DARLING INTERNATIONAL INC
Form 10-Q
August 08, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)
/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 29, 2013
OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______

Commission File Number 001-13323

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

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

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

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

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

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

X Non-accelerated filer

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

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

There were 118,196,277 shares of common stock, $0.01 par value, outstanding at August 1, 2013.

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DARLING INTERNATIONAL INC. AND SUBSIDIARIES
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 29, 2013

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DARLING INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
June 29, 2013 and December 29, 2012
(in thousands, except share data)

	June 29, 2013 (unaudited)	December 29, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$133,571	$103,249
Restricted cash	361	361
Accounts receivable, net	91,872	98,131
Inventories	63,114	65,065
Prepaid expenses	15,087	9,256
Other current assets	5,344	1,591
Deferred income taxes	13,621	12,609
Total current assets	322,970	290,262
Property, plant and equipment, less accumulated depreciation of $348,512 at June 29, 2013 and $326,201 at December 29, 2012	478,967	453,927
Intangible assets, less accumulated amortization of $87,046 at June 29, 2013 and $73,021 at December 29, 2012	325,765	337,402
Goodwill	381,369	381,369
Investment in unconsolidated subsidiary	104,297	62,495
Other assets	28,457	26,961
	$1,641,825	$1,552,416
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$85	$82
Accounts payable, principally trade	65,188	54,014
Accrued expenses	68,708	77,588
Total current liabilities	133,981	131,684
Long-term debt, net of current portion	250,099	250,142
Other non-current liabilities	59,469	61,539
Deferred income taxes	71,166	46,615
Total liabilities	514,715	489,980
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value; 150,000,000 shares authorized; 119,152,005 and 118,622,650 shares issued at June 29, 2013 and at December 29, 2012, respectively	1,192	1,186
Additional paid-in capital	609,316	603,836
Treasury stock, at cost; 955,728 and 807,659 shares at June 29, 2013 and at December 29, 2012, respectively	(12,524)	(10,033)
Accumulated other comprehensive loss	(28,473)	(31,329)
Retained earnings	557,599	498,776

Total stockholders' equity	1,127,110	1,062,436
	$1,641,825	$1,552,416

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

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DARLING INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
Three months and six months ended June 29, 2013 and June 30, 2012
(in thousands, except per share data)
(unaudited)

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net sales	$423,593	$436,674	$869,015	$823,782
Costs and expenses:				
Cost of sales and operating expenses	309,922	314,138	632,608	590,607
Selling, general and administrative expenses	40,793	36,894	83,086	74,263
Depreciation and amortization	22,076	21,674	43,943	42,434
Total costs and expenses	372,791	372,706	759,637	707,304
Operating income	50,802	63,968	109,378	116,478
Other expense:				
Interest expense	(5,669)	(5,753)	(11,294)	(12,678)
Other income/(expense), net	(418)	270	649	(338)
Total other expense	(6,087)	(5,483)	(10,645)	(13,016)
Equity in net loss of unconsolidated subsidiary	(1,962)	(656)	(3,157)	(892)
Income before income taxes	42,753	57,829	95,576	102,570
Income taxes	16,335	21,604	36,753	37,774
Net income	$26,418	$36,225	$58,823	$64,796
Basic income per share	$0.22	$0.31	$0.50	$0.55
Diluted income per share	$0.22	$0.31	$0.50	$0.55

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

DARLING INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Three months and six months ended June 29, 2013 and June 30, 2012
(in thousands)
(unaudited)

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net income	$26,418	$36,225	$58,823	$64,796
Other comprehensive income, net of tax:				
Pension adjustments	805	742	1,610	1,484
Natural gas swap derivative adjustments	(209)	314	(61)	321
Corn option derivative adjustments	358	—	1,307	—
Interest rate swap derivative adjustment	—	17	—	159
Total other comprehensive income, net of tax	954	1,073	2,856	1,964
Total comprehensive income	$27,372	$37,298	$61,679	$66,760

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

DARLING INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Six months ended June 29, 2013 and June 30, 2012
(in thousands)
(unaudited)

	June 29, 2013	June 30, 2012
Cash flows from operating activities:		
Net income	$58,823	$64,796
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	43,943	42,434
Loss/(gain) on disposal of property, plant, equipment and other assets	(627)	629
Gain on insurance proceeds from insurance settlement	(1,981)	(900)
Deferred taxes	23,539	10,541
Increase in long-term pension liability	600	167
Stock-based compensation expense	4,875	4,926
Write-off deferred loan costs	—	725
Deferred loan cost amortization	1,537	1,519
Equity in net loss of unconsolidated subsidiary	3,157	892
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	6,259	(1,629)
Income taxes refundable/payable	(273)	16,253
Inventories and prepaid expenses	(3,880)	(8,734)
Accounts payable and accrued expenses	(333)	6,598
Other	(6,459)	3,743
Net cash provided by operating activities	129,180	141,960
Cash flows from investing activities:		
Capital expenditures	(54,689)	(53,496)
Acquisition	—	(2,000)
Investment in unconsolidated subsidiary	(44,959)	(25,518)
Gross proceeds from disposal of property, plant and equipment and other assets	1,292	2,516
Proceeds from insurance settlement	1,981	900
Payments related to routes and other intangibles	(649)	—
Net cash used by investing activities	(97,024)	(77,598)
Cash flows from financing activities:		
Payments on long-term debt	(40)	(30,005)
Issuance of common stock	32	64
Minimum withholding taxes paid on stock awards	(2,529)	(2,214)
Excess tax benefits from stock-based compensation	703	1,111
Net cash used by financing activities	(1,834)	(31,044)
Net increase in cash and cash equivalents	30,322	33,318
Cash and cash equivalents at beginning of period	103,249	38,936
Cash and cash equivalents at end of period	$133,571	$72,254
Supplemental disclosure of cash flow information:		
Accrued capital expenditures	$(1,074)	$—
Cash paid during the period for:		
Interest, net of capitalized interest	$9,756	$10,295

Income taxes, net of refunds	$17,713	$10,786

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

DARLING INTERNATIONAL INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
June 29, 2013
(unaudited)

(1) General

Darling International Inc., a Delaware corporation ("Darling", and together with its subsidiaries, the "Company"), is a leading provider of rendering, used cooking oil and bakery residual recycling and recovery solutions to the nation's food industry. The Company collects and recycles animal by-products, bakery residual and used cooking oil from poultry and meat processors, commercial bakeries, grocery stores, butcher shops, and food service establishments and provides grease trap cleaning services to many of the same establishments. The Company operates over 120 processing and transfer facilities located throughout the United States to process raw materials into finished products such as protein (primarily meat and bone meal ("MBM") and poultry meal ("PM")), hides, fats (primarily bleachable fancy tallow ("BFT"), poultry grease ("PG") and yellow grease ("YG")) and bakery by-products ("BBP") as well as a range of branded and value-added products. The Company sells these products domestically and internationally, primarily to producers of animal feed, pet food, fertilizer, bio-fuels and other consumer and industrial ingredients including oleo-chemicals, soaps and leather goods for use as ingredients in their products or for further processing. The accompanying consolidated financial statements for the three and six month periods ended June 29, 2013 and June 30, 2012, have been prepared by the Company in accordance with generally accepted accounting principles in the United States without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The information furnished herein reflects all adjustments (consisting only of normal recurring accruals) that are, in the opinion of management, necessary to present a fair statement of the financial position and operating results of the Company as of and for the respective periods. However, these operating results are not necessarily indicative of the results expected for a full fiscal year. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. However, management of the Company believes, to the best of their knowledge, that the disclosures herein are adequate to make the information presented not misleading. The Company has determined that there were no subsequent events that would require disclosure or adjustments to the accompanying consolidated financial statements through the date the financial statements were issued. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements contained in the Company's Form 10-K for the fiscal year ended December 29, 2012.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

(b) Fiscal Periods

The Company has a 52/53 week fiscal year ending on the Saturday nearest December 31. Fiscal periods for the consolidated financial statements included herein are as of June 29, 2013, and include the 13 and 26 weeks ended June 29, 2013, and the 13 and 26 weeks ended June 30, 2012.

(c) Revenue Recognition

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

(d) Reclassifications

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

(e) Earnings Per Share

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

	Net Income per Common Share (in thousands, except per share data)					
	Three Months Ended					
		June 29, 2013			June 30, 2012	
	Income	Shares	Per Share	Income	Shares	Per Share
Basic:						
Net Income	$26,418	118,196	$0.22	$36,225	117,613	$0.31
Diluted:						
Effect of dilutive securities:						
Add: Option shares in the money and dilutive effect of non-vested stock		690			867	
Less: Pro forma treasury shares		(298)			(339)	
Diluted:						
Net income	$26,418	118,588	$0.22	$36,225	118,141	$0.31

	Net Income per Common Share (in thousands, except per share data)					
	Six Months Ended					
		June 29, 2013			June 30, 2012	
	Income	Shares	Per Share	Income	Shares	Per Share
Basic:						
Net Income	$58,823	118,056	$0.50	$64,796	117,458	$0.55
Diluted:						
Effect of dilutive securities:						
Add: Option shares in the money and dilutive effect of non-vested stock		688			870	
Less: Pro forma treasury shares		(304)			(343)	
Diluted:						
Net income	$58,823	118,440	$0.50	$64,796	117,985	$0.55

For the three months ended June 29, 2013 and June 30, 2012, respectively, 331,367 and 211,890 outstanding stock options were excluded from diluted income per common share as the effect was antidilutive. For the three months ended June 29, 2013 and June 30, 2012, respectively, 58,942 and 112,296 shares of non-vested stock were excluded from diluted income per common share as the effect was antidilutive.

For the six months ended June 29, 2013 and June 30, 2012, respectively, 261,498 and 211,890 outstanding stock options were excluded from diluted income per common share as the effect was antidilutive. For the six months ended June 29, 2013 and June 30, 2012, respectively, 61,735 and 117,746 shares of non-vested stock were excluded from diluted income per common share as the effect was antidilutive.

(3) Acquisition

On June 8, 2012, the Company completed its acquisition of substantially all of the assets of RVO BioPur, LLC ("BioPur"). Headquartered in Waterbury, Connecticut, BioPur provides used cooking oil collection and grease trap services to restaurants and food service establishments in the New England area of the Company's existing East coast operations. Pro forma results of operations for the BioPur acquisition have not been presented because the effect is not deemed material to revenues and net income of the Company for any fiscal period presented.

(4) Investment in Unconsolidated Subsidiary

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

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

Based on the sponsor support agreements executed in connection with the Facility Agreement and the Loan Agreement relating to the Joint Venture with Valero, the Company has contributed a total of approximately $111.7 million for completion of the Facility including the Company's portion of cost overruns and working capital funding. As of June 29, 2013 under the equity method of accounting, the Company has an investment in the Joint Venture of approximately $104.3 million on the consolidated balance sheet and has recorded approximately $3.2 million and $0.9 million in losses in the unconsolidated subsidiary for the six months ended June 29, 2013 and June 30, 2012, respectively.

(5) Debt

Credit Facilities

Senior Secured Credit Facilities. On December 17, 2010, the Company entered into a credit agreement (the “Credit Agreement”) consisting of a five-year senior secured revolving loan facility and a six-year senior secured term loan facility. On March 25, 2011, the Company amended its Credit Agreement to increase the aggregate available principal amount under the revolving loan facility from $325.0 million to $415.0 million (approximately $75.0 million of which will be available for a letter of credit sub-facility and $15.0 million of which will be available for a swingline sub-facility) and to add additional stepdowns to the pricing grid providing lower spread margins to the applicable base or Libor rate under the Credit Agreement based on defined leverage ratio levels. As of June 29, 2013, the Company had availability of $382.2 million under the revolving loan facility, taking into account no outstanding borrowings and letters of credit issued of $32.8 million. As of June 29, 2013, the Company had repaid all of the original $300.0

million term loan issued under the Credit Agreement, including $30.0 million repaid in the first quarter of fiscal 2012. The amounts that have been repaid on the term loan may not be reborrowed. As a result of the term loan payments, the Company incurred a write-off of a portion of the senior term loan facilities deferred loan costs of approximately $0.7 million in the three-month period ending June 30, 2012, which is included in interest expense. The revolving credit facility has a five-year term ending December 17, 2015. The Company used the original proceeds of the term loan facility and a portion of the revolving loan facility to pay a portion of the consideration of its prior year acquisitions, to pay related fees and expenses and to provide for working capital needs and general corporate purposes.

The Credit Agreement allows for borrowings at per annum rates based on the following loan types. With respect to any revolving facility loan, i) an alternate base rate means a rate per annum equal to the greatest of (a) the prime rate (b) the federal funds effective rate (as defined in the Credit Agreement) plus ½ to 1% and (c) the adjusted London Inter-Bank

Offer Rate ("LIBOR") for a month interest period plus 1%, plus in each case, a margin determined by reference to a pricing grid under the Credit Agreement and adjusted according to the Company's adjusted leverage ratio, and, ii) Eurodollar rate 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. With respect to an alternate base rate loan that is a term loan, at no time will the alternate base rate be less than 2.50% per annum, plus the term loan alternate base rate margin of 2.50%. With respect to a LIBOR loan that is a term loan, at no time will the LIBOR rate applicable to the term loans (before giving effect to any adjustment for reserve requirements) be less than 1.50% per annum, plus the term loan LIBOR margin of 3.50%.

The Credit Agreement contains various customary representations and warranties by the Company, which include customary use of materiality, material adverse effect and knowledge qualifiers. The Credit Agreement also contains (a) certain affirmative covenants that impose certain reporting and/or performance obligations on the Company, (b) certain negative covenants that generally prohibit, subject to various exceptions, the Company from taking certain actions, including, without limitation, incurring indebtedness, making investments, incurring liens, paying dividends, and engaging in mergers and consolidations, sale leasebacks and sales of assets, (c) financial covenants such as maximum total leverage ratio and a minimum fixed charge coverage ratio and (d) customary events of default (including a change of control). Obligations under the Credit Agreement may be declared due and payable upon the occurrence of such customary events of default.

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

The Company may at any time and from time to time purchase Notes in the open market or otherwise. On and after December 15, 2014, the Company may redeem all or, from time to time, a part of the Notes (including any additional Notes) upon not less than 30 nor more than 60 days' notice, at the following redemption prices (expressed as a percentage of principal amount), plus accrued and unpaid interest on the Notes, if any, to the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve-month period beginning on December 15 of the years indicated below:

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

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

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

The indenture also provides for customary events of default, including, without limitation, payment defaults, covenant defaults, cross acceleration defaults to certain other indebtedness in excess of specified amounts, certain events of bankruptcy and insolvency and judgment defaults in excess of specified amounts. If any such event of default occurs and is continuing under the indenture, the Trustee or the holders of at least 25% in principal amount of the total outstanding

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

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

	June 29, 2013	December 29, 2012
Senior Notes:		
8.5% Senior Notes due 2018	$250,000	$250,000
Senior Secured Credit Facilities:		
Term Loan	$—	$—
Revolving Credit Facility:		
Maximum availability	$415,000	$415,000
Borrowings outstanding	—	—
Letters of credit issued	32,817	30,119
Availability	$382,183	$384,881

The obligations under the Credit Agreement are guaranteed by Darling National LLC, a Delaware limited liability company (“Darling National”), Griffin Industries LLC, a Kentucky limited liability company (“Griffin”), and its subsidiary, Craig Protein Division, Inc (“Craig Protein”) and are secured by substantially all of the property of the Company, including a pledge of 100% of the stock of all material domestic subsidiaries and 65% of the capital stock of certain foreign subsidiaries. The Notes are guaranteed on an unsecured basis by Darling's existing restricted subsidiaries, including Darling National, Griffin and all of its subsidiaries, other than Darling's foreign subsidiaries, its captive insurance subsidiary and any inactive subsidiary with nominal assets. The Notes rank equally in right of payment to any existing and future senior debt of Darling. The Notes will be effectively junior to existing and future secured debt of Darling and the guarantors, including debt under the Credit Agreement, to the extent of the value of assets securing such debt. The Notes will be structurally subordinated to all of the existing and future liabilities (including trade payables) of each of the subsidiaries of Darling that do not guarantee the Notes. The guarantees by the guarantors (the “Guarantees”) rank equally in right of payment to any existing and future senior indebtedness of the guarantors. The Guarantees will be effectively junior to existing and future secured debt of the guarantors including debt under the Credit Agreement, to the extent the value of the assets securing such debt. The Guarantees will be structurally subordinated to all of the existing and future liabilities (including trade payables) of each of the subsidiaries of each guarantor that do not guarantee the Notes.

As of June 29, 2013, the Company believes it is in compliance with all of the financial covenants, as well as all of the other covenants contained in the Credit Agreement and the Notes Indenture.

(6) Income Taxes

The Company has provided income taxes for the three-month periods ended June 29, 2013 and June 30, 2012, based on its estimate of the effective tax rate for the entire 2013 and 2012 fiscal years.

The Company accounts for income taxes using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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

The Company’s major taxing jurisdiction is the U.S. (federal and state). The Company is subject to regular examination by various tax authorities. The Company concluded an Internal Revenue Service examination for fiscal 2009 and 2010 tax years and paid approximately $0.7 million of taxes, which was accrued prior to the first quarter of fiscal 2013. The statute of limitations for the Company's federal return is open for the 2011 and 2012 tax years. The Company is under examination with respect to certain state tax jurisdictions, which it reasonably anticipates finalizing within the next twelve months. Although the final outcome of these examinations is not yet determinable, the Company does not anticipate that any of the state examinations will have a significant impact on the Company's results of operations or financial position. The statute of limitations for the Company's state returns is open for varying periods and jurisdictions, but is generally closed through the 2007 tax year. As of June 29, 2013, the Company has no unrecognized tax positions and does not reasonably expect any material changes to the Company's unrecognized tax positions in the next twelve months.

(7) Other Comprehensive Income

The Company follows Financial Accounting Standards Board ("FASB") authoritative guidance for reporting and presentation of comprehensive income or loss and its components. Other comprehensive income (loss) is derived from adjustments that reflect pension adjustments, natural gas derivative adjustments, corn option adjustments and interest rate swap derivative adjustments. The components of other comprehensive income (loss) and the related tax impacts for the three and six months ended June 29, 2013 and June 30, 2012 are as follows (in thousands):

	Three Months Ended					
	Before-Tax Amount		Tax (Expense) or Benefit		Net-of-Tax Amount	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Defined benefit pension plans						
Amortization of prior service cost	$15	$22	$(6)	$(8)	$9	$14
Amortization of actuarial loss	1,300	1,189	(504)	(461)	796	728
Total defined benefit pension plans	1,315	1,211	(510)	(469)	805	742
Natural gas swap derivatives						
Loss/(gain) reclassified to net income	(244)	295	94	(114)	(150)	181
Gain/(loss) activity recognized in other comprehensive income (loss)	(97)	217	38	(84)	(59)	133
Total natural gas swap derivatives	(341)	512	132	(198)	(209)	314
Corn option derivatives						
Loss/(gain) reclassified to net income	(866)	—	336	—	(530)	—
Gain/(loss) activity recognized in other comprehensive income (loss)	1,450	—	(562)	—	888	—
Total corn option derivatives	584	—	(226)	—	358	—
Interest rate swap derivatives						
Loss reclassified to net income	—	28	—	(11)	—	17
Other comprehensive income (loss)	$1,558	$1,751	$(604)	$(678)	$954	$1,073

	Six Months Ended Before-Tax Amount		Tax (Expense) or Benefit		Net-of-Tax Amount	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Defined benefit pension plans						
Amortization of prior service cost	$30	$44	$(12)	$(16)	$18	$28
Amortization of actuarial loss	2,600	2,378	(1,008)	(922)	1,592	1,456
Total defined benefit pension plans	2,630	2,422	(1,020)	(938)	1,610	1,484
Natural gas swap derivatives						
Loss/(gain) reclassified to net income	(187)	1,008	72	(390)	(115)	618
Gain/(loss) activity recognized in other comprehensive income (loss)	87	(483)	(33)	186	54	(297)
Total natural gas swap derivatives	(100)	525	39	(204)	(61)	321
Corn option derivatives						
Loss/(gain) reclassified to net income	(908)	—	352	—	(556)	—
Gain/(loss) activity recognized in other comprehensive income (loss)	3,041	—	(1,178)	—	1,863	—
Total corn option derivatives	2,133	—	(826)	—	1,307	—
Interest rate swap derivatives						
Loss reclassified to net income	—	260	—	(101)	—	159