finalized a lower cellulosic biofuel volume for 2013 than was specified in the EISA, but left the advanced biofuel and total renewable fuel volumes at the statutory levels for 2013. The EPA had not established biomass-based diesel volumes for calendar year 2014 as of the date of this report. Biomass-based diesel also qualifies to fulfill the non-specified portion of the advanced bio-fuel requirement in the EISA. In order to qualify as a "renewable fuel" each type of fuel from each type of feed stock is required to lower greenhouse gas emissions ("GHG") by levels specified in the regulation. The EPA has determined that bio-fuels (either biodiesel or renewable diesel) produced from waste oils, fats and greases result in an 86% reduction in GHG emissions, exceeding the 50% requirement established by the regulation. Prices for the Company's finished products may be impacted by worldwide government policies relating to renewable fuels and GHG. Programs like RFS2 and tax credits for bio-fuels both in the U.S. and abroad may positively impact the demand for the Company's finished products. Accordingly, changes to, a failure to enforce or discontinuing any of these programs could have a negative impact on the Company's business and results of operations.

The Company's exports are subject to the imposition of tariffs, quotas, trade barriers and other trade protection measures imposed by foreign countries regarding the import of the Company's MBM, BFT and YG. General economic and political conditions as well as the closing of borders by foreign countries to the import of the Company's products due to animal disease or other perceived health or safety issues impact the Company. As a result trade policies of both U.S and foreign countries could have a negative impact on the Company's business and results of operations.

#### Other Food Safety and Regulatory Issues

The emergence of diseases such as Swine Flu ("H1N1") and highly pathogenic strains of avian influenza, collectively called Bird Flu, that are in or associated with animals and have the potential to also threaten humans has created concern that such diseases could spread and cause a global pandemic. The H5N1 strain of Bird Flu has not been reported in North America. Outbreaks of a different strain of Bird Flu ("H7N3"), however, were reported by Mexican animal health authorities on chicken farms in Mexico during 2012 and the first half of 2013. There have been no reports of human cases of the H7N3 strain, but the occurrence of another new strain of Bird Flu ("H7N9") in humans was reported in China on March 31, 2013. World health experts believe the H7N9 strain to be an animal virus that



infects people in rare cases. This outbreak in China followed a seasonal pattern typical of flu viruses with only a few new cases reported between May 30, 2013 and the date of this report. Chinese and international health authorities continue to investigate the origin of the H7N9 strain and how it is spread. To date however, there have been no incidences of person-to-person transmission of the H7N9 Bird Flu reported. As of the date of this report, neither the various strains of Bird Flu nor Swine Flu have been linked to a global disease pandemic among humans. Even though such a pandemic has not occurred, governments may be pressured to address these concerns and prohibit imports of animals, meat and animal by-products from countries or regions where the disease is detected. In April 2013, the first case of porcine epidemic diarrhea (“PED”) virus was confirmed in the U.S. on a hog farm in Ohio.

The disease has since spread into 17 states. The PED virus is highly contagious among pigs, but does not affect other animals and is not transmissible to humans. The effects of the PED virus on hog production will vary according to the age of the pigs affected. Death rates can be very high among young pigs, while symptoms are mild in older animals. Hogs that have the disease and recover will typically develop immunity to the PED virus and this immunity can be passed on to future offspring. Because the PED virus is common in other parts of the world and poses no threat to human health or food safety, its presence in a country or region does not restrict trade in pork or pork products. The occurrence of Swine Flu, a Bird Flu strain or any other disease in the United States that is correctly or incorrectly linked to animals and has a negative impact on meat or poultry consumption or animal production could have a material negative impact on the volume of raw materials available to the Company or the demand for the Company's finished products.

Effective August 1997, the Food and Drug Administration ("FDA"), promulgated a rule prohibiting the use of mammalian proteins, with some exceptions, in feeds for cattle, sheep and other ruminant animals (referred to herein as the "BSE Feed Rule") to prevent further spread of BSE, commonly referred to as "mad cow disease." Detection of the first case of BSE in the United States in December 2003 resulted in additional U.S. government regulations, finished product export restrictions by foreign governments, market price fluctuations for the Company's finished products and reduced demand for beef and beef products by consumers. Even though the export markets for U.S. beef rebounded to exceed pre-BSE levels and set records for volume in 2011 and value in 2012, most export markets remain closed to MBM derived from U.S. beef. On April 24, 2012, the United States Department of Agriculture ("USDA") confirmed the occurrence of a new, single case of BSE in a dairy cow in central California. Even though the USDA confirmed that material derived from the cow did not enter the food or feed supply, Indonesia closed its markets to MBM derived from U.S. beef, and those markets remained closed until July 1, 2013 when the Indonesian Ministry of Agriculture announced its decision to lift the ban on U.S. origin MBM. On May 29, 2013, the USDA announced that the World Organization for Animal Health ("OIE") had officially upgraded the BSE-status for the U.S. from "Controlled Risk" to that of "Negligible Risk", based on a thorough review of BSE safeguards implemented in the U.S. Attaining a Negligible Risk status for BSE is an important step toward regaining access to export markets for U.S. MBM. Notwithstanding the foregoing OIE decision, the Company does not expect BSE-related trade disruptions to have material impact on the Company's business, financial condition or results of operations. Continued concern about BSE in the United States may result in additional regulatory and market related challenges that may affect the Company's operations or increase the Company's operating costs.

With respect to BSE in the United States, on October 26, 2009, the FDA began enforcing new regulations intended to further reduce the risk of spreading BSE ("Enhanced BSE Rule"). These new regulations amended the BSE Feed Rule to also prohibit the use of tallow having more than 0.15% insoluble impurities in feed for cattle or other ruminant animals. In addition, the Enhanced BSE Rule prohibits brain and spinal cord material from cattle aged 30 months and older or the carcasses of such cattle, if the brain and spinal cord are not removed, ("Prohibited Cattle Materials") and tallow derived from Prohibited Cattle Materials that also contains more than 0.15% insoluble impurities in the feed or food for all animals. The Company has followed the Enhanced BSE Rule since it was first published in 2008 and has made capital expenditures and implemented new processes and procedures to be compliant with the Enhanced BSE Rule at all of the Company's operations. Notwithstanding the foregoing, the Company can provide no assurance that unanticipated costs and/or reductions in raw material volumes related to the Company's compliance with the Enhanced BSE Rule will not negatively impact the Company's operations and financial performance.

With respect to human food, pet food and animal feed safety, the Food and Drug Administration Amendments Act of 2007 (the "FDAAA") directs the Secretary of Health and Human Services and the FDA to promulgate significant new requirements for the pet food and animal feed industries. As a prerequisite to new requirements specified by the FDAAA, the FDA was directed to establish a Reportable Food Registry, which was implemented on September 8, 2009. On June 11, 2009, the FDA issued "Guidance for Industry: Questions and Answers Regarding the Reportable Food Registry as Established by the Food and Drug Administration Amendments Act of 2007: Draft Guidance." Stakeholder comments and questions about the Reportable Food Registry were incorporated into a second draft guidance ("RFR Draft Guidance"), which was published on September 8, 2009. In the RFR Draft Guidance, the

FDA defined a reportable food, which the manufacturer or distributor would be required to report in the Reportable Food Registry, to include materials used as ingredients in animal feeds and pet foods, if there is reasonable probability that the use of such materials will cause serious adverse health consequences or death to humans or animals. The FDA issued a second version of its RFR Draft Guidance in May 2010 without finalizing it. On July 16, 2013 the FDA finalized the draft policy regarding salmonella in food for animals that the agency developed in 2010, with publication of "Compliance Policy Guide Sec. 690.800 Salmonella in Food For Animals" ("Salmonella CPG"). The Salmonella CPG describes differing criteria to determine whether pet food and farmed animal feeds that are contaminated with salmonella will be considered to be adulterated under section 402

(a)(1) of the Food Drug and Cosmetic Act. According to the Salmonella CPG, any finished pet food contaminated with any species of salmonella will be considered adulterated because such feeds have direct human contact. Finished animal feeds intended for pigs, poultry and other farmed animals, however, will be considered to be adulterated only if the feed is contaminated with a species of salmonella that is considered to be pathogenic for the animal species that the feed is intended for. With issuance of the Salmonella CPG, the FDA revoked a 1967 advisory opinion on animal feeds contaminated with salmonella microorganisms and removed 21 CFR 500.35 from the Code of Federal Regulations. The impact of the FDAAA and implementation of the Reportable Food Registry on the Company, if any, will not be clear until the FDA finalizes its RFR Draft Guidance, which was not finalized as of the date of this report. The Company believes that it has adequate procedures in place to assure that its finished products are safe to use in animal feed and pet food and the Company does not currently anticipate that the FDAAA will have a significant impact on the Company's operations or financial performance. Notwithstanding the forgoing FDA policy on salmonella, any pathogen, such as salmonella, that is correctly or incorrectly associated with the Company's finished products could have a negative impact on the demands for the Company's finished products.

In addition, the Food Safety Modernization Act ("FSMA") was enacted on January 4, 2011. The FSMA gave the FDA new authorities, which became effective immediately. Included among these is mandatory recall authority for adulterated foods that are likely to cause serious adverse health consequences or death to humans or animals, if the responsible party fails to cease distribution and recall such adulterated foods voluntarily. The FSMA further instructed the FDA to amend existing regulations that define its administrative detention authority. Prior to the FSMA becoming law, FDA had authority to order that an article of food be detained only if there was credible evidence or information indicating that the article of food presented a threat of serious adverse health consequences or death to humans or animals. On May 5, 2011, the FDA issued an interim final rule amending its administrative detention authority and lowering both the level of proof and the degree of risk required for detaining an article of food. This interim final rule, which became effective on July 3, 2011, gives the FDA authority to detain an article of food if there is reason to believe the food is adulterated or misbranded. The FSMA also requires the FDA to develop new regulations that, among other provisions, places additional registration requirements on food and feed producing firms. Section 102 of the FSMA amends facility registration requirements in the Federal Food, Drug and Cosmetic Act for domestic and foreign manufacturers, processors, packers or holders of food for human or animal consumption. Such facility registrations were previously required to be updated when changes in a facility occurred, but there were no provisions for renewing facility registrations. The FSMA, however, requires that facility registrations be renewed during the fourth quarter of each even-numbered year, beginning October 1, 2012. Other new FDA regulations mandated by the FSMA will require registered facilities to perform hazard analysis and to implement preventive plans to control those hazards identified to be reasonably likely to occur; increase the length of time that records are required to be retained; and regulate the sanitary transportation of food. The FDA published its intent to meet the preventive control provisions required by the FSMA on January 16, 2013 in two proposed rules for manufactured food and produce intended for human consumption: (1) Current Good Manufacturing Practice and Hazard Analysis and Risk-Based Preventive Controls for Human Food and (2) Standards for the Growing, Harvesting, Packing, and Holding of Produce for Human Consumption. Neither of these proposed rules applies to animal feed. On April 22, 2013, the U.S. District Court, Northern District of California, in the case of Center for Food Safety et al. v. Margaret A. Hamburg, M.D., issued a judicial declaration that the FDA had violated the FSMA by failing to promulgate required regulations in accordance with the deadlines mandated by Congress. Subsequently, on June 21, 2013, the Court ordered the FDA to publish all remaining proposed regulations, required under the FSMA, by November 30, 2013 and all final regulations no later than June 30, 2015. The FDA published two of these remaining proposed rules on July 29, 2013: (1) Foreign Supplier Verification Programs for Importers of Food for Humans and Animals and (2) Accreditation of Third-Party Auditors/Certification Bodies to Conduct Food Safety Audits and to Issue Certifications. In addition, the FDA proposed new regulations for animal food produced in the U.S. on October 29, 2013, by publishing Current Good Manufacturing Practice and Hazard Analysis and Risk-Based Preventive Controls for Food for Animals. These three new regulations are all open for public comment and will not be enforced unless published as a final rule at some future date. Management is reviewing these three new proposed regulations, which are intended to strengthen oversight of animal foods produced in or imported into the U.S., to determine their impact,

if any, on the Company's operations. The Company has followed the FSMA throughout its legislative history and has renewed registrations for all of its facilities and implemented hazard prevention controls and other procedures that the Company believes will be needed to comply with the FSMA. Such rule-making could, among other things, require the Company to amend certain of the Company's other operational policies and procedures and require additional capital expenditures to comply with these rules. While unforeseen issues and requirements may arise as the FDA promulgates the new regulations provided for by the FSMA, the Company does not anticipate that the costs of compliance with the FSMA will materially impact the Company's business or operations.

## Results of Operations

Three Months Ended September 28, 2013 Compared to Three Months Ended September 29, 2012

### Summary of Key Factors Impacting Third Quarter 2013 Results:

Principal factors that contributed to a \$24.1 million decrease in operating income, which are discussed in greater detail in the following section, were:

- Decreases in PM (feed grade and pet food), BFT, PG, YG and corn finished product prices,
- Acquisition costs and expenses from current quarter acquisition activity,
- Decrease in raw material volumes,
- Increases in payroll and related benefit costs,
- Increase in energy costs, primarily natural gas and diesel fuel, and
- Decrease in yield.

These decreases were partially offset by:

- Higher collection and processing fees, and
- Increase in MBM finished product prices.

### Summary of Key Indicators of 2013 Performance:

Principal indicators which management routinely monitors and compares to previous periods as an indicator of problems or improvements in operating results include:

- Finished product commodity prices,
- Raw material volume,
- Production volume and related yield of finished product,
- Energy prices for natural gas quoted on the NYMEX index and diesel fuel,
- Collection fees and collection operating expenses, and
- Factory operating expenses.

These indicators and their importance are discussed below in greater detail.

**Finished Product Commodity Prices.** Prices for finished product commodities that the Company produces are reported each business day on the Jacobsen. The Jacobsen reports industry sales from the prior day's activity by product. The Jacobsen includes reported prices for MBM, PM (both feed grade and pet food), BFT, PG and YG, which are end products of the Company's Rendering Segment. During the first quarter of fiscal 2012, the Jacobsen index stopped reporting BBP, which is the end product of the Company's Bakery Segment. As a result, the Company monitors prices for corn, which is a substitute commodity for BBP and therefore an indication of potential sales prices of that end product. The Company regularly monitors Jacobsen reports on MBM, PM, BFT, PG, YG and corn because they provide a daily indication of the Company's revenue performance against business plan benchmarks. Although the Jacobsen provides one useful metric of performance, the Company's finished products are commodities that compete with other commodities such as corn, soybean oil, inedible corn oil, palm oils, soybean meal and heating oil on nutritional and functional values and therefore, actual pricing for the Company's finished products, as well as competing products, can be quite volatile. In addition, the Jacobsen does not provide forward or future period pricing. The Jacobsen prices quoted below are for delivery of the finished product at a specified location. Although the Company's prices generally move in concert with reported Jacobsen prices, the Company's actual sales prices for its

finished products may vary significantly from the Jacobsen because of delivery timing differences and because the Company's finished products are delivered to multiple locations in different geographic regions which utilize different price indexes. In addition, certain of the Company's premium branded finished products may also sell at prices that may be higher than the closest related product quoted by Jacobsen. During the third quarter of fiscal 2013, the Company's actual sales prices by product trended with the disclosed Jacobsen prices. Average Jacobsen prices (at the specified delivery point) for the third quarter of fiscal 2013, compared to average Jacobsen prices for the third quarter of fiscal 2012 follow:

|                          | Avg. Price<br>3rd Quarter<br>2013 | Avg. Price<br>3rd Quarter<br>2012 | Increase/(Decrease) | %<br>Increase/(Decrease) |    |
|--------------------------|-----------------------------------|-----------------------------------|---------------------|--------------------------|----|
| Rendering Segment:       |                                   |                                   |                     |                          |    |
| MBM (Illinois)           | \$ 470.75/ton                     | \$ 461.10/ton                     | \$ 9.65/ton         | 2.1                      | %  |
| Feed Grade PM (Carolina) | \$ 543.30/ton                     | \$ 557.35/ton                     | \$ (14.05)/ton      | (2.5)                    | )% |
| Pet Food PM (Southeast)  | \$ 680.69/ton                     | \$ 713.75/ton                     | \$ (33.06)/ton      | (4.6)                    | )% |
| BFT (Chicago)            | \$ 43.15/cwt                      | \$ 45.18/cwt                      | \$ (2.03)/cwt       | (4.5)                    | )% |
| PG (Southeast)           | \$ 38.73/cwt                      | \$ 43.76/cwt                      | \$ (5.03)/cwt       | (11.5)                   | )% |
| YG (Illinois)            | \$ 35.84/cwt                      | \$ 37.35/cwt                      | \$ (1.51)/cwt       | (4.0)                    | )% |
| Bakery Segment:          |                                   |                                   |                     |                          |    |
| Corn (Illinois)          | \$ 6.09/bushel                    | \$ 8.19/bushel                    | \$ (2.10)/bushel    | (25.6)                   | )% |

The overall decrease in average prices for PM (both feed grade and pet food), BFT, PG and YG, which are finished products the Company sells, as well as corn, which is a commodity indicative of the prices for which the Company sells BBP, had a negative impact on revenue with some offset by an overall increase in average MBM, and the positive impact to the Company's raw material cost resulting from formula pricing arrangements, which compute raw material cost based upon the price of finished product.

On a quarter-to-quarter sequential basis, the Company experienced average commodity prices for proteins and fats that were mixed. The following table shows the average reported Jacobsen prices for the third quarter of fiscal 2013 as compared to the average reported Jacobsen prices for the second quarter of fiscal 2013.

|                          | Avg. Price<br>3rd Quarter<br>2013 | Avg. Price<br>2nd Quarter<br>2013 | Increase/(Decrease) | %<br>Increase/(Decrease) |    |
|--------------------------|-----------------------------------|-----------------------------------|---------------------|--------------------------|----|
| Rendering Segment:       |                                   |                                   |                     |                          |    |
| MBM (Illinois)           | \$ 470.75/ton                     | \$ 420.30/ton                     | \$ 50.45/ton        | 12.0                     | %  |
| Feed Grade PM (Carolina) | \$ 543.30/ton                     | \$ 512.96/ton                     | \$ 30.34/ton        | 5.9                      | %  |
| Pet Food PM (Southeast)  | \$ 680.69/ton                     | \$ 700.09/ton                     | \$ (19.40)/ton      | (2.8)                    | )% |
| BFT (Chicago)            | \$ 43.15/cwt                      | \$ 43.33/cwt                      | \$ (0.18)/cwt       | (0.4)                    | )% |
| PG (Southeast)           | \$ 38.73/cwt                      | \$ 39.16/cwt                      | \$ (0.43)/cwt       | (1.1)                    | )% |
| YG (Illinois)            | \$ 35.84/cwt                      | \$ 37.70/cwt                      | \$ (1.86)/cwt       | (4.9)                    | )% |
| Bakery Segment:          |                                   |                                   |                     |                          |    |
| Corn (Illinois)          | \$ 6.09/bushel                    | \$ 7.02/bushel                    | \$ (0.93)/bushel    | (13.2)                   | )% |

**Raw Material Volume.** Raw material volume represents the quantity (pounds) of raw material collected from Rendering Segment suppliers, such as beef, poultry and pork processors, grocery stores, butcher shops and food service establishments, or in the case of the Bakery Segment, commercial bakeries. Raw material volumes from the Company's Rendering Segment suppliers provide an indication of the future production of MBM, PM (feed grade and pet food), BFT, PG and YG finished products while raw material volumes from the Company's Bakery Segment suppliers provide an indication of the future production of BBP finished product.

**Production Volume and Related Yield of Finished Product.** Finished product production volumes are the end result of the Company's production processes, and directly impact goods available for sale, and thus, become an important component of sales revenue. In addition, physical inventory turnover is impacted by both the availability of credit to the Company's customers and suppliers and market demand which can impact finished product inventory values. Yield on production is a ratio of production volume (pounds), divided by raw material volume (pounds) and provides an indication of effectiveness of the Company's production process. Factors impacting yield on production



include quality of raw material and warm weather during summer months, which rapidly degrades raw material. The quantities of finished products produced varies depending on the mix of raw materials used in production. For example, raw material from cattle yields more fat and protein than raw material from pork or poultry. Accordingly, the mix of finished products produced by the Company can vary from quarter to quarter depending on the type of raw material being received by the Company. The Company cannot increase the production of protein or fat based on demand since the type of raw material available will dictate the yield of each finished product.

Energy Prices for Natural Gas Quoted on the NYMEX Index and Diesel Fuel. Natural gas and heating oil commodity prices are quoted each day on the NYMEX exchange for future months of delivery of natural gas and delivery of diesel fuel. The prices are important to the Company because natural gas and diesel fuel are major components of factory operating and collection costs and natural gas and diesel fuel prices are an indicator of achievement of the Company's business plan.

Collection Fees and Collection Operating Expenses. The Company charges collection fees which are included in net sales. Each month the Company monitors both the collection fee charged to suppliers, which is included in net sales, and collection expenses, which are included in cost of sales. The importance of monitoring collection fees and collection expenses is that they provide an indication of achievement of the Company's business plan. Furthermore, management monitors collection fees and collection expenses so that the Company can consider implementing measures to mitigate against unforeseen (decreases)/increases in these fees and expenses, respectively.

Factory Operating Expenses. The Company incurs factory operating expenses which are included in cost of sales. Each month the Company monitors factory operating expenses. The importance of monitoring factory operating expenses is that it provides an indication of achievement of the Company's business plan. Furthermore, when unforeseen expense increases occur, the Company can consider implementing measures to mitigate such increases.

Net Sales. The Company collects and processes animal by-products (fat, bones and offal), including hides, bakery residual and used cooking oil to principally produce finished products of MBM, PM (feed grade and pet food), BFT, PG, YG, BBP and hides as well as a range of branded and value-added products. Sales are significantly affected by finished goods prices, quality and mix of raw material, and volume of raw material. Net sales include the sales of produced finished goods, collection fees, fees for grease trap services, and finished goods purchased for resale.

During the third quarter of fiscal 2013, net sales were \$425.8 million as compared to \$452.7 million during the third quarter of fiscal 2012. The Rendering operations process animal by-products and used cooking oil into fats (primarily BFT, PG and YG), protein (primarily MBM and PM (feed grade and pet food)) and hides. Fat was approximately \$195.4 million and \$205.9 million of net sales for the three months ended September 28, 2013 and September 29, 2012, respectively, and protein was approximately \$133.6 million and \$137.1 million of net sales for the three months ended September 28, 2013 and September 29, 2012, respectively. The decrease in net sales was primarily due to the following (in millions of dollars):

|   | Rendering | Bakery   | Corporate | Total    |
|---|-----------|----------|-----------|----------|
| Decrease in finished product prices     | \$(12.2)  | \$(18.9) | \$—       | \$(31.1) |
| Decrease in raw material volume         | (5.3)     | (0.6)    | —         | (5.9)    |
| Decrease in yield                       | (0.1)     | (1.4)    | —         | (1.5)    |
| Increase in other sales                 | 7.3       | —        | —         | 7.3      |
| Purchase of finished product for resale | 4.3       | —        | —         | 4.3      |
|   | \$(6.0)   | \$(20.9) | \$—       | \$(26.9) |

Further detail regarding the \$6.0 million decrease in sales in the Rendering Segment and the \$20.9 million decrease in sales in the Bakery Segment in the third quarter of fiscal 2013 is as follows:

#### Rendering

Finished Product Prices: Lower prices in the overall commodity market for soybean meal, soy oil, a continued lack of export demand and reduced corn values negatively impacted the Company's finished product prices for PM (feed

grade and pet food), BFT, PG and YG. The \$12.2 million decrease in Rendering sales resulting from decreases in finished product prices for PM (pet food), BFT, PG and YG, which more than offset the increase in the finished product price for MBM. The market decreases were due to changes in supply/demand in the domestic and international markets for commodity proteins and fats, including PM (feed grade and pet food), BFT, PG and YG.

Raw Material Volume: Rendering volumes decreased Rendering sales by approximately \$5.3 million as a result of a decrease in slaughter and processor rates of the Company's pork and beef raw material suppliers in the third quarter of fiscal 2013 as compared to the third quarter of fiscal 2012.

Yield: The \$0.1 million decrease in the Rendering Segment yield is primarily due to a decrease in the relative portion of cattle offal in the raw material collected during the third quarter of fiscal 2013, as compared to the third quarter of fiscal 2012, which impacted yields since cattle offal is a higher yielding material than poultry and pork offal.

**Other Sales:** The \$7.3 million increase in other Rendering Segment sales was primarily due to an increase in hide sales and higher collection and processing fees mainly due to the acquisition of Terra Renewal Services' new industrial residuals business and an increase in pet food sales

**Purchases of Finished Product for Resale:** The \$4.3 million increase in sales resulted from the Company purchasing more finished product for resale from third party suppliers in the third quarter of fiscal 2013 as compared to the same period in fiscal 2012. Lower yields on production resulted in the need to source third party product by the Company.

## Bakery

**Finished Product Prices:** Lower prices in the commodity market for corn negatively impacted the Company's BBP finished product prices by approximately \$18.9 million.

**Raw Material Volume:** Bakery volumes have decreased Bakery sales by approximately \$0.6 million, which is due to production decrease by the Company's commercial bakery suppliers as compared to the same period in the prior year.

**Yield:** The \$1.4 million decrease in the Bakery Segment yield is primarily due to a decrease in the relative portion of dry based bakery residuals collected during the third quarter of fiscal 2013 as compared to the third quarter of fiscal 2012, which impacted yields since dry based bakery residuals are a higher yielding material than moist bakery residuals and available blending stock.

**Cost of Sales and Operating Expenses.** Cost of sales and operating expenses include the cost of raw material, the cost of product purchased for resale and the cost to collect raw material, which includes diesel fuel and processing costs, including natural gas. The Company utilizes both fixed and formula pricing methods for the purchase of raw materials. Fixed prices are adjusted where possible for changes in competition. Significant changes in finished goods market conditions impact finished product inventory values, while raw materials purchased under formula prices are correlated with specific finished goods prices. Energy costs, particularly natural gas and diesel fuel, are significant components of the Company's cost structure. The Company has the ability to burn alternative fuels at a majority of its plants to help manage the Company's price exposure to volatile energy markets.

During the third quarter of fiscal 2013, cost of sales and operating expenses were \$310.1 million as compared to \$327.9 million during the third quarter of fiscal 2012. Decreases in Rendering Segment cost of sales and operating expenses of \$5.6 million and the increase in Bakery Segment cost of sales and operating expenses of \$12.8 million accounted for substantially all of the \$17.8 million decrease in cost of sales and operating expenses. The decrease in cost of sales and operating expenses was primarily due to the following (in millions of dollars):

|   | Rendering | Bakery   | Corporate | Total    |
|---|-----------|----------|-----------|----------|
| Decrease in raw material costs                                  | \$(12.3)  | \$(9.9)  | \$—       | \$(22.2) |
| Decrease in raw material volume                                 | (2.1)     | (0.2)    | —         | (2.3)    |
| Purchase of finished product for resale                         | 4.5       | —        | —         | 4.5      |
| Increase in energy costs, primarily natural gas and diesel fuel | 0.7       | 0.1      | 0.6       | 1.4      |
| Increase/(decrease) in other costs of sales                     | 3.6       | (2.8)    | —         | 0.8      |
|   | \$(5.6)   | \$(12.8) | \$0.6     | \$(17.8) |

Further detail regarding the \$5.6 million decrease in cost of sales and operating expenses in the Rendering Segment and the \$12.8 million decrease in the Bakery Segment in the third quarter of fiscal 2013 is as follows:

## Rendering

Raw Material Costs: A portion of the Company's volume of raw material is acquired on a formula basis. Under a formula arrangement, the cost of raw material is tied to the finished product market for PM (both feed grade and pet food), BFT, PG and YG. During the quarter lower demand for soy oil and fats resulted in a decrease in prices of the Company's finished products and therefore a decrease in the cost of raw material of approximately \$12.3 million in the third quarter of fiscal 2013 as compared to the same period in fiscal 2012.

Raw Material Volume: Production decreases from the Company's packers and processors resulted in lower raw material available to be processed and formula pricing resulted in lower cost of sales of approximately \$2.1 million.

**Purchases of Finished Product for Resale:** The \$4.5 million increase in cost of sales resulted from the Company purchasing more finished product for resale from third party suppliers in the third quarter of fiscal 2013 as compared to the same period in fiscal 2012.

**Energy Costs:** Natural gas and diesel fuel are major components of factory and collection operating costs, respectively. During the third quarter of fiscal 2013 energy costs, primarily natural gas and diesel fuel, were higher as compared to the third quarter of fiscal 2012 and are reflected in the \$0.7 million increase in cost of sales.

**Other Costs of Sales:** The \$3.6 million increase in other costs of sales is primarily due to an increase in payroll and incentive-related benefits, an increase in repairs and maintenance expense, hide sales and other sales costs.

#### Bakery

**Raw Material Costs:** The Company's Bakery raw material is acquired on a formula basis. Under a formula arrangement, the cost of raw material is tied to the corn market. Since finished product prices, which are tied to the corn market, were lower in the third quarter of fiscal 2013 as compared to the same period in fiscal 2012, overall raw material costs decreased by approximately \$9.9 million.

**Raw Material Volume:** Production decreases from the Company's suppliers in the third quarter resulted in lower raw material available to be processed and formula pricing resulted in lower cost of sales of approximately \$0.2 million.

**Other Costs of Sales:** The \$2.8 million decrease in other costs of sales is due to a reduction to cost of sales from hedging activities.

**Energy Costs:** Natural gas is a major component of factory operating costs. During the third quarter of fiscal 2013 natural gas costs were higher and are reflected in the \$0.1 million increase as compared to the same period in fiscal 2012.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses were \$42.6 million during the third quarter of fiscal 2013, a \$4.2 million increase (10.9%) from \$38.5 million during the third quarter of fiscal 2012. Selling, general and administrative expenses increased primarily due to payroll and related expense increases. The increase was primarily due to the following (in millions of dollars):

|  | Rendering | Bakery | Corporate | Total |
|--|-----------|--------|-----------|-------|
| Increase in payroll and incentive-related benefits | \$0.6     | \$0.1  | \$1.1     | \$1.8 |
| Increase in other expense                          | 1.7       | —      | 0.6       | 2.3   |
|  | \$2.3     | \$0.1  | \$1.7     | \$4.1 |

**Acquisition Costs.** Acquisition costs were \$8.3 million during the third quarter of fiscal 2013 and represent acquisition related costs associated with the Terra Renewal Services, Inc. acquisition that occurred in the third quarter as well as costs incurred in connection with the Rothsay acquisition that occurred on October 28, 2013 and the pending acquisition of the Vion Ingredients business that has yet to occur.

**Depreciation and Amortization.** Depreciation and amortization charges increased \$2.6 million (12.7%) to \$23.1 million during the third quarter of fiscal 2013 as compared to \$20.5 million during the third quarter of fiscal 2012. The increase in depreciation and amortization is primarily due to a general increase in capital expenditures and an increase due to current year acquisition activity.

Interest Expense. Interest expense was \$5.3 million during the third quarter of fiscal 2013 compared to \$5.9 million during the third quarter of fiscal 2012, a decrease of \$0.6 million, due to interest that was capitalized.

Other Income/Expense. Other expense was \$3.3 million in the third quarter of fiscal 2013, compared to income of \$0.2 million in the third quarter of fiscal 2012. The increase in other expense in the third quarter of fiscal 2013 as compared to the same period in fiscal 2012 is primarily due to an accrual of \$2.4 million associated with a payment made in October 2013 pursuant to the terms of the purchase agreement relating to the Griffin acquisition to the former shareholders of Griffin Industries, Inc. to reimburse such shareholders for state income tax liability incurred by such shareholders as a result of the Company's election for certain tax treatment under Section 338(h)(10) of the U.S. Internal Revenue Code.

Equity in Net Income/(Loss) in Investment of Unconsolidated Subsidiary. Represents the Company's portion of the income of the Joint Venture with Valero for the third quarter of fiscal 2013. In the third quarter of fiscal 2013 the net income was \$12.0 million compared to a net loss of \$0.8 million in the third quarter of fiscal 2012. The \$12.8 million increase in net income is a direct result of the Joint Venture's commencement of production and sale of renewable diesel fuel in late June 2013 as compared to non-capitalized expenses during construction phase in the prior year.

Income Taxes. The Company recorded income tax expense of \$17.4 million for the third quarter of fiscal 2013, compared to \$22.1 million recorded in the third quarter of fiscal 2012, a decrease of \$4.7 million, primarily due to decreased pre-tax earnings of the Company in the third quarter of fiscal 2013. The effective tax rate for the third quarter of fiscal 2013 and fiscal 2012 is 38.6% and 37.3%, respectively, and differs from the statutory rate of 35% due primarily to state income taxes and qualified production activities deductions.

Nine Months Ended September 28, 2013 Compared to Nine Months Ended September 29, 2012

Summary of Key Factors Impacting First Nine Months of Fiscal 2013 Results:

Principal factors that contributed to a \$31.3 million decrease in operating income, which are discussed in greater detail in the following section, were:

- Decrease in yield,
- Acquisition costs and expenses from current year acquisition activity,
- Increases in payroll and related benefit costs,
- Increase in energy costs, primarily natural gas and diesel fuel, and
- Decrease in BFT, PG and YG finished product prices and corn.

These increases were partially offset by:

- Increase in poultry raw material volumes, and
- Increase in MBM and PM finished product prices, net of related increased raw material costs.

Summary of Key Indicators of 2013 Performance:

Principal indicators which management routinely monitors and compares to previous periods as an indicator of problems or improvements in operating results include:

- Finished product commodity prices,
- Raw material volume,
- Production volume and related yield of finished product,
- Energy prices for natural gas quoted on the NYMEX index and diesel fuel,
- Collection fees and collection operating expenses, and
- Factory operating expenses.

These indicators and their importance are discussed below in greater detail.

Finished Product Commodity Prices. Prices for finished product commodities that the Company produces are reported each business day on the Jacobsen. The Jacobsen reports industry sales from the prior day's activity by product. The Jacobsen includes reported prices for MBM, PM (both feed grade and pet food), BFT, PG and YG, which are end products of the Company's Rendering Segment. During the first quarter of fiscal 2012, the Jacobsen index stopped reporting BBP, which is the end product of the Company's Bakery Segment. As a result, the Company



monitors prices for corn, which is a substitute commodity for BBP and therefore an indication of potential sales prices of that end product. The Company regularly monitors Jacobsen reports on MBM, PM, BFT, PG, YG and corn because they provide a daily indication of the Company's revenue performance against business plan benchmarks. Although the Jacobsen provides one useful metric of performance, the Company's finished products are commodities that compete with other commodities such as corn, soybean oil, inedible corn oil, palm oils, soybean meal and heating oil on nutritional and functional values and therefore, actual pricing for the Company's finished products, as well as competing products, can be quite volatile. In addition, the Jacobsen does not provide forward or future period pricing. The Jacobsen prices quoted below are for delivery of the finished product at a specified location. Although the Company's prices generally move in concert with reported Jacobsen prices, the Company's actual sales prices for its finished products may vary significantly from the Jacobsen because of delivery timing differences and because the Company's finished products are delivered to multiple locations in different geographic regions which utilize

different price indexes. In addition, certain of the Company's premium branded finished products may also sell at prices that may be higher than the closest related product quoted by Jacobsen. During the first nine months of fiscal 2013, the Company's actual sales prices by product trended with the disclosed Jacobsen prices. Average Jacobsen prices (at the specified delivery point) for the first nine months of fiscal 2013, compared to average Jacobsen prices for the first nine months of fiscal 2012 follow:

|                          | Avg. Price<br>First Nine Months<br>2013 | Avg. Price<br>First Nine Months<br>2012 | Increase/(Decrease) | %<br>Increase/(Decrease) |    |
|--------------------------|---|---|---------------------|--------------------------|----|
| Rendering Segment:       |   |   |                     |                          |    |
| MBM (Illinois)           | \$ 434.03/ton                           | \$ 401.52/ton                           | \$ 32.51/ton        | 8.1                      | %  |
| Feed Grade PM (Carolina) | \$ 514.92/ton                           | \$ 474.75/ton                           | \$ 40.17/ton        | 8.5                      | %  |
| Pet Food PM (Southeast)  | \$ 730.19/ton                           | \$ 692.35/ton                           | \$ 37.84/ton        | 5.5                      | %  |
| BFT (Chicago)            | \$ 42.47/cwt                            | \$ 46.18/cwt                            | \$ (3.71)/cwt       | (8.0)                    | )% |
| PG (Southeast)           | \$ 39.57/cwt                            | \$ 44.44/cwt                            | \$ (4.87)/cwt       | (11.0)                   | )% |
| YG (Illinois)            | \$ 36.86/cwt                            | \$ 38.79/cwt                            | \$ (1.93)/cwt       | (5.0)                    | )% |
| Bakery Segment:          |   |   |                     |                          |    |
| Corn (Illinois)          | \$ 6.85/bushel                          | \$ 7.13/bushel                          | \$(0.28)/bushel     | (3.9)                    | )% |

The overall increase in average prices for MBM and PM (both feed grade and pet food), which are finished products the Company, sells had a favorable impact on revenue that was partially offset by an overall decrease in average BFT, PG and YG prices, as well as the price decrease in corn, which is a commodity indicative of the prices for which the Company sells BBP, and the negative impact to the Company's raw material cost resulting from formula pricing arrangements, which compute raw material cost based upon the price of finished product.

**Raw Material Volume.** Raw material volume represents the quantity (pounds) of raw material collected from Rendering Segment suppliers, such as beef, poultry and pork processors, grocery stores, butcher shops and food service establishments, or in the case of the Bakery Segment, commercial bakeries. Raw material volumes from the Company's Rendering Segment suppliers provide an indication of the future production of MBM, PM (feed grade and pet food), BFT, PG and YG finished products while raw material volumes from the Company's Bakery Segment suppliers provide an indication of the future production of BBP finished product.

**Production Volume and Related Yield of Finished Product.** Finished product production volumes are the end result of the Company's production processes, and directly impact goods available for sale, and thus, become an important component of sales revenue. In addition, physical inventory turnover is impacted by both the availability of credit to the Company's customers and suppliers and market demand which can impact finished product inventory values. Yield on production is a ratio of production volume (pounds), divided by raw material volume (pounds) and provides an indication of effectiveness of the Company's production process. Factors impacting yield on production include quality of raw material and warm weather during summer months, which rapidly degrades raw material. The quantities of finished products produced varies depending on the mix of raw materials used in production. For example, raw material from cattle yields more fat and protein than raw material from pork or poultry. Accordingly, the mix of finished products produced by the Company can vary from quarter to quarter depending on the type of raw material being received by the Company. The Company cannot increase the production of protein or fat based on demand since the type of raw material available will dictate the yield of each finished product.

**Energy Prices for Natural Gas Quoted on the NYMEX Index and Diesel Fuel.** Natural gas and heating oil commodity prices are quoted each day on the NYMEX exchange for future months of delivery of natural gas and delivery of diesel fuel. The prices are important to the Company because natural gas and diesel fuel are major components of factory operating and collection costs and natural gas and diesel fuel prices are an indicator of achievement of the

Company's business plan.

Collection Fees and Collection Operating Expenses. The Company charges collection fees which are included in net sales. Each month the Company monitors both the collection fee charged to suppliers, which is included in net sales, and collection expenses, which are included in cost of sales. The importance of monitoring collection fees and collection expenses is that they provide an indication of achievement of the Company's business plan. Furthermore, management monitors collection fees and collection expenses so that the Company can consider implementing measures to mitigate against unforeseen (decreases)/increases in these fees and expenses, respectively.

41

---

Factory Operating Expenses. The Company incurs factory operating expenses which are included in cost of sales. Each month the Company monitors factory operating expenses. The importance of monitoring factory operating expenses is that it provides an indication of achievement of the Company's business plan. Furthermore, when unforeseen expense increases occur, the Company can consider implementing measures to mitigate such increases.

Net Sales. The Company collects and processes animal by-products (fat, bones and offal), including hides, bakery residual and used cooking oil to principally produce finished products of MBM, PM (feed grade and pet food), BFT, PG, YG, BBP and hides as well as a range of branded and value-added products. Sales are significantly affected by finished goods prices, quality and mix of raw material, and volume of raw material. Net sales include the sales of produced finished goods, collection fees, fees for grease trap services, and finished goods purchased for resale.

During the first nine months of fiscal 2013, net sales were \$1,294.8 million as compared to \$1,276.5 million during the first nine months of fiscal 2012. The Rendering operations process animal by-products and used cooking oil into fats (primarily BFT, PG and YG), protein (primarily MBM and PM (feed grade and pet food)) and hides. Fat was approximately \$580.9 million and \$626.0 million of net sales for the nine months ended September 28, 2013 and September 29, 2012, respectively, and protein was approximately \$410.6 million and \$361.9 million of net sales for the nine months ended September 28, 2013 and September 29, 2012, respectively. The increase in net sales was primarily due to the following (in millions of dollars):

|  | Rendering | Bakery | Corporate | Total  |
|--|-----------|--------|-----------|--------|
| Increase in raw material volume                | \$6.8     | \$5.8  | \$—       | \$12.6 |
| Increase in other sales                        | 11.9      | —      | —         | 11.9   |
| Purchase of finished product for resale        | 5.4       | —      | —         | 5.4    |
| Increase/(decrease) in finished product prices | 2.7       | (5.3)  | )—        | (2.6)  |
| Decrease in yield                              | (8.9)     | )(0.1) | )—        | (9.0)  |
|  | \$17.9    | \$0.4  | \$—       | \$18.3 |

Further detail regarding the \$17.9 million increase in sales in the Rendering Segment and the \$0.4 million increase in sales in the Bakery Segment in the first nine months of fiscal 2013 is as follows:

#### Rendering

Raw Material Volume: Rendering volumes have increased Rendering sales by approximately \$6.8 million, which is a result of an increase in slaughter and processor rates of the Company's poultry raw material suppliers that more than offset lower volumes from the Company's beef suppliers in the first nine months of fiscal 2013 as compared to the first nine months of fiscal 2012.

Other Sales: The \$11.9 million increase in other Rendering Segment sales was primarily due to an increase in hide sales and higher collection and processing fees mainly due to the acquisition of Terra Renewal Services' new industrial residuals business and an increase in pet food sales.

Purchases of Finished Product for Resale: The \$5.4 million increase in sales resulted from the Company purchasing more finished product for resale from third party suppliers in the first nine months of fiscal 2013 as compared to the same period in fiscal 2012. Lower yields on production results in the need to source third party product by the Company.

**Finished Product Prices:** Higher prices in the overall commodity market for soybean meal and fish meal, which are competing proteins to the Company's MBM and PM (both feed grade and pet food), respectively, positively impacted the Company's finished product prices. The \$2.7 million increase in Rendering sales resulting from increases in finished product prices for MBM and PM (both feed grade and pet food), more than offset the decrease in BFT, PG and YG prices. The market increases were due to changes in supply/demand in the domestic and international markets for commodity proteins, including MBM and PM (both feed grade and pet food).

**Yield:** The \$8.9 million decrease in the Rendering Segment yield is primarily due to a decrease in the relative portion of cattle offal in the raw material collected during the first nine months of fiscal 2013, as compared to the first nine months of fiscal 2012, which impacted yields since cattle offal is a higher yielding material than poultry and pork offal.

## Bakery

**Raw Material Volume:** Bakery volumes have increased Bakery sales by approximately \$5.8 million, which is due to production increases by the Company's commercial bakery suppliers as compared to the same period in the prior year.

**Finished Product Prices:** Lower prices in the commodity market for corn negatively impacted the Company's BBP finished product prices by approximately \$5.3 million.

**Yield:** The \$0.1 million decrease in the Bakery Segment yield is primarily due to a decrease in the relative portion of dry based bakery residuals collected during the first nine months of fiscal 2013 as compared to the first nine months of fiscal 2012, which impacted yields since dry based bakery residuals are a higher yielding material than moist bakery residuals and available blending stock.

**Cost of Sales and Operating Expenses.** Cost of sales and operating expenses include the cost of raw material, the cost of product purchased for resale and the cost to collect raw material, which includes diesel fuel and processing costs, including natural gas. The Company utilizes both fixed and formula pricing methods for the purchase of raw materials. Fixed prices are adjusted where possible for changes in competition. Significant changes in finished goods market conditions impact finished product inventory values, while raw materials purchased under formula prices are correlated with specific finished goods prices. Energy costs, particularly natural gas and diesel fuel, are significant components of the Company's cost structure. The Company has the ability to burn alternative fuels at a majority of its plants to help manage the Company's price exposure to volatile energy markets.

During the first nine months of fiscal 2013, cost of sales and operating expenses were \$942.7 million as compared to \$918.5 million during the first nine months of fiscal 2012. Increases in Rendering Segment cost of sales and operating expenses of \$19.1 million and the increase in Bakery Segment cost of sales and operating expenses of \$4.9 million accounted for substantially all of the \$24.2 million increase in cost of sales and operating expenses. The increase in cost of sales and operating expenses was primarily due to the following (in millions of dollars):

|   | Rendering | Bakery  | Corporate | Total   |
|---|-----------|---------|-----------|---------|
| Increase/(decrease) in other costs of sales                     | \$16.0    | \$(3.9) | \$(0.5)   | )\$11.6 |
| Purchase of finished product for resale                         | 5.4       | —       | —         | 5.4     |
| Increase in raw material volume                                 | 2.5       | 2.8     | —         | 5.3     |
| Increase in energy costs, primarily natural gas and diesel fuel | 3.8       | 0.6     | 0.7       | 5.1     |
| Increase/(decrease) in raw material costs                       | (8.6)     | )5.4    | —         | (3.2)   |
|   | \$19.1    | \$4.9   | \$0.2     | \$24.2  |

Further detail regarding the \$19.1 million increase in cost of sales and operating expenses in the Rendering Segment and the \$4.9 million increase in the Bakery Segment in the first nine months of fiscal 2013 is as follows:

## Rendering

**Other Costs of Sales:** The \$16.0 million increase in other costs of sales is primarily due to an increase in payroll and incentive-related benefits, an increase in repairs and maintenance expense, an increase in hide costs and other sales costs increases.

**Purchases of Finished Product for Resale:** The Company purchased more finished product for resale from third party suppliers in the first nine months of fiscal 2013 as compared to the same period in fiscal 2012 by \$5.4 million. Lower yields on production results in the need to source third party product by the Company.

**Raw Material Volume:** Production increases from the Company's packers and processors resulted in higher raw material volumes available to be processed and formula pricing resulted in higher cost of sales of approximately \$2.5 million.

**Energy Costs:** Natural gas and diesel fuel are major components of factory and collection operating costs, respectively. During the first nine months of fiscal 2013 energy costs, primarily natural gas and diesel fuel, were higher as compared to the first nine months of fiscal 2012 and are reflected in the \$3.8 million increase in cost of sales.

**Raw Material Costs:** A portion of the Company's volume of raw material is acquired on a formula basis. Under a formula arrangement, the cost of raw material is tied to the finished product market for MBM, PM (both feed grade and pet food),

BFT, PG and YG. Although there was a higher demand for soybean meal and fish meal that resulted in an increase in prices of the Company's finished products for MBM and PM (both feed grade and pet food) the price decrease on the fats and corresponding formula pricing more than offset the protein meal increase resulting in a decrease in the cost of raw material of approximately \$8.6 million in the first nine months of fiscal 2013 as compared to the same period in fiscal 2012.

#### Bakery

**Raw Material Costs:** The Company's Bakery raw material is acquired on a formula basis. Under a formula arrangement, the cost of raw material is tied to the corn market. Although finished product prices were lower on average in the first nine months of fiscal 2013 as compared to the same period in fiscal 2012 the Company's blending stocks continued to be higher on a year over year basis, which resulted in an overall increase in raw material costs of approximately \$5.4 million.

**Raw Material Volume:** Production increases from the Company's suppliers resulted in higher raw material volumes available to be processed and formula pricing resulted in higher cost of sales of approximately \$2.8 million.

**Energy Costs:** Natural gas is a major component of factory operating costs. During the first nine months of fiscal 2013 natural gas costs were higher and are reflected in the \$0.6 million increase as compared to the same period in fiscal 2012.

**Other Costs of Sales:** The \$3.9 million decrease in other costs of sales is mainly due to a reduction to cost of sales from hedging activities that were partially offset by an increase in payroll and incentive-related benefits and an increase in repairs and maintenance costs.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses were \$124.8 million during the first nine months of fiscal 2013, a \$12.3 million increase (10.9%) from \$112.8 million during the first nine months of fiscal 2012. Selling, general and administrative expenses increased primarily due to payroll and related expense increases. The increase was primarily due to the following (in millions of dollars):

|  | Rendering | Bakery | Corporate | Total  |
|--|-----------|--------|-----------|--------|
| Increase in payroll and incentive-related benefits | \$3.5     | \$0.5  | \$2.4     | \$6.4  |
| Increase/(decrease) in other expense               | 1.9       | (0.1)  | )3.8      | 5.6    |
|  | \$5.4     | \$0.4  | \$6.2     | \$12.0 |

**Acquisition Costs.** Acquisition costs were \$9.2 million during the first nine months of fiscal 2013 and represent acquisition related costs associated with the Terra Renewal Services, Inc. acquisition that occurred in the third quarter as well as costs incurred in connection with the Rothsay acquisition that occurred on October 28, 2013 and the pending acquisition of the Vion Ingredients business that has yet to occur.

**Depreciation and Amortization.** Depreciation and amortization charges increased \$4.1 million (6.5%) to \$67.1 million during the first nine months of fiscal 2013 as compared to \$63.0 million during the first nine months of fiscal 2012. The increase in depreciation and amortization is primarily due to a general increase in capital expenditures and an increase due to current year acquisition activity.

**Interest Expense.** Interest expense was \$16.6 million during the first nine months of fiscal 2013 compared to \$18.5 million during the first nine months of fiscal 2012, a decrease of \$1.9 million, primarily due to capitalized interest and a fiscal 2012 deferred loan cost write-off of approximately \$0.7 million related to pay down of outstanding debt.



Other Income/Expense. Other expense was \$2.6 million in the first nine months of fiscal 2013, compared to \$0.1 million of expense in the first nine months of fiscal 2012. The increase in other expense in the first nine months of fiscal 2013 as compared to the same period in fiscal 2012 is primarily due to an accrual of \$2.4 million associated with a payment made in October 2013 pursuant to the terms of the purchase agreement relating to the Griffin acquisition to the former shareholders of Griffin Industries, Inc. to reimburse such shareholders for state income tax liability incurred by such shareholders as a result of the Company's election for certain tax treatment under Section 338(h)(10) of the U.S. Internal Revenue Code.

Equity in Net Income/(Loss) in Investment of Unconsolidated Subsidiary. Represents the Company's portion of the expenses of the Joint Venture with Valero for the first nine months of fiscal 2013. In the first nine months of fiscal 2013 net

income was \$8.8 million compared to a net loss of \$1.7 million in the first nine months of fiscal 2012. The \$10.5 million increase in net income is a direct result of the Joint Venture's commencement of production and sale of renewable diesel fuel in late June 2013 as compared to non-capitalized expenses during construction phase in the prior year.

**Income Taxes.** The Company recorded income tax expense of \$54.1 million for the first nine months of fiscal 2013, compared to \$59.9 million recorded in the first nine months of fiscal 2012, a decrease of \$5.8 million, primarily due to decreased pre-tax earnings of the Company in the first nine months of fiscal 2013. The effective tax rate for the first nine months of fiscal 2013 and fiscal 2012 is 38.5% and 37.0%, respectively, and differs from the statutory rate of 35% due primarily to state income taxes and qualified production activities deductions.

## FINANCING, LIQUIDITY AND CAPITAL RESOURCES

### Credit Facilities

**Senior Secured Credit Facilities.** On September 27, 2013, the Company entered into an Amended and Restated Credit Agreement (the "Credit Agreement") restating its then existing credit agreement dated December 17, 2010 (as amended by the First Amendment to the Credit Agreement dated March 25, 2011) with JPMorgan Chase Bank, N.A. The Credit Agreement provides for senior secured credit facilities (the "Senior Secured Facilities") in the aggregate principal amount of \$1.35 billion comprised of a five-year revolving loan facility of \$1.0 billion (approximately \$100.0 million of which will be available for a letter of credit sub-facility and \$50.0 million of which will be available for a swingline sub-facility) and a five-year delayed-draw term loan facility of \$350.0 million all of which is available as of September 28, 2013. The revolving loan facility is available to be borrowed by the Company in U.S. dollars and Canadian dollars, and up to \$225.0 million of the revolving loan facility is available to be borrowed in Canadian dollars by Darling International Canada Inc. ("Darling Canada"), a wholly owned subsidiary of the Company. \$200.0 million of the term loan facility is available to be borrowed in U.S. dollars by the Company and \$150.0 million of the term loan facility is available to be borrowed in Canadian dollars by Darling Canada. The Company and Darling Canada will use the proceeds of the term loan facility and a portion of the revolving loan facility to pay a portion of the consideration of Darling Canada's acquisition of the Rothsay division of Maple Leaf Foods Inc. ("Rothsay"), to pay related fees and expenses and to refinance certain existing indebtedness and will use the revolving loan facility to provide for working capital needs, general corporate purposes and for other purposes not prohibited by the Credit Agreement. The principal components of the Credit Agreement consist of the following:

As of September 28, 2013, the Company had availability of \$967.3 million under the revolving loan facility, taking into account no outstanding borrowings and letters of credit issued of \$32.7 million.

As of September 28, 2013, the Company had no outstanding borrowings under the delayed-draw term loan facility. The obligations of the Company under the Credit Agreement are guaranteed by Darling National, Griffin, Craig Protein, Darling AWS LLC, Terra Holding Company, Darling Global Holdings Inc., Darling Northstar LLC, Terra Renewal Services, Inc. and EV Acquisition, Inc., each of which are wholly-owned subsidiaries of the Company ("Guarantor Companies"), and are secured, subject to certain exceptions, by a perfected first priority security interest in all tangible and intangible personal property of the Company 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.

**Senior Notes.** On December 17, 2010, Darling issued \$250.0 million in aggregate principal amount of its 8.5% Senior Notes due 2018 (the "Notes") under an indenture with U.S. Bank National Association, as trustee. The Company will pay 8.5% annual cash interest on the Notes on June 15 and December 15 of each year, commencing June 15, 2011. Other than for extraordinary events such as change of control and defined assets sales, the Company is not required to make any mandatory redemption or sinking fund payments on the Notes.

The Notes are guaranteed by each of the Guarantor Companies and, effective as of September 27, 2013, the Notes are secured on an equal and ratable basis with the Company's and the guarantors' obligations under the Credit Agreement.

The 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 Credit Agreement and the Notes. The 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 Credit Agreement and the Notes, to the extent of the value of the assets securing such debt. The 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 Notes.

As of September 28, 2013, the Company believes it is in compliance with all of the covenants, including financial covenants, under the Credit Agreement and the Notes indenture.

The Credit Agreement and Notes consisted of the following elements at September 28, 2013 (in thousands):

|                                   |             |
|-----------------------------------|-------------|
| Senior Notes:                     |             |
| 8.5% Senior Notes Due 2018        | \$250,000   |
| Senior Secured Credit Facilities: |             |
| Term Loan                         | \$—         |
| Revolving Credit Facility:        |             |
| Maximum availability              | \$1,000,000 |
| Borrowings outstanding            | —           |
| Letters of credit issued          | 32,668      |
| Availability                      | \$967,332   |

The classification of long-term debt in the accompanying September 28, 2013 consolidated balance sheet is based on the contractual repayment terms of the debt issued under the Credit Agreement and the Notes.

On September 28, 2013, the Company had working capital of \$76.1 million and its working capital ratio was 1.51 to 1 compared to working capital of \$158.6 million and a working capital ratio of 2.20 to 1 on December 29, 2012. The decrease in working capital is primarily due to a decrease in cash and cash equivalents and working capital from the Terra Transaction as well as an increase in inventory volumes. At September 28, 2013, the Company had unrestricted cash of \$8.0 million and funds available under the revolving credit facility of \$967.3 million, compared to unrestricted cash of \$103.2 million and funds available under the revolving credit facility of \$384.9 million at December 29, 2012.

Net cash provided by operating activities was \$168.7 million and \$196.6 million for the nine months ended September 28, 2013 and September 29, 2012, respectively, a decrease of \$27.9 million due primarily to a decrease in net income of approximately \$15.5 million and changes in operating assets and liabilities that include a decrease in cash provided by income tax refundable/payable of approximately \$21.3 million, that was partially offset by an increase in cash provided by inventory of approximately \$8.0 million. Cash used by investing activities was \$250.8 million for the nine months ended September 28, 2013, compared to \$116.7 million for the nine months ended September 29, 2012, an increase of \$134.1 million primarily due to an increase in cash paid for the Company's investment in the Joint Venture and the increase in current year acquisition activity. Net cash used by financing activities was \$13.1 million for the nine months ended September 28, 2013, compared to \$31.1 million for the nine months ended September 29, 2012, a decrease in the use of cash of \$18.0 million, primarily due to repayment of term debt in the prior year.

Capital expenditures of \$85.7 million were made during the first nine months of fiscal 2013, compared to \$84.2 million in the first nine months of fiscal 2012, for a net increase of \$1.5 million (1.8%), due primarily to more planned capital projects in the first nine months of fiscal 2013. Additionally, included in the planned capital projects are costs associated with the Company's initiation of a new enterprise resource planning ("ERP") system. As of September 28, 2013, the Company has spent approximately \$30.1 million in capital expenditures for software and design costs related to the implementation of the Oracle E Business Suite ERP system. The implementation is expected to be completed in 2015. The expected cash flow impact of this project will be in the range of \$36.0 million to \$40.0 million. These costs will be financed using the cash flows from operations. Capital expenditures related to compliance with environmental regulations were \$2.5 million and \$1.6 million during the nine months ended September 28, 2013

and September 29, 2012, respectively.

Based upon the annual actuarial estimate, current accruals and claims paid during the first nine months of fiscal 2013, the Company has accrued approximately \$12.2 million it expects will become due during the next twelve months in order to meet obligations related to the Company's self insurance reserves and accrued insurance obligations, which are included in current accrued expenses at September 28, 2013. The self insurance reserve is composed of estimated liability for claims arising for workers' compensation, and for auto liability and general liability claims. The self insurance reserve liability is determined annually, based upon a third party actuarial estimate. The actuarial estimate may vary from year to year due to changes in cost of health care, the pending number of claims or other factors beyond the control of management of the Company. It is expected that the Company's funding obligations under its self insurance reserve will increase in the future as a result of 2013 acquisition activity and its planned acquisition of VION Ingredients.

Based upon current actuarial estimates, the Company expects to contribute approximately \$0.3 million to its pension plans in order to meet minimum pension funding requirements during the next twelve months. The minimum pension funding requirements are determined annually, based upon a third party actuarial estimate. The actuarial estimate may vary from year to year due to fluctuations in return on investments or other factors beyond the control of management of the Company or the administrator of the Company's pension funds. No assurance can be given that the minimum pension funding requirements will not increase in the future. Additionally, the Company has made tax deductible discretionary and required contributions to its pension plans for the nine months ended September 28, 2013 of approximately \$4.0 million.

The Pension Protection Act of 2006 ("PPA") was signed into law in August 2006 and went into effect in January 2008. The stated goal of the PPA is to improve the funding of pension plans. Plans in an under-funded status will be required to increase employer contributions to improve the funding level within PPA timelines. The impact of recent volatility in the world equity and other financial markets have had and could continue to have a material negative impact on pension plan assets and the status of required funding under the PPA. 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 and two plans have certified as endangered or yellow zone as defined by the PPA. 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 September 28, 2013, the Company has an accrued liability of approximately \$0.9 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 PPA, the amounts could be material.

The Company announced on January 21, 2011 that a wholly-owned subsidiary of Darling entered into a limited liability company agreement with a wholly-owned subsidiary of Valero Energy Corporation ("Valero") to form Diamond Green Diesel Holdings LLC (the "Joint Venture"). The Joint Venture is owned 50% / 50% with Valero and was formed to design, engineer, construct and operate a renewable diesel plant (the "Facility"), which 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 Joint Venture reached mechanical completion and began the production of renewable diesel in late June 2013.

On May 31, 2011, the Joint Venture and Diamond Green Diesel LLC, a wholly-owned subsidiary of the Joint Venture ("Opco"), entered into (i) a facility agreement (the "Facility Agreement") with Diamond Alternative Energy, LLC, a wholly-owned subsidiary of Valero (the "Lender"), and (ii) a loan agreement (the "Loan Agreement") with the Lender, which provided the Joint Venture with a 14 year multiple advance term loan facility of approximately \$221,300,000 (the "JV Loan") to support the design, engineering and construction of the Facility, which is now 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 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.

Based on the sponsor support agreements executed in connection with the Facility Agreement and the Loan Agreement relating to the Joint Venture with Valero, the Company has contributed a total of approximately \$111.7 million for completion of the Facility including the Company's portion of cost overruns and working capital funding. As of the date of this report, it is anticipated that substantially all contributions have been made, except for possible additional working capital funding and under the equity method of accounting, the Company has an investment in the Joint Venture of approximately \$116.3 million included on the consolidated balance sheet.

The Company is aware that a third party patent holder has filed a patent infringement claim against a producer of renewable diesel fuel and its owners. The producer is unrelated to the Company, the Joint Venture or, to our knowledge,

Valero. The Company has not, and to its knowledge neither the Joint Venture or Valero has, received any communication from such patent holder regarding similar claims against the Joint Venture. The Joint Venture has licensed a process from UOP LLC, a subsidiary of Honeywell International Inc., that it will utilize in producing renewable diesel fuel. The Company believes that the Joint Venture's process differs from the process that is the subject of the infringement suit. Accordingly, any patent infringement claim that might be asserted in the future against either the Company or the Joint Venture would be vigorously opposed. However, if any patent holder successfully challenged the patents under which the Joint Venture operates, the Joint Venture could incur increased expenses or the need to modify its operation which could negatively impact the Joint Venture's results of operations.

On October 5, 2013, Darling and VION, entered into a SPA, pursuant to which Darling will acquire all of the shares of the Vion Companies for approximately EUR 1.6 billion, upon the terms and subject to the conditions set forth in the SPA. Each of the Vion Companies is a wholly-owned subsidiary of VION. At the consummation of the contemplated transaction, the Vion Companies will directly or indirectly own all of the shares of the Group Companies. The Group Companies together conduct the Ingredients Business. Vion Ingredients is a worldwide leader in the development and production of specialty ingredients from animal origin for applications in pharmaceuticals, food, feed, pet food, fertilizer and bio-energy. Vion Ingredients' global network of 58 facilities on five continents covers all aspects of animal byproduct processing through six brands including Ecoson (green power), Rendac (rendering/energy), Sonac (proteins, fats, edible fats and blood products), Rousselot (gelatin), CTH (natural casings), and Best Hides (hides).

In connection with the SPA, on October 5, 2013, Darling received commitments pursuant to commitment letters (the "Commitments") from JPMorgan Chase Bank, N.A. ("JPMorgan"), Bank of Montreal, acting under its trade name BMO Capital Markets ("BMO") and Goldman Sachs Bank USA with respect to a \$1.2 billion term loan B facility and a \$1.3 billion senior unsecured bridge facility, to finance the transaction. The Commitments are subject to the satisfaction of certain closing conditions and execution of definitive documentation regarding such loans.

The Company's efforts to integrate current year domestic acquisition activity as well as actual and expected future international acquisition activity could result in unforeseen operating and integration difficulties that will require significant management resources for the remainder of fiscal 2013 and into future periods. The completion and integration of these transactions will require the Company to continue to incur high professional expenditures into the fourth quarter of fiscal 2013 and into fiscal 2014.

The Company's management believes that cash flows from operating activities consistent with the level generated in the first nine months of fiscal 2013, unrestricted cash and funds available under the Credit Agreement and the Commitments will be sufficient to meet the Company's working capital needs and maintenance and compliance-related capital expenditures, scheduled debt and interest payments, income tax obligations, acquisition obligations and other contemplated needs through the next twelve months. Numerous factors could have adverse consequences to the Company that cannot be estimated at this time, such as: unanticipated costs related to the acquisition and integration of the Terra Transaction entities, Rothsay and Vion Ingredients; reductions in raw material volumes available to the Company due to weak margins in the meat production industry as a result of higher feed costs or other factors, reduced volume from food service establishments, reduced demand for animal feed, or otherwise; a reduction in finished product prices; changes to worldwide government policies relating to renewable fuels and greenhouse gas emissions that adversely affect programs like RFS2 and tax credits for bio-fuels both in the U.S. and abroad; possible product recall resulting from developments relating to the discovery of unauthorized adulterations to food or feed additives; the occurrence of Bird Flu in the U.S.; any additional occurrence of BSE in the U.S. or elsewhere; unanticipated costs and/or reductions in raw material volumes related to the Company's compliance with the Enhanced BSE Rule; unforeseen new U.S. or foreign regulations affecting the rendering industry (including new or modified animal feed, H1N1 flu, Bird Flu, BSE or similar or unanticipated regulations); increased contributions to the Company's multiemployer and employer-sponsored defined benefit pension plans as required by



the PPA or resulting from a mass withdrawal event; bad debt write-offs; loss of or failure to obtain necessary permits and registrations; continued or escalated conflict in the Middle East, North Korea or elsewhere; and/or unfavorable export markets. These factors, coupled with volatile prices for natural gas and diesel fuel, general performance of the U.S. and global economies and any decline in consumer confidence including the inability of consumers and companies to obtain credit due to lack of liquidity in the financial markets, among others, could negatively impact the Company's results of operations in fiscal 2013 and thereafter. The Company cannot provide assurance that the cash flows from operating activities generated in the first nine months of fiscal 2013 are indicative of the future cash flows from operating activities that will be generated by the Company's operations. The Company reviews the appropriate use of unrestricted cash periodically. Except for expenditures relating to the Company's ongoing installation activities with respect to its planned new enterprise resource planning system project and the fulfillment of all conditions to the closing of the Vion Ingredients acquisition, no decision has been made as to non-ordinary course cash usages at this time; however, potential usages could include: opportunistic capital expenditures and/or acquisitions; investments relating to the Company's developing a comprehensive renewable energy strategy, including, without limitation, potential investments in additional

renewable diesel and/or biodiesel projects; investments in response to governmental regulations relating to human and animal food safety or other regulations; unexpected funding required by the PPA requirements, or mass termination of multiemployer plans or other benefit funding requirements; and paying dividends or repurchasing stock, subject to limitations under the Credit Agreement and the Notes, as well as suitable cash conservation to withstand adverse commodity cycles.

The current economic environment in the Company's markets has the potential to adversely impact its liquidity in a variety of ways, including through reduced raw materials availability, reduced finished product prices, reduced sales, potential inventory buildup, increased bad debt reserves, potential impairment charges and/or higher operating costs.

The principal products that the Company now sells and will sell after completion of its planned acquisitions are commodities, the prices of which are based on established commodity markets and are subject to volatile changes. Any decline in these prices has the potential to adversely impact the Company's liquidity. Any of a decline in raw material availability, a decline in commodities prices, increases in energy prices and changes in regulations including those related to employee benefits funding has the potential to adversely impact the Company's liquidity. A decline in commodities prices, a rise in energy prices, a slowdown in the U.S. or international economy, continued or escalated conflict in the Middle East, North Korea or elsewhere, or other factors could cause the Company to fail to meet management's expectations or could cause liquidity concerns.

#### OFF BALANCE SHEET OBLIGATIONS

Based upon the underlying purchase agreements, the Company has commitments to purchase \$23.9 million of commodity products consisting of approximately \$20.4 million of finished products and approximately \$3.5 million of natural gas during the next twelve months, which are not included in liabilities on the Company's balance sheet at September 28, 2013. These purchase agreements are entered into in the normal course of the Company's business and are not subject to derivative accounting. The commitments will be recorded on the balance sheet of the Company when delivery of these commodities occurs and ownership passes to the Company during the remainder of fiscal 2013, in accordance with accounting principles generally accepted in the U.S.

Based upon the underlying lease agreements, the Company expects to pay approximately \$20.0 million in operating lease obligations during the next twelve months, which are not included in liabilities on the Company's balance sheet at September 28, 2013. These lease obligations are included in cost of sales or selling, general and administrative expense as the underlying lease obligation comes due, in accordance with accounting principles generally accepted in the U.S.

#### NEW ACCOUNTING PRONOUNCEMENTS

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. The ASU amends ASC Topic 220, Comprehensive Income. The new standard eliminates the option to report other comprehensive income and its components in the statement of changes in equity and instead requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. Reclassification adjustments between net income and other comprehensive income must be shown on the face of the statement(s), with no resulting change in net earnings. In December 2011, the FASB issued ASU No. 2011-12, Deferral of Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. This ASU amends ASC Topic 220, Comprehensive Income. The new standard deferred the requirement to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income while the FASB further deliberates this aspect of the proposal. This update is effective for the Company on January 1, 2012 and must be applied retrospectively. The Company adopted this

standard as of March 31, 2012. The adoption did not have a material impact on the Company's consolidated financial statements. In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Out of Accumulated Other Comprehensive Income. This ASU amends ASC Topic 220, Comprehensive Income. This new standard requires an entity to report either on the income statement or disclose in the footnotes to the financial statement the effects on earnings from items that are reclassified out of other comprehensive income. This update was effective for the Company on December 30, 2012. The adoption did not have a material impact on the Company's consolidated financial statements.

In July 2012, the FASB issued ASU No. 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment. The ASU amends ASC Topic 350, Intangibles - Goodwill and Other. The new standard is intended to reduce the cost and complexity of performing an impairment test for indefinite-lived intangible assets by providing entities an option to perform a "qualitative" assessment to determine whether further impairment testing is necessary. The new standard allows an entity

to first assess qualitative factors to determine if it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If based on its qualitative assessment an entity concludes it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, quantitative impairment testing is required. However, if an entity concludes otherwise, quantitative impairment testing is not required. The standards update is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company adopted this standard in the first quarter of fiscal 2013. The adoption did not have a material impact on the Company's consolidated financial statements.

## FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes “forward-looking” statements that involve risks and uncertainties. The words “believe,” “anticipate,” “expect,” “estimate,” “intend,” “could,” “may,” “will,” “should,” “planned,” “potential,” and similar expressions identify forward-looking statements. All statements other than statements of historical facts included in the Quarterly Report on Form 10-Q, including, without limitation, the statements under the sections entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and located elsewhere herein regarding industry prospects, expectations for construction of the Facility, the Company’s financial position and the Company’s use of cash are forward-looking statements. Actual results could differ materially from those discussed in the forward-looking statements as a result of certain factors, including many that are beyond the control of the Company. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct.

In addition to those factors discussed under the heading “Risk Factors” in Item 1A of Part I of the Company’s annual report on Form 10-K for the year ended December 29, 2012, and in the Company’s other public filings with the SEC, important factors that could cause actual results to differ materially from the Company’s expectations include: the Company’s continued ability to obtain sources of supply for its rendering operations; disturbances in world financial, credit, commodities, stock markets and climatic conditions; unanticipated changes in national and international regulations affecting the Company’s products; a decline in consumer confidence and discretionary spending; the general performance of the U.S. and global economies; global demands for bio-fuels and grain and oilseed commodities, which have exhibited volatility, and can impact the cost of feed for cattle, hogs, and poultry, thus affecting available rendering feedstock; prices in the competing commodity markets which are volatile and are beyond the Company’s control; risks associated with the renewable diesel plant in Norco, Louisiana owned and operated by a joint venture between Darling International and Valero Energy Corporation including possible unanticipated operating disruptions; risks relating to possible third party claims on intellectual property infringement; economic disruptions resulting from the European debt crisis; continued or escalated conflict in the Middle East; energy prices; changes to worldwide government policies relating to renewable fuels and greenhouse gas emissions; the implementation of the Enhanced BSE Rule; BSE and its impact on finished product prices, export markets, energy prices and government regulations, which are still evolving and are beyond the Company’s control; the occurrence of Bird Flu in the U.S.; possible product recall resulting from developments relating to the discovery of unauthorized adulterations (such as melamine or salmonella) to food additives; increased contributions to the Company’s multiemployer defined benefit pension plans as required by the PPA or required by a withdrawal event; challenges associated with the Company’s ongoing enterprise resource planning system project, including material deviations from the project or unsuccessful execution of the implementation plan for the project; and the fulfillment of all conditions to the closing of the Vion Ingredients acquisition. Among other things, future profitability may be affected by the Company’s ability to grow its business, which faces competition from companies that may have substantially greater resources than the Company. The Company cautions readers that all forward-looking statements speak only as of the date made, and the Company undertakes no obligation to update any forward-looking statements, whether as a result of changes in circumstances, new events or otherwise.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Market risks affecting the Company are exposures to changes in prices of the finished products the Company sells, interest rates on debt, availability of raw material supply and the price of natural gas and diesel fuel used in the Company's plants. Raw materials available to the Company are impacted by seasonal factors, including holidays, when raw material volume declines; warm weather, which can adversely affect the quality of raw material processed and finished products produced; and cold weather, which can impact the collection of raw material. Predominantly all of the Company's finished products are commodities that are generally sold at prices prevailing at the time of sale. The Company makes limited use of derivative instruments to manage cash flow risks related to interest expense, natural gas usage, diesel fuel usage and inventory. The Company does not use derivative instruments for trading purposes. Interest rate swaps are entered into with the intent of managing overall borrowing costs by reducing the potential impact of increases in interest rates on floating-rate long-term debt. Natural gas swaps and options are entered into with the intent of

50

---

managing the overall cost of natural gas usage by reducing the potential impact of seasonal weather demands on natural gas that increases natural gas prices. Heating oil swaps and options are entered into with the intent of managing the overall cost of diesel fuel usage by reducing the potential impact of seasonal weather demands on diesel fuel that increases diesel fuel prices. Inventory swaps and options are entered into with the intent of managing seasonally high concentrations of MBM, PM, BFT, PG, YG and BBP inventories and managing forecasted sales of BBP by reducing the potential impact of changing prices. The interest rate swaps and the natural gas swaps are subject to the requirements of FASB authoritative guidance. Some of the Company's natural gas and diesel fuel instruments are not subject to the requirements of FASB authoritative guidance because some of the natural gas and diesel fuel instruments qualify as normal purchases as defined in FASB authoritative guidance. At September 28, 2013, the Company had corn option contracts and natural gas swaps outstanding that qualified and were designated for hedge accounting as well as heating oil swaps that did not qualify and were not designated for hedge accounting.

In fiscal 2012 and the first nine months of fiscal 2013, the Company entered into natural gas swap contracts that are considered cash flow hedges. Under the terms of the natural gas swap contracts, the Company fixed the expected purchase cost of a portion of its plants' forecasted natural gas usage into the fourth quarter of fiscal 2013. As of September 28, 2013, the aggregate fair value of these natural gas swap contracts was less than \$0.1 million and is included in other current assets and accrued expenses on the balance sheet, with an offset recorded in accumulated other comprehensive income for the effective portion.

In fiscal 2012 and the first nine months of fiscal 2013, 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 forecasted sales of BBP into the third quarter of fiscal 2014. As of September 28, 2013, the aggregate fair value of these corn option contracts was approximately \$3.1 million and is included in other current assets on the balance sheet, with an offset recorded in accumulated other comprehensive income for the effective portion. From time to time, the Company may enter into corn option contracts in the future. Gains and losses arising from open and closed portions of these contracts may have a significant impact on the Company's income if there is significant volatility in the price of corn.

Additionally, the Company had heating oil swaps that are marked to market because they did not qualify for hedge accounting at September 28, 2013. The heating oil swaps had an aggregate fair value of approximately \$0.1 million and are included in other current assets and accrued expenses at September 28, 2013.

As of September 28, 2013, the Company had forward purchase agreements in place for purchases of approximately \$3.5 million of natural gas in fiscal 2013. As of September 28, 2013, the Company had forward purchase agreements in place for purchases of approximately \$20.4 million of finished product in fiscal 2013.

#### Item 4. CONTROLS AND PROCEDURES

**Evaluation of Disclosure Controls and Procedures.** As required by Exchange Act Rule 13a-15(b), the Company's management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation, as of the end of the period covered by this report, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. As defined in Exchange Act Rules 13a-15(e) and 15d-15(e) under the Exchange Act, disclosure controls and procedures are controls and other procedures of the Company that are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Because of its inherent

limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on management's evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting. As required by Exchange Act Rule 13a-15(d), the Company's management, including the Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of the Company's internal control over financial reporting to determine whether any change occurred during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, there has been no change in the Company's internal control over financial reporting

during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

52

---



DARLING INTERNATIONAL INC. AND SUBSIDIARIES  
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 28, 2013

PART II: Other Information

Item 6. EXHIBITS

The following exhibits are filed herewith:

- 10.1 Commitment letter dated October 5, 2013 from JPMorgan Chase Bank, N.A. and Bank of Montreal, acting under its trade name BMO Capital Markets, with respect to a \$1 billion revolving facility and a \$350 million term loan A facility.
- 10.2 Commitment letter dated October 5, 2013 from JPMorgan Chase Bank, N.A. and Bank of Montreal, acting under its trade name BMO Capital Markets, and Goldman Sachs Bank USA with respect to a \$1.2 billion term loan B facility and a \$1.3 billion senior unsecured bridge facility.
- 31.1 Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Randall C. Stuewe, the Chief Executive Officer of the Company.
- 31.2 Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Colin Stevenson, the Chief Financial Officer of the Company.
- 32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Randall C. Stuewe, the Chief Executive Officer of the Company, and of Colin Stevenson, the Chief Financial Officer of the Company.
- 101 Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets as of September 28, 2013 and December 29, 2012; (ii) Consolidated Statements of Operations for the three and nine months ended September 28, 2013 and September 29, 2012; (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 28, 2013 and September 29, 2012; (iv) Consolidated Statements of Cash Flows for the nine months ended September 28, 2013 and September 29, 2012; (v) Notes to the Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DARLING INTERNATIONAL INC.

Date: November 7, 2013

By: /s/ Randall C. Stuewe  
Randall C. Stuewe  
Chairman and  
Chief Executive Officer

Date: November 7, 2013

By: /s/ Colin Stevenson  
Colin Stevenson  
Executive Vice President  
Chief Financial Officer  
(Principal Financial Officer)