

DARLING INGREDIENTS INC.

FORM 10-Q (Quarterly Report)

Filed 08/07/14 for the Period Ending 06/28/14

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|-------------|--|
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| CIK | 0000916540 |
| Symbol | DAR |
| SIC Code | 2070 - Fats And Oils |
| Industry | Food Processing |
| Sector | Consumer/Non-Cyclical |
| Fiscal Year | 05/07 |

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 28, 2014

OR

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

For the transition period from _____ to _____

Commission File Number 001-13323

DARLING INGREDIENTS INC.

(Exact name of registrant as specified in its charter)

(Formerly Darling International Inc.)

Delaware

(State or other jurisdiction
of incorporation or organization)

36-2495346

(I.R.S. Employer
Identification Number)

251 O'Connor Ridge Blvd., Suite 300

Irving, Texas

(Address of principal executive offices)

75038

(Zip Code)

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

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

Large accelerated filer Accelerated filer Non-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 164,658,062 shares of common stock, \$0.01 par value, outstanding at July 31, 2014.

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DARLING INGREDIENTS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 28, 2014 and December 28, 2013

(in thousands, except share data)

| | June 28, 2014 | December 28, 2013 |
|--|---------------------|----------------------|
| ASSETS | (unaudited) | |
| Current assets: | | |
| Cash and cash equivalents | \$ 143,785 | \$ 870,857 |
| Restricted cash | 350 | 354 |
| Accounts receivable, net | 467,392 | 112,844 |
| Inventories | 431,529 | 65,133 |
| Prepaid expenses | 26,296 | 14,223 |
| Income taxes refundable | 26,448 | 14,512 |
| Other current assets | 33,022 | 32,290 |
| Deferred income taxes | 18,955 | 17,289 |
| Total current assets | <u>1,147,777</u> | <u>1,127,502</u> |
| Property, plant and equipment, less accumulated depreciation of \$467,749 at June 28, 2014 and \$381,314 at December 28, 2013 | 1,697,058 | 666,573 |
| Intangible assets, less accumulated amortization of \$146,900 at June 28, 2014 and \$105,070 at December 28, 2013 | 1,037,479 | 588,664 |
| Goodwill | 1,442,299 | 701,637 |
| Investment in unconsolidated subsidiaries | 147,662 | 115,114 |
| Other assets | 76,077 | 44,643 |
| Deferred income taxes | 6,443 | — |
| | <u>\$ 5,554,795</u> | <u>\$ 3,244,133</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 68,616 | \$ 19,888 |
| Accounts payable, principally trade | 313,171 | 43,742 |
| Income taxes payable | 7,830 | — |
| Accrued expenses | 167,552 | 113,174 |
| Total current liabilities | <u>557,169</u> | <u>176,804</u> |
| Long-term debt, net of current portion | 2,302,655 | 866,947 |
| Other non-current liabilities | 98,241 | 40,671 |
| Deferred income taxes | 472,863 | 138,759 |
| Total liabilities | <u>3,430,928</u> | <u>1,223,181</u> |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock, \$0.01 par value; 250,000,000 shares authorized; 165,917,726 and 165,261,003 shares issued at June 28, 2014 and at December 28, 2013, respectively | 1,659 | 1,653 |
| Additional paid-in capital | 1,470,908 | 1,454,250 |
| Treasury stock, at cost; 1,259,664 and 993,578 shares at June 28, 2014 and at December 28, 2013, respectively | (18,685) | (13,271) |
| Accumulated other comprehensive loss | (16,199) | (29,423) |
| Retained earnings | 587,697 | 607,743 |
| Total Darling's stockholders' equity | <u>2,025,380</u> | <u>2,020,952</u> |
| Noncontrolling interests | 98,487 | — |

| | | |
|----------------------------|---------------------|---------------------|
| Total stockholders' equity | \$ 2,123,867 | \$ 2,020,952 |
| | <u>\$ 5,554,795</u> | <u>\$ 3,244,133</u> |

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

DARLING INGREDIENTS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Three and six months months ended June 28, 2014 and June 29, 2013

(in thousands, except per share data)

(unaudited)

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

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

DARLING INGREDIENTS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/ (LOSS)

Three and six months months ended June 28, 2014 and June 29, 2013

(in thousands)

(unaudited)

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

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

DARLING INGREDIENTS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended June 28, 2014 and June 29, 2013

(in thousands)

(unaudited)

| | June 28, 2014 | June 29, 2013 |
|---|------------------|------------------|
| Cash flows from operating activities: | | |
| Net income/ (loss) | \$ (16,431) | \$ 58,823 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 133,167 | 43,943 |
| Gain on disposal of property, plant, equipment and other assets | (839) | (627) |
| Gain on insurance proceeds from insurance settlements | — | (1,981) |
| Deferred taxes | (12,882) | 23,539 |
| Increase/ (decrease) in long-term pension liability | (6,519) | 600 |
| Stock-based compensation expense | 14,583 | 4,875 |
| Write-off deferred loan costs | 4,330 | — |
| Deferred loan cost amortization | 4,911 | 1,537 |
| Equity in net (income)/ loss of unconsolidated subsidiaries | (7,117) | 3,157 |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | |
| Accounts receivable | (36,920) | 6,259 |
| Income taxes refundable/payable | (3,181) | (273) |
| Inventories and prepaid expenses | (2,806) | (3,880) |
| Accounts payable and accrued expenses | (25,218) | (333) |
| Other | (4,054) | (6,459) |
| Net cash provided by operating activities | 41,024 | 129,180 |
| Cash flows from investing activities: | | |
| Capital expenditures | (103,531) | (54,689) |
| Acquisitions, net of cash acquired | (2,075,651) | — |
| Investment in unconsolidated subsidiary | — | (44,959) |
| Gross proceeds from disposal of property, plant and equipment and other assets | 2,308 | 1,292 |
| Proceeds from insurance settlement | — | 1,981 |
| Payments related to routes and other intangibles | (7,312) | (649) |
| Net cash used by investing activities | (2,184,186) | (97,024) |
| Cash flows from financing activities: | | |
| Proceeds from long-term debt | 1,821,196 | — |
| Payments on long-term debt | (287,066) | (40) |
| Borrowings from revolving credit facility | 170,143 | — |
| Payments on revolving credit facility | (257,254) | — |
| Net cash overdraft financing | 9,529 | — |
| Deferred loan costs | (44,865) | — |
| Issuance of common stock | 417 | 32 |
| Minimum withholding taxes paid on stock awards | (5,495) | (2,529) |
| Excess tax benefits from stock-based compensation | 1,329 | 703 |
| Net cash provided/ (used) by financing activities | 1,407,934 | (1,834) |
| Effect of exchange rate changes on cash and cash equivalents | 8,156 | — |
| Net increase/ (decrease) in cash and cash equivalents | (727,072) | 30,322 |
| Cash and cash equivalents at beginning of period | 870,857 | 103,249 |
| Cash and cash equivalents at end of period | \$ 143,785 | \$ 133,571 |
| Supplemental disclosure of cash flow information: | | |
| Accrued capital expenditures | \$ (2,300) | \$ (1,074) |

Cash paid during the period for:

| | | |
|---------------------------------------|-----------|-----------|
| Interest, net of capitalized interest | \$ 47,851 | \$ 9,756 |
| Income taxes, net of refunds | \$ 11,301 | \$ 17,713 |

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

DARLING INGREDIENTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 28, 2014

(unaudited)

(1) General

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

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

The accompanying consolidated financial statements for the six month periods ended June 28, 2014 and June 29, 2013, have been prepared by the Company in accordance with generally accepted accounting principles in the United States ("GAAP") without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The information furnished herein reflects all adjustments (consisting only of normal recurring accruals) that are, in the opinion of management, necessary to present a fair statement of the financial position and operating results of the Company as of and for the respective periods. However, these operating results are not necessarily indicative of the results expected for a full fiscal year. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. However, management of the Company believes, to the best of their knowledge, that the disclosures herein are adequate to make the information presented not misleading. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements contained in the Company's Form 10-K for the fiscal year ended December 28, 2013. Note that because of the 2013 and 2014 acquisitions described above, the audited consolidated financial statements contained in the Company's Form 10-K for the fiscal year ended December 28, 2013 may not be comparable to the unaudited consolidated financial statements contained herein.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements include the accounts of Darling and its consolidated subsidiaries. Noncontrolling interests represents the outstanding ownership interest in the Company's consolidated subsidiaries that are not owned by the Company. In the accompanying Consolidated Statements of Operations, the noncontrolling interest in net income (loss) of the consolidated subsidiaries is shown as an allocation of the Company's net income and is presented separately as "Net income/(loss) attributable to noncontrolling interests". In the Company's Consolidated Balance Sheets, noncontrolling interests represents the ownership interests in the Company consolidated subsidiaries' net assets held by parties other than the Company. These ownership interests are presented separately as "Noncontrolling interests" within "Stockholders' Equity." All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Fiscal Periods

The Company has a 52 / 53 week fiscal year ending on the Saturday nearest December 31 . Fiscal periods for the consolidated financial statements included herein are as of June 28, 2014 , and include the 13 and 26 weeks ended June 28, 2014 , and the 13 and 26 weeks ended June 29, 2013 .

(c) Revenue Recognition

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

(d) Foreign Currency Translation and Remeasurement

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

(e) Reclassifications

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

(f) Earnings Per Share

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

| | Net Income per Common Share (in thousands, except per share data) | | | | | |
|--|---|---------|-----------|---------------|---------|-----------|
| | Three Months Ended | | | | | |
| | June 28, 2014 | | | June 29, 2013 | | |
| | Income | Shares | Per Share | Income | Shares | Per Share |
| Basic: | | | | | | |
| Net Income allocable to Darling | \$ 32,757 | 164,600 | \$ 0.20 | \$ 26,418 | 118,196 | \$ 0.22 |
| Diluted: | | | | | | |
| Effect of dilutive securities: | | | | | | |
| Add: Option shares in the money and dilutive effect of non-vested stock awards | | 1,071 | | | 690 | |
| Less: Pro forma treasury shares | | (574) | | | (298) | |
| Diluted: | | | | | | |
| Net income allocable to Darling | \$ 32,757 | 165,097 | \$ 0.20 | \$ 26,418 | 118,588 | \$ 0.22 |

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

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

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

(3) Acquisitions

On January 7, 2014, the Company acquired the VION Ingredients business division from VION by purchasing shares of the VION Companies as described in Note 1, pursuant to a Sale and Purchase Agreement dated October 5, 2013, as amended, between Darling and VION. The VION Ingredients business is now conducted under the name Darling Ingredients International. Darling Ingredients International is a worldwide leader in the development and production of specialty ingredients from animal by-products for applications in pharmaceuticals, food, pet food, feed, fuel, bioenergy and fertilizer. Darling Ingredients International operates a global network of 67 production facilities across five continents covering all aspects of animal by-product processing through six brands: Rendac (bioenergy), Sonac (bone products, proteins, fats, edible fats and plasma products), Ecoson (bioenergy), Rousselot (gelatin and collagen hydrolysates), CTH (natural casings) and Best Hides (hides and skins). Darling Ingredients International's specialized portfolio of over 400 products covers all animal origin raw material types and thereby offers a comprehensive, single source solution for suppliers. Darling Ingredients International's business has leading positions across Europe with operations in the Netherlands, Belgium, Germany, Poland and Italy under the Rendac and Sonac brand names. Value-added products include edible fats, blood plasma powder, hemoglobin, bone products, protein meals and fats. Rousselot is a global leading market provider of gelatin for the pharmaceutical, food and technical industries with operations in Europe, the United States, South America and China. CTH is a market leader in natural casings for the sausage industry with operations in Europe, China and the United States. The purchase of the VION Companies allows the Company to have a global reach. The purchase price for the transaction was approximately € 1.6 billion in cash (approximately \$ 2.2 billion at the exchange rate of € 1.00 :USD\$ 13605). The purchase price was financed through (i) borrowings under the Company's senior secured revolving credit facility and term loan facilities; (ii) proceeds from the Company's \$ 874.0 million public common stock offering in the fourth quarter of fiscal 2013; and (iii) proceeds from the private offering of \$ 500.0 million aggregate principal amount of the Company's 5.375% Senior Notes due 2022, that closed on January 2, 2014.

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

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

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

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

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

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

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

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

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

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

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

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

(4) Inventories

A summary of inventories follows (in thousands):

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

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

(5) Investment in Unconsolidated Subsidiaries

The Company announced on January 21, 2011 that a wholly-owned subsidiary of Darling entered into a limited liability company agreement with a wholly-owned subsidiary of Valero Energy Corporation (“Valero”) to form Diamond Green Diesel Holdings LLC (the “DGD Joint Venture”). The DGD Joint Venture is owned 50% / 50% with Valero and was formed to design, engineer, construct and operate a renewable diesel plant (the “DGD Facility”), which is capable of producing approximately 9,300 barrels per day of renewable diesel fuel and certain other co-products, and is located adjacent to Valero's refinery in Norco, Louisiana. The DGD Joint Venture reached mechanical completion and began the production of renewable diesel in late June 2013.

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

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

| | | Three Months Ended | | Three Months Ended | |
|---------------------|-----------------|--------------------|------------|--------------------|------------|
| | | June 30, 2014 | | June 30, 2013 | |
| | | Revenues | Net Income | Revenues | Net Loss |
| | | \$ 148,064 | \$ 2,958 | \$ 42 | \$ (3,923) |
| | | Six Months Ended | | Six Months Ended | |
| As of June 30, 2014 | | June 30, 2014 | | June 30, 2013 | |
| Total Assets | Members' Equity | Revenues | Net Income | Revenues | Net Loss |
| \$ 497,146 | \$ 242,535 | \$ 267,721 | \$ 12,307 | \$ 42 | \$ (6,314) |

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

(6) Subsequent Event

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

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

(7) Debt

Debt consists of the following (in thousands):

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

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

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

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

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

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

As of June 28, 2014, the Company has borrowed all \$ 1.3 billion under the terms of the term loan B facility, which when repaid, cannot be reborrowed. The term loan B facility is repayable in quarterly installments of 0.25% of the aggregate principal amount of the relevant term loan B facility on the last day of each March, June, September and December of

each year commencing on the last day of each month falling on or after the last day of the first full quarter of the closing date of the VION Acquisition and continuing until the last day of each quarter period ending immediately prior to the term loan B maturity date; and one final installment in the amount of the relevant term loan B facility then outstanding, due on the term loan B maturity date. The term loan B facility will mature on January 7, 2021.

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

At June 28, 2014 , the Company had \$ 197.5 million outstanding under the term loan A facility at LIBOR plus a margin of 2.5% per annum for a total of 2.75% per annum and had \$ 155.0 million outstanding under the revolver at LIBOR plus a margin of 2.5% per annum for a total of 2.6875% per annum. The Company had \$ 600.0 million outstanding under the term loan B facility at LIBOR plus a margin of 2.5% per annum for a total of 3.25% per annum. The Company had CAD\$ 148.1 million outstanding under the term loan A facility at CDOR plus a margin of 2.5% per annum for a total of 3.864% per annum and had CAD\$ 48.0 million outstanding under the revolver at CDOR plus a margin of 2.5% per annum for a total of 3.84% per annum. The Company had € 5100 million outstanding under the term loan B facility at LIBOR plus a margin of 2.75% per annum for a total of 3.5% per annum. As of June 28, 2014 , the Company had availability of \$ 767.3 million under the Credit Agreement taking into account amounts borrowed and letters of credit issued of \$ 32.7 million . In addition, the Company has capitalized approximately \$ 36.1 million of deferred loan costs during the first six months of fiscal 2014.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Indenture also provides for customary events of default, including, without limitation, payment defaults, covenant defaults, cross acceleration defaults to certain other indebtedness in excess of specified amounts, certain events of bankruptcy and insolvency and judgment defaults in excess of specified amounts. If any such event of default occurs and is continuing under the Indenture, the Trustee or the holders of at least 25% in principal amount of the total outstanding 5.375% Notes may declare the principal, premium, if any, interest and any other monetary obligations on all the then outstanding 5.375% Notes issued under the Indenture to be due and payable immediately.

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

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

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

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

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

The Company's financial covenants are first effective for fiscal quarter ending June 28, 2014, which is the first full fiscal quarter after January 6, 2014. As of June 28, 2014, the Company believes it is in compliance with all of the financial covenants, as well as all of the other covenants, contained in the Credit Agreement and the Indenture.

(8) Income Taxes

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

The Company accounts for income taxes using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company's net deferred tax liability increased by approximately \$ 326.0 million in the six month period ended June 28, 2014 principally due to deferred tax liabilities acquired in the stock acquisition resulting in carryover tax basis in the VION Acquisition including the accumulated earnings of certain foreign joint ventures. The Company expects to indefinitely reinvest the earnings of its foreign subsidiaries outside of the United States and has generally not provided deferred income taxes on the accumulated earnings of its foreign subsidiaries.

The Company periodically assesses whether it is more likely than not that it will generate sufficient taxable income to realize its deferred income tax assets. In making this determination, the Company considers all available positive and negative evidence and makes certain assumptions. The Company considers, among other things, its deferred tax liabilities, the overall business environment, its historical earnings and losses, current industry trends and its outlook for future years. Certain VION Companies acquired as part of the VION Acquisition have deferred tax assets for tax loss carryforwards, and the Company has recorded valuation allowances in respect to those losses in the purchase accounting

for the acquisition to the extent it has been determined that it is not more likely than not that the deferred tax assets will be realized.

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

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

(9) Other Comprehensive Income

The Company follows Financial Accounting Standards Board ("FASB") authoritative guidance for reporting and presentation of comprehensive income or loss and its components. Other comprehensive income (loss) is derived from adjustments that reflect pension adjustments, natural gas derivative adjustments, corn option adjustments and interest rate swap derivative adjustments. The components of other comprehensive income (loss) and the related tax impacts for the three and six months months ended June 28, 2014 and June 29, 2013 are as follows (in thousands):

| | Three Months Ended | | | | | |
|--|--------------------|---------------|---------------|---------------|---------------|---------------|
| | Before-Tax | | Tax (Expense) | | Net-of-Tax | |
| | Amount | | or Benefit | | Amount | |
| | June 28, 2014 | June 29, 2013 | June 28, 2014 | June 29, 2013 | June 28, 2014 | June 29, 2013 |
| Defined benefit pension plans | | | | | | |
| Amortization of prior service cost | \$ 4 | \$ 15 | \$ (2) | \$ (6) | \$ 2 | \$ 9 |
| Amortization of actuarial loss | 520 | 1,300 | (201) | (504) | 319 | 796 |
| Total defined benefit pension plans | 524 | 1,315 | (203) | (510) | 321 | 805 |
| Natural gas swap derivatives | | | | | | |
| Loss/(gain) reclassified to net income | — | (244) | — | 94 | — | (150) |
| Gain/(loss) activity recognized in other comprehensive income (loss) | (17) | (97) | 6 | 38 | (11) | (59) |
| Total natural gas swap derivatives | (17) | (341) | 6 | 132 | (11) | (209) |
| Corn option derivatives | | | | | | |
| Loss/(gain) reclassified to net income | (32) | (866) | 12 | 336 | (20) | (530) |
| Gain/(loss) activity recognized in other comprehensive income (loss) | 1,046 | 1,450 | (405) | (562) | 641 | 888 |
| Total corn option derivatives | 1,014 | 584 | (393) | (226) | 621 | 358 |
| Foreign currency translation | (6,931) | — | — | — | (6,931) | — |
| Other comprehensive income (loss) | \$ (5,410) | \$ 1,558 | \$ (590) | \$ (604) | \$ (6,000) | \$ 954 |

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

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

| | Three Months Ended | | Six Months Ended | | Statement of Operations Classification |
|--------------------------------------|--------------------|---------------|------------------|---------------|--|
| | June 28, 2014 | June 29, 2013 | June 28, 2014 | June 29, 2013 | |
| Derivative instruments | | | | | |
| Natural gas swap derivatives | \$ — | \$ 244 | \$ 357 | \$ 187 | Cost of sales and operating expenses |
| Corn option derivatives | 32 | 866 | 1,324 | 908 | Cost of sales and operating expenses |
| | 32 | 1,110 | 1,681 | 1,095 | Total before tax |
| | (12) | (430) | (652) | (424) | Income taxes |
| | 20 | 680 | 1,029 | 671 | Net of tax |
| Defined benefit pension plans | | | | | |
| Amortization of prior service cost | \$ (4) | \$ (15) | \$ (8) | \$ (30) | (a) |
| Amortization of actuarial loss | (520) | (1,300) | (1,039) | (2,600) | (a) |
| | (524) | (1,315) | (1,047) | (2,630) | Total before tax |
| | 203 | 510 | 406 | 1,020 | Income taxes |
| | (321) | (805) | (641) | (1,610) | Net of tax |
| Total reclassifications | \$ (301) | \$ (125) | \$ 388 | \$ (939) | Net of tax |

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

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

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

(10) Employee Benefit Plans

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

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

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

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

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

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

The Company's funding policy for employee benefit pension plans is to contribute annually not less than the minimum amount required nor more than the maximum amount that can be deducted for federal and foreign income tax purposes. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. Based on actuarial estimates at June 28, 2014, the Company expects to contribute approximately \$ 15.5 million to its pension plans to meet funding requirements during the next twelve months. Additionally, the Company has made tax deductible discretionary and required contributions to its pension plans for the six months ended June 28, 2014 and June 29, 2013 of approximately \$ 8.0 million and \$ 0.2 million, respectively.

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

In June 2009, the Company received a notice of a mass withdrawal termination and a notice of initial withdrawal liability from a multiemployer plan in which it participated. The Company had anticipated this event and as a result had accrued approximately \$ 3.2 million as of January 3, 2009 based on the most recent information that was probable and estimable for this plan. The plan had given a notice of redetermination liability in December 2009. In fiscal 2010, the Company received further third party information confirming the future payout related to this multiemployer plan. As a result, the Company reduced its liability to approximately \$ 1.2 million. In fiscal 2010, another under-funded multiemployer plan in which the Company participates gave notification of partial withdrawal liability. As of June 28, 2014, the Company has an accrued liability of approximately \$ 0.8 million representing the present value of scheduled withdrawal liability payments under this multiemployer plan. While the Company has no ability to calculate a possible current liability for under-funded multiemployer plans that could terminate or could require additional funding under the Pension Protection Act of 2006, the amounts could be material.

(11) Derivatives

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

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

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

Cash Flow Hedges

In fiscal 2013 and the first six months of fiscal 2014, the Company entered into natural gas swap contracts that are considered cash flow hedges. Under the terms of the natural gas swap contracts, the Company fixed the expected purchase cost of a portion of its U.S. plants' forecasted natural gas usage into the fourth quarter of fiscal 2014. As of June 28, 2014, some of the contracts have expired and settled according to the contracts while the remaining contract positions and activity are disclosed below.

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

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

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

The Company estimates the amount that will be reclassified from accumulated other comprehensive gain at June 28, 2014 into earnings over the next 12 months will be approximately \$ 0.6 million. As of June 28, 2014, no amounts have been reclassified into earnings as a result of the discontinuance of cash flow hedges.

The following table presents the fair value of the Company's derivative instruments under FASB authoritative guidance as of June 28, 2014 and December 28, 2013 (in thousands):

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

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

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

| Derivatives Designated as Cash Flow Hedges | Gain or (Loss) Recognized in Other Comprehensive Income ("OCI") on Derivatives (Effective Portion) (a) | | Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (b) | | Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (c) | |
|--|--|----------|--|----------|---|----------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | Corn options | \$ 1,046 | \$ 1,450 | \$ 32 | \$ 866 | \$ 355 |
| Natural gas swaps | (17) | (97) | — | 244 | (4) | (7) |
| Total | \$ 1,029 | \$ 1,353 | \$ 32 | \$ 1,110 | \$ 351 | \$ (295) |

- (a) Amount recognized in accumulated OCI (effective portion) is reported as accumulated other comprehensive income/ (loss) of approximately \$ 1.0 million and approximately \$ 1.4 million recorded net of taxes of approximately \$ 0.4 million and less than \$ 0.5 million as of June 28, 2014 and June 29, 2013 , respectively.
- (b) Gains and (losses) reclassified from accumulated OCI into income (effective portion) for corn options and natural gas swaps are included in cost of sales, respectively, in the Company's consolidated statements of operations.

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

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

| Derivatives Designated as Cash Flow Hedges | Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) (a) | | Gain or (Loss) Reclassified From Accumulated OCI into Income (Effective Portion) (b) | | Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (c) | |
|--|---|-----------------|--|-----------------|---|----------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | Corn options | \$ (273) | \$ 3,041 | \$ 1,324 | \$ 908 | \$ 731 |
| Natural gas swaps | 155 | 87 | 357 | 187 | (5) | (8) |
| Total | \$ (118) | \$ 3,128 | \$ 1,681 | \$ 1,095 | \$ 726 | \$ (42) |

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

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

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

At June 28, 2014 , the Company had forward purchase agreements in place for purchases of approximately \$ 6.2 million of natural gas and diesel fuel. These forward purchase agreements have no net settlement provisions and the Company intends to take physical delivery of the underlying product. Accordingly, the forward purchase agreements are not subject to the requirements of fair value accounting because they qualify and the Company has elected to account for these as normal purchases as defined in the FASB authoritative guidance.

(12) Fair Value Measurements

FASB authoritative guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The following table presents the Company's financial instruments that are measured at fair value on a recurring and nonrecurring basis as of June 28, 2014 and are categorized using the fair value hierarchy under FASB authoritative guidance. The fair value hierarchy has three levels based on the reliability of the inputs used to determine the fair value.

| (In thousands of dollars) | Fair Value Measurements at June 28, 2014 Using | | | |
|---------------------------|--|---|--|--|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Derivative instruments | \$ 2,879 | \$ — | \$ 2,879 | \$ — |
| Total Assets | \$ 2,879 | \$ — | \$ 2,879 | \$ — |
| Liabilities: | | | | |
| Derivative instruments | \$ 1,042 | \$ — | \$ 1,042 | \$ — |
| Senior notes | 521,250 | — | 521,250 | — |
| Term loan A | 338,945 | — | 338,945 | — |
| Term loan B | 1,296,538 | — | 1,296,538 | — |
| Revolver debt | 197,017 | — | 197,017 | — |
| Total Liabilities | \$ 2,354,792 | \$ — | \$ 2,354,792 | \$ — |

Derivative assets consist of the Company's heating oil swap contracts, soybean option contracts, corn option contracts and foreign currency contracts, which represents the difference between observable market rates of commonly quoted intervals for similar assets and liabilities in active markets and the fixed swap rate considering the instruments term, notional amount and credit risk. See Note 11 Derivatives for breakdown by instrument type.

Derivative liabilities consist of the Company's corn option contracts and foreign currency contracts, which represents the difference between observable market rates of commonly quoted intervals for similar assets and liabilities in active markets and the fixed swap rate considering the instruments term, notional amount and credit risk. See Note 11 Derivatives for breakdown by instrument type.

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

The fair value of the senior notes, term loan A, term loan B and revolver debt is based on market quotation from a third-party bank.

(13) Contingencies

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

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

As a result of the matters discussed above, the Company has established loss reserves for insurance, environmental and litigation matters. At June 28, 2014 and December 28, 2013, the reserves for insurance, environmental and litigation contingencies reflected on the balance sheet in accrued expenses and other non-current liabilities were approximately \$ 66.3 million and \$ 35.5 million, respectively. The Company has insurance recovery receivables of approximately \$ 8.8 million as of June 28, 2014 and December 28, 2013, related to these liabilities. The Company's management believes these reserves for contingencies are reasonable and sufficient based upon present governmental regulations and information currently available to management; however, there can be no assurance that final costs related to these matters will not exceed current estimates. The Company believes that the likelihood is remote that any additional liability from these lawsuits and claims that may not be covered by insurance would have a material effect on the Company's financial position, results of operations or cash flows.

Lower Passaic River Area. The Company had been named as a third party defendant in a lawsuit filed in the Superior Court of New Jersey, Essex County, styled *New Jersey Department of Environmental Protection, The Commissioner of the New Jersey Department of Environmental Protection Agency and the Administrator of the New Jersey Spill Compensation Fund, as Plaintiffs, vs. Occidental Chemical Corporation, Tierra Solutions, Inc., Maxus Energy Corporation, Repsol YPF, S.A., YPF, S.A., YPF Holdings, Inc., and CLH Holdings, as Defendants* (Docket No. L-009868-05) (the "Tierra/Maxus Litigation"). As previously disclosed, the Company paid the State of New Jersey \$ 195,000 to settle this matter, which amount was accrued in the first quarter of 2013 and was being held in escrow by the Superior Court pending any appeal of the Superior Court's order approving the settlement. The payment was released from escrow in May 2014, thereby concluding this matter. Additionally, in December 2009, the Company, along with numerous other entities, received notice from the United States Environmental Protection Agency ("EPA") that the Company (as successor-in-interest to Standard Tallow Company) is considered a potentially responsible party with respect to alleged contamination in the lower Passaic River area which is part of the Diamond Alkali Superfund Site located in Newark, New Jersey. In the letter, EPA requested that the Company join a group of other parties in funding a remedial investigation and feasibility study at the site. As of the date of this report, the Company has not agreed to participate in the funding group. The Company's ultimate liability for investigatory costs, remedial costs and/or natural resource damages in connection with the lower Passaic River area cannot be determined at this time; however, as of the date of this report, there is nothing that leads the Company to believe that these matters will have a material effect on the Company's financial position, results of operations or cash flows.

Fresno Facility Permit Issue. The Company has been named as a defendant and a real party in interest in a lawsuit filed on April 9, 2012 in the Superior Court of the State of California, Fresno County, styled *Concerned Citizens of West Fresno vs. Darling International Inc.* The complaint, as subsequently amended, alleges that the Company's Fresno facility is operating without a proper use permit and seeks, among other things, injunctive relief. The complaint had at one time also alleged that the Company's Fresno facility constitutes a continuing private and public nuisance, but the plaintiff has since amended the complaint to drop these allegations. The City of Fresno was also named as a defendant in the original complaint but has since had a judgment entered in its favor and is no longer a defendant in the lawsuit; however, in December 2013 the City of Fresno filed a motion to intervene as a plaintiff in this matter. The Superior Court heard the motion on February 4, 2014, and entered an order on February 18, 2014 denying the motion. Rendering operations have been conducted on the site since 1955, and the Company believes that it possesses all of the required federal, state and local permits to continue to operate the facility in the manner currently conducted and that its operations do not constitute a private or public nuisance. Accordingly, the Company intends to defend itself vigorously in this matter. Discovery has begun and this matter was scheduled for trial in July 2014; however, the parties have agreed to stay the litigation while they participate in a mediation process. While management cannot predict the ultimate outcome of this matter, management does not believe the outcome will have a material effect on the Company's financial condition, results of operations or cash flows.

(14) Business Segments

Effective December 29, 2013, the Company's business operations were reorganized into three industry segments: Feed Ingredients, Food Ingredients and Fuel Ingredients, in order to better align its business with the underlying markets and customers that the Company serves. All historical periods have been recast for the changes to the segment reporting structure. The Company sells its products domestically and internationally. The measure of segment profit (loss) includes all revenues, operating expenses (excluding certain amortization of intangibles), and selling, general and administrative expenses incurred at all operating locations and excludes general corporate expenses.

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

Feed Ingredients

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

Food Ingredients

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

Fuel Ingredients

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

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

Business Segments (in thousands):

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

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

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

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

(15) Immaterial Correction of Prior Period Financial Statements

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

The Company determined that entities acquired in the VION Acquisition inadvertently included certain selling, general and administrative expenses in cost of sales and operating expenses in the three month period ended March 29, 2014. In addition, the year-to-date business segment presentation reflects certain immaterial reclassifications to the first quarter of fiscal 2014 to conform to the

second quarter fiscal 2014 presentation. The following table reflects the impact of the Statement of Operations reclassifications for the three months ended March 29, 2014 as previously reported and as adjusted (in thousands):

As previously reported:

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

Adjustments:

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

As adjusted:

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

(16) Related Party Transactions**Lease Agreements**

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

Raw Material Agreement

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

(17) New Accounting Pronouncements

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

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

(18) Guarantor Financial Information

The Company's 5.375% Notes (see Note 7) are guaranteed on an unsecured basis by Darling's 100% directly and indirectly owned subsidiaries Darling National, Griffin and its subsidiary Craig Protein, Darling AWS LLC, Terra Holding Company, Darling Global Holdings Inc., Darling Northstar LLC, TRS, EV Acquisition, Inc., Rousselot Inc., Rousselot Peabody Inc., Rousselot Dubuque Inc. and Sonac USA LLC (collectively, the "Guarantors"). The Guarantors fully and unconditionally guaranteed the 5.375% Notes on a joint and several basis. The following financial statements present condensed consolidating financial data for (i) Darling, the issuer of the 5.375% Notes, (ii) the combined Guarantors, (iii) the combined other subsidiaries of the Company that did not guarantee the 5.375% Notes (the "Non-guarantors"), and (iv) eliminations necessary to arrive at the Company's consolidated financial statements, which include condensed consolidated balance sheets as of June 28, 2014 and December 28, 2013, and the condensed consolidating statements of operations, the condensed consolidating statements of comprehensive income and the condensed consolidating statements of cash flows for the three and six months ended June 28, 2014 and June 29, 2013.

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

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

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

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

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

| | Issuer | Guarantors | Non-guarantors | Eliminations | Consolidated |
|---|------------|------------|----------------|--------------|--------------|
| Net sales | \$ 144,032 | \$ 396,323 | \$ 534,191 | \$ (67,587) | \$ 1,006,959 |
| Cost and expenses: | | | | | |
| Cost of sales and operating expenses | 99,203 | 315,584 | 400,766 | (67,587) | 747,966 |
| Selling, general and administrative expenses | 34,908 | 14,892 | 62,045 | — | 111,845 |
| Acquisition and integration costs | 2,626 | — | 1,539 | — | 4,165 |
| Depreciation and amortization | 7,630 | 19,012 | 40,856 | — | 67,498 |
| Total costs and expenses | 144,367 | 349,488 | 505,206 | (67,587) | 931,474 |
| Operating income | (335) | 46,835 | 28,985 | — | 75,485 |
| Interest expense | (15,434) | 5,330 | (16,467) | — | (26,571) |
| Foreign currency gains/ (losses) | — | 328 | (317) | — | 11 |
| Other, net | (1,266) | 227 | 152 | — | (887) |
| Equity in net income of unconsolidated subsidiaries | — | — | 2,040 | — | 2,040 |
| Earnings in investments in subsidiaries | 57,688 | — | — | (57,688) | — |
| Income/ (loss) before taxes | 40,653 | 52,720 | 14,393 | (57,688) | 50,078 |
| Income taxes (benefit) | 7,896 | 2,050 | 5,557 | — | 15,503 |
| Net income/ (loss) attributable to noncontrolling interests | — | — | (1,818) | — | (1,818) |
| Net income/ (loss) attributable to Darling | \$ 32,757 | \$ 50,670 | \$ 7,018 | \$ (57,688) | \$ 32,757 |

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

| | Issuer | Guarantors | Non-guarantors | Eliminations | Consolidated |
|---|-------------|------------|----------------|--------------|--------------|
| Net sales | \$ 291,087 | \$ 785,430 | \$ 1,018,237 | \$ (156,360) | \$ 1,938,394 |
| Cost and expenses: | | | | | |
| Cost of sales and operating expenses | 209,997 | 628,592 | 810,716 | (156,360) | 1,492,945 |
| Selling, general and administrative expenses | 72,460 | 28,768 | 116,020 | — | 217,248 |
| Acquisition and integration costs | 17,007 | — | 3,106 | — | 20,113 |
| Depreciation and amortization | 15,148 | 38,523 | 79,496 | — | 133,167 |
| Total costs and expenses | 314,612 | 695,883 | 1,009,338 | (156,360) | 1,863,473 |
| Operating income | (23,525) | 89,547 | 8,899 | — | 74,921 |
| Interest expense | (65,735) | 10,555 | (30,248) | — | (85,428) |
| Foreign currency gains/ (losses) | (12,228) | 236 | (1,811) | — | (13,803) |
| Other, net | (2,719) | (570) | 1,264 | — | (2,025) |
| Equity in net income of unconsolidated subsidiaries | — | — | 7,117 | — | 7,117 |
| Earnings in investments in subsidiaries | 69,049 | — | — | (69,049) | — |
| Income/ (loss) before taxes | (35,158) | 99,768 | (14,779) | (69,049) | (19,218) |
| Income taxes (benefit) | (15,112) | 14,468 | (2,143) | — | (2,787) |
| Net income/ (loss) attributable to noncontrolling interests | — | — | (3,615) | — | (3,615) |
| Net income/ (loss) attributable to Darling | \$ (20,046) | \$ 85,300 | \$ (16,251) | \$ (69,049) | \$ (20,046) |

Condensed Consolidating Statements of Operations
For the three months ended June 29, 2013
(in thousands)

| | Issuer | Guarantors | Non-guarantors | Eliminations | Consolidated |
|---|------------|------------|----------------|--------------|--------------|
| Net sales | \$ 159,392 | \$ 309,689 | \$ 1,761 | \$ (47,249) | \$ 423,593 |
| Cost and expenses: | | | | | |
| Cost of sales and operating expenses | 124,146 | 231,381 | 1,644 | (47,249) | 309,922 |
| Selling, general and administrative expenses | 22,106 | 18,674 | 13 | — | 40,793 |
| Depreciation and amortization | 5,817 | 16,253 | 6 | — | 22,076 |
| Total costs and expenses | 152,069 | 266,308 | 1,663 | (47,249) | 372,791 |
| Operating income | 7,323 | 43,381 | 98 | — | 50,802 |
| Interest expense | (5,666) | (3) | — | — | (5,669) |
| Other, net | (612) | 212 | (18) | — | (418) |
| Equity in net loss of unconsolidated subsidiaries | — | — | (1,962) | — | (1,962) |
| Earnings in investments in subsidiaries | 25,767 | — | — | (25,767) | — |
| Income/ (loss) before taxes | 26,812 | 43,590 | (1,882) | (25,767) | 42,753 |
| Income taxes | 394 | 16,663 | (722) | — | 16,335 |
| Net income/ (loss) | \$ 26,418 | \$ 26,927 | \$ (1,160) | \$ (25,767) | \$ 26,418 |

Condensed Consolidating Statements of Operations
For the six months ended June 29, 2013
(in thousands)

| | Issuer | Guarantors | Non-guarantors | Eliminations | Consolidated |
|---|------------|------------|----------------|--------------|--------------|
| Net sales | \$ 321,264 | \$ 629,100 | \$ 5,895 | \$ (87,244) | \$ 869,015 |
| Cost and expenses: | | | | | |
| Cost of sales and operating expenses | 248,250 | 465,902 | 5,700 | (87,244) | 632,608 |
| Selling, general and administrative expenses | 44,673 | 38,360 | 53 | — | 83,086 |
| Depreciation and amortization | 11,955 | 31,976 | 12 | — | 43,943 |
| Total costs and expenses | 304,878 | 536,238 | 5,765 | (87,244) | 759,637 |
| Operating income | 16,386 | 92,862 | 130 | — | 109,378 |
| Interest expense | (11,287) | (7) | — | — | (11,294) |
| Other, net | 326 | 347 | (24) | — | 649 |
| Equity in net loss of unconsolidated subsidiaries | — | — | (3,157) | — | (3,157) |
| Earnings in investments in subsidiaries | 55,485 | — | — | (55,485) | — |
| Income/ (loss) before taxes | 60,910 | 93,202 | (3,051) | (55,485) | 95,576 |
| Income taxes | 2,087 | 35,840 | (1,174) | — | 36,753 |
| Net income/ (loss) | \$ 58,823 | \$ 57,362 | \$ (1,877) | \$ (55,485) | \$ 58,823 |

Condensed Consolidating Statements of Comprehensive Income/ (Loss)
For the three months ended June 28, 2014
(in thousands)

| | Issuer | Guarantors | Non-guarantors | Eliminations | Consolidated |
|---|-----------|------------|----------------|--------------|--------------|
| Net income | \$ 34,575 | \$ 50,670 | \$ 7,018 | \$ (57,688) | \$ 34,575 |
| Other comprehensive income/ (loss), net of tax: | | | | | |
| Foreign currency translation | — | — | (6,931) | — | (6,931) |
| Pension adjustments | 321 | — | — | — | 321 |
| Natural gas swap derivative adjustments | (11) | — | — | — | (11) |
| Corn option derivative adjustments | 621 | — | — | — | 621 |
| Total other comprehensive income, net of tax | 931 | — | (6,931) | — | (6,000) |
| Total comprehensive income/ (loss) | \$ 35,506 | \$ 50,670 | \$ 87 | \$ (57,688) | \$ 28,575 |

Condensed Consolidating Statements of Comprehensive Income/ (Loss)
For the six months ended June 28, 2014
(in thousands)

| | Issuer | Guarantors | Non-guarantors | Eliminations | Consolidated |
|---|-------------|------------|----------------|--------------|--------------|
| Net income | \$ (16,431) | \$ 85,300 | \$ (16,251) | \$ (69,049) | \$ (16,431) |
| Other comprehensive income/ (loss), net of tax: | | | | | |
| Foreign currency translation | — | — | 13,684 | — | 13,684 |
| Pension adjustments | 641 | — | — | — | 641 |
| Natural gas swap derivative adjustments | (124) | — | — | — | (124) |
| Corn option derivative adjustments | (977) | — | — | — | (977) |
| Total other comprehensive income, net of tax | (460) | — | 13,684 | — | 13,224 |
| Total comprehensive income/ (loss) | \$ (16,891) | \$ 85,300 | \$ (2,567) | \$ (69,049) | \$ (3,207) |

Condensed Consolidating Statements of Comprehensive Income/ (Loss)
For the three months ended June 29, 2013
(in thousands)

| | Issuer | Guarantors | Non-guarantors | Eliminations | Consolidated |
|---|-----------|------------|----------------|--------------|--------------|
| Net income | \$ 26,418 | \$ 26,927 | \$ (1,160) | \$ (25,767) | \$ 26,418 |
| Other comprehensive income/ (loss), net of tax: | | | | | |
| Pension adjustments | 805 | — | — | — | 805 |
| Natural gas swap derivative adjustments | (209) | — | — | — | (209) |
| Corn option derivative adjustments | 358 | — | — | — | 358 |
| Total other comprehensive income, net of tax | 954 | — | — | — | 954 |
| Total comprehensive income/ (loss) | \$ 27,372 | \$ 26,927 | \$ (1,160) | \$ (25,767) | \$ 27,372 |

Condensed Consolidating Statements of Comprehensive Income/ (Loss)
For the six months ended June 29, 2013
(in thousands)

| | Issuer | Guarantors | Non-guarantors | Eliminations | Consolidated |
|---|-----------|------------|----------------|--------------|--------------|
| Net income | \$ 58,823 | \$ 57,362 | \$ (1,877) | \$ (55,485) | \$ 58,823 |
| Other comprehensive income/ (loss), net of tax: | | | | | |
| Pension adjustments | 1,610 | — | — | — | 1,610 |
| Natural gas swap derivative adjustments | (61) | — | — | — | (61) |
| Corn option derivative adjustments | 1,307 | — | — | — | 1,307 |
| Total other comprehensive income, net of tax | 2,856 | — | — | — | 2,856 |
| Total comprehensive income/ (loss) | \$ 61,679 | \$ 57,362 | \$ (1,877) | \$ (55,485) | \$ 61,679 |

Condensed Consolidating Statements of Cash Flows
For the six months ended June 28, 2014
(in thousands)

| | Issuer | Guarantors | Non-guarantors | Eliminations | Consolidated |
|--|-------------|-------------|----------------|--------------|--------------|
| Cash flows from operating activities: | | | | | |
| Net income/ (loss) | \$ (16,431) | \$ 85,300 | \$ (16,251) | \$ (69,049) | \$ (16,431) |
| Earnings in investments in subsidiaries | (69,049) | — | — | 69,049 | — |
| Other operating cash flows | 81,867 | (36,376) | 11,964 | — | 57,455 |
| Net cash provided by operating activities | (3,613) | 48,924 | (4,287) | — | 41,024 |
| Cash flows from investing activities: | | | | | |
| Capital expenditures | (22,570) | (38,730) | (42,231) | — | (103,531) |
| Acquisitions | — | (645) | (2,075,006) | — | (2,075,651) |
| Investment in subsidiaries and affiliates | (1,483,007) | (2,217,686) | (2,307,591) | 6,008,284 | — |
| Note receivable from affiliates | — | (204,074) | 204,074 | — | — |
| Gross proceeds from sale of property, plant and equipment and other assets | 1,041 | 615 | 652 | — | 2,308 |
| Proceeds from insurance settlements | — | — | — | — | — |
| Payments related to routes and other intangibles | (7,312) | — | — | — | (7,312) |
| Net cash used in investing activities | (1,511,848) | (2,460,520) | (4,220,102) | 6,008,284 | (2,184,186) |
| Cash flows from financing activities: | | | | | |
| Proceeds for long-term debt | 1,100,000 | — | 721,196 | — | 1,821,196 |
| Payments on long-term debt | (252,500) | (43) | (34,523) | — | (287,066) |
| Borrowings from revolving facilities | 122,445 | — | 47,698 | — | 170,143 |
| Payments on revolving facilities | (207,445) | — | (49,809) | — | (257,254) |
| Net cash overdraft financing | — | — | 9,529 | — | 9,529 |
| Deferred loan costs | (41,390) | — | (3,475) | — | (44,865) |
| Issuances of common stock | 417 | — | — | — | 417 |
| Contributions from parent | — | 2,421,762 | 3,586,522 | (6,008,284) | — |
| Minimum withholding taxes paid on stock awards | (5,495) | — | — | — | (5,495) |
| Excess tax benefits from stock-based compensation | 1,329 | — | — | — | 1,329 |
| Net cash used in financing activities | 717,361 | 2,421,719 | 4,277,138 | (6,008,284) | 1,407,934 |
| Effect of exchange rate changes on cash and cash equivalents | — | — | 8,156 | — | 8,156 |
| Net increase/ (decrease) in cash and cash equivalents | (798,100) | 10,123 | 60,905 | — | (727,072) |
| Cash and cash equivalents at beginning of year | 857,267 | 6,117 | 7,473 | — | 870,857 |
| Cash and cash equivalents at end of year | \$ 59,167 | \$ 16,240 | \$ 68,378 | \$ — | \$ 143,785 |

Condensed Consolidating Statements of Cash Flows
For the six months ended June 29, 2013
(in thousands)

| | Issuer | Guarantors | Non-guarantors | Eliminations | Consolidated |
|--|------------|------------|----------------|--------------|--------------|
| <u>Cash flows from operating activities:</u> | | | | | |
| Net income | \$ 58,823 | \$ 57,362 | \$ (1,877) | \$ (55,485) | \$ 58,823 |
| Earnings in investments in subsidiaries | (55,485) | — | — | 55,485 | — |
| Other operating cash flows | 98,273 | (29,858) | 1,942 | — | 70,357 |
| Net cash provided by operating activities | 101,611 | 27,504 | 65 | — | 129,180 |
| <u>Cash flows from investing activities:</u> | | | | | |
| Capital expenditures | (24,344) | (30,345) | — | — | (54,689) |
| Acquisitions | — | — | — | — | — |
| Investment in subsidiaries and affiliates | (44,985) | — | (44,959) | 44,985 | (44,959) |
| Gross proceeds from sale of property, plant and equipment and other assets | 744 | 548 | — | — | 1,292 |
| Proceeds from insurance settlements | 1,531 | 450 | — | — | 1,981 |
| Payments related to routes and other intangibles | (649) | — | — | — | (649) |
| Net cash used in investing activities | (67,703) | (29,347) | (44,959) | 44,985 | (97,024) |
| <u>Cash flows from financing activities:</u> | | | | | |
| Payments on long-term debt | — | (40) | — | — | (40) |
| Issuances of common stock | 32 | — | — | — | 32 |
| Contributions from parent | — | — | 44,985 | (44,985) | — |
| Minimum withholding taxes paid on stock awards | (2,529) | — | — | — | (2,529) |
| Excess tax benefits from stock-based compensation | 703 | — | — | — | 703 |
| Net cash used in financing activities | (1,794) | (40) | 44,985 | (44,985) | (1,834) |
| Net increase/ (decrease) in cash and cash equivalents | 32,114 | (1,883) | 91 | — | 30,322 |
| Cash and cash equivalents at beginning of year | 96,945 | 5,577 | 727 | — | 103,249 |
| Cash and cash equivalents at end of year | \$ 129,059 | \$ 3,694 | \$ 818 | \$ — | \$ 133,571 |

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 28, 2013, and in the Company's other public filings with the SEC. In addition, the Company acquired Rothsay in October 2013 and Darling International Ingredients in January 2014; and therefore, financial information for fiscal 2013 periods will not necessarily be comparable to financial information for the second fiscal quarter of 2014 or the six months ended June 28, 2014, as set forth herein.

The following discussion should be read in conjunction with the unaudited consolidated financial statements and related notes thereto contained in this report.

Overview

The Company is a global developer and producer of sustainable natural ingredients from edible and inedible bio-nutrients, creating a wide range of ingredients and customized specialty solutions for customers in the pharmaceutical, food, pet food, feed, technical, fuel, bioenergy and fertilizer industries. With operations on five continents, the Company collects and transforms all aspects of animal by-product streams into useable and specialty ingredients, such as gelatin, edible fats, feed-grade fats, animal proteins and meals, plasma, pet food ingredients, organic fertilizers, yellow grease, fuel feedstocks, green energy, natural casings and hides. The Company also recovers and converts used cooking oil and commercial bakery residuals into valuable feed and fuel ingredients. In addition, the Company provides grease trap services to food service establishments, environmental services to food processors and sells restaurant cooking oil delivery and collection equipment.

On January 7, 2014, the Company acquired the VION Ingredients business division ("VION Ingredients") of VION Holding, N.V. ("VION") by purchasing all of the shares of VION Ingredients International (Holding) B.V., and VION Ingredients Germany GmbH, and 60% of Best Hides GmbH (collectively, the "VION Companies"), as described in footnote 3 of the Company's Consolidated Financial Statements for the period ended June 28, 2014 included herein, pursuant to a Sale and Purchase Agreement dated October 5, 2013, as amended, between Darling and VION (the "VION Acquisition"). The VION Ingredients business is now conducted under the name Darling Ingredients International. In addition, on October 28, 2013, Darling completed the acquisition of substantially all of the assets of Rothsay ("Rothsay"), a division of Maple Leaf Foods, Inc. ("MFI"), a Canadian corporation, pursuant to an Acquisition Agreement between MFI and Darling dated August 23, 2013 (the "Rothsay Acquisition"). The Company's business is conducted through a global network of over 200 locations across five continents.

Commencing with the first quarter of 2014, the Company's business operations were reorganized into three new reportable operating segments: Feed Ingredients, Food Ingredients and Fuel Ingredients. This change was necessitated by the VION Acquisition and aligns the Company's operations based on the products and services offered to various end markets. All historical periods have been restated to conform to the new reportable operating segment structure; however, none of the Company's historic operations fall within the Food Ingredients operating segment and therefore, there is no comparable financial information for the Food Ingredients operating segment for prior periods.

The Feed Ingredients operating segment includes the Company's global activities related to (i) the collection and processing of beef, poultry and pork animal by-products in North America and Europe into non-food grade oils and protein meals, (ii) the collection and processing of bakery residuals in North America into Cookie Meal®, which is predominantly used in poultry and swine rations, (iii) the collection and processing of used cooking oil in North America into non-food grade fats, as well as the production and sale of a variety of cooking oil collection delivery systems, (iv) the collection and processing of bovine, porcine and ovine blood in China, Europe and North America into blood plasma powder and hemoglobin, (v) the processing of cattle hides and hog skins in North American and Europe, (vi) the production of organic fertilizers using protein produced from the Company's animal by-products processing activities in North America and Europe, and (vii) grease trap services to food service establishments and environmental services to food processors. Non-food grade oils and fats produced and marketed by the Company are principally sold to third parties to be used as ingredients in animal feed and pet food, as an ingredient for the production of biodiesel and renewable diesel or to the oleo-chemical industry to be used as an ingredient in a wide variety of industrial applications. Protein meals produced and marketed by the Company are sold to third parties to be used as ingredients in animal feed, pet food and aquaculture. Blood plasma powder and hemoglobin produced and marketed by the Company are sold to third parties to be used as ingredients in animal feed, pet food and aquaculture.

The Food Ingredients operating segment includes the Company's global activities related to (i) the collection and processing of beef and pork bone chips, beef hides, pig skins, and fish skins into gelatin and hydrolyzed collagen in Europe, China, South America and North America, (ii) collection and processing of porcine and ovine intestines into natural casings in Europe, China and North America, (iii) the extraction and processing of porcine mucosa into crude heparin in Europe, (iv) the collection and refining of animal fat into food grade fat in Europe, and (v) the processing of bones to bone chips for the gelatin industry and bone ash. Gelatins produced and marketed by the Company are sold to third parties to be used as ingredients in the pharmaceutical, nutraceutical, food, and technical (i.e., photographic) industries. Natural casings produced and marketed by the Company are sold to third parties to be used as an ingredient in the production of sausages and other similar food products.

The Fuel Ingredients operating segment includes the Company's global activities related to (i) the conversion of animal fats and recycled greases into biodiesel in North America, (ii) the conversion of organic sludge and food waste into biogas in Europe, (iii) the collection and conversion of fallen stock and certain animal by-products pursuant to applicable E.U. regulations into low-grade energy sources to be used in industrial applications, (iv) commencing in the second quarter of 2014, the processing of manure into natural bio-phosphate in Europe, and (v) the Company's share of the results of its equity investment in Diamond Green Diesel Holdings LLC, a joint venture with Valero Energy Corporation (the "DGD Joint Venture") to convert animal fats, recycled greases, used cooking oil, inedible corn oil, soybean oil, or other feedstocks that become economically and commercially viable into renewable diesel.

Corporate Activities principally includes unallocated corporate overhead expenses, acquisition-related expenses, interest expense net of interest income, and other non-operating income and expenses.

Operating Performance Indicators

The Company is exposed to certain risks associated with a business that is influenced by agricultural-based commodities. These risks are further described in Item 1A, "Risk Factors" included in the Company's Form 10-K for the year ended December 28, 2013.

The Company's Feed Ingredients segment animal by-products, bakery residuals, used cooking oil recovery, and blood operations are each influenced by prices for agricultural-based alternative ingredients such as corn, soybean oil, soybean meal, and palm oil. In these operations, the costs of the Company's raw materials change with, or in certain cases are indexed to, the selling price or the anticipated selling price of the finished goods produced from the acquired raw materials and/or in some cases, the price spread between various types of finished products. The Company believes that this methodology of procuring raw materials generally establishes a relatively stable gross margin upon the acquisition of the raw material. Although the costs of raw materials for the Feed Ingredients segment are generally based upon actual or anticipated finished goods selling prices, rapid and material changes in finished goods prices, including competing agricultural-based alternative ingredients, generally have an immediate and often times, material impact on the Company's gross margin and profitability resulting from the lag effect or lapse of time from the procurement of the raw materials until they are processed and the finished goods sold. In addition, the amount of raw material volume acquired, which has a direct impact on the amount of finished goods produced, can also have a material effect on the gross margin reported, as the Company has a substantial amount of fixed operating costs.

The prices available for the Company's Food Ingredients segment gelatin and natural casings products are influenced by other competing ingredients including plant-based and synthetic hydrocolloids and artificial casings. In the gelatin operation, in particular, the cost of the Company's animal-based raw material moves in relationship to the selling price of the finished goods. The processing time for gelatin and casings is generally 30 to 60 days, which is substantially longer than the Company's animal by-products operations. Consequently, the Company's gross margin and profitability in this segment can be influenced by the movement of finished goods prices from the time the raw materials were procured until the finished goods are sold.

The reporting currency for the Company's financial statements is the U.S. dollar. The Company operates in over 15 countries and therefore, certain of the Company's assets, liabilities, revenues and expenses are denominated in functional currencies other than the U.S. dollar, primarily in the euro, Brazilian real, Chinese renminbi, Canadian dollar, Argentine peso, Japanese yen and Polish zloty. To prepare the Company's consolidated financial statements the Company must translate those assets, liabilities, revenues, and expenses into U.S. dollars at the applicable exchange rate. As a result, increases or decreases in the value of the U.S. dollar against these other currencies will affect the amount of these items recorded in the Company's consolidated financial statements, even if their value has not changed in the functional currency. This could have a significant impact on the Company's results, if such increase or decrease in the value of the U.S. dollar relative to these other currencies is substantial.

The Company monitors the performance of its business segments using key financial metrics such as segment operating income, metric tons of raw material processed, gross margin percentage, foreign currency, and Adjusted EBITDA. The Company's operating results can vary significantly due to changes in factors such as the fluctuation in energy prices, weather conditions, crop harvests, government policies and programs, changes in global demand, changes in standards of living, protein consumption, and global production of competing ingredients. Due to these unpredictable factors that are beyond the control of the Company, the Company does not provide forward-looking financial or operational estimates.

Results of Operations

Three Months Ended June 28, 2014 Compared to Three Months Ended June 29, 2013

As a result of the VION Acquisition and the Rothsay Acquisition, the Company's second quarter 2014 results include thirteen weeks of operations from the VION Acquisition and the Rothsay Acquisition, as compared to no operations from the VION Acquisition and the Rothsay Acquisition in the second quarter of 2013. Net income attributable to Darling for the quarter ended June 28, 2014, was \$32.8 million, or \$0.20 per diluted share, from net income of \$26.4 million, or \$0.22 per diluted share, in the second quarter of 2013. The results for the second quarter include the following after-tax costs:

- \$3.5 million (\$0.02 per diluted share) related to a non-cash inventory step-up associated with the required purchase accounting for the VION Acquisition related to the portion of acquired inventory sold during the period; and
- \$2.6 million (\$0.02 per diluted share) associated with the acquisition and integration of Rothsay and VION Ingredients during the quarter;

Without the inventory step-up cost and the acquisition and integration costs, net income and diluted earnings per common share would have been \$38.9 million and \$0.24 per diluted share, respectively. As compared to the second quarter 2013, this would have resulted in a \$12.5 million increase in net income and a 9% increase in diluted earnings per common share.

Segment operating income for the second quarter 2014 was \$75.5 million, which reflects an increase of \$24.7 million or 49% as compared to the second quarter 2013. The results for the second quarter include an increase to cost of sales of \$5.0 million related to the inventory step-up associated with the required purchase accounting for the VION Acquisition. Without these costs, segment operating income would have been \$80.5 million or 58% higher than 2013. Including the Company's share of net income of unconsolidated subsidiaries, primarily the DGD Joint Venture, segment income for the second quarter would have been \$82.5 million or \$31.7 million higher than 2013. The DGD Joint Venture has not yet distributed any earnings to its venture partners.

Adjusted EBITDA is presented here not as an alternative to net income, but rather as a measure of the Company's operating performance and is not intended to be a presentation in accordance with U.S. generally accepted accounting principles ("GAAP"). Since EBITDA (generally, net income plus interest expenses, taxes, depreciation and amortization) is not calculated identically by all companies, the presentation in this report may not be comparable to EBITDA or adjusted EBITDA presentations disclosed by other companies. Adjusted EBITDA is calculated below and represents, for any relevant period, net income/(loss) plus depreciation and amortization, goodwill and long-lived asset impairment, interest expense, (income)/loss from discontinued operations, net of tax, income tax provision, other income/(expense) and equity in net loss of unconsolidated subsidiary. Management believes that Adjusted EBITDA is useful in evaluating the Company's operating performance compared to that of other companies in its industry because the calculation of Adjusted EBITDA generally eliminates the effects of financing, income taxes and certain non-cash and other items that may vary for different companies for reasons unrelated to overall operating performance.

As a result, the Company's management uses Adjusted EBITDA as a measure to evaluate performance and for other discretionary purposes. However, Adjusted EBITDA is not a recognized measurement under GAAP, should not be considered as an alternative to net income as a measure of operating results or to cash flow as a measure of liquidity, and is not intended to be a presentation in accordance with GAAP. In addition to the foregoing, management also uses or will use Adjusted EBITDA to measure compliance with certain financial covenants under the Company's Senior Secured Credit Facilities and 5.375% Notes that were outstanding at June 28, 2014. However, the amounts shown below for Adjusted EBITDA differ from the amounts calculated under similarly titled definitions in the Company's Senior Secured Credit Facilities and 5.375% Notes, as those definitions permit further adjustments to reflect certain other non-recurring costs and non-cash charges.

Reconciliation of Net Income to Adjusted EBITDA and Pro forma Adjusted EBITDA

| (dollars in thousands) | Three Months Ended | |
|---|---------------------------|--------------------------|
| | June 28, 2014 | June 29, 2013 |
| Net income allocable to Darling | \$ 32,757 | \$ 26,418 |
| Depreciation and amortization | 67,498 | 22,076 |
| Interest expense | 26,571 | 5,669 |
| Income tax expense | 15,503 | 16,335 |
| Foreign currency gain | (11) | — |
| Other expense/ (income), net | 887 | 418 |
| Equity in net (income)/ loss of unconsolidated subsidiaries | (2,040) | 1,962 |
| Net income attributable to noncontrolling interests | 1,818 | — |
| Adjusted EBITDA | <u>\$ 142,983</u> | <u>\$ 72,878</u> |
| Non-cash inventory step-up associated with VION Acquisition | 4,971 | — |
| Acquisition and integration-related expenses | 4,165 | — |
| DGD Joint Venture Adjusted EBITDA (Darling's share) (1) | 5,902 | (1,962) |
| Pro forma Adjusted EBITDA | <u>\$ 158,021</u> | <u>\$ 70,916</u> |

(1) Derived from the unaudited financial statements of the DGD Joint Venture.

For the second quarter of 2014, the Company generated Adjusted EBITDA of \$143.0 million, as compared to \$72.9 million in the same period a year ago. The increase was primarily attributable to the inclusion of the newly acquired businesses. On a Pro forma Adjusted EBITDA basis, the Company would have generated \$158.0 million in the second quarter 2014, as compared to a Pro forma Adjusted EBITDA of \$70.9 million in the year ago period. The increase in Pro forma Adjusted EBITDA is attributable to the inclusion of the newly acquired businesses and the fact that the DGD Joint Venture is now an operational entity.

Other principal indicators which management routinely monitors as an indicator of operating performance include:

- Segment operating income
- Raw material processed
- Gross margin percentage
- Foreign currency

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

Operating Income by Segment

Feed Ingredients operating income increased by \$16.1 million to \$74.5 million. The results for the second quarter include \$1.5 million related to the non-cash inventory step-up associated with the required purchase accounting for the VION Acquisition. Without the non-cash inventory step-up adjustment, the Feed Ingredients operating income would have been \$76.0 million or \$17.6 million higher than the second quarter 2013. On an adjusted basis, higher earnings in the Feed Ingredients segment were predominantly related to earnings attributable to newly acquired operations. The United States operations contributed \$2.7 million less in Feed Ingredients operating income relative to the second quarter of 2013. This reduction was principally related to lower earnings in the bakery feeds division and higher selling, general and administrative costs, depreciation and amortization expenses. Canada performed better than expected, while operations in Europe and China generally performed as expected. On an adjusted sequential quarter basis, the Feed Ingredients operating income increased by \$25.9 million from \$50.1 million in the first quarter to \$76.0 million in the second quarter. The Feed Ingredients operations in the United States, Canada, Europe, and China all contributed to the improved operating income. Volumes were steady, while strong global protein prices and North American fat prices produced improved gross margins.

Food Ingredients operating income was \$11.3 million for the second quarter of 2014. The Company had no Food Ingredients segment or products prior to the VION Acquisition, and therefore had no Food Ingredients performance in the

second quarter of 2013 to provide comparability. The Food Ingredients segment results for the second quarter include \$3.4 million related to the non-cash inventory step-up associated with the purchase accounting for the VION Acquisition. Without the non-cash inventory step-up, the Food Ingredients segment operating income would have been \$14.7 million. On an adjusted sequential quarter basis, the Food Ingredients operating income decreased by \$5.1 million from \$19.8 million in the first quarter of 2014. The reduction in segment operating income is principally related to the European edible fats business, which was adversely impacted by the closure of the Russian trade border resulting in higher raw material supply and increased production that put pressure on selling prices and resulted in lower margins for the Company's finished products. In addition, the Food Ingredients segment was negatively impacted by an increase in selling, general and administrative costs and depreciation and amortization expenses resulting from the extra week of operations in the second quarter as compared to the first quarter. Global demand for gelatin was generally steady with the exception of China, which saw a slight reduction in demand. Finished product selling prices were marginally lower to the preceding quarter. The Company's casings business improved marginally over the first quarter as a result of increased sales volume of sheep casings.

Fuel Ingredients operating income increased by \$5.0 million to \$5.4 million, exclusive of the DGD Joint Venture. Including the DGD Joint Venture, the Fuel Ingredients segment income was \$6.9 million. Results for North America continue to be negatively impacted by lower RIN values, resulting from an uncertain regulatory environment with respect to the U.S. mandated renewable volume obligation ("RVO") requirements for 2014 and uncertainty related to the possible extension of the blenders tax credit. For the quarter, the DGD Joint Venture operated at name plate capacity. On an adjusted sequential quarter basis, the Fuel Ingredients operating income inclusive of the DGD Joint Venture decreased by \$0.3 million, which was principally related to a reduction in the equity in net income inclusion from the DGD Joint Venture, which was substantially offset by improved earnings in the European green energy and bio-phosphate operations.

Raw Material Processed

Raw material processed represents the quantity in metric tons of raw material collected from the Company's various raw material suppliers. The volume of raw material processed bears a direct relationship to the volume of finished product produced and available for sale.

Overall, in the second quarter of 2014, the raw material processed by the Company totaled 2.18 million metric tons. Of this amount, 1.67 million metric tons was in the Feed Ingredients segment, 267,000 metric tons was in the Food Ingredients segment, and 243,000 metric tons was in the Fuel Ingredients segment. On a sequential quarter basis, raw material processed volumes were up 1.0% globally, which consisted of a 0.1% decrease in the Feed Segment, a 5.4% increase in the Food Segment, and a 3.9% increase in the Fuel Segment. The raw materials processed total and that for the Fuel Ingredients segment excludes raw material processed at the DGD Joint Venture.

Gross Margin Percentages

| (in thousands except percentages) | Feed Ingredients | Food Ingredients | Fuel Ingredients | Corporate | Total |
|--------------------------------------|------------------|------------------|------------------|-----------|--------------|
| Three Months Ended June 28, 2014 | | | | | |
| Net Sales | \$ 599,884 | \$ 329,541 | \$ 77,534 | \$ — | \$ 1,006,959 |
| Cost of sales and operating expenses | 431,549 | 256,153 | 60,278 | (14) | 747,966 |
| Gross Margin | 168,335 | 73,388 | 17,256 | 14 | 258,993 |
| Gross Margin % | 28.1% | 22.3% | 22.3% | — | 25.7% |

| (in thousands except percentages) | Feed Ingredients | Food Ingredients | Fuel Ingredients | Corporate | Total |
|--------------------------------------|------------------|------------------|------------------|-----------|------------|
| Three Months Ended June 29, 2013 | | | | | |
| Net Sales | \$ 421,366 | \$ — | \$ 2,227 | \$ — | \$ 423,593 |
| Cost of sales and operating expenses | 308,326 | — | 1,679 | (83) | 309,922 |
| Gross Margin | 113,040 | — | 548 | 83 | 113,671 |
| Gross Margin % | 26.8% | —% | 24.6% | —% | 26.8% |

Gross margin percentage represents the gross margin dollars (net sales less cost of sales and operating expenses) as a percentage of net sales. Overall, in the second quarter of 2014, the gross margin percentage was 25.7% compared to 26.8%

in the second quarter of 2013, or a decrease of 1.1 points (4.1%). Adjusting for the non-cash impact of the \$5.0 million inventory step-up, the gross margin percentage would have been 26.2% or a decrease of 0.6 points (2.2%). The reduction in the adjusted gross margin percentage results from the VION Acquisition and significantly lower margins in the North American bakery feeds business.

In the Feed Ingredients segment for the second quarter of 2014, the gross margin percentage was 28.1% as compared to 26.8% for the second quarter of 2013, or an increase of 1.3 points (4.9%). Adjusting for the impact of the non-cash inventory step-up related to this segment of \$1.5 million, the gross margin percentage would have been 28.3% or an increase of 1.5 points (5.6%). On an adjusted sequential basis, the Feed Ingredients segment gross margin percentage increased by 2.9 points or 11%. The improvement in adjusted gross margin percentage is attributable to higher finished product selling prices, in particular in global proteins and North American fat prices, as compared to the relevant period, which were only partially offset by higher raw material costs resulting in a more favorable spread.

In the Food Ingredients segment for the second quarter of 2014, the gross margin percentage was 22.3% as compared to nil during the second quarter of 2013. Adjusting for the impact of the non-cash inventory step-up related to this segment of \$3.4 million, the gross margin percentage would have been 23.3%. On an adjusted sequential basis, the Food Ingredients segment gross margin percentage decreased by 0.8 points or 3.3%. The decrease in gross margin percentage is attributable to weak European market for edible fat.

In the Fuel Ingredients segment (exclusive of the equity contribution from the DGD Joint Venture) for the second quarter of 2014, the gross margin percentage was 22.3% as compared to 24.6% for the second quarter of 2013, or a decrease of 9.3%. The decrease in gross margin percentage is attributable to the poor biofuel economics in North America caused by the regulatory uncertainty related to the RVO and the blender's tax credit.

Corporate Activities

Selling, General and Administrative Expenses. Selling, general and administrative expenses were \$ 9.4 million during the second quarter of fiscal 2014 , a \$ 1.8 million increase from \$ 7.6 million during the second quarter of fiscal 2013 . The increase was primarily due to an increase in professional fees and corporate staff costs to support the new global business.

Acquisition Costs. Acquisition and integration costs related to the VION Acquisition and the Rothsay Acquisition were \$ 4.2 million during the second quarter of fiscal 2014 as compared to no acquisition and integration costs in the second quarter of fiscal 2013.

Depreciation and Amortization. Depreciation and amortization charges increased \$ 1.7 million to \$ 2.2 million during the second quarter of fiscal 2014 as compared to \$ 0.5 million during the second quarter of fiscal 2013 . The increase in depreciation and amortization is primarily due to the VION Acquisition and Rothsay Acquisition and depreciation associated with the Company's new enterprise resource planning ("ERP") system.

Interest Expense. Interest expense was \$ 26.6 million during the second quarter of fiscal 2014 compared to \$ 5.7 million during the second quarter of fiscal 2013 , an increase of \$ 20.9 million . The increase in interest expense is primarily due to the increase in debt outstanding as a result of the borrowings to pay for the VION Acquisition and the Rothsay Acquisition.

Foreign Currency Gains/(Losses). Foreign currency gains were immaterial during the second quarter of fiscal 2014 as compared to zero for the second quarter of fiscal 2013.

Other Income/Expense. Other expense was \$ 0.9 million in the second quarter of fiscal 2014 , compared to \$ 0.4 million in the second quarter of fiscal 2013 . The increase in other expense in the second quarter of fiscal 2014 as compared to the same period in fiscal 2013 is primarily due to insurance recovery amounts received in the prior year.

Equity in Net Income/(Loss) in Investment of Unconsolidated Subsidiaries. Mainly represents the Company's portion of the income of the DGD Joint Venture for the second quarter of fiscal 2014 . In the second quarter of fiscal 2014 the net income was \$ 2.0 million compared to a net loss of \$ 2.0 million in the second quarter of fiscal 2013. The \$ 4.0 million increase in net income is mainly a direct result of the Joint Venture's commencement of operations as compared to non-capitalized expenses during construction phase in the prior year.

Income Taxes. The Company recorded income tax expense of \$ 15.5 million for the second quarter of fiscal 2014 , compared to \$ 16.3 million of income tax expense recorded in the second quarter of fiscal 2013 , a decrease of \$ 0.8 million . The effective tax rate for the second quarter of fiscal 2014 and fiscal 2013 is 31.0% and 38.2% , respectively. The effective

tax rate for the second quarter of fiscal 2014 differs from the statutory rate of 35% due primarily to the relative mix of earnings among jurisdictions with different tax rates. The effective tax rate for the second quarter of fiscal 2013 differs from the statutory rate of 35% primarily due to state taxes and qualified production activities deductions.

Six Months Ended June 28, 2014 Compared to Six Months Ended June 29, 2013

As a result of the VION Acquisition and the Rothsay Acquisition, the Company's results for the first six months of 2014 include 25 weeks of operations from the VION Acquisition and six months from the Rothsay Acquisition, as compared to no operations from the VION Acquisition and the Rothsay Acquisition in the first six months of 2013. Net loss attributable to Darling for the six months ended June 28, 2014, was (\$20.0) million, or (\$0.12) per diluted share, as compared to net income of \$58.8 million, or \$0.50 per diluted share, for the six months ended June 29, 2013. The results for the six months period include the following after-tax costs:

- \$34.8 million (\$0.21 per diluted share) related to a non-cash inventory step-up associated with the required purchase accounting for the VION Acquisition related to the portion of acquired inventory sold during the period;
- \$20.2 million (\$0.12 per diluted share) related to the redemption premium and write-off of deferred loan costs associated with the retirement of the Company's 8.5% Senior Notes on January 7, 2014;
- \$15.4 million (\$0.09 per diluted share) associated with the acquisition and integration of Rothsay and VION Ingredients during the period;
- \$8.0 million (\$0.05 per diluted share) related to certain euro forward contracts entered into to hedge against foreign exchange risks related to the closing of the VION Acquisition; and
- \$5.2 million (\$0.03 per diluted share) associated with discrete tax items principally associated with the VION Acquisition.

Without the inventory step-up cost, the redemption premium and deferred loan write-off associated with the 8.5% Senior Notes, the acquisition and integration costs, the euro forward contract hedge, and the discrete tax items, net income and diluted earnings per common share would have been \$63.4 million and \$0.38 per diluted share, respectively. As compared to the six months ended June 29, 2013, this would have resulted in a \$4.6 million increase in net income and a 24% decline in diluted earnings per common share.

Segment operating income for the six months ended June 28, 2014 was \$74.9 million, which reflects a decline of \$34.5 million or 32% as compared to the six months ended June 29, 2013. The results for the six months include an increase to cost of sales of \$49.8 million related to the inventory step-up associated with the required purchase accounting for the VION Acquisition. Without these costs, segment operating income would have been \$124.7 million or 14.0% higher than 2013. Including the Company's share of net income of unconsolidated subsidiaries, primarily the DGD Joint Venture, segment income for the six months ended June 28, 2014 would have been \$131.8 million or \$22.4 million (20.5%) higher than 2013. The DGD Joint Venture has not yet distributed any earnings to its venture partners.

Adjusted EBITDA is presented here not as an alternative to net income, but rather as a measure of the Company's operating performance and is not intended to be a presentation in accordance with GAAP. Since EBITDA (generally, net income plus interest expenses, taxes, depreciation and amortization) is not calculated identically by all companies, the presentation in this report may not be comparable to EBITDA or adjusted EBITDA presentations disclosed by other companies. Adjusted EBITDA is calculated below and represents, for any relevant period, net income/(loss) plus depreciation and amortization, goodwill and long-lived asset impairment, interest expense, (income)/loss from discontinued operations, net of tax, income tax provision, other income/(expense) and equity in net loss of unconsolidated subsidiary. Management believes that Adjusted EBITDA is useful in evaluating the Company's operating performance compared to that of other companies in its industry because the calculation of Adjusted EBITDA generally eliminates the effects of financing, income taxes and certain non-cash and other items that may vary for different companies for reasons unrelated to overall operating performance.

As a result, the Company's management uses Adjusted EBITDA as a measure to evaluate performance and for other discretionary purposes. However, Adjusted EBITDA is not a recognized measurement under GAAP, should not be considered as an alternative to net income as a measure of operating results or to cash flow as a measure of liquidity, and is not intended to be a presentation in accordance with GAAP. In addition to the foregoing, management also uses or will use Adjusted EBITDA to measure compliance with certain financial covenants under the Company's Senior Secured Credit Facilities and 5.375% Notes that were outstanding at June 28, 2014. However, the amounts shown below for Adjusted EBITDA differ from

the amounts calculated under similarly titled definitions in the Company's Senior Secured Credit Facilities and 5.375% Notes, as those definitions permit further adjustments to reflect certain other non-recurring costs and non-cash charges.

Reconciliation of Net Income to Adjusted EBITDA and Pro forma Adjusted EBITDA

| (dollars in thousands) | Six Months Ended | |
|---|-------------------|-------------------|
| | June 28, 2014 | June 29, 2013 |
| Net income/ (loss) allocable to Darling | \$ (20,046) | \$ 58,823 |
| Depreciation and amortization | 133,167 | 43,943 |
| Interest expense | 85,428 | 11,294 |
| Income tax expense/ (benefit) | (2,787) | 36,753 |
| Foreign currency loss | 13,803 | — |
| Other expense/ (income), net | 2,025 | (649) |
| Equity in net (income)/ loss of unconsolidated subsidiaries | (7,117) | 3,157 |
| Net loss/ (income) attributable to noncontrolling interests | 3,615 | — |
| Adjusted EBITDA | \$ 208,088 | \$ 153,321 |
| Non-cash inventory step-up associated with VION Acquisition | 49,803 | — |
| Acquisition and integration-related expenses | 20,113 | — |
| DGD Joint Venture Adjusted EBITDA (Darling's share) (1) | 14,975 | (3,157) |
| Darling Ingredients International - 13th week (2) | 4,100 | — |
| Pro forma Adjusted EBITDA | \$ 297,079 | \$ 150,164 |

(1) Derived from the unaudited financial statements of the DGD Joint Venture.

(2) January 7, 2014 closed on VION Ingredients, thus the 13th week would be revenue adjusted for January 1, 2014 through January 7, 2014.

For the six months ended June 28, 2014, the Company generated Adjusted EBITDA of \$208.1 million, as compared to \$153.3 million in the same period a year ago. The increase was primarily attributable to the newly acquired businesses. On a Pro forma Adjusted EBITDA basis, the Company would have generated \$297.1 million in the second quarter 2014, as compared to a Pro forma Adjusted EBITDA of \$150.2 million in the year ago period. The increase in Pro forma Adjusted EBITDA is attributable to the inclusion of the newly acquired businesses.

Other principal indicators which management routinely monitors as an indicator of operating performance include:

- Segment operating income
- Raw material processed
- Gross margin percentage
- Foreign currency

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

Operating Income by Segment

Feed Ingredients operating income decreased by \$14.2 million to \$111.9 million. The results for the six months include \$14.2 million related to the non-cash inventory step-up associated with the required purchase accounting for the VION Acquisition. Without the non-cash inventory step-up adjustment, the Feed Ingredients operating income would have been \$126.1 million. On an adjusted basis, the Feed Ingredients segment was flat to the prior year. Lower earnings in the United States, which related to the bakery feeds unit, severe winter weather, and lower fat prices in our non-formula business, were offset by the newly acquired operations in Europe, Canada and China, which generally performed as expected.

Food Ingredients operating loss was \$(0.8) million for the six months ended June 28, 2014. The Company had no Food Ingredients segment or products prior to the VION Acquisition, and therefore had no Food Ingredients performance in the prior year period to provide comparability. The Food Ingredients segment results for the six months include \$35.3 million

related to the non-cash inventory step-up associated with the purchase accounting for the VION Acquisition. Without the non-cash inventory step-up, the Food Ingredients segment operating income would have been \$34.5 million. Global demand for gelatin improved modestly with the improving global economies versus prior year although margins contracted slightly after three years of improved pricing. Edible fat's business unit was adversely impacted by the closure of the Russian trade border resulting in higher raw material supply and increased production that put pressure on selling prices and resulted in lower margins for the Company's finished products. The Company's casings business performed comparably to the prior year.

Fuel Ingredients operating income increased by \$7.3 million to \$7.9 million, exclusive of the DGD Joint Venture. Including the DGD Joint Venture, the Fuel Ingredients segment income was \$14.1 million. While the financial results are improved over the same period last year, the results were below our expectations as North America results were negatively impacted by lower RIN values, resulting from an uncertain regulatory environment with respect to the U.S. mandated RVO requirements for 2014 and uncertainty related to the possible extension of the blenders tax credit.

Raw Material Processed

Raw material processed represents the quantity in metric tons of raw material collected from the Company's various raw material suppliers. The volume of raw material processed bears a direct relationship to the volume of finished product produced and available for sale.

Overall, in the six months ended June 28, 2014, the raw material processed by the Company totaled 4.33 million metric tons. Of this amount, 3.34 million metric tons was in the Feed Ingredients segment, 520,000 metric tons was in the Food Ingredients segment, and 478,000 metric tons was in the Fuel Ingredients segment. The raw materials processed total and that for the Fuel Ingredients segment excludes raw material processed at the DGD Joint Venture. Globally, raw material volumes were in line with the Company's expectations. Raw material process volumes for the first quarter have been adjusted to be consistent with the presentation of the second quarter figures.

Gross Margin Percentages

| (in thousands except percentages) | Feed Ingredients | Food Ingredients | Fuel Ingredients | Corporate | Total |
|--------------------------------------|------------------|------------------|------------------|-----------|--------------|
| Six Months Ended June 28, 2014 | | | | | |
| Net Sales | \$ 1,169,687 | \$ 624,824 | \$ 143,883 | \$ — | \$ 1,938,394 |
| Cost of sales and operating expenses | 869,197 | 512,148 | 111,630 | (30) | 1,492,945 |
| Gross Margin | 300,490 | 112,676 | 32,253 | 30 | 445,449 |
| Gross Margin % | 25.7% | 18.0% | 22.4% | — | 23.0% |

| (in thousands except percentages) | Feed Ingredients | Food Ingredients | Fuel Ingredients | Corporate | Total |
|--------------------------------------|------------------|------------------|------------------|-----------|------------|
| Six Months Ended June 29, 2013 | | | | | |
| Net Sales | \$ 865,148 | \$ — | \$ 3,867 | \$ — | \$ 869,015 |
| Cost of sales and operating expenses | 629,659 | — | 3,040 | (91) | 632,608 |
| Gross Margin | 235,489 | — | 827 | 91 | 236,407 |
| Gross Margin % | 27.2% | —% | 21.4% | —% | 27.2% |

Gross margin percentage represents the gross margin dollars (net sales less cost of sales and operating expenses) as a percentage of net sales. Overall, for the six months ended June 28, 2014, the gross margin percentage was 23.0% compared to 27.2% for the six months ended June 29, 2013, or a decrease of 4.2 points (15.4%). Adjusting for the non-cash impact of the \$49.8 million inventory step-up, the gross margin percentage would have been 25.5% or a decrease of 1.7 points (6.1%). The reduction in the adjusted gross margin percentage results from the VION Acquisition and significantly lower margins in the North American bakery residuals business.

In the Feed Ingredients segment for the six months ended June 28, 2014, the gross margin percentage was 25.7% as compared to 27.2% for the same period in 2013, or a decrease of 1.5 points (5.5%). Adjusting for the impact of the non-cash inventory step-up related to this segment of \$14.2 million, the gross margin percentage would have been 26.9% or a decrease

of 0.3 points (1.1%). The reduction in adjusted gross margin percentage is attributable to lower finished product selling price, particularly in the bakery feeds unit which were only partially offset by increased volumes of finished products and lower raw material costs.

In the Food Ingredients segment for the six months ended June 28, 2014, the gross margin percentage was 18.0% as compared to nil during the first six months of 2013. Adjusting for the impact of the non-cash inventory step-up related to this segment of \$35.3 million, the gross margin percentage would have been 23.7%.

In the Fuel Ingredients segment (exclusive of the equity contribution from the DGD Joint Venture) for the six months ended June 28, 2014, the gross margin percentage was 22.4% as compared to 21.4% for the same period in 2013, or an increase of 1.0 points (4.7%). Adjusting for the impact of the non-cash inventory step-up related to this segment of \$0.2 million, the gross margin percentage would have been 22.6%.

Corporate Activities

Selling, General and Administrative Expenses. Selling, general and administrative expenses were \$ 19.5 million during the first six months of fiscal 2014 , a \$ 3.8 million increase from \$ 15.7 million during the first six months of fiscal 2013 . The increase was primarily due to an increase in profession fees and corporate staff costs to support the new global business.

Acquisition Costs. Acquisition costs related to the VION Acquisition and the Rothsay Acquisition were \$ 20.1 million during the first six months of fiscal 2014 as compared to no acquisition costs in the first six months of fiscal 2013.

Depreciation and Amortization. Depreciation and amortization charges increased \$ 2.8 million to \$ 4.5 million during the first six months of fiscal 2014 as compared to \$ 1.7 million during the first six months of fiscal 2013 . The increase in depreciation and amortization is primarily due to the VION Acquisition and Rothsay Acquisition and depreciation associated with the ERP system.

Interest Expense. Interest expense was \$ 85.4 million during the first six months of fiscal 2014 compared to \$ 11.3 million during the first six months of fiscal 2013 , an increase of \$ 74.1 million . The increase in interest expense is due to (i) the redemption premium paid of approximately \$27.3 million to retire the Company's 8.5% Senior Notes due 2018, (ii) the increase in debt outstanding as a result of the borrowings to pay for the VION Acquisition and the Rothsay Acquisition, (iii) the incurrence and resultant amortization of deferred loan costs associated with the borrowings for the VION Acquisition and Rothsay Acquisition, and (iv) the approximately \$4.3 million write-off of deferred loan costs related to the retirement of the 8.5% Senior Notes due 2018. Excluding the impact of the redemption premium and the write-off of deferred loan costs, the Company's average cost of borrowing during the first six months of fiscal 2014 was approximately 3.8%.

Foreign Currency Gains/(Losses). Foreign currency losses were \$ 13.8 million during the first six months of fiscal 2014 as compared to zero for the first six months of fiscal 2013. Of the overall foreign currency loss, approximately \$12.6 million relates to certain euro forward contracts entered into to hedge against foreign exchange risks related to the closing of the VION Acquisition.

Other Income/Expense. Other expense was \$ 2.0 million in the first six months of fiscal 2014 , compared to income of \$ 0.6 million in the first six months of fiscal 2013 . The increase in other expense in the first six months of fiscal 2014 as compared to the same period in fiscal 2013 is primarily due to insurance recovery amounts received in the prior year.

Equity in Net Income/(Loss) in Investment of Unconsolidated Subsidiaries. Mainly represents the Company's portion of the income of the DGD Joint Venture for the first six months of fiscal 2014 . In the first six months of fiscal 2014 the net income was \$ 7.1 million compared to a net loss of \$ 3.2 million in the first six months of fiscal 2013. The \$ 10.3 million increase in net income is mainly a direct result of the DGD Joint Venture's commencement of operations as compared to non-capitalized expenses during construction phase in the prior year.

Income Taxes. The Company recorded income tax benefit of \$ 2.8 million for the first six months of fiscal 2014 , compared to \$ 36.8 million of income tax expense recorded in the first six months of fiscal 2013 , a decrease of \$ 39.6 million , which is primarily due to decreased pre-tax earnings of the Company in the first six months of fiscal 2014 and discrete items related primarily to the VION Acquisition. The effective tax rate for the first six months of fiscal 2014 and fiscal 2013 is 14.5% and 38.5% , respectively. Excluding the discrete items, the effective tax rate for the first six months of fiscal 2014 is 35.7%. The effective tax rate for the first six months of fiscal 2014 differs from the statutory rate of 35% due primarily to the relative mix of earnings among jurisdictions with different tax rates, non-deductible transaction-related costs, subpart F income

and qualified production activities deductions. The effective tax rate for the first six months of fiscal 2013 differs from the statutory rate of 35% primarily due to state taxes and qualified production activities deductions.

FINANCING, LIQUIDITY AND CAPITAL RESOURCES

Credit Facilities

Indebtedness

Certain Debt Outstanding at June 28, 2014. On June 28, 2014, debt outstanding under the Company's Amended Credit Agreement and the Company's 5.375% Notes consists of the following (in thousands):

| | | |
|----------------------------|----|----------------|
| 5.375% Notes: | | |
| 5.375 % Notes due 2022 | \$ | 500,000 |
| Amended Credit Agreement: | | |
| Term Loan A | \$ | 336,421 |
| Term Loan B | \$ | 1,294,442 |
| Revolving Credit Facility: | | |
| Maximum availability | \$ | 1,000,000 |
| Borrowings outstanding | | 200,018 |
| Letters of credit issued | | 32,663 |
| Availability | \$ | <u>767,319</u> |

Senior Secured Credit Facilities . On January 6, 2014 , Darling, Darling Canada and Darling NL entered into the Amended Credit Agreement, restating its then existing Amended and Restated Credit Agreement dated September 27, 2013 , with the lenders from time to time party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and the other agents from time to time party thereto. For a description of the terms of the Amended Credit Agreement see Note 7 of Notes to Consolidated Financial Statements.

- As of June 28, 2014 , the Company had availability of \$ 767.3 million under the revolving loan facility, taking into account an aggregate of \$ 200.0 million outstanding borrowings and letters of credit issued of \$ 32.7 million .
- As of June 28, 2014 , the Company has borrowed all \$ 350.0 million under the term loan A facility under the terms of the term loan facility and repaid approximately CAD\$ 1.9 million , which when repaid, cannot be reborrowed. The term loan A facility is repayable in quarterly installments as follows: for the first eight quarters, 1.25% of the original principal amount of the term loan A facility, for the ninth through sixteenth quarters, 1.875% of the original principal amount of the term loan A facility, and for each quarterly installment after such sixteenth installment until September 27, 2018, 3.75% of the original principal amount of the term loan A facility. The term loan A facility will mature on September 27, 2018.
- As of June 28, 2014 , the Company has borrowed all \$ 1.3 billion under the terms of the term loan B facility, which when repaid, cannot be reborrowed. The term loan B facility is repayable in quarterly installments of 0.25% of the aggregate principal amount of the relevant term loan B facility on the last day of each March, June, September and December of each year commencing on the last day of each month falling on or after the last day of the first full quarter of the closing date of the VION Acquisition and continuing until the last day of each quarter period ending immediately prior to the term loan B maturity date; and one final installment in the amount of the relevant term loan B facility then outstanding, due on the term loan B maturity date. The term loan B facility will mature on January 7, 2021.
- The interest rate applicable to any borrowings under the term loan A facility and the revolving loan facility will equal either LIBOR/euro interbank offered rate/CDOR plus 2.50% per annum or base rate/Canadian prime rate plus 1.50% per annum, subject to certain step-downs based on the Company's total leverage ratio. The interest rate applicable to any borrowings under the term loan B facility will equal (a) for U.S. dollar term loans, either the base rate plus 1.50% or LIBOR plus 2.50% , and (b) for euro term loans, the euro interbank offered rate plus 2.75% , in each case subject to a step-down based on Darling's total leverage ratio. For term loan B loans, the LIBOR rate shall not be less than 0.75% .

Senior Notes due 2022. On December 18, 2013, Darling Escrow Sub, a Delaware corporation and wholly-owned subsidiary of Darling entered into the Original Purchase Agreement with the Initial Purchasers, for the sale of \$ 500.0 million aggregate principal amount of its 5.375% Notes. On January 2, 2014, the 5.375% Notes, which were offered in a private offering in connection with the VION Acquisition, were issued pursuant to the Original Indenture, among Darling Escrow Sub, the Subsidiary Guarantors (as defined in the Original Indenture) party thereto from time to time and U.S. Bank National Association, as trustee (the "Trustee"), with the gross proceeds from the offering of the 5.375% Notes and certain additional amounts deposited in an escrow account pending the satisfaction of certain conditions, including the completion of the VION Acquisition, which occurred on January 7, 2014.

On January 8, 2014 (the "Notes Closing Date"), Darling Escrow Sub merged (the "Notes Merger") with and into Darling (with Darling as the survivor of the Notes Merger), pursuant to an Agreement and Plan of Merger, dated January 8, 2014, between Darling Escrow Sub and Darling. For a description of the terms of the 5.375% Notes see Note 7 of Notes to Consolidated Financial Statements.

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

The classification of long-term debt in the Company's June 28, 2014 consolidated balance sheet is based on the contractual repayment terms of the 5.375% Notes and debt issued under the Amended Credit Agreement.

As a result of the Company's borrowings under its Amended Credit Agreement and the Indenture, the Company is highly leveraged. Investors should note that, in order to make scheduled payments on the indebtedness outstanding under the Amended Credit Agreement and the 5.375% Notes, and otherwise, the Company will rely in part on a combination of dividends, distributions and intercompany loan repayments from the Company's direct and indirect U.S. and foreign subsidiaries. The Company is prohibited under the Amended Credit Agreement and the Indenture from entering (or allowing such subsidiaries to enter) into contractual limitations on the Company's subsidiaries' ability to declare dividends or make other payments or distributions to the Company. The Company has also attempted to structure the Company's consolidated indebtedness in such a way as to maximize the Company's ability to move cash from the Company's subsidiaries to Darling or another subsidiary that will have fewer limitations on the ability to make upstream payments, whether to Darling or directly to the Company's lenders as a Guarantor. Nevertheless, applicable laws under which the Company's direct and indirect subsidiaries are formed may provide limitations on such dividends, distributions and other payments. In addition, regulatory authorities in various countries where the Company operates or where the Company imports or exports products may from time to time impose import/export limitations, foreign exchange controls or currency devaluations that may limit the Company's access to profits from the Company's subsidiaries or otherwise negatively impact the Company's financial condition and therefore reduce the Company's ability to make required payments under Amended Credit Agreement, the 5.375% Notes, or otherwise. In addition, fluctuations in foreign exchange values may have a negative impact on the Company's ability to repay indebtedness denominated in U.S. or Canadian dollars or euros. See "Risk Factors - Our business may be adversely impacted by fluctuations in exchange rates, which could affect our ability to comply with our financial covenants" and " - Our ability to repay our indebtedness depends in part on the performance of our subsidiaries, including our non-guarantor subsidiaries, and their ability to make payments or distributions" in the Company's Annual Report on Form 10-K for the year ended December 28, 2013 as filed with the SEC.

Working Capital and Capital Expenditures

On June 28, 2014, the Company had working capital of \$ 590.6 million and its working capital ratio was 2.1 to 1 compared to working capital of \$ 950.7 million and a working capital ratio of 6.4 to 1 on December 28, 2013. The decrease in working capital is primarily due to a decrease in cash and cash equivalents and working capital from the VION Acquisition. At June 28, 2014, the Company had unrestricted cash of \$ 143.8 million and funds available under the revolving credit facility of \$ 767.3 million, compared to unrestricted cash of \$ 870.9 million and funds available under the revolving credit facility of \$ 680.7 million at December 28, 2013.

Net cash provided by operating activities was \$ 41.0 million for the six months ended June 28, 2014 as compared to net cash provided by operating activities of \$ 129.2 million for the six months ended June 29, 2013, a decrease of \$ 88.2 million due primarily to a decrease in net income of approximately \$ 75.2 million. Cash used by investing activities was \$2,184.2 million for the six months ended June 28, 2014, compared to \$97.0 million for the six months ended June 29, 2013, an increase of \$ 2,087.2 million primarily due to cash paid for the VION Acquisition. Net cash provided by financing activities was \$1,407.9 million for the six months ended June 28, 2014, compared to cash used for financing activities of \$1.8 million.

for the six months ended June 29, 2013 , an increase of cash of \$ 1,409.7 million , primarily due to borrowings under the Amended Credit Agreement and 5.375% Notes to fund the VION Acquisition.

Capital expenditures of \$ 103.5 million were made during the first six months of fiscal 2014 , compared to \$ 54.7 million in the first six months of fiscal 2013 , for a net increase of \$ 48.8 million (89.2%), due primarily to capital expenditures from entities acquired in the VION Acquisition and Rothsay Acquisition during the first six months of fiscal 2014 . The Company expects to incur additional capital expenditures of between \$ 125.0 million and \$ 150.0 million for the remainder of fiscal 2014. Additionally, included in the planned capital projects are costs associated with the Company's initiation of a new ERP system. As of June 28, 2014 , the Company has spent life-to-date approximately \$ 36.7 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 \$ 38.0 million to \$ 42.0 million . These costs will be financed using the cash flows from operations. Capital expenditures related to compliance with environmental regulations were \$ 10.9 million and \$ 1.3 million during the six months ended June 28, 2014 and June 29, 2013 , respectively.

Accrued Insurance and Pension Plan Obligations

Based upon the annual actuarial estimate, current accruals and claims paid during the first six months of fiscal 2014 , the Company has accrued approximately \$ 9.0 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 June 28, 2014 . 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.

Based upon current actuarial estimates, the Company expects to contribute approximately \$ 15.5 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 six months ended June 28, 2014 of approximately \$ 8.0 million .

The U.S. Pension Protection Act of 2006 ("PPA") went into effect in January 2008. The stated goal of the PPA is to improve the funding of U.S. pension plans. U.S. plans in an under-funded status are required to increase employer contributions to improve the funding level within PPA timelines. Volatility in the world equity and other financial markets could have a material negative impact on U.S. pension plan assets and the status of required funding under the PPA. The Company participates in various U.S. 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 U.S. 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 for two of the U.S. 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 under PPA guidelines. With respect to the other U.S. multiemployer pension plans in which the Company participates and which are not individually significant, four plans have certified as critical or red zone, two have certified as endangered or yellow zone and one has certified as seriously endangered or orange zone as defined by the PPA. The Company has received notices of withdrawal liability from two U.S. multiemployer pension plans in which it participated. As a result, the Company has an accrued aggregate current liability of approximately \$ 2.1 million representing the present value of scheduled withdrawal liability payments under these multiemployer plans. 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.

DGD Joint Venture

The Company announced on January 21, 2011 that a wholly-owned subsidiary of Darling entered into a limited liability company agreement with Valero to form the DGD Joint Venture. The DGD Joint Venture is owned 50% / 50% with Valero and was formed to design, engineer, construct and operate the DGD Facility, which is capable of producing approximately 9,300 barrels per day of renewable diesel fuel and certain other co-products, and is located adjacent to Valero's

refinery in Norco, Louisiana. The DGD Facility reached mechanical completion and began the production of renewable diesel in late June 2013.

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

Based on the sponsor support agreements executed in connection with the Facility Agreement and the Loan Agreement relating to the DGD Joint Venture with Valero, the Company has contributed a total of approximately \$ 111.7 million for completion of the DGD 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, which is not expected to be material to the Company if it occurs. As of June 28, 2014, under the equity method of accounting, the Company has an investment in the DGD Joint Venture of approximately \$ 121.3 million included on the consolidated balance sheet.

Financial Impact of VION Acquisition

On January 7, 2014, the Company acquired the VION Ingredients business division of VION by purchasing shares of the VION Companies as described in Notes 1 and 3 to the Consolidated Financial Statements. The purchase price for the transaction was approximately €1.6 billion in cash. The purchase price was financed through (i) borrowings under the Amended Credit Agreement; (ii) proceeds from the Company's \$874.0 million public common stock offering in December 2013; and (iii) proceeds from the private offering of \$500.0 million aggregate principal amount of the 5.375% Notes.

As a result of the VION Acquisition, the Company has a substantial amount of indebtedness, which could make it more difficult for the Company to satisfy its obligations to its financial lenders and its contractual and commercial commitments, limit the Company's ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements on commercially reasonable terms or at all, require the Company to use a substantial portion of its cash flows from operations to pay principal and interest on its indebtedness instead of other purposes, thereby reducing the amount of the Company's cash flows from operations available for working capital, capital expenditures, acquisitions and other general corporate purposes, increase the Company's vulnerability to adverse economic, industry and business conditions, expose the Company to the risk of increased interest rates as certain of the Company's borrowings are at variable rates of interest, limit the Company's flexibility in planning for, or reacting to, changes in the Company's business and the industry in which the Company operates, place the Company at a competitive disadvantage compared to other, less leveraged competitors, and/or increase the Company's cost of borrowing.

Cash Flows and Liquidity Risks

Management believes that the Company's cash flows from operating activities consistent with the level generated in the first six months of fiscal 2014, unrestricted cash and funds available under the Amended Credit Agreement, 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, 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 those factors discussed below under the heading "Forward Looking Statements". These factors, coupled with volatile prices for natural gas and diesel fuel, general performance of the U.S. and global economies, disturbances in world financial, credit, commodities and stock markets, 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 2014 and thereafter. 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 ERP system project and costs related to the acquisition and integration of Rothsay and Darling Ingredients International, 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 and joint ventures; 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 legislation, regulation or mass termination of multiemployer plans; and paying dividends or repurchasing stock, subject to limitations under the Amended Credit Agreement and the 5.375 % Notes, as well as suitable cash conservation to withstand adverse commodity cycles.

Each of the factors described above has the potential to adversely impact the Company's 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.

Sales prices for the principal products that the Company sells are typically influenced by sales prices for agricultural-based alternative ingredients, 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 agricultural-based alternative ingredients prices, increases in energy prices or the impact of U.S. and foreign regulation (including, without limitation, China), changes in foreign exchange rates, imposition of currency controls or currency devaluations 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 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 \$ 76.9 million of commodity products consisting of approximately \$ 70.7 million of finished products and approximately \$ 6.2 million of natural gas and diesel fuel during the next twelve months, which are not included in liabilities on the Company's balance sheet at June 28, 2014 . 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 2014 , in accordance with accounting principles generally accepted in the U.S.

Based upon the underlying lease agreements, the Company expects to pay approximately \$ 26.7 million in operating lease obligations during the next twelve months, which are not included in liabilities on the Company's balance sheet at June 28, 2014 . 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 May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which will supersede nearly all existing revenue recognition guidance under GAAP. The new ASU introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, this ASU requires disclosures sufficient to enable the users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This ASU allows for either full retrospective or modified retrospective adoption and will become effective for the Company for the annual reporting period beginning after December 15, 2016, with early adoption not permitted. The Company is currently evaluating the impact of this standard.

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

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, 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.

Important factors that could cause actual results to differ materially from the Company's expectations include: existing and unknown future limitations on the ability of the Company's direct and indirect subsidiaries to upstream their profits to the Company for payments on the Company's indebtedness or other purposes; unanticipated costs or operating problems related to the acquisition and integration of Rothsay and Darling Ingredients International (including transactional costs and integration of the new ERP system); 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 and selling prices for the Company's products; 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, reduced consumer demand or other factors, reduced volume from food service establishments, reduced demand for animal feed, or otherwise; reduced finished product prices; changes to worldwide government policies relating to renewable fuels and GHG emissions that adversely affect programs like RFS2 and tax credits for biofuels both in the United States and abroad; possible product recall resulting from developments relating to the discovery of unauthorized adulterations to food or food additives; the occurrence of Bird Flu including, but not limited to H1N1 flu, bovine spongiform encephalopathy (or "BSE"), porcine epidemic diarrhea ("PED") or other diseases associated with animal origin in the United States or elsewhere; unanticipated costs and/or reductions in raw material volumes related to the Company's compliance with the existing or unforeseen new U.S. or foreign regulations (including, without limitation, China) affecting the industries in which the Company operates or its value added products (including new or modified animal feed, Bird Flu, PED or BSE or similar or unanticipated regulations); risks associated with the DGD Joint Venture, including possible unanticipated operating disruptions; risks relating to possible third party claims of intellectual property infringement; increased contributions to the Company's pension and benefit plans, including multiemployer and employer-sponsored defined benefit pension plans as required by legislation, regulation or other applicable U.S. or foreign law or resulting from a U.S. 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, Ukraine or elsewhere; and/or unfavorable export or import markets. These factors, coupled with volatile prices for natural gas and diesel fuel, climate conditions, general performance of the U.S. and global economies, disturbances in world financial, credit, commodities and stock markets, and any decline in consumer confidence and discretionary spending, 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. 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. For more detailed discussion of these factors see the Risk Factors discussion in Item 1A of Part I of the Company's annual report on Form 10-K for the year ended December 28, 2013. 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 supplies 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. Additionally, with acquisition of foreign entities we are exposed to foreign currency exchange risks, imposition of currency controls and the possibility of currency devaluation.

The Company makes limited use of derivative instruments to manage cash flow risks related to natural gas usage, diesel fuel usage, inventory, forecasted sales and foreign currency exchange rates. The Company does not use derivative instruments for trading purposes. Natural gas swaps and options are entered into with the intent of managing the overall cost of natural gas usage by reducing the potential impact of seasonal weather demands on natural gas that increases natural gas prices. Heating oil swaps and options are entered into with the intent of managing the overall cost of diesel fuel usage by reducing the potential impact of seasonal weather demands on diesel fuel that increases diesel fuel prices. Corn options and future contracts are entered into with the intent of managing U.S. forecasted sales of BBP by reducing the impact of changing

prices. Foreign currency forward contracts are entered into to mitigate the foreign exchange rate risk for transactions designated in a currency other than the local functional currency. 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 June 28, 2014, the Company had corn option contracts and natural gas swap contracts outstanding that qualified and were designated for hedge accounting as well as corn option contracts, heating oil swap contracts and foreign currency forward contracts that did not qualify and were not designated for hedge accounting.

In fiscal 2013 and the first six months of fiscal 2014, the Company entered into natural gas swap contracts that are considered cash flow hedges. Under the terms of the natural gas swap contracts, the Company fixed the expected purchase cost of a portion of its U.S. plants' forecasted natural gas usage into the first quarter of fiscal 2014. As of June 28, 2014, the aggregate fair value of these natural gas swap contracts was immaterial and are included in accrued expenses on the balance sheet, with an offset recorded in accumulated other comprehensive income for the effective portion.

In fiscal 2013 and the first six months of fiscal 2014, the Company entered into corn option contracts that are considered cash flow hedges. Under the terms of the corn option contracts, the Company hedged a portion of its U.S. forecasted sales of BBP through fiscal 2014. As of June 28, 2014, the aggregate fair value of these corn option contracts was approximately \$ 0.8 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.

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

| Functional Currency | | Contract Currency | | Range of | U.S. |
|---------------------|---------|-------------------|---------|-----------------|------------|
| Type | Amount | Type | Amount | Hedge rates | Equivalent |
| Brazilian real | 12,600 | Euro | 4,000 | 3.08 - 3.44 | \$ 5,737 |
| Brazilian real | 23,354 | U.S. dollar | 10,250 | 2.23 - 2.48 | 10,250 |
| Euro | 250,999 | U.S. dollar | 343,858 | 1.35 - 1.39 | 343,858 |
| Euro | 16,516 | Polish zloty | 69,698 | 4.16 - 4.26 | 22,488 |
| Euro | 4,556 | Japanese yen | 637,802 | 138.50 - 142.44 | 6,203 |
| Euro | 28,249 | Chinese renminbi | 242,054 | 8.42 - 8.60 | 38,466 |
| Euro | 6,829 | Australian dollar | 9,950 | 1.46 | 9,299 |
| Euro | 2,800 | British pound | 2,248 | 0.80 | 3,813 |
| | | | | | \$ 440,114 |

The above foreign currency contracts mature within one year and include hedges on approximately \$ 329.1 million of intercompany notes. The above foreign currency contracts had an aggregate fair value of approximately \$ 1.1 million and are included in other current assets and accrued expenses at June 28, 2014.

Additionally, the Company had corn options contracts and heating oil swaps that are marked to market because they did not qualify for hedge accounting at June 28, 2014. These contracts have an aggregate fair value that was immaterial and are included in other current assets and accrued expenses at June 28, 2014.

As of June 28, 2014, the Company had forward purchase agreements in place for purchases of approximately \$ 6.2 million of natural gas and diesel fuel in fiscal 2014. As of June 28, 2014, the Company had forward purchase agreements in place for purchases of approximately \$ 70.7 million of finished product in fiscal 2014.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. As required by Rule 13a-15(b) of the Securities and Exchange Act of 1934 (the "Exchange Act"), 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 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 last fiscal quarter of the period covered by this report other than changes in certain modules of the Company's new enterprise resource planning ("ERP") system and financial reporting tools that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Throughout fiscal 2014 and including the second quarter of fiscal 2014, the Company has implemented new ERP modules and financial reporting tools and as a result related controls were modified as necessary.

In October 2013, the Company acquired Rothsay. The Company is currently in the process of integrating Rothsay pursuant to the Sarbanes-Oxley Act of 2002. The Company is evaluating changes to processes, information technology systems and other components of internal controls over financial reporting as part of its ongoing integration activities, and as a result, controls will be periodically changed.

In January 2014, the Company acquired Darling Ingredients International in the VION Acquisition. The Company is currently in the process of integrating Darling Ingredients International pursuant to the Sarbanes-Oxley Act of 2002. The Company is evaluating changes to processes, information technology systems and other components of internal controls over financial reporting as part of its ongoing integration activities, and as a result, controls will be periodically changed. The Company believes, however, it will be able to maintain sufficient controls over the substantive results of its financial reporting throughout this integration process. Because of the size and complexity and the timing of the VION Acquisition, the internal controls over financial reporting of Darling Ingredients International will be excluded from management's assessment of the Company's internal control over financial reporting for fiscal 2014, as permitted under SEC regulations.

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

PART II: Other Information

Item 6. EXHIBITS

The following exhibits are filed herewith:

- 10.1 Form of Notice of Grant of Restricted Stock Unit Award (Non-Employee Directors) under the Darling International Inc. 2012 Omnibus Incentive Plan.
- 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 June 28, 2014 and December 28, 2013; (ii) Consolidated Statements of Operations for the three and six months ended June 28, 2014 and June 29, 2013; (iii) Consolidated Statements of Comprehensive Income for the three and six months ended June 28, 2014 and June 29, 2013; (iv) Consolidated Statements of Cash Flows for the six months ended June 28, 2014 and June 29, 2013; (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 INGREDIENTS INC.

Date: August 7, 2014

By: /s/ Randall C. Stuewe

Randall C. Stuewe
Chairman and
Chief Executive Officer

Date: August 7, 2014

By: /s/ Colin Stevenson

Colin Stevenson
Executive Vice President
Global Finance and Administration
(Principal Financial Officer)

**NOTICE OF GRANT OF RESTRICTED STOCK UNIT AWARD
(NON-EMPLOYEE DIRECTORS)**

**DARLING INTERNATIONAL INC.
2012 OMNIBUS INCENTIVE PLAN**

SECTION 1. GRANT OF AWARD.

On the terms and conditions set forth in the attached Terms and Conditions of Restricted Stock Unit Award (the “Terms and Conditions”) and this Notice of Grant of Restricted Stock Unit Award (the “Notice”), the Company hereby grants to the undersigned Non-Employee Director (the “Grantee”) a number of Restricted Stock Units (the “Restricted Stock Units”) as specified below, each of which represents a contingent right to receive a share of common stock of the Company, \$0.01 par value per share (a “Share”), at a future date after such Restricted Stock Unit has become vested. Together, this Notice and the Terms and all Conditions constitute the “Agreement.”

This award is granted under and subject to the terms of the Darling International Inc. 2012 Omnibus Incentive Plan (the “Plan”), which is incorporated herein by this reference. Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Plan.

Grantee: [_____]

Grant Date: [_____]

of Restricted Stock Units: [_____]

SECTION 2. VESTING.

The Grantee shall vest in his or her Restricted Stock Units on the earliest to occur of: (i) the first anniversary of the Grant Date, (ii) the date of the Annual Shareholders Meeting next following the Grant Date, (iii) the Grantee’s Separation from Service as a result of death or Disability, or (iv) a Change of Control (the “Vesting Date”). In addition, if the Grantee has a Separation from Service for any reason other than death or Disability before the Vesting Date, the Grantee shall become vested in a prorated portion of the Restricted Stock Units as of the date of such Separation from Service based on the number of days from the Grant Date to the date of Separation from Service divided by 365, and any Restricted Stock Units not so vested shall be forfeited.

SECTION 3. PAYMENT ELECTIONS.

- (a) Except as provided by Section 3(b), vested Restricted Stock Units shall be payable to the Grantee in a single lump sum payment as soon as administratively practicable following the Grantee’s Separation from Service.
 - (b) Notwithstanding the provisions of Section 3(a) to the contrary, if the Grantee has met the stock ownership guidelines established in the Stock Ownership and Retention Policy on or before the Grant Date, the Grantee may elect to have vested Restricted Stock Units payable as soon as administratively practicable after either (i) the Grantee’s Separation from Service or (ii) the earlier of (x) a specified
-

TERMS AND CONDITIONS OF RESTRICTED STOCK UNIT AWARD

These Terms and Conditions of Restricted Stock Unit Award (the “Terms and Conditions”) relate to the Notice of Grant of Restricted Stock Unit Award (the “Notice”) attached hereto, by and between Darling International Inc. (the “Company”), and the person identified in the Notice (the “Grantee”).

The Committee has approved an award to the Grantee of a number of Restricted Stock Units (the “Restricted Stock Units”) under the Darling International Inc. 2012 Omnibus Incentive Plan (the “Plan”), conditioned upon the Grantee’s acceptance of the provisions set forth in the Notice and these Terms and Conditions within 90 days after the Notice and these Terms and Conditions are presented to the Grantee for review. Together, the Notice and these Terms and all Conditions constitute the “Agreement.” For purposes of the Notice and these Terms and Conditions, any reference to the Company shall include a reference to any Affiliate.

1. Grant of Restricted Stock Units.

(a) As of the grant date set forth in the Notice (the “Grant Date”), the Company grants to the Grantee the number of Restricted Stock Units set forth in the Notice, each of which represents a contingent right to receive a share of common stock of the Company, \$0.01 par value per share (a “Share”) at a future date after such Restricted Stock Unit has become vested. The Restricted Stock Units are subject to the restrictions set forth in Section 2 of these Terms and Conditions, the provisions of the Plan and the provisions contained in the Notice.

(b) The Restricted Stock Units granted to the Grantee shall be reflected in a bookkeeping account maintained by the Company until the date on which the Restricted Stock Units are to be settled. If and when the restrictions set forth in Section 2 expire in accordance with the terms of these Terms and Conditions, and upon the satisfaction of all other applicable conditions as to the Restricted Stock Units, such Restricted Stock Units not forfeited pursuant to Section 4 hereof shall be settled in Shares as provided in Section 1(e) of these Terms and Conditions and otherwise in accordance with the Plan.

(c) With respect to each Restricted Stock Unit, whether or not vested, that has not been forfeited (but only to the extent such award of Restricted Stock Units has not been settled for Shares), the Company shall, with respect to any cash dividends paid on the Shares, accrue and credit to the Grantee’s bookkeeping account a number of Restricted Stock Units having a Fair Market Value as of the date such dividend is paid equal to the cash dividends that would have been paid with respect to such Restricted Stock Unit if it were an outstanding Share (the “Dividend Restricted Stock Units”). These Dividend Restricted Stock Units thereafter shall (i) be treated as Restricted Stock Units for purposes of future dividend accruals pursuant to this Section 1(c); (ii) vest in such amounts at the same time as the Restricted Stock Units with respect to which such Dividend Restricted Stock Units were received; and (iii) be paid on the Settlement Date(s) applicable to the Restricted Stock Units under Section 3 of the Notice (rounded to the nearest whole Restricted Stock Unit on such Settlement Date(s)). Any dividends or distributions on Common Stock paid other than in cash shall accrue in the Grantee’s bookkeeping account and shall vest at the same time as the Restricted Stock Units in respect of which they are made (in each case in the same form, based on the same record date and at the same time, as such dividend or other distribution is paid on such Common Stock).

(d) The Company’s obligations under these Terms and Conditions (with respect to both the Restricted Stock Units and the Dividend Restricted Stock Units, if any) shall be unfunded and

unsecured, and no special or separate fund shall be established and no other segregation of assets shall be made. The rights of Grantee under these Terms and Conditions shall be no greater than those of a general unsecured creditor of the Company. In addition, the Restricted Stock Units shall be subject to such restrictions as the Company may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which Share are then listed, any Company policy and any applicable federal or state securities law.

(e) Except as otherwise provided in these Terms and Conditions, settlement of any vested Restricted Stock Units in accordance with the provisions of the Notice and this Section 1(e) shall be delivered as soon as administratively practicable (generally not more than 30 days) after the applicable Settlement Date, and upon the satisfaction of all other applicable conditions as to the Restricted Stock Units (including the payment by the Grantee of all applicable withholding taxes). The Restricted Stock Units shall be settled solely in whole Shares.

2. Restrictions.

(a) The Grantee shall have no rights as a stockholder of the Company by virtue of any Restricted Stock Unit unless and until such Restricted Stock Unit vests and resulting Shares are issued to the Grantee.

(b) None of the Restricted Stock Units may be sold, transferred, assigned, pledged or otherwise encumbered or disposed of prior to the date such Restricted Stock Units are settled under Section 1(e) above, except as may be permitted by the Plan or as otherwise permitted by the Committee in its sole discretion or pursuant to rules adopted by the Committee in accordance with the Plan.

(c) Any attempt to dispose of the Restricted Stock Units or any interest in the Restricted Stock Units in a manner contrary to the restrictions set forth in these Terms and Conditions shall be void and of no effect.

3. Restricted Period and Vesting. Subject to the provisions contained in Sections 4, 5 and 6 hereof and Section 2 of the Notice, the Restricted Stock Units shall be deemed vested and no longer subject to forfeiture under Section 4 upon the Vesting Date and the satisfaction of all other applicable conditions as to the Restricted Stock Units (including the payment by the Grantee of all applicable withholding taxes).

4. Forfeiture. Subject to Section 6 hereof and Section 2 of the Notice, if prior to the Vesting Date (i) the Grantee has a Separation from Service, (ii) there occurs a material breach of the Notice or these Terms and Conditions by the Grantee, or (iii) the Grantee fails to meet the tax withholding obligations described in Section 5(b) hereof, all rights of the Grantee to the Restricted Stock Units that have not vested in accordance with Section 3 as of the date of such termination shall terminate immediately and be forfeited in their entirety.

5. Withholding.

(a) Regardless of any action the Company takes with respect to any or all income tax, payroll tax or other tax-related withholding (“Tax-Related Items”), the Grantee acknowledges that the ultimate liability for all Tax-Related Items owed by the Grantee is and remains the Grantee’s responsibility and that the Company (i) makes no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the award made under this Agreement, including the grant or vesting of the Restricted Stock Units, or the subsequent sale of Shares; and (ii) does

not commit to structure the terms of the grant or any aspect of this award to reduce or eliminate the Grantee's liability for Tax-Related Items.

(b) Prior to vesting of the Restricted Stock Units, the Grantee shall pay or make adequate arrangements satisfactory to the Company to satisfy all withholding obligations of the Company. In this regard, the Grantee authorizes the Company to withhold all applicable Tax-Related Items legally payable by the Grantee from the Grantee's wages or other cash compensation paid to the Grantee by the Company or from proceeds of the sale of the Shares. Alternatively, or in addition, to the extent permissible under applicable law, the Company may (i) sell or arrange for the sale of Shares that the Grantee acquires to meet the withholding obligation for Tax-Related Items, and/or (ii) withhold in Shares to be issued to the Grantee under this award, provided that the Company only withholds the amount of Shares necessary to satisfy the minimum withholding amount. Finally, the Grantee shall pay to the Company any amount of Tax-Related Items that the Company may be required to withhold as a result of the Grantee's participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to issue and deliver Shares in payment of any earned and vested Restricted Stock Units if the Grantee fails to comply with the Grantee's obligations in connection with the Tax-Related Items as described in this Section 5(b).

6. Committee's Discretion. Notwithstanding any provision of these Terms and Conditions to the contrary, the Committee shall have discretion to waive, in accordance with the provisions of Section 3.2 of the Plan, any forfeiture of the Restricted Stock Units as set forth in Section 4 hereof, the vesting requirements and any other conditions set forth in this Terms and Conditions.

7. Defined Terms. Capitalized terms used but not defined in the Notice and these Terms and Conditions shall have the meanings set forth in the Plan, unless such term is defined in any employment or similar agreement between the Grantee and the Company or an Affiliate. Any terms used in the Notice and Terms and Conditions, but defined in the Grantee's employment agreement are incorporated herein by reference and shall be effective for purposes of the Notice and these Terms and Conditions without regard to the continued effectiveness of such employment agreement.

8. Grantee Representations. The Grantee hereby represents to the Company that the Grantee has read and fully understands the provisions of the Notice, these Terms and Conditions and the Plan and the Grantee's decision to participate in the Plan is completely voluntary. Further, the Grantee acknowledges that the Grantee is relying solely on his or her own advisors with respect to the tax consequences of this restricted stock award.

9. Regulatory Restrictions on the Restricted Stock Units. Notwithstanding any other provision of the Plan, the obligation of the Company to issue Shares in connection with the grant of Restricted Stock Units under the Plan shall be subject to all applicable laws, rules and regulations and such approval by any regulatory body as may be required. The Company reserves the right to restrict, in whole or in part, the delivery of Shares pursuant to these Terms and Conditions prior to the satisfaction of all legal requirements relating to the issuance of such Shares, to their registration, qualification or listing or to an exemption from registration, qualification or listing.

10. Miscellaneous.

(a) *Data Privacy and Other Acknowledgments*. By accepting the award provided for in this Agreement, the Grantee acknowledges and agrees that such award is subject to the provisions regarding data privacy set forth in Appendix A. The Grantee shall review the provisions of Appendix A

carefully, as this award shall be null and void absent the Grantee's acceptance of such provisions. The Company reserves the right to impose other requirements on the award to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the award and to require the Grantee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

(b) *No Rights as a Shareholder* . The Restricted Stock Units constitute an unfunded and unsecured obligation of the Company. The Grantee shall not have any rights of a stockholder of the Company with respect to the Shares underlying the Restricted Stock Units unless and until the Restricted Stock Units become earned and vested and are settled by the issuance of Shares. Upon issuance of Shares in connection with the settlement of vested Restricted Stock Units, the Grantee shall be the record owner of the Shares unless and until such Shares are sold or otherwise disposed of, and as record owner shall be entitled to all rights of a stockholder of the Company (including voting rights).

(c) *Notices* . Any notification required by the terms of this Agreement shall be given in writing and shall be deemed effective (i) upon personal delivery; (ii) upon deposit with the United States Postal Service, by registered or certified mail, with postage and fees prepaid; or (iii) upon the Company's sending of an email to the Grantee. A notice shall be addressed to the Company at its principal executive office and to the Grantee at the postal address that he or she most recently provided to the Company or at his or her Service email address, if any.

(d) *Waiver* . The waiver by any party hereto of a breach of any provision of the Notice or these Terms and Conditions shall not operate or be construed as a waiver of any other or subsequent breach.

(e) *Entire Agreement* . These Terms and Conditions, the Notice and the Plan constitute the entire agreement between the parties with respect to the subject matter hereof. They supersede any other agreements, representations or understandings (whether oral or written and whether express or implied) relating to the subject matter hereof. In the event of a conflict between any provision of the Plan and the Notice or these Terms and Conditions, the Plan shall control.

(f) *Binding Effect; Successors* . These Terms and Conditions shall inure to the benefit of and be binding upon the parties hereto and to the extent not prohibited herein, their respective heirs, successors, assigns and representatives. Nothing in these Terms and Conditions, express or implied, is intended to confer on any person other than the parties hereto and as provided above, their respective heirs, successors, assigns and representatives any rights, remedies, obligations or liabilities.

(g) *Governing Law* . The Notice and these Terms and Conditions shall be governed by and construed in accordance with the laws of the State of Texas.

(h) *Headings* . The headings contained herein are for the sole purpose of convenience of reference, and shall not in any way limit or affect the meaning or interpretation of any of the terms or provisions of these Terms and Conditions.

(i) *Conflicts; Amendment* . The provisions of the Plan are incorporated in these Terms and Conditions in their entirety. In the event of any conflict between the provisions of these Terms and Conditions and the Plan, the provisions of the Plan shall control. The Terms and Conditions may be amended at any time by written agreement of the parties hereto.

(j) *No Right to Continued Service* . Nothing in the Notice or these Terms and Conditions or the Plan shall confer upon the Grantee any right to continue in service with the Company for any period of specific duration.

(k) *Further Assurances* . The Grantee agrees, upon demand of the Company or the Committee, to do all acts and execute, deliver and perform all additional documents, instruments and agreements which may be reasonably required by the Company or the Committee, as the case may be, to implement the provisions and purposes of the Notice and these Terms and Conditions and the Plan.

Appendix A

DATA PRIVACY

By accepting the this award, you hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal data as described in this document by and among, as applicable, the Company and its Subsidiaries for the exclusive purpose of implementing, administering and managing the Restricted Stock Units which have been awarded to you under this Agreement (collectively, the “ Stock Awards ”).

You understand that the Company holds certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of any entitlement to shares of stock or equivalent benefits awarded, canceled, vested, unvested or outstanding in your favor (“ Data ”), for the purpose of implementing, administering and managing the Stock Awards. You understand that Data may be transferred to any third parties assisting in the implementation, administration and management of the Stock Awards, that these recipients may be located in your country or elsewhere, and that the recipient’s country may have different data privacy laws and protections from your country. You understand that you may request a list with the names and addresses of any potential recipients of the Data by contacting your local human resources representative. You authorize the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing the Stock Awards. You understand that Data will be held only as long as is necessary to implement, administer and manage the Stock Awards. You understand that you may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing your local human resources representative. Further, you understand that you are providing the consents herein on a purely voluntary basis. If you do not consent, or if you later seek to revoke your consent, your service and career with the Company will not be adversely affected; the only adverse consequence of refusing or withdrawing your consent is that the Company would not be able to grant you Stock Awards or other awards or administer or maintain such awards. Therefore, you understand that refusing or withdrawing your consent may affect your ability to benefit from the Stock Awards. For more information on the consequences of your refusal to consent or withdrawal of consent, you understand that you may contact the Company.

CERTIFICATION

I, Randall C. Stuewe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Darling Ingredients Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstance under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2014

/s/ Randall C. Stuewe

Randall C. Stuewe
Chief Executive Officer

CERTIFICATION

I, Colin Stevenson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Darling Ingredients Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstance under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2014

/s/ Colin Stevenson

Colin Stevenson
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Darling Ingredients Inc. (the "Company") on Form 10-Q for the period ending June 28, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Randall C. Stuewe, Chief Executive Officer of the Company and Colin Stevenson, Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 (the "Act"), that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certification is being furnished solely for purposes of compliance with the Act.

/s/ Randall C. Stuewe

Randall C. Stuewe
Chief Executive Officer
Date: August 7, 2014

/s/ Colin Stevenson

Colin Stevenson
Chief Financial Officer
Date: August 7, 2014
