DARLING INTERNATIONAL INC
Form 10-Q
November 06, 2008

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 September 27, 2008

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 0-24620

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

Delaware (State or other jurisdiction of incorporation or organization)	36-2495346 (I.R.S. Employer Identification Number)
251 O'Connor Ridge Blvd., Suite 300 Irving, Texas (Address of principal executive offices)	 75038 (Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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	Smaller reporting company
			(Do not check if a smaller reporting company)	

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

There were 81,859,107 shares of common stock, $0.01 par value, outstanding at October 30, 2008.

DARLING INTERNATIONAL INC. AND SUBSIDIARIES
FORM 10-Q FOR THE THREE MONTHS ENDED SEPTEMBER 27, 2008

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DARLING INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
September 27, 2008 and December 29, 2007
(in thousands, except shares)

	September 27, 2008 (unaudited)	December 29, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 43,214	$ 16,335
Restricted cash	322	433
Accounts receivable, net	72,142	59,401
Inventories	29,623	22,481
Other current assets	6,796	8,417
Deferred income taxes	5,098	8,026
Total current assets	157,195	115,093
Property, plant and equipment, less accumulated depreciation of $207,865 at September 27, 2008 and $199,157 at December 29, 2007	138,993	128,685
Intangible assets, less accumulated amortization of $46,175 at September 27, 2008 and $42,481 at December 29, 2007	30,846	29,037
Goodwill	80,063	71,856
Other assets	6,177	6,667
	$ 413,274	$ 351,338
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 5,000	$ 6,250
Accounts payable, principally trade	31,735	24,879
Accrued expenses	45,221	49,579
Total current liabilities	81,956	80,708
Long-term debt, net	35,000	37,500
Other non-current liabilities	19,390	27,225
Deferred income taxes	4,372	4,921
Total liabilities	140,718	150,354
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value; 100,000,000 shares authorized;	822	815

82,169,076 and 81,544,466 shares issued and outstanding at September 27, 2008 and at December 29, 2007, respectively		
Additional paid-in capital	156,973	152,264
Treasury stock, at cost; 309,969 and 182,366 shares at September 27, 2008 and December 29, 2007, respectively	(3,520)	(1,547)
Accumulated other comprehensive loss	(8,303)	(8,598)
Retained earnings	126,584	58,050
Total stockholders' equity	272,556	200,984
	$ 413,274	$ 351,338

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

DARLING INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
Three months and nine months ended September 27, 2008 and September 29, 2007
(in thousands, except per share data)
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Net sales	$ 236,227	$ 171,831	$ 659,041	$ 469,868
Costs and expenses:				
Cost of sales and operating expenses	177,745	130,889	485,339	356,058
Selling, general and administrative expenses	15,371	14,285	44,052	41,161
Depreciation and amortization	5,799	5,647	17,436	17,186
Total costs and expenses	198,915	150,821	546,827	414,405
Operating income	37,312	21,010	112,214	55,463
Other income/(expense):				
Interest expense	(714)	(1,166)	(2,334)	(4,125)
Other, net	97	(105)	397	(636)
Total other income/(expense)	(617)	(1,271)	(1,937)	(4,761)
Income from operations before income taxes	36,695	19,739	110,277	50,702
Income taxes expense	13,701	7,639	41,743	19,540
Net income	$ 22,994	$ 12,100	$ 68,534	$ 31,162
Basic income per share:	$ 0.28	$ 0.15	$ 0.84	$ 0.39
Diluted income per share:	$ 0.28	$ 0.15	$ 0.83	$ 0.38

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

DARLING INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Nine months ended September 27, 2008 and September 29, 2007
(in thousands)
(unaudited)

	September 27, 2008	September 29, 2007
Cash flows from operating activities:		
Net income	$ 68,534	$ 31,162
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,436	17,186
Loss (gain) on disposal of property, plant, equipment and other assets	(74)	46
Deferred taxes	2,379	2,018
Stock-based compensation expense	672	1,115
Changes in operating assets and liabilities, net of effect of acquisition:		
Restricted cash	111	40
Accounts receivable	(12,741)	(12,201)
Inventories and prepaid expenses	(8,683)	(9,195)
Accounts payable and accrued expenses	4,863	11,618
Other	(5,883)	(2,355)
Net cash provided by operating activities	66,614	39,434
Cash flows from investing activities:		
Capital expenditures	(21,032)	(10,208)
Acquisition	(17,440)	–
Gross proceeds from disposal of property, plant and equipment and other assets	881	131
Payments related to routes and other intangibles	–	(239)
Net cash used by investing activities	(37,591)	(10,316)
Cash flows from financing activities:		
Proceeds from debt	–	40,000
Payments on debt	(3,750)	(68,254)
Deferred loan costs	–	(20)
Contract payments	(134)	(121)
Issuance of common stock	303	495
Minimum withholding taxes paid on stock awards	(871)	(1,375)
Excess tax benefits from stock-based compensation	2,308	749
Net cash used by financing activities	(2,144)	(28,526)

Net increase in cash and cash equivalents		26,879		592
Cash and cash equivalents at beginning of period		16,335		5,281
Cash and cash equivalents at end of period	$	43,214	$	5,873
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	$	1,657	$	4,153
Income taxes, net of refunds	$	38,901	$	22,332

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

DARLING INTERNATIONAL INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 27, 2008
(unaudited)

(1) General

The accompanying consolidated financial statements for the three and nine month periods ended September 27, 2008 and September 29, 2007 have been prepared in accordance with generally accepted accounting principles in the United States by Darling International Inc. ("Darling") and its subsidiaries (Darling and its subsidiaries are collectively referred to herein as the "Company") without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The information furnished herein reflects all adjustments (consisting only of normal recurring accruals) that are, in the opinion of management, necessary to present a fair statement of the financial position and operating results of the Company as of and for the respective periods. However, these operating results are not necessarily indicative of the results expected for a full fiscal year. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. However, management of the Company believes, to the best of its knowledge, that the disclosures herein are adequate to make the information presented not misleading. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements contained in the Company's Form 10-K for the fiscal year ended December 29, 2007.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

(b) Fiscal Periods

The Company has a 52/53 week fiscal year ending on the Saturday nearest December 31. Fiscal periods for the consolidated financial statements included herein are as of September 27, 2008, and include the 13 weeks and 39 weeks ended September 27, 2008, and the 13 weeks and 39 weeks ended September 29, 2007.

(c) Earnings per Share

Basic income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period increased by dilutive common equivalent shares determined using the treasury stock method.

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

	Three Months Ended					
	September 27, 2008			September 29, 2007		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic:						
Net Income	$ 22,994	81,516	$ 0.28	$ 12,100	80,983	$ 0.15
Diluted:						
Effect of dilutive securities:						
Add: Option shares in the money		995			1,599	
Less: Pro forma treasury shares		(326)			(606)	
Diluted:						
Net income	$ 22,994	82,185	$ 0.28	$ 12,100	81,976	$ 0.15

	Nine Months Ended					
	September 27, 2008			September 29, 2007		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic:						
Net Income	$ 68,534	81,313	$ 0.84	$ 31,162	80,675	$ 0.39
Diluted:						
Effect of dilutive securities:						
Add: Option shares in the money		1,261			1,865	
Less: Pro forma treasury shares		(405)			(690)	
Diluted:						
Net income		82,169	$ 0.83		81,850	$ 0.38

$ 68,534	$ 31,162

For the three months ended September 27, 2008 and September 29, 2007, respectively, 20,000 and 8,000 outstanding stock options were excluded from diluted income per common share as the effect was antidilutive. For the three months ended September 27, 2008 and September 29, 2007, respectively, 119,903 and 92,923 shares of non-vested stock and restricted stock were excluded from diluted income per common share as the effect was antidilutive. For the three months ended September 27, 2008 and September 29, 2007, respectively, zero and 11,852 shares of contingent issuable stock were excluded from diluted income per common share as the effect was antidilutive.

For the nine months ended September 27, 2008 and September 29, 2007, respectively, 15,678 and 8,000 outstanding stock options were excluded from diluted income per common share as the effect was antidilutive. For the nine months ended September 27, 2008 and September 29, 2007, respectively, 103,374 and 123,604 shares of non-vested stock and restricted stock were excluded from diluted income per common share as the effect was antidilutive. For the nine months ended September 27, 2008 and September 29, 2007, respectively, zero and 75,134 shares of contingent issuable stock were excluded from diluted income per common share as the effect was antidilutive.

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(3) Acquisition

On August 25, 2008, Darling completed the acquisition of substantially all of the assets of API Recycling's used cooking oil collection business (the "API Transaction"). API Recycling is a division of American Proteins, Inc. The purchase was accounted for as an asset purchase pursuant to the terms of the asset purchase agreement between the Company and American Proteins, Inc. The assets acquired in the API Transaction will increase the Company's capabilities to grow revenues and continue the Company's strategy of broadening its restaurant services segment.

Effective August 25, 2008, the Company began including the operations of the API Transaction into the Company's consolidated financial statements. Pro forma results of operations have not been presented because the effect of the acquisition is not material. The Company paid approximately $17.4 million, which consists of property, plant and equipment of $3.4 million, intangible assets of $5.5 million, goodwill of $8.2 million and other of $0.3 million on the closing date. This amount will be adjusted downward if certain raw material volumes are not achieved during the 91 days following the closing date. In addition, the Company could be required to pay additional consideration, which the Company does not expect to be material, if certain average market prices are achieved over the next three anniversaries of the closing of the API Transaction.

(4) Contingencies

LITIGATION

The Company is a party to several lawsuits, claims and loss contingencies arising in the ordinary course of its business, including assertions by certain regulatory agencies related to 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 such claims are paid by the Company.

As a result of the matters discussed above, the Company has established loss reserves for insurance, environmental and litigation matters. At September 27, 2008 and December 29, 2007, the reserves for insurance, environmental and litigation contingencies reflected on the balance sheet in accrued expenses and other non-current liabilities for which there are no potential insurance recoveries were approximately $17.7 million and $17.1 million, respectively. Management of the Company 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 such lawsuits and claims that may not be covered by insurance would have a material effect on the financial statements.

In July 2007, a judgment was entered in a litigation matter involving a contract dispute in which the Company was a party. The judgment required the Company to convey an unused parcel of property recorded on the books for approximately $500,000 to the counterparty for that amount. In December 2007, a judgment was entered in the matter awarding the counterparty approximately $2.6 million in attorneys' fees and costs. The Company filed appeals of both judgments. The Company settled this matter during the first quarter of fiscal 2008. Pursuant to the terms of the settlement, the Company transferred the property to the counterparty for a purchase price of $500,000, paid the

counterparty approximately $2.2 million towards attorneys' fees and costs and agreed to dismiss its pending appeals with prejudice. In addition, the parties exchanged mutual releases. The Company recorded a charge of approximately $2.2 million in the fourth quarter of 2007.

In June 2006, the Company was awarded damages of approximately $7.4 million as a result of a service provider's failure to provide steam under a service agreement to one of the Company's plants. At the time the damages were awarded, collectibility of such damages was uncertain; however, on October 12, 2006, the Company entered into an agreement to sell its rights to such damages to a third party for $2.2 million in cash. The agreement was made subject to certain conditions that were satisfied on March 1, 2007. On March 8, 2007, the Company received $2.2 million and transferred its damage award to the third party. The Company recorded a gain with the receipt of the $2.2 million in proceeds in the first quarter of 2007.

(5) Business Segments

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

Included in corporate activities are general corporate expenses and the amortization of intangibles. Assets of corporate activities include cash, unallocated prepaid expenses, deferred tax assets, prepaid pension and miscellaneous other assets. The assets from the API Transaction are reflected in the Restaurant Services segment.

Rendering

Rendering consists of the collection and processing of animal by-products, including hides, from butcher shops, grocery stores, food service establishments and meat and poultry processors, and converting these into useable oils and proteins principally utilized by the agricultural, leather and oleo-chemical industries and in the production of bio-diesel.

Restaurant Services

Restaurant Services consists of the collection of used cooking oils from food service establishments and recycling them into products used as high-energy animal feed ingredients, industrial oils and in the production of bio-diesel. Restaurant Services also provides grease trap servicing. The National Service Center ("NSC") is included in Restaurant Services. The NSC contracts for and schedules services such as fat and bone and used cooking oil collection as well as trap cleaning for contracted customers using the Company's resources or third party providers.

The Company received proceeds of $2.2 million during the first quarter of fiscal 2007 as a result of a service provider's failure to provide steam under a service agreement to one of the Company's plants. The Company recorded approximately $1.2 million of the proceeds as a reduction of cost of sales in the Company's rendering segment and approximately $1.0 million as a reduction of selling and general and administrative costs in the corporate segment.

Business Segment Net Sales (in thousands):

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Rendering:				
Trade	$ 168,233	$ 122,229	$ 472,883	$ 335,829
Intersegment	14,939	12,728	45,471	31,106
	183,172	134,957	518,354	366,935
Restaurant Services:				
Trade	67,994	49,602	186,158	134,039
Intersegment	3,696	1,351	7,822	3,631
	71,690	50,953	193,980	137,670
Eliminations	(18,635)	(14,079)	(53,293)	(34,737)
Total	$ 236,227	$ 171,831	$ 659,041	$ 469,868

Business Segment Profit (in thousands):

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Rendering	$ 35,667	$ 21,072	$ 106,181	$ 56,435
Restaurant Services	10,678	9,395	34,217	26,810
Corporate	(22,637)	(17,201)	(69,530)	(47,958)
Interest expense	(714)	(1,166)	(2,334)	(4,125)
Income from continuing operations	$ 22,994	$ 12,100	$ 68,534	$ 31,162

Certain assets are not attributable to a single operating segment but instead relate to multiple operating segments operating out of individual locations. These assets are utilized by both the Rendering and Restaurant Services business segments and are identified in the category called Combined Rendering/Restaurant Services. Depreciation of Combined Rendering/Restaurant Services assets is allocated based upon management's estimate of the percentage of corresponding activity attributed to each segment.

Business Segment Assets (in thousands):

	September 27,	December 29,

	2008	2007
Rendering	$ 178,477	$ 162,091
Restaurant Services	55,114	40,518
Combined Rendering/Restaurant Services	114,249	106,958
Corporate	65,434	41,771
Total	$ 413,274	$ 351,338

(6) Income Taxes

The Company has provided income taxes for the three-month and nine-month period ended September 27, 2008 and September 29, 2007, based on its estimate of the effective tax rate for the entire 2008 and 2007 fiscal years.

In determining whether its deferred tax assets are more likely than not to be recoverable, the Company considers all positive and negative evidence currently available to support projections of future taxable income. The Company is unable to carry back any of its net operating losses and recent favorable operating results do provide sufficient historical evidence at this time of sustained future profitability sufficient to result in taxable income against which certain net operating losses can be carried forward and utilized.

In 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109 ("FIN 48"), which prescribes accounting for and disclosure of uncertainty in tax positions. This interpretation defines the criteria that must be met for the benefits of a tax position to be recognized in the financial statements and the measurement of tax benefits recognized. Effective December 31, 2006 the Company adopted the provisions of FIN 48 resulting in a reduction in the Company's existing reserves for uncertain state and federal income tax positions of approximately $0.1 million. This reduction was recorded as a cumulative effect adjustment to retained earnings. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense.

The Company's major taxing jurisdiction is the U.S. (federal and state). The Company is no longer subject to federal examinations on years prior to fiscal 2005. The number of years open for state tax audits varies, depending on the tax jurisdiction, but is generally from three to five years. Currently, several state examinations are in progress. The Company does not anticipate that any state or federal audits will have a significant impact on the Company's results of operations or financial position. In addition, the Company does not reasonably expect any significant changes to the estimated amount of liability associated with the Company's unrecognized tax positions in the next twelve months.

(7) Financing

The Company entered into a $175 million credit agreement (the "Credit Agreement") effective April 7, 2006. The Credit Agreement provides for a total of $175.0 million in financing facilities, consisting of a $50.0 million term loan facility and a $125.0 million revolver facility, which includes a $35.0 million letter of credit sub-facility. As of September 27, 2008, the Company has borrowed all $50.0 million under the term loan facility, which provides for quarterly scheduled amortization payments of $1.25 million over a six-year term ending April 7, 2012; at that point, the remaining balance of $22.5 million will be payable in full. The revolving credit facility has a five-year term ending April 7, 2011. The proceeds of the revolving credit facility may be used for: (i) the payment of fees and expenses payable in connection with the Credit Agreement, acquisitions and the repayment of indebtedness; (ii) financing the working capital needs of the Company; and (iii) other general corporate purposes.

The Credit Agreement allows for borrowings at per annum rates based on the following loan types. Alternate base rate loans under the Credit Agreement will bear interest at a rate per annum based on the greater of (a) the prime rate and (b) the federal funds effective rate (as defined in the Credit Agreement) plus 1/2 of 1% plus, in each case, a margin determined by reference to a pricing grid and adjusted according to the Company’s adjusted leverage ratio. Eurodollar loans will bear interest at a rate per annum based on the then applicable London Inter-Bank Offer Rate ("LIBOR") multiplied by the statutory reserve rate plus a margin determined by reference to a pricing grid and adjusted according to the Company’s adjusted leverage ratio. At September 27, 2008 under the Credit Agreement, the interest rate for $40.0 million of the term loan that remained outstanding was based on LIBOR plus a margin of 1.0% per annum for a total of 3.8125% per annum. At September 27, 2008 there were no outstanding borrowings under the Company’s revolving facility.

On October 8, 2008, the Company entered into an amendment (the “Amendment”) with its lenders under its Credit Agreement. The Amendment increases the Company’s flexibility to make investments in third parties. Pursuant to the Amendment, the Company can make investments in third parties provided that (i) no default under the Credit Agreement exists or would result at the time such investment is committed to be made, (ii) certain specified defaults do not exist or would result at the time such investment is actually made, and (iii) after giving pro forma effect to such investment, the leverage ratio (as determined in accordance with the terms of the Credit Agreement) is less than 2.00 to 1.00 for the most recent four fiscal quarter period then ended. In addition, the Amendment increases the amount of intercompany investments permitted among the Company and any of its subsidiaries that are not parties to the Credit Agreement from $2.0 million to $10.0 million.

The Credit Agreement contains certain restrictive covenants that are customary for similar credit arrangements and requires the maintenance of certain minimum financial ratios. The Credit Agreement also requires the Company to make certain mandatory prepayments of outstanding indebtedness using the net cash proceeds received from certain dispositions of property, casualty or condemnation, any sale or issuance of equity interests in a public offering or in a private placement, unpermitted additional indebtedness incurred by the Company, and excess cash flow under certain circumstances.

The Credit Agreement consisted of the following elements at September 27, 2008 and December 29, 2007, respectively (in thousands):

	September 27, 2008	December 29, 2007
Term Loan	$ 40,000	$ 43,750
Revolving Credit Facility:		
Maximum availability	$ 125,000	$ 125,000
Borrowings outstanding	–	–
Letters of credit issued	16,424	18,881
Availability	$ 108,576	$ 106,119

The obligations under the Credit Agreement are guaranteed by Darling National LLC, a Delaware limited liability company that is a wholly-owned subsidiary of Darling (“Darling National”), and are secured by substantially all of the property of the Company, including a pledge of all equity interests in Darling National. As of September 27, 2008, the Company was in compliance with all the covenants contained in the Credit Agreement. At September 27, 2008,

the Company had unrestricted cash of $43.2 million, compared to unrestricted cash of $16.3 million at December 29, 2007 and $5.9 million at September 29, 2007.

(8) Derivative Instruments

The Company makes limited use of derivative instruments to manage cash flow risks related to interest and natural gas expense. Interest rate swaps are entered into with the intent of managing overall borrowing costs by reducing the potential impact of increases in interest rates on floating-rate long-term debt. The Company does not use derivative instruments for trading purposes.

Under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"), 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.

On May 19, 2006, the Company entered into two interest rate swap agreements that are considered cash flow hedges according to SFAS 133. Under the terms of these swap agreements, beginning June 30, 2006, the cash flows from the Company's $50.0 million floating-rate term loan facility under the Credit Agreement have been exchanged for fixed-rate contracts that bear interest, payable quarterly. The first swap agreement for $25.0 million matures April 7, 2012 and bears interest at 5.42%, which does not include the borrowing spread per the Credit Agreement, with amortizing payments that mirror the term loan facility. The second swap agreement for $25.0 million matures April 7, 2012 and bears interest at 5.415%, which does not include the borrowing spread per the Credit Agreement, with amortizing payments that mirror the term loan facility. The Company's receive rate on each swap agreement is based on three-month LIBOR. At September 27, 2008, the fair value of these interest swap agreements was $1.7 million and is included in non-current other liabilities on the balance sheet, with the offset recorded to accumulated other comprehensive loss.

A summary of the derivative adjustments recorded to accumulated other comprehensive loss, the net change arising from hedging transactions, and the amounts recognized in earnings during the three and nine months ended September 27, 2008 and September 29, 2007 are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Derivative adjustment included in accumulated other comprehensive loss at beginning of period	$ 1,051	$ 66	$ 1,143	$ 408
Net change arising from current period hedging transactions	281	547	536	219

Reclassifications into earnings		(267)		(7)		(614)	(21)
Accumulated other comprehensive loss (a)	$	1,065	$	606	$	1,065	$ 606

(a) Reported as other comprehensive loss of approximately $1.7 million and $1.0 million recorded net of taxes of approximately $0.6 million and $0.4 million for the three and nine months ended September 27, 2008 and September 29, 2007, respectively.

At September 27, 2008, the Company has forward purchase agreements in place for purchases of approximately $14.8 million of natural gas. These forward purchase agreements have no net settlement provisions and the Company intends to take physical delivery. Accordingly, the forward purchase agreements are not derivatives because they qualify as normal purchases, as defined in SFAS 133.

(9) Comprehensive Income

For the three months ended September 27, 2008 and September 29, 2007, total comprehensive income was $23.1 million and $11.8 million, respectively. For the nine months ended September 27, 2008, and September 29, 2007, total comprehensive income was $68.8 million and $31.5 million, respectively.

(10) Revenue Recognition

The Company recognizes revenue on sales when products are shipped and the customer takes ownership and assumes risk of loss. Collection fees are recognized in the month service is provided.

(11) Employee Benefit Plans

The Company has retirement and pension plans covering substantially all of its employees. Most retirement benefits are provided by the Company under separate final-pay noncontributory and contributory defined benefit and defined contribution plans for all salaried and hourly employees (excluding those covered by union-sponsored plans) who meet service and age requirements. Defined benefits are based principally on length of service and earnings patterns during the five years preceding retirement.

Effective January 1, 2008, the Darling National LLC Pension Retirement Plan was merged into the Darling International Inc. Hourly Employees' Retirement Plan, which plan was then amended and restated. Employees from both plans are entitled to their accrued benefit as of December 31, 2007 under their prior plan design, plus benefit accruals after January 1, 2008 using the new benefit of $20 for each year of service with no cap on service years. Previously, these hourly employees had been accruing $20-$30 per year of service, depending on location of employment.

Also effective January 1, 2008, the Darling International Inc. Salaried Employees' Retirement Plan, a defined benefit plan, was amended. Effective January 1, 2008, all of the Company's eligible salaried employees participate in this plan, including all former Darling National salaried employees who did not have a defined benefit plan prior to January 1, 2008. All eligible salaried employees are entitled to their accrued benefit as of December 31, 2007, which accrued benefit is an amount equal to 1.8% times years of service (up to 25 years) times final average pay plus 0.5% for each additional service year beyond 25 years, with a total service year cap of 40 years. Effective January 1, 2008, for service years earned going forward, the benefit accrual will be 0.25% times years of service times final average pay.

Also effective January 1, 2008, the Darling National LLC Retirement Savings Plan was amended and restated to, among other things, update the plan for the Economic Growth and Tax Relief Reconciliation Act and change the name of the plan to the Darling International Inc. Hourly 401(k) Savings Plan. Effective January 1, 2008, all of the Company's hourly employees are eligible to participate in this plan, which allows for elective deferrals, an employer match equal to 100% of the first $10 per pay period deferred by a participant, with a maximum of $520 per year, and

an employer contribution equal to $520 per year. Previously, certain of the Company's hourly employees were only given the opportunity to make deferrals. The $520 employer contribution will be a new contribution for all participating hourly employees. This plan accepted the transfer of assets and liabilities of the hourly employees that had account balances in the Darling International Inc. 401(k) Savings Plan which existed prior to January 1, 2008.

Effective January 1, 2008, the Darling International Inc. 401(k) Savings Plan, a defined contribution plan, was amended and restated and became the Darling International Inc. Salaried 401(k) Savings Plan and now includes all eligible salaried employees. This plan received the assets and liabilities of participating salaried employees under the Darling National LLC Retirement Savings Plan. Effective January 1, 2008, the Darling International Inc. Salaried 401(k) Savings Plan includes an employer contribution based on age (ranging from 2-5% of compensation per year), and will continue to allow for employee deferrals. Previously, only the Darling National employees received an employer match, which was equal to 100% of the first $10 per pay period deferred by a participant, with a maximum of $520 per year.

Net pension cost for the three and nine months ended September 27, 2008 and September 29, 2007 includes the following components (in thousands):

	Three Months Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Service cost	$ 266	$ 582	$ 800	$ 1,746
Interest cost	1,361	1,252	4,081	3,758
Expected return on plan assets	(1,650)	(1,409)	(4,951)	(4,227)
Amortization of prior service cost	30	30	92	88
Amortization of net loss	87	288	261	864
Net pension cost	$ 94	$ 743	$ 283	$ 2,229

Contributions

The Company's funding policy for employee benefit pension plans is to contribute annually not less than the minimum amount required nor more than the maximum amount that can be deducted for federal income tax purposes. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. Based on actuarial estimates at September 27, 2007, the Company expects to make contributions of approximately $0.2 million to meet funding requirements for its pension plans during the next twelve months. Additionally, the Company has made tax deductible discretionary contributions to its pension plans for the nine months ended September 27, 2008 of approximately $6.5 million.

The Company participates in several multi-employer pension plans which provide defined benefits to certain employees covered by labor contracts. One multi-employer plan in which the Company participates has given notification of a mass withdrawal termination for the plan year ended June 30, 2007. In April 2008 the Company made a lump sum settlement payment to the one multi-employer plan that terminated for approximately $1.4 million, which included a release for any future liability. Therefore, at September 27, 2008 the Company has no recorded liability related to this termination.

(12) Fair Value Measurement

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective as of the beginning of fiscal year 2008. In February 2008, the FASB issued FASB Staff Position ("FSP") No. 157-2, which deferred the effective date for certain portions of SFAS 157 related to nonrecurring measurements of nonfinancial assets and liabilities. That provision of SFAS 157 will be effective for the Company's fiscal year 2009. The adoption of SFAS 157 did not have a material impact on the Company's fair value measurements.

The following table presents the Company's financial instruments that are measured at fair value on a recurring basis as of September 27, 2008 and are categorized using the fair value hierarchy under SFAS 157. The fair value hierarchy has three levels based on the reliability of the inputs used to determine the fair value.

		Fair Value Measurements at September 27, 2008 Using		
(In thousands of dollars)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative liabilities	$ (1,739)	$ —	$ (1,739)	$ —
Total	$ (1,739)	$ —	$ (1,739)	$ —

Derivative liabilities consist of the Company's interest rate swap contracts, which represent the present value of yield curves observable at commonly quoted intervals for similar assets and liabilities in active markets considering the instrument's term, notional amount, discount rate and credit risk.

(13) New Accounting Pronouncements

In February 2007, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"), which allows entities to choose to measure financial instruments and certain other items at fair value. This statement is effective for fiscal years beginning after November 15, 2007. The Company has adopted SFAS 159 and has elected not to account for any additional financial instruments and other items at fair value.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS 141(R)"), which is a revision of SFAS 141, "Business Combinations." SFAS 141(R) applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141(R) requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of

acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under SFAS 141 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS 141(R) requires acquirers to expense acquisition related costs as incurred rather than allocating these costs to assets acquired and liabilities assumed, as was done under SFAS 141. The provisions of SFAS 141(R) are effective for fiscal years beginning after December 15, 2008. Early adoption is not permitted. The Company is currently evaluating the impact of adopting this accounting standard.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" ("SFAS 161"). This statement is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity's derivative instruments and hedging activities and their effects on the entity's financial position, financial performance, and cash flows. SFAS 161 applies to all derivative instruments within the scope of SFAS 133 as well as related hedged items, bifurcated derivatives, and nonderivative instruments that are designated and qualify as hedging instruments. The fair value of derivative instruments and their gains and losses will need to be presented in tabular format in order to present a more complete picture of the effects of using derivative instruments. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early application permitted. The Company is currently evaluating the impact of adopting this accounting standard.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" (SFAS 162). The purpose of the new standard is to provide a consistent framework for determining what accounting principles should be used when preparing U.S. generally accepted accounting principle financial statements. Previous guidance did not properly rank the accounting literature. The new standard is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The adoption of SFAS 162 is not expected to have a material effect on the Company's financial statements.

In October 2008, the FASB issued FASB Staff Position No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active." This staff position clarifies the application of SFAS 157 in determining the fair values of assets or liabilities in a market that is not active. This staff position became effective upon issuance, including prior periods for which financial statements have not been issued. The Company has adopted this staff position for the consolidated financial statements contained within this Form 10-Q. The adoption of this staff position did not have an impact to the consolidated financial statements of the Company.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth below under the heading "Forward Looking Statements" and elsewhere in this report, and under the heading "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 29, 2007, and in the Company's other public filings with the SEC.

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

Overview

The Company is a leading provider of rendering, recycling and recovery solutions to the nation's food industry. The Company collects and recycles animal by-products and used cooking oil from food service establishments and provides grease trap cleaning services to many of the same establishments. The Company's operations are organized into two segments: Rendering and Restaurant Services. The Company processes raw materials at 40 facilities located throughout the U.S. into finished products such as protein (primarily meat and bone meal, "MBM"), tallow (primarily bleachable fancy tallow, "BFT"), yellow grease ("YG") and hides. The Company sells these products nationally and internationally, primarily to producers of oleo-chemicals, bio-fuels, soaps, pet foods, leather goods and livestock feed for use as ingredients in their products or for further processing. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements contained in the Company's Form 10-K for the fiscal year ended December 29, 2007.

Earnings for the third quarter of fiscal 2008 continued to reflect the strong commodity prices the Company has enjoyed throughout the nine months of fiscal 2008. Finished product prices remained historically strong during the third quarter of fiscal 2008, but began declining in the latter part of the third quarter. Raw material volumes declined slightly as financial turmoil and negative business conditions forced the closure of several raw material suppliers which more than offset seasonal dead stock volume gains. For the nine months ended September 27, 2008 compared to the nine months ended September 29, 2007, the Company's volume declined slightly. Operating costs increased significantly as energy prices during third quarter of fiscal 2008 peaked for both natural gas and diesel fuel. Overall, the Company's balance sheet remains strong and the Company was able to complete the acquisition of a multi-location grease recycling business in Georgia.

Operating income increased by $16.3 million in the third quarter of fiscal 2008 compared to the third quarter of fiscal 2007. The challenges faced by the Company indicate there can be no assurance that operating results achieved by the Company in the third quarter of fiscal 2008 are indicative of future operating performance of the Company.

Summary of Critical Issues Faced by the Company During the Third Quarter of 2008

- Higher finished product prices during the third quarter of fiscal 2008 were indicative of tightening grain and oilseed supplies driven by a combination of new demand for bio-fuels, growing consumption in China and India and back-to-back droughts in various grain and oilseed producing regions of the world. Higher finished product prices

for BFT and YG were favorable to the Company's sales revenue, but this favorable result was partially offset by the negative impact on raw material cost, due to the Company's formula pricing arrangements with raw material suppliers, which index raw material cost to the prices of finished product derived from the raw material. The financial impact of finished goods prices on sales revenue and raw material cost is summarized below in Results of Operations. Comparative sales price information from the Jacobsen index, an established trading exchange publisher used by management, is listed below in Summary of Key Indicators.

- The Company has the ability to burn alternative fuels, including its fats and greases, at a majority of its plants as a way to help manage the Company's exposure to high natural gas prices. Beginning October 1, 2006, the federal government effected a program which provides federal tax credits under certain circumstances for commercial use of alternative fuels in lieu of fossil-based fuels. Beginning in the fourth quarter of 2006, the Company filed documentation with the Internal Revenue Service ("IRS") to recover these Alternative Fuel Mixture Credits as a result of its use of fats and greases to fuel boilers at its plants. The Company has received approval from the IRS to apply for these credits. However, the federal regulations relating to the Alternative Fuel Mixture Credits are complex and further clarification is needed by the Company prior to recognition of certain tax credits received. As of September 27, 2008, the Company has $0.7 million of received credits included in current liabilities on the balance sheet as deferred income while the Company pursues further clarification. The Company will continue to evaluate the option of burning alternative fuels at its plants in future periods depending on the price relationship between alternative fuels and natural gas.

Summary of Critical Issues and Known Trends Faced by the Company in 2008 and Thereafter

BSE and Other Food Safety Issues

- On April 25, 2008, the Food and Drug Administration ("FDA") published "Substances Prohibited From Use in Animal Food or Feed," a Final Rule (the "Final BSE Rule"), which becomes effective on April 27, 2009 and finalizes changes to 21 CFR 589.2000. Promulgated August 1997 to mitigate the potential risk of spreading bovine spongiform encephalopathy ("BSE") in the U.S., 21 CFR 589.2000 prohibits the use of mammalian proteins, with some exceptions, in feed for cattle, sheep and other ruminant animals. The Final BSE Rule amends 21 CFR 589.2000 by prohibiting the use of certain cattle materials in all feed and food for animals. Such prohibited cattle materials include: (1) the entire carcass of cattle positive for BSE; (2) brain and spinal cord from cattle aged 30 months and older; and (3) the entire carcass of cattle aged 30 months and older that were not inspected and passed for human consumption and from which the brain and spinal cord were not "effectively" removed; and (4) tallow derived from the listed prohibited cattle materials unless such tallow contains no more than 0.15% insoluble impurities. The Final BSE Rule also prohibits the use of tallow derived from any cattle materials in feed for cattle and other ruminant animals, if such tallow contains more than 0.15% insoluble impurities. Except for these new restrictions on tallow, materials derived from cattle younger than 30 months of age and not positive for BSE are not affected by the Final BSE Rule and may still be used in feed and food for animals pursuant to 21 CFR 589.2000. The insoluble impurity restrictions for tallow, however, do not affect its use in feed for poultry, pigs and other non-ruminant animals, unless such tallow was derived from the cattle materials prohibited by the Final BSE Rule. In connection with its release of the Final BSE Rule, the FDA has stated that it will issue further guidance on the implementation of certain aspects of the Final BSE Rule. Affirmation that such guidance is forthcoming was provided by the FDA on July 15, 2008, when it released "Feed Ban Enhancement Implementation: Questions and Answers" to address initial questions about the Final BSE Rule submitted to the FDA by industry; however, such guidance had not been issued as of October 30, 2008. The Company will be unable to fully determine the potential impact of the Final BSE Rule on the Company's operations until the guidance has been issued. However, the Company has followed this rulemaking process throughout its history in order to assess and minimize the impact of its implementation on the Company. Based on the foregoing, while the Company believes that there are interpretive and enforcement issues with respect to the Final BSE Rule that require clarification and guidance from the FDA and that certain capital expenditures will be required for compliance, the Company does not currently anticipate that the Final BSE Rule will have a significant impact on its operations or financial performance. Notwithstanding the foregoing, the Company can provide no assurance that unanticipated costs and/or reductions in raw material volumes related to the Company's implementation of and compliance with the Final BSE Rule will not negatively impact the Company's operations and financial performance.

- Avian influenza ("H5N1"), or Bird Flu, a highly contagious disease that affects chickens and other poultry species, has spread throughout Asia and Europe. The H5N1 strain is highly pathogenic, which has caused concern that a pandemic could occur if the disease migrates from birds to humans. This highly pathogenic strain has not been detected in North or South America as of October 24, 2008, but low pathogenic strains that are not a threat to human health were reported in the U.S. and Canada in recent years, with the most recent incidence confirmed in an Arkansas poultry flock in June 2008. The U.S. Department of Agriculture ("USDA") has developed safeguards to protect the U.S. poultry industry from H5N1. These safeguards are based on import restrictions, disease surveillance and a response plan for isolating and depopulating infected flocks if the disease is detected. Notwithstanding these safeguards, any significant outbreak of Bird Flu in the U.S. could have a negative impact on the Company's business by reducing demand for MBM.

  - On May 13, 2008, the FDA held a public meeting to present the agency's rulemaking intentions regarding the Food and Drug Administration Amendments Act of 2007 ("the Act") and to receive public comments on such intended actions. The Act was signed into law on September 27, 2007 as a result of Congressional concern for pet and livestock food safety, following the discovery of adulterated imported pet and livestock food in March 2007. The Act directs the Secretary of Health and Human Services ("HHS") and the FDA to promulgate significant new requirements for the pet food and animal feed industries. The impact of the Act on the Company, if any, will not be clear until the FDA completes the rulemaking process and publishes written guidance or new regulations.

- On November 7, 2007, the FDA released its Food Protection Plan (the "2007 Plan"), which describes prevention, intervention and response strategies the FDA proposes to use for improving food and animal feed safety for imported and domestically produced ingredients and products. The 2007 Plan also lists additional resources and authorities that, in the FDA's opinion, are needed to implement the 2007 Plan. Legislation will be necessary for the FDA to obtain these additional authorities. As of October 30, 2008, Congress has not granted such new authorities to the FDA.

Other Critical Issues and Challenges:

- Finished product prices for commodities have declined significantly subsequent to the third quarter of fiscal 2008. No assurance can be given that this significant decline in commodity prices for BFT, YG and MBM will not continue in the future. These declines, coupled with the current decline of the general performance of the U.S. economy and the inability of consumers and companies to obtain credit due to the current lack of liquidity in the financial markets, could have a significant impact on the Company's earnings in the fourth quarter of fiscal 2008 and into future periods.

- Energy prices for natural gas and diesel fuel have declined significantly subsequent to the third quarter of fiscal 2008. No assurance can be given that prices for natural gas and diesel fuel will continue to decline or remain low in the future. The Company consumes significant volumes of natural gas to operate boilers in its plants, which generate steam to heat raw material. High natural gas prices represent a significant cost of factory operation included in cost of sales. The Company also consumes significant volumes of diesel fuel to operate its fleet of tractors and trucks used to collect raw material. High diesel fuel prices represent a significant component of cost of collection expenses included in cost of sales. Though the Company will continue to manage these costs and attempt to minimize these expenses, prices remained relatively high in the third quarter of 2008; however, energy prices have declined in the fourth quarter of fiscal 2008. Volatile energy markets will represent an ongoing challenge to the Company's operating results for future periods.

- The meat production industry has faced higher feed costs in the third quarter of fiscal 2008. These higher costs, coupled with the general performance of the U.S. economy and declining U.S. consumer confidence and the inability of consumers and companies to obtain credit due to the current lack of liquidity in the financial markets, could have a negative impact on the Company's raw material volume. Raw material volume will be a challenge in future periods due to volatility of commodity prices.

- During the third quarter of 2008, the Company incurred bad debts that were beyond its historical trends due to delinquent accounts receivable and the lack of liquidity in the financial markets. Volatile financial markets will represent an ongoing challenge to the Company and no assurance can be given that bad debt expense will not increase in the future.

Results of Operations

Three Months Ended September 27, 2008 Compared to Three Months Ended September 29, 2007

Summary of Key Factors Impacting Third Quarter 2008 Results:

Principal factors that contributed to a $16.3 million increase in operating income, which are discussed in greater detail in the following section, were:

- Higher finished product prices.

These increases were partially offset by:

- Higher raw material costs,
- Higher energy costs, primarily related to natural gas and diesel fuel, and
- Higher bad debt expense.

Summary of Key Indicators of 2008 Performance:

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

- Finished product commodity prices,
- Raw material volume,
- Production volume and related yield of finished product, and
- Collection fees and collection operating expense.

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

Prices for finished product commodities produced by the Company are quoted each business day on the Jacobsen index, an established trading exchange price publisher. These finished products are MBM, BFT and YG. The prices quoted are for delivery of the finished product at a specified location. These prices are relevant because they provide an indication of a component of revenue and achievement of business plan benchmarks on a daily basis. The Company's actual sales prices for its finished products may vary significantly from the Jacobsen index because the Company's finished products are delivered to multiple locations in different geographic regions which utilize different price indexes. Average Jacobsen prices (at the specified delivery point) for the third quarter of fiscal 2008 compared to average Jacobsen prices for the third quarter of fiscal 2007 follow:

	Avg. Price 3rd Quarter 2008	Avg. Price 3rd Quarter 2007	Increase	% Increase
MBM (Illinois)	$388.36 /ton	$242.27 /ton	$146.09 /ton	60.3%
BFT (Chicago)	$ 41.35 /cwt	$ 30.08 /cwt	$ 11.27 /cwt	37.5%
YG (Illinois)	$ 34.64 /cwt	$ 21.25 /cwt	$ 13.39 /cwt	63.0%

The increases in average price of the finished products the Company sells had a favorable impact on revenue that was partially offset by a negative impact to the Company's raw material cost resulting from formula pricing arrangements, which compute raw material cost based upon the price of finished product.

The current economic environment has caused the Company's finished product commodity prices to decline significantly subsequent to the third quarter of fiscal 2008 as commodity prices remained volatile. The following table shows the average Jacobsen index for the month of October 2008 for MBM, BFT and YG as compared to October 2007.

	Avg. Price Month of October 2008	Avg. Price Month of October 2007	Increase/ (Decrease)	% Increase/ (Decrease)
MBM (Illinois)	$278.70/ton	$257.07 /ton	$21.63/ton	8.4%
BFT (Chicago)	$ 24.50/cwt	$ 31.29 /cwt	($ 6.79/cwt)	(21.7%)
YG (Illinois)	$ 19.84/cwt	$ 23.76 /cwt	($ 3.92/cwt)	(16.5%)

Raw material volume represents the quantity (pounds) of raw material collected from suppliers, including beef, pork, poultry and used cooking oils. Raw material volumes provide an indication of future production of finished products available for sale and are a component of potential future revenue.

Finished product production volumes are the end result of the Company's production processes, and directly impact goods available for sale and thus become an important component of sales revenue. Yield on production is a ratio of production volume (pounds) divided by raw material volume (pounds), and provides an indication of effectiveness of the Company's production process. Factors impacting yield on production include quality of raw material and warm

weather during summer months, which rapidly degrades raw material.

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

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The Company charges collection fees, which are included in net sales in order to offset a portion of the expense incurred in collecting raw material. Each month the Company monitors both the collection fee charged to suppliers, which is included in net sales, and collection expense, which is included in cost of sales. The importance of monitoring collection fees and collection expense is that they provide management an indication of achievement of the Company's business plan.

Net Sales. The Company collects and processes animal by-products (fat, bones and offal), including hides, and used restaurant cooking oil to produce finished products of MBM, BFT and YG and hides. Sales are significantly affected by finished goods prices, quality and mix of raw material, and volume of raw material. Net sales include the sales of produced finished goods, collection fees, fees for grease trap services and finished goods purchased for resale.

During the third quarter of fiscal 2008, net sales increased by $64.4 million (37.5%) to $236.2 million as compared to $171.8 million during the third quarter of fiscal 2007. The increase in net sales was primarily due to the following (in millions of dollars):

	Rendering	Restaurant Services	Corporate	Total
Higher finished goods prices	$ 58.6	$ 19.0	$ —	$ 77.6
Other sales decreases	(0.2)	(0.4)	—	(0.6)
Decrease in yield	(2.0)	(1.1)	—	(3.1)
Purchase of finished product for resale	(3.6)	(0.1)	—	(3.7)
Decrease in raw material volume	(4.6)	(1.2)	—	(5.8)
Product transfers	(2.2)	2.2	—	—
	$ 46.0	$ 18.4	$ —	$ 64.4

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

During the third quarter of fiscal 2008, cost of sales and operating expenses increased $46.8 million (35.8%) to $177.7 million as compared to $130.9 million during the third quarter of fiscal 2007. The increase in cost of sales and operating expenses was primarily due to the following (in millions of dollars):

	Rendering	Restaurant Services	Corporate	Total
Higher raw material costs	$ 31.2	$ 11.5	$ —	$ 42.7
	5.3	1.1	0.5	6.9

Higher energy costs, primarily natural gas and diesel fuel				
Other expenses	0.9	1.9	(0.6)	2.2
Decreased raw material volume	(1.4)	(0.3)	—	(1.7)
Purchases of finished product for resale	(3.3)	—	—	(3.3)
Product transfers	(2.2)	2.2	—	—
	$ 30.5	$ 16.4	$ (0.1)	$ 46.8

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Selling, General and Administrative Expenses. Selling, general and administrative expenses were $15.4 million during the third quarter of fiscal 2008, a $1.1 million increase (7.7%) from $14.3 million during the third quarter of fiscal 2007. The Company increased its provision for bad debt based on general credit conditions and delinquent accounts receivable. The increase in selling, general and administrative expenses is primarily due to the following (in millions of dollars):

	Rendering	Restaurant Services	Corporate	Total
Bad debt expense	$ 0.6	$ 0.4	$ —	$ 1.0
Other expense	0.3	0.3	(0.5)	0.1
	$ 0.9	$ 0.7	$ (0.5)	$ 1.1

Depreciation and Amortization. Depreciation and amortization charges were $5.8 million during the third quarter of fiscal 2008, an increase of $0.2 million from $5.6 million during the third quarter of fiscal 2007. The increase in depreciation and amortization is primarily due to an overall increase in capital expenditures.

Interest Expense. Interest expense was $0.7 million during the third quarter of fiscal 2008 compared to $1.2 million during the third quarter of fiscal 2007, a decrease of $0.5 million, primarily due to a decrease in outstanding balance related to the Company's debt.

Other Income/Expense. Other income was $0.1 million in the third quarter of fiscal 2008, an increase of $0.2 million as compared to other expense of $0.1 million in the third quarter of fiscal 2007. The decrease in other expense in the third quarter of fiscal 2008 is primarily due to increased interest income as a result of more cash included in interest bearing accounts.

Income Taxes. The Company recorded income tax expense of $13.7 million for the third quarter of fiscal 2008, compared to $7.6 million recorded in the third quarter of fiscal 2007, an increase of $6.1 million, primarily due to increased pre-tax earnings of the Company in fiscal 2008. The effective tax rate for the third quarter of fiscal 2008 is 37.3% compared to 38.7% for the third quarter of fiscal 2007. The difference from the statutory rate of 35% in the third quarter of fiscal 2008 and the third quarter of fiscal 2007 is primarily due to state taxes.

Nine Months Ended September 27, 2008 Compared to Nine Months Ended September 29, 2007

Summary of Key Factors Impacting the First Nine Months of Fiscal 2008 Results:

Principal factors that contributed to a $56.7 million increase in operating income, which are discussed in greater detail in the following section, were:

- Higher finished product prices.

These increases were partially offset by:

- Higher raw material costs,
- Higher energy costs, primarily related to natural gas and diesel fuel,
- Higher payroll and related benefits, and
- Higher bad debt expense.

Summary of Key Indicators of 2008 Performance:

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

- Finished product commodity prices,
- Raw material volume,
- Production volume and related yield of finished product, and
- Collection fees and collection operating expense.

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

Prices for finished product commodities that the Company produces are quoted each business day on the Jacobsen index, an established trading exchange price publisher. These finished products are MBM, BFT and YG. The prices quoted are for delivery of the finished product at a specified location. These prices are relevant because they provide an indication of a component of revenue and achievement of business plan benchmarks on a daily basis. The Company's actual sales prices for its finished products may vary significantly from the Jacobsen index because the Company's finished products are delivered to multiple locations in different geographic regions which utilize different price indexes. Average Jacobsen prices (at the specified delivery point) for the first nine months of fiscal 2008 compared to average Jacobsen prices for the first nine months of fiscal 2007 follow:

	Avg. Price Nine Months 2008	Avg. Price Nine Months 2007	Increase	% Increase
MBM (Illinois)	$357.04 /ton	$221.09 /ton	$135.95 /ton	61.5%
BFT (Chicago)	$ 39.75 /cwt	$ 26.96 /cwt	$ 12.79 /cwt	47.4%
YG (Illinois)	$ 32.08 /cwt	$ 21.01 /cwt	$ 11.07 /cwt	52.7%

The increases in average price of the finished products the Company sells had a favorable impact on revenue that was partially offset by a negative impact to the Company's raw material cost resulting from formula pricing arrangements, which compute raw material cost based upon the price of finished product.

Raw material volume represents the quantity (pounds) of raw material collected from suppliers, including beef, pork, poultry and used cooking oils. Raw material volumes provide an indication of future production of finished products available for sale and are a component of potential future revenue.

Finished product production volumes are the end result of the Company's production processes, and directly impact goods available for sale and thus become an important component of sales revenue. Yield on production is a ratio of production volume (pounds) divided by raw material volume (pounds), and provides an indication of effectiveness of the Company's production process. Factors impacting yield on production include quality of raw material and warm weather during summer months, which rapidly degrades raw material.

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

The Company charges collection fees which are included in net sales in order to offset a portion of the expense incurred in collecting raw material. Each month the Company monitors both the collection fee charged to suppliers, which is included in net sales, and collection expense, which is included in cost of sales. The importance of monitoring of collection fees and collection expense is they provide management an indication of achievement of the Company's business plan.

Net Sales. The Company collects and processes animal by-products (fat, bones and offal), including hides, and used restaurant cooking oil to produce finished products of MBM, BFT and YG and hides. Sales are significantly affected by finished goods prices, quality and mix of raw material, and volume of raw material. Net sales include the sales of produced finished goods, collection fees, fees for grease trap services and finished goods purchased for resale.

During the first nine months of fiscal 2008, net sales increased by $189.1 million (40.2%) to $659.0 million as compared to $469.9 million during the first nine months of fiscal 2007. The increase in net sales was primarily due to the following (in millions of dollars):

	Rendering	Restaurant Services	Corporate	Total
Higher finished goods prices	$ 163.2	$ 44.0	$ —	$ 207.2
Other sales decreases	(1.4)	(2.0)	—	(3.4)
Decreased raw material volume	(0.5)	(3.3)	—	(3.8)
Decrease in yield	(3.1)	(1.8)	—	(4.9)
Purchase of finished product for resale	(7.0)	1.0	—	(6.0)
Product transfers	(14.4)	14.4	—	—
	$ 136.8	$ 52.3	$ —	$ 189.1

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

During the first nine months of fiscal 2008, cost of sales and operating expenses increased $129.2 million (36.3%) to $485.3 million as compared to $356.1 million during the first nine months of fiscal 2007. The increase in cost of sales and operating expenses was primarily due to the following (in millions of dollars):

	Rendering	Restaurant Services	Corporate	Total
Higher raw material costs	$ 89.8	$ 22.9	$ —	$ 112.7
Higher energy costs, primarily natural gas and diesel fuel	11.6	3.2	—	14.8
Payroll and related benefits	2.2	0.8	—	3.0
Other expenses	1.4	1.0	(0.3)	2.1
Sale of judgment	1.2	—	—	1.2
Purchases of finished product for resale	(5.9)	1.3	—	(4.6)
Product transfers	(14.4)	14.4	—	—

$ 85.9	$ 43.6	$ (0.3)	$ 129.2

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Selling, General and Administrative Expenses. Selling, general and administrative expenses were $44.1 million during the first nine months of fiscal 2008, a $2.9 million increase (7.0%) from $41.2 million during the first nine months of fiscal 2007. The Company increased its provision for bad debt based on general credit conditions and delinquent accounts receivable. The increase was primarily due to the following (in millions of dollars):

	Rendering	Restaurant Services	Corporate	Total
Bad debt expense	$ 0.7	$ 0.5	$ 0.1	$ 1.3
Payroll and related benefits	0.4	0.1	0.6	1.1
Other expense increases	0.2	0.5	0.4	1.1
Sale of judgment	—	—	1.0	1.0
Lower legal expense	—	—	(1.6)	(1.6)
	$ 1.3	$ 1.1	$ 0.5	$ 2.9

Depreciation and Amortization. Depreciation and amortization charges increased $0.2 million (1.2%) to $17.4 million during the first nine months of fiscal 2008 as compared to $17.2 million during the first nine months of fiscal 2007. The increase in depreciation and amortization is primarily due to an overall increase in capital expenditures.

Interest Expense. Interest expense was $2.3 million during the first nine months of fiscal 2008 compared to $4.1 million during the first nine months of fiscal 2007, a decrease of $1.8 million, primarily due to a decrease in outstanding balance related to the Company's debt.

Other Income/Expense. Other income was $0.4 million in the first nine months of fiscal 2008, a $1.0 million increase in other income as compared to other expense of $0.6 million in the first nine months of fiscal 2007. The decrease in other expense is primarily due to more cash included in interest bearing accounts and decreases in other non-operating expenses.

Income Taxes. The Company recorded income tax expense of $41.7 million for the first nine months of fiscal 2008, compared to income tax expense of $19.5 million recorded in the first nine months of fiscal 2007, an increase of $22.2 million, primarily due to an increase in pre-tax earnings of the Company in fiscal 2008. The effective tax rate for fiscal 2008 is 37.9% compared to 38.5% for fiscal 2007. The difference from the statutory rate of 35% in fiscal 2008 and fiscal 2007 is primarily due to state taxes.

FINANCING, LIQUIDITY AND CAPITAL RESOURCES

The Company entered into a $175 million credit agreement (the "Credit Agreement") effective April 7, 2006. The principal components of the Credit Agreement consist of the following.

- The Credit Agreement provides for a total of $175.0 million in financing facilities, consisting of a $50.0 million term loan facility and a $125.0 million revolving credit facility, which includes a $35.0 million letter of credit sub-facility.
    - The $125.0 million revolving credit facility has a term of five years and matures on April 7, 2011.

- As of September 27, 2008, the Company has borrowed all $50.0 million under the term loan facility, which provides for scheduled quarterly amortization payments of $1.25 million over a six-year term ending April 7, 2012. The Company has reduced the term loan facility by quarterly payments totaling $10.0 million, for an aggregate of $40.0 million principal outstanding under the term loan facility at September 27, 2008.

- Alternative base rate loans under the Credit Agreement bear interest at a rate per annum based on the greater of (a) the prime rate and (b) the federal funds effective rate (as defined in the Credit Agreement) plus ½ of 1%, plus, in each case, a margin determined by reference to a pricing grid and adjusted according to the Company's adjusted leverage ratio. Eurodollar loans bear interest at a rate per annum based on the then-applicable LIBOR multiplied by the statutory reserve rate plus a margin determined by reference to a pricing grid and adjusted according to the Company's adjusted leverage ratio.

- On October 8, 2008, the Company entered into an amendment (the "Amendment") with its lenders under its Credit Agreement. The Amendment increases the Company's flexibility to make investments in third parties. Pursuant to the Amendment, the Company can make investments in third parties provided that (i) no default under the Credit Agreement exists or would result at the time such investment is committed to be made, (ii) certain specified defaults do not exist or would result at the time such investment is actually made, and (iii) after giving pro forma effect to such investment, the leverage ratio (as determined in accordance with the terms of the Credit Agreement) is less than 2.00 to 1.00 for the most recent four fiscal quarter period then ended. In addition, the Amendment increases the amount of intercompany investments permitted among the Company and any of its subsidiaries that are not parties to the Credit Agreement from $2.0 million to $10.0 million.

  - The Credit Agreement contains restrictive covenants that are customary for similar credit arrangements and requires the maintenance of certain minimum financial ratios. The Credit Agreement also requires the Company to make certain mandatory prepayments of outstanding indebtedness using the net cash proceeds received from certain dispositions of property, casualty or condemnation, any sale or issuance of equity interests in a public offering or in a private placement, unpermitted additional indebtedness incurred by the Company and excess cash flow under certain circumstances.

The Credit Agreement consisted of the following elements at September 27, 2008 (in thousands):

Credit Agreement:	
Term Loan	$ 40,000
Revolving Credit Facility:	
Maximum availability	$ 125,000
Borrowings outstanding	–
Letters of credit issued	16,424
Availability	$ 108,576

The obligations under the Credit Agreement are guaranteed by Darling National LLC, a Delaware limited liability company that is a wholly-owned subsidiary of Darling ("Darling National"), and are secured by substantially all of the property of the Company, including a pledge of all equity interests in Darling National. As of September 27, 2008, the Company was in compliance with all of the covenants contained in the Credit Agreement.

The classification of long-term debt in the accompanying September 27, 2008 consolidated balance sheet is based on the contractual repayment terms of the debt issued under the Credit Agreement.

On September 27, 2008, the Company had working capital of $75.2 million and its working capital ratio was 1.92 to 1 compared to working capital of $34.4 million and a working capital ratio of 1.43 to 1 on December 29, 2007. The increase in working capital is primarily due to the increase in cash and commodity prices. At September 27, 2008, the Company had unrestricted cash of $43.2 million and funds available under the revolving credit facility of $108.6 million, compared to unrestricted cash of $16.3 million and funds available under the revolving credit facility of $106.1 million at December 29, 2007. The Company diversifies its cash investments by limiting the amounts located at any one financial institution and invests primarily in government-backed securities.

Net cash provided by operating activities was $66.6 million and $39.4 million for the nine months ended September 27, 2008 and September 29, 2007, respectively, an increase of $27.2 million, primarily due to an increase in net income of approximately $37.3 million and changes in operating assets and liabilities, which includes a reduction in accounts payable and accrued expenses of $6.7 million. Cash used by investing activities was $37.6 million for the nine months ended September 27, 2008 compared to $10.3 million for the nine months ended September 29, 2007, an increase of $27.3 million, due primarily to $17.4 million in cash used for the acquisition of assets of API Recycling in the third quarter of fiscal 2008 and increased capital expenditures related to the modernization project at the Turlock, California plant in fiscal 2008. Net cash used by financing activities was $2.1 million for the nine months ended September 27, 2008, compared to net cash used by financing activities of $28.5 million for the nine months ended September 29, 2007, a decrease of cash used of $26.4 million, principally due to repayment of borrowings on the Company's Credit Agreement in the nine months ended September 29, 2007.

The Company made capital expenditures of $21.0 million during the first nine months of fiscal 2008, compared to capital expenditures of $10.2 million in the first nine months of fiscal 2008 for a net increase of $10.8 million, due to a major modernization project at the Turlock, California plant that was identified over normal maintenance and compliance capital expenditures and an overall increase in capital expenditures. Capital expenditures related to compliance with environmental regulations were $0.7 million and $1.4 million for the nine months ended September 27, 2008 and September 29, 2007, respectively.

Based upon the underlying terms of the Credit Agreement, approximately $5.0 million in current debt, which is included in current liabilities on the Company's balance sheet at September 27, 2008, will be due during the next twelve months, which includes scheduled quarterly installment payments of $1.25 million.

Based upon the annual actuarial estimate, current accruals and claims paid during the first nine months of fiscal 2008, the Company has accrued approximately $5.9 million it expects will become due during the next twelve months in order to meet obligations related to the Company's self insurance reserves and accrued insurance, which are included in current accrued expenses at September 27, 2008. The self insurance reserve is composed of estimated liability for claims arising for workers' compensation, and for auto liability and general liability claims. The self insurance reserve liability is determined annually, based upon a third party actuarial estimate. The actuarial estimate may vary from year to year due to changes in cost of health care, the pending number of claims or other factors beyond the control of management of the Company. No assurance can be given that the Company's funding obligations under its self insurance reserve will not increase in the future.

Based upon current actuarial estimates, the Company expects to make approximately $0.2 million in payments in order to meet minimum pension funding requirements during the next twelve months. The minimum pension funding requirements are determined annually, based upon a third party actuarial estimate. The actuarial estimate may vary from year to year due to fluctuations in return on investments or other factors beyond the control of management of the Company or the administrator of the Company's pension funds. No assurance can be given that the minimum pension funding requirements will not increase in the future. Additionally, the Company has made tax deductible discretionary contributions to its pension plans for the nine months ended September 27, 2008 of approximately $6.5

million.

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The Pension Protection Act of 2006 ("PPA") was signed into law in August 2006 and went into effect in January 2008. The stated goal of the PPA is to improve the funding of pension plans. Plans in an under-funded status will be required to increase employer contributions to improve the funding level within PPA timelines. The impact of recent declines in the world equity and other financial markets could have a material negative impact on pension plan assets and the status of required funding under the PPA. The Company participates in several multi-employer pension plans that 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. Current information with respect to the Company's proportionate share of the over- and under-funded status of all actuarially computed value of vested benefits over these pension plans' net assets is not available as the Company relies on third parties outside its control to provide such information. The Company knows that four of these multi-employer plans were under-funded as of the latest available information, some of which is over a year old. The Company has no ability to compel the plan trustees to provide more current information. One of the under-funded multi-employer plans in which the Company participates has given notification of a mass withdrawal termination for the plan year ended June 30, 2007. In April 2008 the Company made a lump sum settlement payment to the one multi-employer plan that terminated for approximately $1.4 million, which included a release for any future liability. Another of the underfunded multi-employer plans in which the Company participates has given notification of "Critical Status" under the PPA. While we have no ability to calculate a possible current liability for under-funded multi-employer plans that could terminate or could require additional funding under the PPA, the amounts could be material.

The Company has the ability to burn alternative fuels, including its fats and greases, at a majority of its plants as a way to help manage the Company's exposure to high natural gas prices. Beginning October 1, 2006, the federal government effected a program which provides federal tax credits under certain circumstances for commercial use of alternative fuels in lieu of fossil-based fuels. Beginning in the fourth quarter of 2006, the Company filed documentation with the IRS to recover these Alternative Fuel Mixture Credits as a result of its use of fats and greases to fuel boilers at its plants. The Company has received approval from the IRS to apply for these credits. However, the federal regulations relating to the Alternative Fuel Mixture Credits are complex and further clarification is needed by the Company prior to recognition of certain tax credits received. As of September 27, 2008, the Company has $0.7 million of received credits included in current liabilities on the balance sheet as deferred income while the Company pursues further clarification. The Company will continue to evaluate the option of burning alternative fuels at its plants in future periods depending on the price relationship between alternative fuels and natural gas.

The Company's management believes that cash flows from operating activities consistent with the level generated in the first nine months of fiscal 2008, unrestricted cash and funds available under the Credit Agreement will be sufficient to meet the Company's working capital needs and maintenance and compliance-related capital expenditures, scheduled debt and interest payments, income tax obligations and other contemplated needs through the next twelve months. Numerous factors could have adverse consequences to the Company that cannot be estimated at this time, such as: a reduction in finished product prices; possible product recall resulting from developments relating to the discovery of unauthorized adulterations to food additives; the occurrence of Bird Flu in the U.S.; any additional occurrence of BSE in the U.S. or elsewhere; reductions in raw material volumes available to the Company due to weak margins in the meat production industry as a result of higher feed costs or other factors, reduced volume from food service establishments, reduced demand for animal feed, or otherwise; unanticipated costs and/or reductions in raw material volumes related to the Company's implementation of and compliance with the Final BSE Rule, including capital expenditures to comply with the Final BSE Rule; unforeseen new U.S. or foreign regulations affecting the rendering industry (including new or modified animal feed, Bird Flu or BSE regulations); increased contributions to the Company's multi-employer defined benefit pension plans as required by the PPA; bad debt write-offs; loss of or failure to obtain necessary permits and registrations; and/or unfavorable export markets. These factors, coupled with volatile prices for natural gas and diesel fuel, general performance of the U.S. economy and declining consumer confidence including the inability of consumers and companies to obtain credit due to the current lack of liquidity in

the financial markets, among others, could negatively impact the Company's results of operations in fiscal 2008 and thereafter. The Company cannot provide assurance that the cash flows from operating activities generated in the first nine months of fiscal 2008 are indicative of the future cash flows from operating activities that will be generated by the Company's operations. The Company reviews the appropriate use of unrestricted cash periodically. Although no decision has been made as to non-ordinary course cash usages at this time, potential usages could include: opportunistic capital expenditures and/or acquisitions; investments relating to the Company's developing a comprehensive renewable energy strategy, including, without limitation, potential investments in renewable diesel and/or biodiesel projects; investments in response to governmental regulations relating to BSE or other regulations; unexpected funding resulting from the PPA requirements; and paying dividends or repurchasing stock, subject to limitations under the Credit Agreement, as well as suitable cash conservation to withstand adverse commodity cycles.

The current economic environment in the Company's markets has the potential to adversely impact its liquidity in a variety of ways, including through reduced raw materials, reduced sales, potential inventory buildup and/or higher operating costs.

The principal products that the Company sells are commodities, the prices of which are based on established commodity markets and are subject to volatile changes. Any decline in these prices has the potential to adversely impact the Company's liquidity. Any of a further disruption in international sales, a further decline in commodities prices, further increases in energy prices resulting from increased world demand, and the impact of the PPA has the potential to adversely impact the Company's liquidity. A decline in commodities prices, a rise in energy prices, a further slowdown in the U.S. or international economy, or other factors, could cause the Company to fail to meet management's expectations or could cause liquidity concerns.

OFF BALANCE SHEET OBLIGATIONS

Based upon the underlying purchase agreements, the Company has commitments to purchase $20.5 million of finished products and natural gas during the next twelve months, which are not included in liabilities on the Company's balance sheet at September 27, 2008. These purchase agreements are entered into in the normal course of the Company's business and are not subject to derivative accounting. The commitments will be recorded on the balance sheet of the Company when delivery of these commodities occurs and ownership passes to the Company during fiscal 2008, in accordance with accounting principles generally accepted in the U.S.

Based upon the underlying lease agreements, the Company expects to pay approximately $10.3 million in operating lease obligations during the next twelve months, which are not included in liabilities on the Company's balance sheet at September 27, 2008. These lease obligations are included in cost of sales or selling, general and administrative expense as the underlying lease obligation comes due, in accordance with accounting principles generally accepted in the U.S.

NEW ACCOUNTING PRONOUNCEMENTS

In February 2007, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"), which allows entities to choose to measure financial instruments and certain other items at fair value. This statement is effective for fiscal years beginning after November 15, 2007. The Company has adopted SFAS 159 and has elected not to account for any additional financial instruments and other items at fair value.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS 141(R)"), which is a revision of SFAS 141, "Business Combinations." SFAS 141(R) applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141(R) requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under SFAS 141 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS 141(R) requires acquirers to expense acquisition related costs as incurred rather than allocating these costs to assets acquired and liabilities assumed, as was done under SFAS 141. The provisions of SFAS 141(R) are effective for fiscal years beginning after December 15, 2008. Early adoption is not permitted. The Company is currently evaluating the impact of adopting this accounting standard.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" ("SFAS 161"). This statement is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity's derivative instruments and hedging activities and their effects on the entity's financial position, financial performance, and cash flows. SFAS 161 applies to all derivative instruments within the scope of SFAS 133 as well as related hedged items, bifurcated derivatives, and nonderivative instruments that are designated and qualify as hedging instruments. The fair value of derivative instruments and their gains and losses will need to be presented in tabular format in order to present a more complete picture of the effects of using derivative instruments. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early application permitted. The Company is currently evaluating the impact of adopting this accounting standard.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). The purpose of the new standard is to provide a consistent framework for determining what accounting principles should be used when preparing U.S. generally accepted accounting principle financial statements. Previous guidance did not properly rank the accounting literature. The new standard is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The adoption of SFAS 162 is not expected to have a material effect on the Company's financial statements.

In October 2008, the FASB issued FASB Staff Position No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active." This staff position clarifies the application of SFAS 157 in determining the fair values of assets or liabilities in a market that is not active. This staff position became effective upon issuance, including prior periods for which financial statements have not been issued. The Company has adopted this staff position for the consolidated financial statements contained within this Form 10-Q. The adoption of this staff position did not have an impact to the consolidated financial statements of the Company.

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FORWARD LOOKING STATEMENTS

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

In addition to those factors discussed in this report and under the heading "Risk Factors" in Item 1A of Part I of the Company's annual report on Form 10-K for the year ended December 29, 2007, and in the Company's other public filings with the SEC, important factors that could cause actual results to differ materially from the Company's expectations include: the Company's continued ability to obtain sources of supply for its rendering operations; general economic conditions in the American, European and Asian markets; a decline in consumer confidence; prices in the competing commodity markets, which are volatile and are beyond the Company's control; energy prices; the implementation of the Final BSE Rule; BSE and its impact on finished product prices, export markets and government regulations, which are still evolving and are beyond the Company's control; the occurrence of Bird Flu in the U.S.; possible product recall resulting from developments relating to the discovery of unauthorized adulterations (such as melamine) to food additives; and increased contributions to the Company's multi-employer defined benefit pension plans as required by the PPA. Among other things, future profitability may be affected by the Company's ability to grow its business, which faces competition from companies that may have substantially greater resources than the Company. The Company cautions readers that all forward-looking statements speak only as of the date made, and the Company undertakes no obligation to update any forward-looking statements, whether as a result of changes in circumstances, new events or otherwise.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Market risks affecting the Company are exposures to changes in prices of the finished products the Company sells, interest rates on debt, availability of raw material supply and the price of diesel fuel and the price of natural gas used in the Company's plants. Raw materials available to the Company are impacted by seasonal factors, including: holidays, when raw material volume declines; general performance of the U.S. economy; warm weather, which can adversely affect the quality of raw material processed and finished products produced; and cold weather, which can impact the collection of raw material. Predominantly all of the Company's finished products are commodities that are generally sold at prices prevailing at the time of sale.

The Company makes limited use of derivative instruments to manage cash flow risks related to interest and natural gas expense. The Company uses interest rate swaps with the intent of managing overall borrowing costs by reducing the potential impact of increases in interest rates on floating-rate long-term debt. The interest rate swaps are subject to the requirements of SFAS 133. The Company's natural gas instruments are not subject to the requirements of SFAS 133, because the natural gas instruments qualify as normal purchases, as defined. The Company does not use derivative instruments for trading purposes.

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On May 19, 2006, the Company entered into two interest rate swap agreements that are considered cash flow hedges according to SFAS 133. Under the terms of these swap agreements, beginning June 30, 2006, the cash flows from the Company's $50.0 million floating-rate term loan facility under the Credit Agreement have been exchanged for fixed rate contracts that bear interest, payable quarterly. The first swap agreement for $25.0 million matures April 7, 2012 and bears interest at 5.42%, which does not include the borrowing spread per the Credit Agreement, with amortizing payments that mirror the term loan facility. The second swap agreement for $25.0 million matures April 7, 2012 and bears interest at 5.415%, which does not include the borrowing spread per the Credit Agreement, with amortizing payments that mirror the term loan facility. The Company's receive rate on each swap agreement is based on three-month LIBOR. At September 27, 2008, the fair value of these interest swap agreements was $1.7 million and is included in non-current liabilities on the balance sheet, with an offset recorded to accumulated other comprehensive income.

As of September 27, 2008, the Company had forward purchase agreements in place for purchases of approximately $14.8 million of natural gas. As of September 27, 2008, the Company had forward purchase agreements in place for purchases of approximately $5.7 million of finished product.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. As required by Exchange Act Rule 13a-15(b), the Company's management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation, as of the end of the period covered by this report, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. As defined in Exchange Act Rules 13a-15(e) and 15d-15(e) under the Exchange Act, disclosure controls and procedures are controls and other procedures of the Company that are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

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

DARLING INTERNATIONAL INC. AND SUBSIDIARIES
FORM 10-Q FOR THE THREE MONTHS ENDED SEPTEMBER 27, 2008

PART II: Other Information

Item 1A. RISK FACTORS

The following is an update to the risk factors reported in Item 1A of Part I of the Company's Form 10-K for the fiscal year ended December 29, 2007, filed with the SEC on February 27, 2008 (the "Company 10-K"). The risk factors included in the Company 10-K remain important and should be reviewed by the reader before making any investment decision. If any of the events described in the risk factors in Item 1A of the Company 10-K or discussed below actually occurs, the Company's business, financial condition, prospects or results of operations could be materially and adversely affected. If any of these events occurs, the trading price of the Company's securities could decline and you may lose all or part of your investment. The Company cautions readers that the Company undertakes no obligation to update the risk factors, whether as a result of changes in circumstances, new events or otherwise.

The Company is and may continue to be adversely affected by the ongoing world financial crisis.

The unprecedented turmoil existing in world financial, credit, commodities and stock markets may have a significant negative effect on the Company's business. The Company's forward view into the possible effects of this turmoil is limited. Among other things, the Company may be adversely impacted because its domestic and international customers and suppliers may not be able to access sufficient capital to continue to operate their businesses, or to operate them at prior levels. A decline in consumer confidence or changing patterns in the availability and use of disposable income by consumers can negatively affect both the Company's suppliers and customers. Declining discretionary consumer spending or the loss or impairment of a meaningful number of the Company's suppliers or customers could lead to a dislocation in either raw material availability or customer demand. Tightened credit supply could negatively affect the Company's customers' ability to pay for the Company's products on a timely basis or at all, and could result in a requirement for additional bad debt reserves. Although many of the Company's customer contracts are formula-based, continued volatility in the commodities markets could negatively impact the Company's revenues and overall profits. If the existing financial and credit crisis negatively impacts a lender in the Company's credit facility, the ability of that lender to fund its portion of the commitment could be impaired. The inability of a lender to fund its committed portion of the facility does not excuse other lenders from funding their portions of the commitment.

Item 6. EXHIBITS

The following exhibits are filed herewith:

31.1	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Randall C. Stuewe, the Chief Executive Officer of

	the Company.
31.2	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of John O. Muse, the Chief Financial Officer of the Company.
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Randall C. Stuewe, the Chief Executive Officer of the Company, and of John O. Muse, the Chief Financial Officer of the Company.

SIGNATURES

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

DARLING INTERNATIONAL INC.

Date: November 6, 2008 By: /s/ Randall C. Stuewe
Randall C. Stuewe
Chairman and
Chief Executive Officer

Date: November 6, 2008 By: /s/ John O. Muse
John O. Muse
Executive Vice President
Administration and
Finance
(Principal Financial
Officer)

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