DARLING INGREDIENTS INC.
Form 10-Q
August 11, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)
/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 2, 2016
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)

Delaware	36-2495346
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

251 O'Connor Ridge Blvd., Suite 300	
Irving, Texas	75038
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Large accelerated filer	X Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

There were 164,591,781 shares of common stock, $0.01 par value, outstanding at August 4, 2016.

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DARLING INGREDIENTS INC. AND SUBSIDIARIES
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JULY 2, 2016

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DARLING INGREDIENTS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
July 2, 2016 and January 2, 2016
(in thousands, except share data)

	July 2, 2016 (unaudited)	January 2, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$157,815	$156,884
Restricted cash	312	331
Accounts receivable, net	399,877	371,392
Inventories	364,362	344,583
Prepaid expenses	43,131	36,175
Income taxes refundable	12,839	11,963
Other current assets	25,822	10,460
Total current assets	1,004,158	931,788
Property, plant and equipment, less accumulated depreciation of $756,440 at July 2, 2016 and $652,875 at January 2, 2016	1,528,387	1,508,167
Intangible assets, less accumulated amortization of $267,226 at July 2, 2016 and $252,719 at January 2, 2016	769,427	782,349
Goodwill	1,258,480	1,233,102
Investment in unconsolidated subsidiaries	243,801	247,238
Other assets	38,592	41,623
Deferred income taxes	17,049	16,352
	$4,859,894	$4,760,619
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$30,842	$45,166
Accounts payable, principally trade	177,303	149,998
Income taxes payable	9,118	6,679
Accrued expenses	249,435	239,825
Total current liabilities	466,698	441,668
Long-term debt, net of current portion	1,874,492	1,885,851
Other non-current liabilities	93,692	97,809
Deferred income taxes	366,936	360,681
Total liabilities	2,801,818	2,786,009
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value; 250,000,000 shares authorized; 167,617,151 and 167,070,983 shares issued at July 2, 2016 and at January 2, 2016, respectively	1,676	1,671
Additional paid-in capital	1,494,075	1,488,783
Treasury stock, at cost; 3,026,816 and 2,335,607 shares at July 2, 2016 and at January 2, 2016, respectively	(40,878)	(34,316)

Accumulated other comprehensive loss	(282,226)	(335,918)
Retained earnings	783,567	750,489
Total Darling's stockholders' equity	1,956,214	1,870,709
Noncontrolling interests	101,862	103,901
Total stockholders' equity	$2,058,076	$1,974,610
	$4,859,894	$4,760,619

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 ended July 2, 2016 and July 4, 2015
(in thousands, except per share data)
(unaudited)

	Three Months Ended		Six Months Ended	
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Net sales	$877,341	$859,315	$1,656,982	$1,734,009
Costs and expenses:				
Cost of sales and operating expenses	677,115	668,276	1,276,008	1,352,797
Selling, general and administrative expenses	76,158	84,294	157,627	170,925
Acquisition and integration costs	70	1,208	401	6,527
Depreciation and amortization	69,531	66,245	141,787	132,643
Total costs and expenses	822,874	820,023	1,575,823	1,662,892
Operating income	54,467	39,292	81,159	71,117
Other expense:				
Interest expense	(23,980)	(34,285)	(47,881)	(57,394)
Foreign currency gain/(loss)	8	1,622	(2,595)	(838)
Other expense, net	(2,373)	(1,199)	(3,678)	(1,708)
Total other expense	(26,345)	(33,862)	(54,154)	(59,940)
Equity in net income of unconsolidated subsidiaries	13,852	4,172	19,495	2,364
Income before income taxes	41,974	9,602	46,500	13,541
Income tax expense	7,983	4,665	9,846	6,780
Net income	33,991	4,937	36,654	6,761
Net income attributable to noncontrolling interests	(1,992)	(1,857)	(3,576)	(3,572)
Net income attributable to Darling	$31,999	$3,080	$33,078	$3,189
Basic income per share	$0.19	$0.02	$0.20	$0.02
Diluted income per share	$0.19	$0.02	$0.20	$0.02

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 ended July 2, 2016 and July 4, 2015
(in thousands)
(unaudited)

	Three Months Ended		Six Months Ended	
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Net income	$33,991	$4,937	$36,654	$6,761
Other comprehensive income/(loss), net of tax:				
Foreign currency translation	(8,008)	7,443	49,523	(85,872)
Pension adjustments	651	778	1,377	1,547
Corn option derivative adjustments	1,227	(1,325)	521	(1,287)
Total other comprehensive income/(loss), net of tax	(6,130)	6,896	51,421	(85,612)
Total comprehensive income/(loss)	$27,861	$11,833	$88,075	$(78,851)
Comprehensive income attributable to noncontrolling interests	1,725	848	1,305	7,890
Comprehensive income/(loss) attributable to Darling	$26,136	$10,985	$86,770	$(86,741)

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 July 2, 2016 and July 4, 2015
(in thousands)
(unaudited)

	July 2, 2016	July 4, 2015
Cash flows from operating activities:		
Net Income	$36,654	$6,761
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	141,787	132,643
Loss on disposal of property, plant, equipment and other assets	827	233
Gain on insurance proceeds from insurance settlements	(356)	(341)
Deferred taxes	(1,812)	(3,225)
Increase/(decrease) in long-term pension liability	(1,596)	350
Stock-based compensation expense	5,067	4,642
Write-off deferred loan costs	57	10,633
Deferred loan cost amortization	5,600	4,868
Equity in net income of unconsolidated subsidiaries	(19,495)	(2,364)
Distributions of earnings from unconsolidated subsidiaries	25,994	26,155
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(20,081)	22,582
Income taxes refundable/payable	1,559	(1,368)
Inventories and prepaid expenses	(19,501)	(21,451)
Accounts payable and accrued expenses	30,989	(1,505)
Other	(17,460)	8,937
Net cash provided by operating activities	168,233	187,550
Cash flows from investing activities:		
Capital expenditures	(109,406)	(98,722)
Acquisitions, net of cash acquired	(8,511)	—
Gross proceeds from disposal of property, plant and equipment and other assets	2,404	1,484
Proceeds from insurance settlement	1,537	341
Payments related to routes and other intangibles	—	(2,242)
Net cash used by investing activities	(113,976)	(99,139)
Cash flows from financing activities:		
Proceeds from long-term debt	17,277	579,974
Payments on long-term debt	(59,255)	(583,736)
Borrowings from revolving credit facility	41,000	41,244
Payments on revolving credit facility	(47,207)	(83,506)
Net cash overdraft financing	—	(880)
Deferred loan costs	—	(11,629)
Issuance of common stock	143	171
Repurchase of treasury stock	(5,000)	—
Minimum withholding taxes paid on stock awards	(1,812)	(4,775)
Excess tax benefits from stock-based compensation	(413)	(12)
Distributions to noncontrolling interests	—	(1,866)
Net cash used by financing activities	(55,267)	(65,015)
Effect of exchange rate changes on cash	1,941	(6,160)

Net increase in cash and cash equivalents	931	17,236
Cash and cash equivalents at beginning of period	156,884	108,784
Cash and cash equivalents at end of period	$157,815	$126,020
Supplemental disclosure of cash flow information:		
Accrued capital expenditures	$(3,684)	$274
Cash paid during the period for:		
Interest, net of capitalized interest	$41,813	$37,524
Income taxes, net of refunds	$11,799	$11,436
Non-cash financing activities		
Debt issued for assets	$10	$2,521
Contribution of assets to unconsolidated subsidiary	$2,674	$—

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

DARLING INGREDIENTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
July 2, 2016
(unaudited)

(1) General

The accompanying consolidated financial statements for the three and six month periods ended July 2, 2016 and July 4, 2015, have been prepared by Darling Ingredients Inc., a Delaware corporation ("Darling", and together with its subsidiaries, 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 GAAP 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 January 2, 2016.

(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 July 2, 2016, and include the 13 and 26 weeks ended July 2, 2016, and the 13 and 26 weeks ended July 4, 2015.

(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 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 $51.8 million for the six months ended July 2, 2016 and net foreign currency translation losses of approximately $90.2 million for the six months ended July 4, 2015.

(e) Reclassifications

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

(f) Earnings Per Share

Basic income 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 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					
		July 2, 2016			July 4, 2015	
	Income	Shares	Per Share	Income	Shares	Per Share
Basic:						
Net Income attributable to Darling	$31,999	164,634	$0.19	$3,080	165,228	$0.02
Diluted:						
Effect of dilutive securities:						
Add: Option shares in the money and dilutive effect of non-vested stock awards		1,793			188	
Less: Pro forma treasury shares		(953)			(118)	
Diluted:						
Net income attributable to Darling	$31,999	165,474	$0.19	$3,080	165,298	$0.02

	Net Income per Common Share (in thousands, except per share data)					
	Six Months Ended					
		July 2, 2016			July 4, 2015	
	Income	Shares	Per Share	Income	Shares	Per Share
Basic:						
Net Income attributable to Darling	$33,078	164,534	$0.20	$3,189	165,077	$0.02
Diluted:						
Effect of dilutive securities:						
Add: Option shares in the money and dilutive effect of non-vested stock awards		975			303	
Less: Pro forma treasury shares		(496)			(136)	
Diluted:						
Net income/(loss) attributable to Darling	$33,078	165,013	$0.20	$3,189	165,244	$0.02

For the three months ended July 2, 2016 and July 4, 2015, respectively, 1,231,664 and 825,711 outstanding stock options were excluded from diluted income per common share as the effect was antidilutive. For the three months ended July 2, 2016 and July 4, 2015, respectively, 899,422 and 582,559 shares of non-vested stock and stock equivalents were excluded from diluted income per common share as the effect was antidilutive.

For the six months ended July 2, 2016 and July 4, 2015, respectively, 1,080,410 and 674,834 outstanding stock options were excluded from diluted income per common share as the effect was antidilutive. For the six months ended July 2, 2016 and July 4, 2015, respectively, 824,068 and 578,899 shares of non-vested stock and stock equivalents were excluded from diluted income per common share as the effect was antidilutive.

(3) Inventories

A summary of inventories follows (in thousands):

	July 2, 2016	January 2, 2016
Finished product	$182,292	$164,428
Work in process	91,626	84,474
Raw material	40,034	48,401
Supplies and other	50,410	47,280
	$364,362	$344,583

(4) Intangible Assets

The gross carrying amount of intangible assets not subject to amortization and intangible assets subject to amortization is as follows (in thousands):

	July 2, 2016	January 2, 2016
Indefinite Lived Intangible Assets		
Trade names	$53,002	$52,466
	53,002	52,466
Finite Lived Intangible Assets:		
Routes	387,321	390,888
Permits	502,203	494,754
Non-compete agreements	3,745	6,996
Trade names	76,331	75,825
Royalty, consulting, land use rights and leasehold	14,051	14,139
	983,651	982,602
Accumulated Amortization:		
Routes	(93,074)	(99,819)
Permits	(153,877)	(134,752)
Non-compete agreements	(1,547)	(4,628)
Trade names	(16,757)	(11,959)
Royalty, consulting, land use rights and leasehold	(1,971)	(1,561)
	(267,226)	(252,719)
Total Intangible assets, less accumulated amortization	$769,427	$782,349

Gross intangible routes, permits, trade names, non-compete agreements and other intangibles partially decreased in fiscal 2016 as a result of approximately $27.7 million of asset retirements. Amortization expense for the three and six months ended July 2, 2016 and July 4, 2015, was approximately $19.7 million, $21.1 million and $38.8 million, $42.2 million, respectively.

(5) Goodwill

Changes in the carrying amount of goodwill (in thousands):

	Feed Ingredients	Food Ingredients	Fuel Ingredients	Total

Balance at January 2, 2016				
Goodwill	$ 812,797	$ 323,385	$ 112,834	$ 1,249,016
Accumulated impairment losses	(15,914)	—	—	(15,914)
	796,883	323,385	112,834	1,233,102
Goodwill acquired during year	827	—	2	829
Foreign currency translation	16,255	4,387	3,907	24,549
Balance at July 2, 2016				
Goodwill	829,879	327,772	116,743	1,274,394
Accumulated impairment losses	(15,914)	—	—	(15,914)
	$ 813,965	$ 327,772	$ 116,743	$ 1,258,480

(6) Investment in Unconsolidated Subsidiaries

On January 21, 2011 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 processing approximately 12,000 barrels per day of input feedstock to produce 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 $221.3 million (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 are insignificant to the Company. Selected financial information for the Company's DGD Joint Venture is as follows (in thousands):

(in thousands)	June 30, 2016	December 31, 2015
Assets:		
Total current assets	$175,782	$261,444
Property, plant and equipment, net	355,809	356,230
Other assets	17,070	3,034
Total assets	$548,661	$620,708
Liabilities and members' equity:		
Total current portion of long term debt	$17,023	$62,023
Total other current liabilities	22,785	19,935
Total long term debt	68,564	86,819
Total other long term liabilities	400	380
Total members' equity	439,889	451,551
Total liabilities and member's equity	$548,661	$620,708

(in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Revenues:				
Operating revenues	$132,226	$156,160	$203,994	$272,888
Expenses:				
Total costs and expenses less depreciation, amortization and accretion expense	95,565	140,343	148,074	252,378

Depreciation, amortization and accretion expense	7,547	4,956	12,925	9,965
Total costs and expenses	103,112	145,299	160,999	262,343
Operating income	29,114	10,861	42,995	10,545
Other income	70	32	85	52
Interest and debt expense, net	(1,928)	(3,352)	(4,742)	(7,508)
Net income	$27,256	$7,541	$38,338	$3,089

As of July 2, 2016 under the equity method of accounting, the Company has an investment in the DGD Joint Venture of approximately $219.9 million on the consolidated balance sheet and has recorded an equity net gain of approximately $19.2 million and $1.5 million for the six months ended July 2, 2016 and July 4, 2015, respectively. In the second quarter of fiscal 2016, the DGD Joint Venture received $156.4 million of the 2015 calendar year blenders tax credits from the Internal Revenue Service, made a debt payment of approximately $54.7 million and made dividend distributions to each partner in the amount $25.0 million. Additionally, with Congress' extension of the biodiesel blenders tax credit in December 2015 through December 31, 2016, the DGD Joint Venture fiscal 2016 results include blenders tax credits, while no blenders tax credits are included in the same period in the prior year.

(7) Debt

Debt consists of the following (in thousands):

	July 2, 2016	January 2, 2016
Amended Credit Agreement:		
Revolving Credit Facility ($3.9 million and $9.4 million denominated in CAD at July 2, 2016 and January 2, 2016, respectively)	$3,869	$9,358
Term Loan A ($100.1 million and $97.1 million denominated in CAD at July 2, 2016 and January 2, 2016, respectively)	248,371	277,181
Less unamortized deferred loan costs	(1,230)	(1,552)
Carrying value Term Loan A	247,141	275,629
Term Loan B	586,500	589,500
Less unamortized deferred loan costs	(7,040)	(7,774)
Carrying value Term Loan B	579,460	581,726
5.375% Senior Notes due 2022 with effective interest of 5.72%	500,000	500,000
Less unamortized deferred loan costs	(8,318)	(8,952)
Carrying value 5.375% Senior Notes due 2022	491,682	491,048
4.75% Senior Notes due 2022 - Denominated in euro with effective interest of 5.10%	572,654	560,912
Less unamortized deferred loan costs - Denominated in euro	(10,189)	(10,705)
Carrying value 4.75% Senior Notes due 2022	562,465	550,207
Other Notes and Obligations	20,717	23,049
	1,905,334	1,931,017
Less Current Maturities	30,842	45,166
	$1,874,492	$1,885,851

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. The ASU amends ASC (Subtopic 835-30), Interest - Imputation of Interest. The new standard requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying value of the debt liability, which is similar to the presentation of debt discounts or premiums. The costs will continue to be amortized to interest expense using the effective interest method. On January 3, 2016, the Company adopted this standard as a change in accounting principal on a retrospective basis. As of July 2, 2016 and January 2, 2016, the Company has presented debt issuance costs related to the Company's term loans and senior notes, previously reported in other assets, as direct deductions from the carrying amount of the debt liability. In addition, the Company has presented the debt issuance costs related to the Company's amended credit agreement as a deferred asset within other assets as permitted by ASU No. 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which was issued in August 2015. Upon adoption of ASU No. 2015-03, other assets of approximately $29.0 million were reclassified as deduction from the carrying value of the recognized debt liability at January 2, 2016.

As of July 2, 2016, the Company had outstanding debt under a term loan facility and revolving credit facility denominated in Canadian dollars of CAD$129.4 million and CAD$5.0 million, respectively. See below for discussion relating to the Company's debt agreements. In addition, as of July 2, 2016, the Company had capital lease obligations denominated in

Canadian dollars included in debt. The current and long-term capital lease obligation was approximately CAD$1.9 million and CAD$1.8 million, respectively.

As of July 2, 2016, the Company had outstanding debt under the Company's 4.75% Senior Notes due 2022 denominated in euros of €515.0 million. See below for discussion relating to the Company's debt agreements. In addition, at July 2, 2016, the Company had capital lease obligations denominated in euros included in debt. The current and long-term capital lease obligation was approximately €0.4 million and €0.5 million, respectively.

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 (as subsequently amended, the “Amended Credit Agreement”), restating its then existing Amended and Restated Credit Agreement dated September 27, 2013 (the “Former Credit Agreement”), 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 Company's 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 by Darling Canada in Canadian dollars and to be borrowed by Darling NL, Darling Ingredients International Holding B.V. (“Darling BV”) and CTH Germany GmbH (“CTH”) in U.S. dollars, euros and other currencies to be agreed and available to each applicable lender. The revolving loan facility and term loan A facility will mature on September 27, 2018, and 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 2.75% per annum or base rate/Canadian prime rate plus 1.75% 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%.

As of July 2, 2016, the Company had $146.3 million outstanding under the term loan A facility at LIBOR plus a margin of 2.75% per annum for a total of 3.25% per annum and $2.0 million outstanding under the term loan A facility at base rate plus a margin of 1.75% per annum for a total of 5.25% per annum. The Company had $586.5 million outstanding under the term loan B facility at LIBOR plus a margin of 2.50% per annum for a total of 3.25% per annum. The Company had CAD$129.4 million outstanding under the term loan A facility at CDOR plus a margin of 2.75% per annum for a total of 3.7114% per annum and CAD$5.0 million outstanding under the revolver at CDOR plus a margin of 2.75% per annum for a total of 3.7115% per annum. As of July 2, 2016, the Company had revolver availability of $969.9 million under the Amended Credit Agreement taking into account amounts borrowed and letters of credit issued of $26.3 million. The Company also has foreign bank guarantees that are not part of the Company's Amended Credit Agreement in the amount of approximately $9.7 million at July 2, 2016.

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.

5.375 % Senior Notes due 2022. On January 2, 2014, Darling Escrow Corporation, a wholly-owned subsidiary of Darling, issued $500.0 million aggregate principal amount of its 5.375% Notes due 2022 (the “5.375% Notes”) pursuant to a 5.375% Notes Indenture, dated as of January 2, 2014 (the “Original 5.375% Indenture”), among Darling Escrow

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Corporation, the subsidiary guarantors party thereto from time to time, and U.S. Bank National Association, as trustee (the “5.375% Trustee”). On January 8, 2014, Darling Escrow Corporation merged with and into Darling and entered into a supplemental indenture with Darling, the subsidiary guarantors party thereto and the 5.375% Trustee (the “Supplemental 5.375% Indenture,” and together with the Original 5.375% Indenture, the “5.375% Indenture”), pursuant to which Darling assumed all obligations under the 5.375% Notes and the 5.375% Indenture. Darling and the 5.375% Guarantors completed a registered exchange offer for the 5.375% Notes under the Securities Act during the third quarter of 2014. Darling used a portion of the proceeds from the offering of the 5.375% Notes to pay certain fees and expenses (including bank fees and expenses) related to the offering and the financing of its acquisition of its Darling Ingredients International business from VION Holding, N.V. (the “VION Acquisition”) and for purposes of satisfying, discharging and redeeming its 8.5% Notes due 2018. 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.

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. The 5.375% Notes are guaranteed on a unsecured senior basis by all of Darling's restricted subsidiaries (other than any foreign subsidiary or any receivables entity) that guarantee the Senior Secured Credit Facilities (the “5.375% Guarantors”). The 5.375% Notes and the guarantees thereof are senior unsecured obligations of Darling and the 5.375% Guarantors and rank equally in right of payment to all of Darling's and the 5.375% Guarantors' existing and future senior unsecured indebtedness. The 5.375% 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 distributions or repurchases 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.

Other than for extraordinary events such as change of control and defined assets sales, Darling is not required to make mandatory redemption or sinking fund payments on the 5.375% Notes. The 5.375% Notes are redeemable, in whole or in part, at any time on or after January 15, 2017 at the redemption prices specified in the 5.375% Indenture. 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 5.375% Indenture.

4.75 % Senior Notes due 2022. On June 3, 2015, Darling Global Finance B.V. (the “4.75% Issuer”), a wholly-owned subsidiary of Darling, issued €515.0 million aggregate principal amount of the 4.75% Senior Notes due 2022 (the “4.75% Notes”) pursuant to a Senior Notes Indenture, dated as of June 3, 2015 (the “4.75% Indenture”), among the 4.75% Issuer, Darling (as guarantor), the subsidiary guarantors party thereto from time to time, Citibank, N.A., London Branch, as trustee (the “4.75% Trustee”) and principal paying agent, and Citigroup Global Markets Deutschland AG, as principal registrar. Darling used the gross proceeds from the sale of the 4.75% Notes to refinance a portion of the term loan B outstanding under Darling's Senior Secured Credit Facilities and to pay certain fees and expenses related to the offering of the 4.75% Notes and the refinancing of the term loan B. Darling intends to use any remaining proceeds for general corporate purposes.

The 4.75% Notes will mature on May 30, 2022. The 4.75% Issuer will pay interest on the 4.75% Notes on May 30 and November 30 of each year, commencing on November 30, 2015. Interest on the 4.75% Notes will accrue from June 3, 2015 at a rate of 4.75% per annum and be payable in cash. The 4.75% Notes are guaranteed on a senior unsecured basis by Darling and all of Darling's restricted subsidiaries (other than any foreign subsidiary, the 4.75% Issuer or any receivables entity) that guarantee the Senior Secured Credit Facilities (collectively “4.75% Guarantors”). The 4.75% Notes and the guarantees thereof are senior unsecured obligations of the 4.75% Issuer and the 4.75% Guarantors and rank equally in right of payment to all of the 4.75% Issuer's and the 4.75% Guarantors' existing and future senior unsecured indebtedness. The 4.75% Indenture contains covenants limiting Darling's ability and the ability of its restricted subsidiaries (including the 4.75% Issuer) to, among other things: incur additional indebtedness or issue preferred stock; pay dividends on or make other distributions or repurchases of Darling's capital stock or make other restricted payments; create restrictions on the payment of dividends or certain 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 of substantially all of Darling's assets.

Other than for extraordinary events such as change of control and defined assets sales, the 4.75% Issuer is not required to make mandatory redemption or sinking fund payments on the 4.75% Notes. The 4.75% Notes are redeemable, in whole or in part, at any time on or after May 30, 2018 at the redemption prices specified in the 4.75% Indenture. The 4.75% Issuer may redeem some or all of the 4.75% Notes at any time prior to May 30, 2018, at a redemption price equal to 100% of the principal amount of the 4.75% Notes redeemed, plus accrued and unpaid interest to the redemption date and an Applicable Premium as specified in the 4.75% Indenture and all additional amounts (if any) then due or which will become due on the redemption date as a result of the redemption or otherwise (subject to the rights of holders on the relevant record dates to receive interest due on the relevant interest payment date and additional amounts (if any) in respect thereof).

As of July 2, 2016, the Company believes it is in compliance with all of the financial covenants under the Amended Credit Agreement, as well as all of the other covenants contained in the Amended Credit Agreement, the 5.375% Indenture and the 4.75% Indenture.

(8) Income Taxes

The Company has provided income taxes for the three and six month periods ended July 2, 2016 and July 4, 2015, based on its estimate of the effective tax rate for the entire 2016 and 2015 fiscal years. The Company's estimated annual effective tax rate is based on forecasts of income by jurisdiction, permanent differences between book and tax income, including Subpart F income and biofuel tax incentives, the relative proportion of income and losses by jurisdiction, and statutory income tax rates. Discrete events such as the assessment of the ultimate outcome of tax audits, audit settlements, recognizing previously unrecognized tax benefits due to the lapsing of statutes of limitation, recognizing or derecognizing deferred tax assets due to projections of income or loss and changes in tax laws are recognized in the period in which they occur.

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 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 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. As of July 2, 2016, the Company had $3.6 million of gross unrecognized tax benefits and $1.8 million of related accrued interest and penalties. An indemnity receivable of $4.7 million has been recorded for the uncertain tax positions related to the VION Acquisition. It is reasonably possible within the next twelve months that the Company's gross unrecognized tax benefits may decrease by up to $2.3 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 2009 tax year.

(9) Other Comprehensive Income

The Company follows 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 July 2, 2016 and July 4, 2015 are as follows (in thousands):

	Three Months Ended					
	Before-Tax Amount		Tax (Expense) or Benefit		Net-of-Tax Amount	
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Defined benefit pension plans						
Amortization of prior service cost/(benefit)	$7	$(20)	$(2)	$10	$5	$(10)
Amortization of actuarial loss	1,166	1,284	(445)	(496)	721	788
Amortization of settlement	(123)	—	48	—	(75)	—
Total defined benefit pension plans	1,050	1,264	(399)	(486)	651	778
Corn option derivatives						
Loss/(gain) reclassified to net income	(869)	(347)	337	134	(532)	(213)
Gain/(loss) activity recognized in other comprehensive income (loss)	2,875	(1,819)	(1,116)	707	1,759	(1,112)
Total corn option derivatives	2,006	(2,166)	(779)	841	1,227	(1,325)
Foreign currency translation	(8,008)	7,443	—	—	(8,008)	7,443
Other comprehensive income (loss)	$(4,952)	$6,541	$(1,178)	$355	$(6,130)	$6,896

	Six Months Ended					
	Before-Tax Amount		Tax (Expense) or Benefit		Net-of-Tax Amount	
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Defined benefit pension plans						
Amortization of prior service cost/(benefit)	$14	$(40)	$(5)	$20	$9	$(20)
Amortization of actuarial loss	2,334	2,569	(891)	(1,002)	1,443	1,567
Amortization of settlement	(123)	—	48	—	(75)	—
Total defined benefit pension plans	2,225	2,529	(848)	(982)	1,377	1,547
Corn option derivatives						
Loss/(gain) reclassified to net income	(2,343)	(581)	909	225	(1,434)	(356)
Gain/(loss) activity recognized in other comprehensive income (loss)	3,195	(1,523)	(1,240)	592	1,955	(931)
Total corn option derivatives	852	(2,104)	(331)	817	521	(1,287)
Foreign currency translation	49,523	(85,872)	—	—	49,523	(85,872)
Other Comprehensive income (loss)	$52,600	$(85,447)	$(1,179)	$(165)	$51,421	$(85,612)

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 July 2, 2016 and July 4, 2015 as follows (in thousands):

	Three Months Ended July 2, 2016	Three Months Ended July 4, 2015	Six Months Ended July 2, 2016	Six Months Ended July 4, 2015	Statement of Operations Classification
Derivative instruments					
Corn option derivatives	$869	$347	$2,343	$581	Cost of sales and operating expenses
	869	347	2,343	581	Total before tax
	(337)	(134)	(909)	(225)	Income taxes
	532	213	1,434	356	Net of tax
Defined benefit pension plans					
Amortization of prior service (cost)/benefit	$(7)	$20	$(14)	$40	(a)
Amortization of actuarial loss	(1,166)	(1,284)	(2,334)	(2,569)	(a)
Amortization of settlement	123	—	123	—	(a)
	(1,050)	(1,264)	(2,225)	(2,529)	Total before tax
	399	486	848	982	Income taxes
	(651)	(778)	(1,377)	(1,547)	Net of tax
Total reclassifications	$(119)	$(565)	$57	$(1,191)	Net of tax

(a) These items are included in the computation of net periodic pension cost. See Note 11 Employee Benefit Plans for additional information.

The following table presents changes in each component of accumulated comprehensive income (loss) as of July 2, 2016 as follows (in thousands):

	Six Months Ended July 2, 2016			
	Foreign Currency Translation	Derivative Instruments	Defined Benefit Pension Plans	Total
Accumulated Other Comprehensive Income (loss) January 2, 2016, attributable to Darling, net of tax	$(305,213)	$ 1,843	$(32,548)	$(335,918)
Other comprehensive gain before reclassifications	49,523	1,955	—	51,478
Amounts reclassified from accumulated other comprehensive income/(loss)	—	(1,434)	1,377	(57)
Net current-period other comprehensive income	49,523	521	1,377	51,421
Noncontrolling interest	(2,271)	—	—	(2,271)
Accumulated Other Comprehensive Income (loss) July 2, 2016, attributable to Darling, net of tax	(253,419)	$ 2,364	$(31,171)	$(282,226)

(10) Stockholders' Equity

In August 2015, the Company's Board of Directors approved a share repurchase program of up to an aggregate of $100.0 million of the Company's Common Stock depending on market conditions. The repurchases may be made from time to time on the open market at prevailing market prices or in negotiated transactions off the market. Repurchases may occur over the 24 month period ending in August 2017, unless extended or shortened by the Board of Directors. During the first six months of fiscal 2016, the Company repurchased approximately $5.0 million of its Common Stock in the open market. As of July 2, 2016, the Company has approximately $89.1 million remaining under the share repurchase program approved in August 2015.

Fiscal 2015 Long-Term Incentive Opportunity Awards (2015 LTIP). The Company met the requisite performance measure under the 2015 LTIP. Accordingly, in accordance with the terms of the 2015 LTIP, the Company granted 452,878 stock options, 454,916 shares of nonvested stock and 147,390 restricted stock units in the first quarter of fiscal 2016.

Fiscal 2016 Long-Term Incentive Opportunity Awards (2016 LTIP). On February 25, 2016, the Compensation Committee (the “Committee”) of the Company's Board of Directors adopted the 2016 LTIP pursuant to which they awarded certain of the Company's key employees, including the Company's named executive officers', 1,092,942 stock options and 663,419 performance share units (the “PSUs”) under the Company's 2012 Omnibus Incentive Plan. The stock options vest 33.33% on the first, second and third anniversaries of the grant date. The PSUs are tied to two- and three-year forward looking performance periods and will be earned based on the Company's average return on capital employed (ROCE) relative the average ROCE of the Company's performance peer group companies, with the earned award to be determined in the first quarter of fiscal 2018 or fiscal 2019, respectively, after the final results for the relevant performance period are determined. The PSUs were granted at a target of 100%, but each PSU will reduce or increase depending on the Company's ROCE relative to that of the performance peer group companies and is also subject to the application of a total shareholder return (TSR) cap/collar modifier depending on the Company's TSR during the performance period relative to that of the performance peer group companies. In addition, certain of the PSUs have a two-year holding requirement after vesting before the PSUs are settled in shares of the Company's Common Stock.

(11) Employee Benefit Plans

The Company has retirement and pension plans covering a substantial number of its domestic and foreign 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. Although various defined benefit formulas exist for employees, generally these are based on length of service and earnings patterns during employment. Effective January 1, 2012, the Company's Board of Directors authorized the Company to proceed with the restructuring of its domestic retirement benefit program 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 domestic defined contribution plans. The Company-sponsored domestic hourly union plan has not been curtailed; however, several locations of the Company-sponsored domestic hourly union plan have been curtailed as a result of collective bargaining renewals for those sites.

In March 2016 a small pension plan acquired in the VION Acquisition was amended to terminate the plan effective in May 2016 (a curtailment of the plan for financial reporting purposes at April 2, 2016).

Net pension cost for the three and six months months ended July 2, 2016 and July 4, 2015 includes the following components (in thousands):

	Pension Benefits Three Months Ended		Pension Benefits Six Months Ended	
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Service cost	$685	$1,667	$1,322	$3,345
Interest cost	1,770	2,638	3,515	5,285
Expected return on plan assets	(1,890)	(3,051)	(3,775)	(6,116)
Amortization of prior service cost	7	(20)	14	(40)
Amortization of net loss	1,166	1,284	2,334	2,569
Curtailment gain	—	—	(1,223)	—
Settlement gain	(123)	—	(123)	—
Net pension cost	$1,615	$2,518	$2,064	$5,043

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 July 2, 2016, the Company expects to contribute approximately $3.7 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 July 2, 2016 and July 4, 2015 of approximately $2.1 million and $2.5 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, six plans have certified as critical or red zone, one plan has certified as endangered or yellow zone as defined by the Pension Protection Act of 2006.

The Company has received notices of withdrawal liability from two U.S. multiemployer plans in which it participated. As of July 2, 2016, the Company has an aggregate accrued liability of approximately $1.9 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 Pension Protection Act of 2006, the amounts could be material.

(12) 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 July 2, 2016, the Company had corn option contracts outstanding that qualified and were designated for hedge accounting as well as heating oil swap contracts, corn option and forward 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 2015 and the first six months of fiscal 2016, the Company entered into corn option contracts on the Chicago Board of Trade 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 the fourth quarter of fiscal 2017. As of July 2, 2016, 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 July 2, 2016, 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 functional currency. All of these transactions are currently not designated for hedge accounting (in thousands):

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Functional Currency		Contract Currency	
Type	Amount	Type	Amount
Brazilian real	33,438	Euro	7,650
Brazilian real	81,823	U.S. dollar	20,975
Euro	231,536	U.S. dollar	264,696
Euro	10,761	Polish zloty	47,000
Euro	2,351	Japanese yen	291,389
Euro	34,263	Chinese renminbi	254,639
Euro	10,286	Australian dollar	15,900
Polish zloty	19,974	Euro	4,522
Japanese yen	21,775	U.S. dollar	184

The Company estimates the amount that will be reclassified from accumulated other comprehensive gain at July 2, 2016 into earnings over the next 12 months will be approximately $3.9 million. As of July 2, 2016, 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 July 2, 2016 and January 2, 2016 (in thousands):

Derivatives Designated	Balance Sheet	Asset Derivatives Fair Value	
as Hedges	Location	July 2, 2016	January 2, 2016
Corn options	Other current assets	$4,554	$ 3,215
Total asset derivatives designated as hedges		$4,554	$ 3,215
Derivatives Not Designated as Hedges			
Foreign currency contracts	Other current assets	$11,888	$ 644
Corn options and futures	Other current assets	1,244	599
Total asset derivatives not designated as hedges		$13,132	$ 1,243
Total asset derivatives		$17,686	$ 4,458

	Balance Sheet	Liability Derivatives Fair Value	
	Location	July 2, 2016	January 2, 2016
Derivatives Not Designated as Hedges			
Foreign currency contracts	Accrued expenses	$975	$ 4,435
Heating oil swaps and options	Accrued expenses	49	—
Corn options and futures	Accrued expenses	454	2

Total liability derivatives not designated as hedges	$1,478	$ 4,437
Total liability derivatives	$1,478	$ 4,437

The effect of the Company's derivative instruments on the consolidated financial statements as of and for the three months ended July 2, 2016 and July 4, 2015 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)	
	2016	2015	2016	2015	2016	2015
Corn options	$2,875	$(1,819)	$869	$347	$162	$(672)
Total	$2,875	$(1,819)	$869	$347	$162	$(672)

(a) Amount recognized in accumulated OCI (effective portion) is reported as accumulated other comprehensive income/(loss) of approximately $2.9 million and $(1.8) million recorded net of taxes of approximately $(1.1) million and $0.7 million as of July 2, 2016 and July 4, 2015, respectively.

(b) Gains and (losses) reclassified from accumulated OCI into income (effective portion) for corn options 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 are 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 July 2, 2016 and July 4, 2015 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)	
	2016	2015	2016	2015	2016	2015
Corn options	$3,195	$(1,523)	$2,343	$581	$214	$(727)
Total	$3,195	$(1,523)	$2,343	$581	$214	$(727)

(a) Amount recognized in accumulated OCI (effective portion) is reported as accumulated other comprehensive income/(loss) of approximately \$3.2 million and \$(1.5) million recorded net of taxes of approximately \$(1.2) million and \$0.6 million as of July 2, 2016 and July 4, 2015, respectively.

(b) Gains and (losses) reclassified from accumulated OCI into income (effective portion) for corn options 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 are included in other income/ (expense), net in the Company’s consolidated statements of operations.

The table below summarizes the effect of derivatives not designated as hedges on the Company's consolidated statements of operations for the three and six months months ended July 2, 2016 and July 4, 2015 (in thousands):

Derivatives not designated as hedging instruments	Location	Loss or (Gain) Recognized in Income on Derivatives Not Designated as Hedges			
		Three Months Ended		Six Months Ended	
		July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Foreign Exchange	Foreign currency loss/(gain)	$(7,204)	$1,637	$4,083	$(21,407)
Foreign Exchange	Selling, general and administrative expense	(3,868)	(348)	(6,779)	2,991
Corn options and futures	Net sales	344	81	345	70
Corn options and futures	Cost of sales and operating expenses	(81)	633	(613)	378
Heating Oil swaps and options	Net sales	226	—	153	—
Heating Oil swaps and options	Cost of sales and operating expenses	—	35	—	130
Soybean Meal	Net sales	7	—	7	—
Total		$(10,576)	$2,038	$(2,804)	$(17,838)

At July 2, 2016, the Company had forward purchase agreements in place for purchases of approximately $9.9 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.

(13) 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 July 2, 2016 and are categorized using the fair value hierarchy under FASB authoritative guidance. The fair value hierarchy has three levels based on the reliability of the inputs used to determine the fair value.

(In thousands of dollars)	Total	Fair Value Measurements at July 2, 2016 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Derivative instruments	$17,686	$ —	$17,686	$ —
Total Assets	$17,686	$ —	$17,686	$ —
Liabilities:				

Derivative instruments	$1,478	$	$1,478	$ —
5.375% Senior notes	515,000	—	515,000	—
4.75% Senior notes	578,381	—	578,381	—
Term loan A	248,992	—	248,992	—
Term loan B	588,318	—	588,318	—
Revolver debt	3,811	—	3,811	—
Total Liabilities	$1,935,980	$	$1,935,980	$ —

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(In thousands of dollars)	Total	Fair Value Measurements at January 2, 2016 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Derivative instruments	$4,458	$—	$4,458	$ —
Total Assets	$4,458	$—	$4,458	$ —
Liabilities:				
Derivative instruments	$4,437	$—	$4,437	$ —
5.375% Senior notes	495,000	—	495,000	—
4.75% Senior notes	541,280	—	541,280	—
Term loan A	277,874	—	277,874	—
Term loan B	577,710	—	577,710	—
Revolver debt	9,218	—	9,218	—
Total Liabilities	$1,905,519	$—	$1,905,519	$ —

Derivative assets consist of the Company’s heating oil swap and option contracts, corn option and future 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 12 (Derivatives) for breakdown by instrument type.

Derivative liabilities consist of the Company’s heating oil swap and option contracts, corn option and future 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 12 (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 third-party banks.

(14) Contingencies

The Company is a party to several lawsuits, claims and loss contingencies arising in the ordinary course of its business, including employment, commercial and contract related matters and 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, litigation and tax matters. At July 2, 2016 and January 2, 2016, the reserves for insurance, environmental, litigation and tax contingencies reflected on the balance sheet in accrued expenses and other non-current liabilities were approximately $55.8 million and $54.6 million, respectively. The Company has insurance recovery receivables of approximately $12.2 million as of July 2, 2016 and January 2, 2016, 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. 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 (a "PRP") 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. The Company's designation as a PRP is based upon the operation of a former plant site located in Newark, New Jersey by Standard Tallow Company, an entity that the Company acquired in 1996. 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. In March 2016, the Company received another letter from EPA notifying the Company that it had issued a Record of Decision selecting a remedy for the lower 8.3 miles of the lower Passaic River area at an estimated cost of $1.38 billion. The EPA letter makes no demand on the Company and lays out a framework for remedial design/remedial action implementation in which the EPA will first seek funding from major PRPs. The letter indicates that the EPA has sent the letter to over 100 parties, which include large chemical and refining companies, manufacturing companies, foundries, plastic companies, pharmaceutical companies and food and consumer product companies. The Company's ultimate liability, if any, 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, the Company has found no evidence that the former Standard Tallow Company plant site contributed any of the primary contaminants of concern to the Passaic River and, therefore, there is nothing that leads the Company to believe that this matter 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.

(15) Business Segments

The Company sells its products domestically and internationally and operates within three industry segments: Feed Ingredients, Food Ingredients and Fuel Ingredients. 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.

Business Segments (in thousands):

	Feed Ingredients	Food Ingredients	Fuel Ingredients	Corporate	Total
Three Months Ended July 2, 2016					
Net Sales	$ 542,955	$ 272,120	$ 62,266	$ —	$ 877,341
Cost of sales and operating expenses	416,145	214,279	46,691	—	677,115
Gross Margin	126,810	57,841	15,575	—	200,226
Selling, general and administrative expense	43,319	20,455	1,804	10,580	76,158
Acquisition and integration costs	—	—	—	70	70
Depreciation and amortization	42,119	17,736	7,184	2,492	69,531
Segment operating income/(loss)	41,372	19,650	6,587	(13,142)	54,467
Equity in net income of unconsolidated subsidiaries	224	—	13,628	—	13,852
Segment income/(loss)	41,596	19,650	20,215	(13,142)	68,319
Total other expense					(26,345)
Income before income taxes					$ 41,974

	Feed Ingredients	Food Ingredients	Fuel Ingredients	Corporate	Total
Three Months Ended July 4, 2015					
Net Sales	$ 529,429	$ 283,354	$ 46,532	$ —	$ 859,315
Cost of sales and operating expenses	404,899	223,190	40,190	(3)	668,276
Gross Margin	124,530	60,164	6,342	3	191,039
Selling, general and administrative expense	48,656	27,867	(2,295)	10,066	84,294
Acquisition and integration costs	—	—	—	1,208	1,208
Depreciation and amortization	40,485	16,785	6,599	2,376	66,245
Segment operating income/(loss)	35,389	15,512	2,038	(13,647)	39,292
Equity in net income of unconsolidated subsidiaries	402	—	3,770	—	4,172
Segment income/(loss)	35,791	15,512	5,808	(13,647)	43,464
Total other expense					(33,862)
Income before income taxes					$ 9,602

	Feed Ingredients	Food Ingredients	Fuel Ingredients	Corporate	Total
Six Months Ended July 2, 2016					
Net Sales	$1,019,126	$520,017	$117,839	$—	$1,656,982
Cost of sales and operating expenses	788,802	399,833	87,373	—	1,276,008
Gross Margin	230,324	120,184	30,466	—	380,974
Selling, general and administrative expense	88,570	44,214	3,654	21,189	157,627
Acquisition and integration costs	—	—	—	401	401
Depreciation and amortization	86,496	34,440	14,103	6,748	141,787
Segment operating income/(loss)	55,258	41,530	12,709	(28,338)	81,159
Equity in net income of unconsolidated subsidiaries	326	—	19,169	—	19,495
Segment income/(loss)	55,584	41,530	31,878	(28,338)	100,654
Total other expense					(54,154)
Income before income taxes					$46,500
Segment assets at July 2, 2016	$2,507,473	$1,477,927	$638,764	$235,730	$4,859,894

	Feed Ingredients	Food Ingredients	Fuel Ingredients	Corporate	Total
Six Months Ended July 4, 2015					
Net Sales	$1,076,927	$553,511	$103,571	$—	$1,734,009
Cost of sales and operating expenses	828,905	439,827	84,065	—	1,352,797
Gross Margin	248,022	113,684	19,506	—	381,212
Selling, general and administrative expense	96,679	53,342	1,745	19,159	170,925
Acquisition and integration costs	—	—	—	6,527	6,527
Depreciation and amortization	80,539	33,982	13,230	4,892	132,643
Segment operating income/(loss)	70,804	26,360	4,531	(30,578)	71,117
Equity in net income of unconsolidated subsidiaries	819	—	1,545	—	2,364
Segment income/(loss)	71,623	26,360	6,076	(30,578)	73,481
Total other expense					(59,940)
Income before income taxes					$13,541
Segment assets at January 2, 2016	$2,438,869	$1,448,014	$631,968	$241,768	$4,760,619

(16) Related Party Transactions

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 ended July 2, 2016 and July 4, 2015, the Company has recorded sales to the DGD Joint Venture of approximately $42.9 million and $44.4 million, respectively. For the six months ended July 2, 2016 and July 4, 2015, the Company has recorded sales to the DGD Joint Venture of approximately $66.6 million and $83.0 million, respectively. At July 2, 2016 and January 2, 2016, the Company has $10.2 million and $5.1 million in outstanding receivables due from the DGD Joint Venture, respectively. In addition, the Company has eliminated approximately $5.9 million of additional sales for the three months ended July 2, 2016 to defer the Company's portion of profit of approximately $1.3 million on those sales relating to inventory assets still remaining on the DGD Joint Venture's balance sheet at July 2, 2016.

Revolving Loan Agreement

On February 23, 2015, Darling through its wholly owned subsidiary Darling Green Energy LLC, ("Darling Green") and a third party Diamond Alternative Energy, LLC ("Diamond Alternative" and together with Darling Green, the "DGD Lenders") entered into a revolving loan agreement (the "DGD Loan Agreement") with the DGD Joint Venture Opco. The DGD Lenders have committed to make loans available to Opco in the total amount of $10.0 million with each lender committed to $5.0 million of the total commitment. Any borrowings by Opco under the DGD Loan Agreement are at the applicable annum rate equal to the sum of (a) the LIBO Rate (meaning Reuters BBA Libor Rates Page 3750) on such day plus (b) 2.50%. The DGD Loan Agreement matures on December 31, 2016, unless extended by agreement of the parties. During the first six months of fiscal 2016, Opco borrowed and repaid $2.5 million plus an insignificant amount of interest to Darling Green. As of July 2, 2016, no amounts are owed to Darling Green under the DGD Loan Agreement.

(17) New Accounting Pronouncements

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting. This ASU amends Topic 718, Compensation - Stock Compensation, which simplifies several aspects of the accounting for share-based payments, including immediate recognition of all excess tax benefits and deficiencies in the income statement, changing the threshold to qualify for equity classification up to the employees' maximum statutory tax rates, allowing an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures as they occur, and clarifying the classification on the statement of cash flows for the excess tax benefit and employee taxes paid when an employer withholds shares for tax-withholding purposes. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The ASU is effective for fiscal years beginning after December 15, 2016 and for interim periods therein. The Company is currently evaluating the impact of this standard.

In March 2016, the FASB issued ASU No. 2016-07, Simplifying the Transition to the Equity Method of Accounting. This ASU amends Topic 323, Investments - Equity Method and Joint Ventures, which eliminates the requirement to retrospectively apply equity method accounting when an entity increases ownership or influence in a previously held investment. The ASU is effective for fiscal years beginning after December 15, 2016 and for interim periods therein. The adoption of this standard will not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (topic 842). Under the new ASU, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance lessor accounting is largely unchanged. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. This ASU is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of this standard.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory. This ASU amends Topic 330, Inventory. The ASU simplifies the measurement of inventory by requiring certain inventory to be measured at the lower of cost and net realizable value. The ASU is effective for financial statements issued for fiscal years beginning after December 15, 2016 and for interim periods therein. The adoption of this standard will not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued 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. In July 2015, the FASB deferred the elective date of the standard by one year. This ASU allows for either full retrospective or modified retrospective adoption and will become effective for the Company for the fiscal years beginning after December 15, 2017. The Company is currently evaluating the impact of this standard and the transition plan the Company will adopt.

(18) Guarantor Financial Information

The Company's 5.375% Notes and 4.75% Notes (see Note 7) are guaranteed on a senior unsecured basis by the following Notes Guarantors, each of which is a 100% directly or indirectly owned subsidiary of Darling and which constitute all of Darling's existing restricted subsidiaries that are Credit Agreement Guarantors (other than Darling's foreign subsidiaries, Darling Global Finance B.V., which issued the 4.75% Notes and is discussed further below, or any receivables entity): 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 Dubuque Inc., Sonac USA LLC and Rousselot Peabody Inc. In addition, the 4.75% Notes, which were issued by Darling Global Finance B.V., a wholly-owned indirect subsidiary of Darling, are guaranteed on a senior unsecured basis by Darling. The Notes Guarantors, and Darling in the case of the 4.75% Notes, fully and unconditionally guaranteed the 5.375% Notes and 4.75% Notes on a joint and several basis. The following financial statements present condensed consolidating financial data for (i) Darling, (ii) the combined Notes Guarantors, (iii) the combined other subsidiaries of the Company that did not guarantee the 5.375% Notes or the 4.75% 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 July 2, 2016 and January 2, 2016, 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 months ended July 2, 2016 and July 4, 2015. Separate financial information is not presented for Darling Global Finance B.V. since it was formed as a special purpose finance subsidiary for the purpose of issuing the 4.75% Notes and therefore does not have any substantial operations or assets.

Condensed Consolidating Balance Sheet
As of July 2, 2016
(in thousands)

	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	$1,229	$600	$ 155,986	$—	$ 157,815
Restricted cash	102	—	210	—	312
Accounts receivable	126,999	96,382	351,682	(175,186)	399,877
Inventories	16,250	99,575	248,537	—	364,362
Income taxes refundable	10,007	—	2,832	—	12,839
Prepaid expenses	14,148	2,675	26,308	—	43,131
Other current assets	7,554	244	23,643	(5,619)	25,822
Total current assets	176,289	199,476	809,198	(180,805)	1,004,158
Investment in subsidiaries	4,169,845	1,141,644	837,603	(6,149,092)	—
Property, plant and equipment, net	220,126	487,904	820,357	—	1,528,387
Intangible assets, net	15,751	308,891	444,785	—	769,427
Goodwill	21,860	549,690	686,930	—	1,258,480
Investment in unconsolidated subsidiaries	2,222	—	241,579	—	243,801
Other assets	32,068	499,298	323,245	(816,019)	38,592
Deferred taxes	—	—	17,049	—	17,049
	$4,638,161	$3,186,903	$ 4,180,746	$(7,145,916)	$ 4,859,894
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current portion of long-term debt	$5,718	$—	$ 30,743	$(5,619)	$ 30,842
Accounts payable	42,317	173,115	121,370	(159,499)	177,303
Income taxes payable	(384)	374	9,128	—	9,118
Accrued expenses	83,167	27,830	154,123	(15,685)	249,435
Total current liabilities	130,818	201,319	315,364	(180,803)	466,698
Long-term debt, net of current portion	1,214,335	—	1,476,179	(816,022)	1,874,492
Other noncurrent liabilities	56,972	—	36,720	—	93,692
Deferred income taxes	150,086	—	216,850	—	366,936
Total liabilities	1,552,211	201,319	2,045,113	(996,825)	2,801,818
Total stockholders' equity	3,085,950	2,985,584	2,135,633	(6,149,091)	2,058,076
	$4,638,161	$3,186,903	$ 4,180,746	$(7,145,916)	$ 4,859,894

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Condensed Consolidating Balance Sheet
As of January 2, 2016
(in thousands)

	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	$3,443	$3,993	$ 149,448	$—	$ 156,884
Restricted cash	102	—	229	—	331
Accounts receivable	184,472	81,644	310,932	(205,656)	371,392
Inventories	13,564	89,078	241,941	—	344,583
Income taxes refundable	7,695	—	4,268	—	11,963
Prepaid expenses	13,322	2,262	20,591	—	36,175
Other current assets	5,273	24	22,852	(17,689)	10,460
Total current assets	227,871	177,001	750,261	(223,345)	931,788
Investment in subsidiaries	4,072,855	1,141,644	837,604	(6,052,103)	—
Property, plant and equipment, net	224,208	477,446	806,513	—	1,508,167
Intangible assets, net	17,794	326,231	438,324	—	782,349
Goodwill	21,860	549,690	661,552	—	1,233,102
Investment in unconsolidated subsidiary	—	—	247,238	—	247,238
Other assets	36,488	499,764	314,893	(809,522)	41,623
Deferred income taxes	—	—	16,352	—	16,352
	$4,601,076	$3,171,776	$ 4,072,737	$(7,084,970)	$ 4,760,619
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current portion of long-term debt	$20,328	$—	$ 42,527	$(17,689)	$ 45,166
Accounts payable	6,981	210,926	122,136	(190,045)	149,998
Income taxes payable	(383)	373	6,689	—	6,679
Accrued expenses	82,854	29,037	143,547	(15,613)	239,825
Total current liabilities	109,780	240,336	314,899	(223,347)	441,668
Long-term debt, net of current portion	1,234,002	—	1,461,371	(809,522)	1,885,851
Other noncurrent liabilities	57,578	1,999	38,232	—	97,809
Deferred income taxes	147,416	—	213,265	—	360,681
Total liabilities	1,548,776	242,335	2,027,767	(1,032,869)	2,786,009
Total stockholders' equity	3,052,300	2,929,441	2,044,970	(6,052,101)	1,974,610
	$4,601,076	$3,171,776	$ 4,072,737	$(7,084,970)	$ 4,760,619

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Condensed Consolidating Statements of Operations
For the three months ended July 2, 2016
(in thousands)

	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
Net sales	$129,377	$342,879	$452,833	$(47,748)	$877,341
Cost and expenses:					
Cost of sales and operating expenses	99,788	272,746	352,329	(47,748)	677,115
Selling, general and administrative expenses	34,569	11,461	30,128	—	76,158
Acquisition and integration costs	—	—	70	—	70
Depreciation and amortization	9,412	24,102	36,017	—	69,531
Total costs and expenses	143,769	308,309	418,544	(47,748)	822,874
Operating income/(loss)	(14,392)	34,570	34,289	—	54,467
Interest expense	(15,338)	4,577	(13,219)	—	(23,980)
Foreign currency gains/(losses)	74	23	(89)	—	8
Other expense, net	(3,665)	127	1,165	—	(2,373)
Equity in net income/(loss) of unconsolidated subsidiaries	(355)	—	14,207	—	13,852
Earnings in investments in subsidiaries	68,020	—	—	(68,020)	—
Income/(loss) before taxes	34,344	39,297	36,353	(68,020)	41,974
Income taxes (benefit)	2,345	1,920	3,718	—	7,983
Net income attributable to noncontrolling interests	—	—	(1,992)	—	(1,992)
Net income/(loss) attributable to Darling	$31,999	$37,377	$30,643	$(68,020)	$31,999

Condensed Consolidating Statements of Operations
For the six months ended July 2, 2016
(in thousands)

	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
Net sales	$237,748	$646,644	$863,870	$(91,280)	$1,656,982
Cost and expenses:					
Cost of sales and operating expenses	189,271	509,082	668,935	(91,280)	1,276,008
Selling, general and administrative expenses	70,462	24,597	62,568	—	157,627
Acquisition and integration costs	—	—	401	—	401
Depreciation and amortization	20,837	50,910	70,040	—	141,787
Total costs and expenses	280,570	584,589	801,944	(91,280)	1,575,823
Operating income/(loss)	(42,822)	62,055	61,926	—	81,159
Interest expense	(30,860)	8,954	(25,975)	—	(47,881)
Foreign currency gains/(losses)	43	188	(2,826)	—	(2,595)
Other expense, net	(6,990)	122	3,190	—	(3,678)
Equity in net income/(loss) of unconsolidated subsidiaries	(452)	—	19,947	—	19,495
Earnings in investments in subsidiaries	96,991	—	—	(96,991)	—
Income/(loss) before taxes	15,910	71,319	56,262	(96,991)	46,500
Income taxes (benefit)	(17,168)	15,101	11,913	—	9,846

Net income attributable to noncontrolling interests	—	—	(3,576)	—	(3,576)
Net income/(loss) attributable to Darling	$ 33,078	$ 56,218	$ 40,773	$ (96,991)	$ 33,078

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Condensed Consolidating Statements of Operations
For the three months ended July 4, 2015
(in thousands)

	Parent	Guarantors	Non-guarantors	Eliminations	Consolidated
Net sales	$ 121,270	$ 345,030	$ 437,136	$ (44,121)	$ 859,315
Cost and expenses:					
Cost of sales and operating expenses	89,321	278,873	344,203	(44,121)	668,276
Selling, general and administrative expenses	35,124	13,169	36,001	—	84,294
Acquisition and integration costs	603	—	605	—	1,208
Depreciation and amortization	7,983	23,833	34,429	—	66,245
Total costs and expenses	133,031	315,875	415,238	(44,121)	820,023
Operating income/(loss)					