DARLING INTERNATIONAL INC
Form 10-Q
August 14, 2001

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 30, 2001

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	36-2495346
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

251 O'CONNOR RIDGE BLVD., SUITE 300, IRVING, TEXAS 75038
(Address of principal executive offices)

(972) 717-0300
(Registrant's telephone number)

Not applicable
(Former name, address and fiscal year, if changed since last report)

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 report(s)), and (2) has been subject to such filing requirements for the past 90 days.

YES /X/ NO / /

The number of shares outstanding of the Registrant's common stock, $0.01 par value, as of August 13, 2001 was 15,589,077.

DARLING INTERNATIONAL INC. AND SUBSIDIARIES
FORM 10-Q FOR THE THREE MONTHS ENDED JUNE 30, 2001

TABLE OF CONTENTS

PART I: FINANCIAL INFORMATION

DARLING INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
June 30, 2001 and December 30, 2000
(in thousands, except shares and per share data)

	June 30, 2001	December 30 2000
ASSETS	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 3,107	$ 3,509

Accounts receivable	20,388	21,837
Inventories	6,794	8,300
Prepaid expenses	3,461	3,046
Deferred income taxes	3,081	3,081
Assets held for sale	2,678	3,161
Other current assets	284	2,923
Total current assets	39,793	45,857
Property, plant and equipment, less accumulated depreciation of $150,634 at June 30, 2001 and $140,944 at December 30, 2000	81,399	88,242
Collection routes and contracts, less accumulated amortization of $20,394 at June 30, 2001 and $18,828 at December 30, 2000	29,765	32,140
Goodwill, less accumulated amortization of $976 at June 30, 2001 and $883 at December 30, 2000	4,530	4,632
Other noncurrent assets	4,518	3,634
	$ 160,005	$ 174,505
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term debt	$ 125,371	$ 109,528
Accounts payable, principally trade	9,278	14,341
Accrued expenses	18,828	23,160
Accrued interest	119	3,038
Deferred income	-	2,599
Total current liabilities	153,596	152,666
Other non-current liabilities	7,669	16,247
Deferred income taxes	2,886	2,868
Total liabilities	164,151	171,781
Stockholders' Equity (Deficit)		
Preferred stock, $0.01 par value; 1,000,000 shares authorized, none issued	-	-
Common stock, $0.01 par value; 25,000,000 shares authorized; 15,589,077 shares issued and outstanding	156	156
Additional paid-in capital	35,063	35,063
Accumulated deficit	(39,365)	(32,495)
Total stockholders' equity (deficit)	(4,146)	2,724
Contingencies (note 3)		
	$ 160,005	$ 174,505

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

DARLING INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Three and Six Months Ended June 30, 2001 and July 1, 2000
(in thousands, except per share data)

Three Months Ended Six Months Ended

	June 30, 2001	July 1, 2000	June 30, 2001	July 2000
	(unaudited)		(unaudited)	
Net sales	$ 58,614	$ 61,557	$ 122,248	$ 124,
Costs and expenses:				
Cost of sales and operating expenses	46,690	49,014	95,002	98,
Selling, general and administrative expenses	6,778	6,934	13,783	13,
Depreciation and amortization	6,488	6,809	13,302	13,
Total costs and expenses	59,956	62,757	122,087	125,
Operating income (loss)	(1,342)	(1,200)	161	(1,
Other income (expense):				
Interest expense	(3,267)	(3,497)	(6,494)	(6,
Other, net	(1,112)	(69)	(537)	
Total other expense	(4,379)	(3,566)	(7,031)	(6,
Loss from continuing operations before income taxes	(5,721)	(4,766)	(6,870)	(7,
Income tax benefit	-	-	-	
Loss from continuing operations	(5,721)	(4,766)	(6,870)	(7,
Discontinued operations:				
Gain on disposal of discontinued operations, net of tax	-	121	-	
Net loss	$ (5,721)	$ (4,645)	$ (6,870)	$ (7,
Basic and diluted loss per share:				
Continuing operations	$ (0.37)	$ (0.31)	$ (0.44)	$ (0
Discontinued operations:				
Gain on disposal	-	0.01	-	0
Total	$ (0.37)	$ (0.30)	$ (0.44)	$ (0

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 30, 2001 and July 1, 2000
(in thousands)

	Six Months Ended June 30, 2001	July 1, 2000

	(unaudited)	
Cash flows from operating activities:		
Loss from continuing operations	$ (6,870)	$ (7,793)
Adjustments to reconcile net loss from continuing operations to net cash provided (used) by operating activities:		
Depreciation and amortization	13,302	13,514
Gain on sales of assets	(244)	(494)
Changes in operating assets and liabilities:		
Accounts receivable	1,449	(856)
Inventories and prepaid expenses	1,091	(323)
Accounts payable and accrued expenses	(11,994)	(2,666)
Accrued interest	(2,919)	(33)
Other	(2,847)	155
Net cash provided (used) by continuing operations	(9,032)	1,504
Net cash provided by discontinued operations	-	121
Net cash provided (used) by operating activities	(9,032)	1,625
Cash flows from investing activities:		
Recurring capital expenditures	(3,782)	(3,374)
Gross proceeds from sale of property, plant and equipment and other assets	141	920
Payments related to routes and other intangibles	-	(37)
Net cash used by investing activities	(3,641)	(2,491)
Cash flows from financing activities:		
Proceeds from long-term debt	125,371	87,973
Payments on long-term debt	(109,498)	(86,097)
Contract payments	(3,292)	(897)
Net cash used in discontinued operations	(310)	-
Net cash provided by financing activities	12,271	979
Net increase (decrease) in cash and cash equivalents	(402)	113
Cash and cash equivalents at beginning of period	3,509	1,828
Cash and cash equivalents at end of period	$ 3,107	$ 1,941
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 9,413	$ 6,032
Income taxes, net of refunds	$ 28	$ 120

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

DARLING INTERNATIONAL INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
June 30, 2001
(unaudited)

GOING CONCERN RISK

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the Consolidated Balance Sheet at June 30, 2001, the Company has $125.4 million of debt due under its bank credit facilities classified as a current liability because the underlying Credit Agreement had an expiration date of June 30, 2001. The Company entered into a four-month forbearance agreement effective June 29, 2001, with the parties to its existing Credit Agreement that extends the existing Credit Agreement to October 31, 2001. The forbearance agreement, among other things, raises the interest rate under the Credit Agreement from 1% over prime to 3% over prime, requires the payment of a fee of $1.3 million to the lenders with respect to the forbearance agreement and related matters, and limits financial covenants to certain minimum cash flows based upon the Company s own projected cash flow for certain periods during the four-month forbearance period. If the Company is unable to consummate a new financing arrangement as discussed herein, then, in the absence of another business transaction or debt agreement, the Company cannot make the principal payment due at maturity and, accordingly, the lenders could declare a default, and attempt to realize upon the collateral securing the debt (which comprises substantially all the Company s assets). As a result of this material uncertainty, there is doubt about the Company s ability to continue as a going concern for a reasonable period of time. See the Company s Form 10-K for the fiscal year ended December 30, 2000, for disclosures related to Going Concern Risk contained therein, and Note 6 Liquidity, Going Concern Risk and Capital Resources, contained herein.

(1) <u>General</u>

The accompanying consolidated financial statements for the three month and six month periods ended June 30, 2001 and July 1, 2000 have been prepared by Darling International Inc. (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) which 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 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 30, 2000.

(2) <u>Summary of Significant Accounting Policies</u>

(a) <u>Basis of Presentation</u>

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

(b) <u>Fiscal Periods</u>

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 30, 2001, and include the 13 weeks and 26 weeks ended June 30, 2001, and the 13 weeks and 26 weeks ended July 1, 2000.

(c) <u>Loss Per Share</u>

Basic and diluted loss per common share are computed by dividing net loss by the weighted average number of common stock shares outstanding during the year.

The weighted average common shares used for basic loss per common share was 15,589,077 for both the three months and six months ended June 30, 2001 and July 1, 2000. All outstanding stock options were excluded from diluted loss per common share for both periods as the effect was antidilutive. Outstanding stock options excluded were 3,024,185 and 2,485,105 for the three months and six months ended June 30, 2001 and July 1, 2000, respectively.

(3) Contingencies

LITIGATION

Melvindale

A group of residents living near the Company s Melvindale, Michigan plant has filed suit, purportedly on behalf of a class of persons similarly situated. The class has been certified for injunctive relief only. The court declined to certify a damage class but has permitted approximately 300 people to join the lawsuit as plaintiffs. The suit is based on legal theories of trespass, nuisance and negligence and/or gross negligence, and is pending in the United States District Court, Eastern District of Michigan. Plaintiffs allege that emissions to the air, particularly odor, from the plant have reduced the value and enjoyment of plaintiffs property, and plaintiffs seek damages, including mental anguish, exemplary damages and injunctive relief. In a lawsuit with similar factual allegations, also pending in United States District Court, Eastern District of Michigan, the City of Melvindale has filed suit against the Company based on legal theories of nuisance, trespass, negligence and violation of Melvindale nuisance ordinances seeking damages and declaratory and injunctive relief. The court has dismissed the trespass counts in both lawsuits. The Company or its predecessors have operated a rendering plant at the Melvindale location since 1927 in a heavily industrialized area down river south of Detroit. The Company has taken and is taking all reasonable steps to minimize odor emissions from its recycling processes and is defending the lawsuit vigorously.

Other Litigation

The Company is also a party to several other lawsuits, claims and loss contingencies incidental to its business, including assertions by certain regulatory agencies related to environmental matters.

Self Insured Risks

The Company purchases its workers compensation, auto and general liability insurance on a retrospective basis. The Company accrues its expected ultimate costs related to claims occurring during each fiscal year and carries this accrual as a reserve until such claims are paid by the Company.

The Company has established loss reserves for insurance, environmental and litigation matters. Although the ultimate liability cannot be determined with certainty, management of the Company believes that reserves for contingencies are reasonable and sufficient based upon present governmental regulations and information currently available to management. The Company estimates possible losses related to environmental and litigation matters, based on certain assumptions, is approximately $1.1 million at June 30, 2001. The accrued expenses and other noncurrent liabilities classifications in the Company s consolidated balance sheets include reserves for insurance, environmental and litigation contingencies of $6.5 million and $13.1 million at June 30, 2001 and December 30, 2000, respectively. The decline in the balance of reserves is primarily due to an expired letter of credit of $5.9 million drawn by the holder.

There can be no assurance, however, that final costs related to these matters will not exceed current estimates. The Company believes that any additional liability relative to such lawsuits and claims which may not be covered by insurance would not likely have a material adverse effect on the Company s financial position, although it could potentially have a material impact on the results of operations in any one year.

(4) Business Segments

The Company operates on a worldwide basis 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 related to Fresh Start Reporting. Assets of corporate activities include cash, unallocated prepaid expenses, deferred tax assets, prepaid pension, and miscellaneous other assets.

Rendering
Rendering consists of the collection and processing of animal by-products from butcher shops, grocery stores and independent meat and poultry processors, converting these wastes into similar products such as useable oils and proteins utilized by the agricultural and oleochemical industries.

Restaurant Services
Restaurant Services consists of the collection of used cooking oils from restaurants and recycling them into similar products such as high-energy animal feed ingredients and industrial oils. Restaurant Services also provides grease trap servicing.

Business Segment Net Sales (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2001	July 1, 2000	June 30, 2001	July 1, 2000
Rendering:				
Trade	$ 43,464	$ 48,234	$ 93,226	$ 95,873
Intersegment	6,630	6,495	12,818	14,068
	50,094	54,729	106,044	109,941
Restaurant Services:				
Trade	15,150	13,323	29,022	28,501
Intersegment	1,558	2,209	3,357	4,487
	16,708	15,532	32,379	32,988
Eliminations	(8,188)	(8,704)	(16,175)	(18,555)
Total	$ 58,614	$ 61,557	$122,248	$124,374

Business Segment Profit (Loss) (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2001	July 1, 2000	June 30, 2001	July 1, 2000
Rendering	$ 2,413	$ 2,135	$ 4,913	$ 4,717
Restaurant Services	2,304	537	3,239	1,812
Corporate Activities	(7,171)	(3,941)	(8,528)	(7,409
Interest expense	(3,267)	(3,497)	(6,494)	(6,913
Loss before income taxes	$ (5,721)	$ (4,766)	$ (6,870)	$ (7,793

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 Combined Rend./Rest. Svcs. Depreciation of Combined Rend./Rest. Svcs. assets is allocated based upon an estimate of the percentage of corresponding activity attributed to each segment. Additionally, although intangible assets are allocated to operating segments, the amortization related to the adoption of "Fresh Start Reporting" is not considered in the measure of operating segment profit (loss) and is included in Corporate Activities.

Business Segment Assets (in thousands):

	June 30, 2001	December 30, 2000
Rendering	$59,579	$64,199
Restaurant Services	17,770	17,290
Combined Rend./Rest. Svcs.	65,888	72,722
Corporate Activities	16,768	20,294
Total	$160,005	$174,505

(5) <u>Income Taxes</u>

The Company assesses the amount of valuation allowance recorded as a reduction of deferred tax assets by considering its ability to carryback net operating losses, scheduled reversals of future taxable and deductible temporary differences, future taxable income and tax planning strategies. Based on the Company s assessment of these matters at June 30, 2001, the Company recorded an additional valuation allowance of $2.0 million to eliminate the deferred tax benefit attributable to the Fiscal 2001 second quarter loss.

(6) <u>Liquidity, Going Concern Risk and Capital REsources</u>

At June 30, 2001, the Company s borrowings in the amount of $125.4 million under the Amended and Restated Credit Agreement (Credit Agreement) were classified as a current liability, because the Credit Agreement had an expiration date of June 30, 2001. Substantially all assets of the Company are either pledged or mortgaged as collateral for borrowings under the Credit Agreement. The Credit Agreement contains certain terms and covenants, which, among other matters, restrict the incurrence of additional indebtedness, the payment of cash dividends, the retention of certain proceeds from sales of assets, and the annual amount of capital expenditures, and requires the maintenance of certain minimum financial ratios.

The Company entered into a four-month forbearance agreement effective June 29, 2001, with the parties to its existing Credit Agreement that extends the existing Credit Agreement to October 31, 2001. The forbearance agreement, among other things, raises the interest rate under the Credit Agreement from 1% over prime to 3% over prime, requires the payment of a fee of $1.3 million to the lenders with respect to the forbearance agreement and related matters, and limits financial covenants to certain minimum cash flows based upon the Company s own projected cash flow for certain periods during the four-month forbearance period.

The Company s management is in discussions with the Company s lenders regarding obtaining a new financing arrangement, but no agreement has been consummated. The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern. If the Company is not successful in obtaining a new financing arrangement, the lenders could declare a default and attempt to realize upon the collateral securing the debt (which comprises substantially all the Company s assets). The absence of a new financing arrangement creates a material uncertainty regarding the ability of the Company to continue as a going concern. Management is not able to predict what the outcome or consequences of these matters might be.

(7) Derivative Instruments

Effective December 31, 2000 (the first day of fiscal 2001), the Company adopted the provisions of Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (Statement 133). Statement 133, as amended, standardizes the accounting for derivatives instruments, including certain derivative instruments embedded in other contracts. Under the standard, 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. The Company held no fair value hedge or foreign currency hedge derivative instruments at December 30, 2000, March 31, 2001, or June 30, 2001. 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. Upon adoption, the provisions of Statement 133 must be applied prospectively.

Upon adoption of Statement 133 on December 31, 2000, the Company was party to interest rate and natural gas swaps to manage the risk of changes in cash flows related to interest expense on floating-rate borrowings under its Revolving Credit Facility and the purchase of natural gas used in its plants.

Interest Rate Swap Agreements

The Company is party to two interest rate swap agreements whereby the interest obligation on $45 million of floating-rate debt has been exchanged for fixed rate contracts which bear interest, payable quarterly. One swap agreement for $25 million matures June 27, 2002, the second swap agreement for $20 million matures June 27, 2002, with a one-time option for the bank to cancel at June 27, 2001, which the bank has declined to exercise, and a third swap agreement for $25 million matured on June 27, 2001. Since the Company s existing Credit Agreement terminated in June, 2001, only the third swap agreement and the portion of the first two swap agreements through June, 2001 are accounted for as hedges. The Company recorded a liability of $.5 million at December 30, 2000 and charge to other expense for the fair value of the portion of the first two swap agreements which extend beyond June, 2001, and continues to follow this policy. At June 30, 2001, the fair value of this liability is $1.1 million.

Natural Gas Swap Agreements

At December 31, 2001 and through March, 2001, the Company was party to natural gas swap agreements representing 300,000 mmbtu s of natural gas per month for January, February and March, 2001, with a purchase price of $4.682/mmbtu. At December 31, 2001, the fair value of the Company s positions in these swap agreements was an asset of $2.6 million. All of the Company s positions in these swap agreements were settled during the three months ended March 31, 2001, and the Company no longer uses natural gas swaps to manage its cash flow risk arising from the purchase of natural gas used in its plants. As of June 30, 2001, the Company was party to forward purchase agreements with certain of its natural gas suppliers representing approximately 195,800 mmbtu s of natural gas purchases per month for July through December, 2001, with an average purchase price of $4.98/mmbtu. These agreements have no net settlement provisions and the Company intends to take physical delivery. Accordingly, the agreements are not subject to the requirements of Statement 133 because they qualify as normal purchases as defined in the standard.

The Company has designated the interest rate and natural gas swap agreements as cash flow hedges and such agreements qualify for hedge accounting under Statement 133 except as described above for certain portions of two of the interest rate swaps. A summary of the transition adjustment recorded to other comprehensive income, the net change arising from hedging transactions, and the amounts recognized in earnings during the six-month period ended June 30, 2001 follows (in thousands):

Transition adjustment on December 31, 2000 to accumulated other comprehensive income	$ 2,220
Net change arising from current period hedging transactions	376
Reclassifications into earnings	(2,596)
Accumulated other comprehensive income at March 31, 2001	$ -

A summary of the gains and losses recognized in earnings during the six months ended June 30, 2001 follows (in thousands):

Loss to interest expense related to interest rate swap agreements	$ (487)
Gain to operating expenses related to natural gas swap agreements (effective portion)	2,568
Gain to other income related to natural gas swap agreements (ineffective portion)	515
Total reclassifications into earnings for the six months ended June 30, 2001	$ 2,596

=========

Gains and losses reported in accumulated other comprehensive income are reclassified into earnings upon the occurrence of the hedged transactions (accrual of interest expense and purchase of natural gas).

Amounts reported in accumulated other comprehensive income as of December 31, 2000 (transition), and as of March 31, 2001, were reclassified into earnings by June 30, 2001.

DARLING INTERNATIONAL INC. AND SUBSIDIARIES
FORM 10-Q FOR THE THREE MONTHS
ENDED MARCH 31, 2001

PART I

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

The following discussion summarizes factors affecting the Company's results of operations for the three and six months ended June 30, 2001 and July 1, 2000, and information with respect to the liquidity and capital resources of the Company at June 30, 2001.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2001 Compared to Three Months Ended July 1, 2000

GENERAL

The Company recorded a net loss of $5.7 million for the second quarter of the fiscal year ending December 29, 2001 ("Fiscal 2001"), as compared to a loss of $4.6 million for the second quarter of the fiscal year ended December 30, 2000 ("Fiscal 2000"), an increased loss of $1.1 million. Interest expense decreased from $3.5 million in the second quarter of Fiscal 2000 to $3.3 million in the second quarter of Fiscal 2001, primarily due to interest rate decreases.

NET SALES

The Company collects and processes animal by-products (fat, bones and offal) and used restaurant cooking oil to produce finished products of tallow, meat and bone meal, and yellow grease. In addition, the Company provides grease trap collection services to restaurants. Sales are significantly affected by finished goods prices, quality of raw material, and volume of raw material. Net sales include the sales of produced finished goods, trap grease services, and finished goods purchased for resale, which constitute 9.9% of total sales in the second quarter of Fiscal 2001 and 13.0% of total sales in the second quarter of Fiscal 2000.

During the second quarter of Fiscal 2001, net sales decreased by $3.0 million (4.8%), to $58.6 million as compared to $61.6 million during the second quarter of Fiscal 2000, primarily due to the following: 1) Decreases in finished goods prices resulted in a $4.2 million decrease in sales in the second quarter of Fiscal 2001, compared to the second quarter of Fiscal 2000. Average market prices for yellow grease were down 4.1%, tallow prices were up 1.5%, and meat and bone meal prices were down 18.9%; 2) Decreases in products purchased for resale of $2.2 million; 3) Decreases in raw material inage volume of $0.4 million; partially offset by 4) Increases in collection fees of $2.6 million; 5) Increases in finished hide sales of $1.0 million; and 6) Other increases of $0.2 million.

COST OF SALES AND OPERATING EXPENSES

Cost of sales and operating expenses include prices paid to raw material suppliers, the cost of product purchased for resale, and the cost to collect and process raw material. The Company utilizes both fixed and formula pricing methods for the purchase of raw materials. Fixed prices are adjusted where possible as needed 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.

During the second quarter of Fiscal 2001, cost of sales and operating expenses decreased $2.3 million (4.7%) to $46.7 million as compared to $49.0 million during the second quarter of Fiscal 2000 primarily as a result of the following: 1) Lower raw material prices paid resulted in a decrease of $3.4 million in cost of sales; 2) Decreases in products purchased for resale resulted in a $2.2 million decrease in cost of sales; 3) Decreases in payroll of $0.4 million; partially offset by 4) Increased energy expenses of $2.7 million; 5) Increases in hide cost of $0.3 million; and 6) Other increases of $0.7 million.

SELLING, GENERAL AND ADMINISTRATIVE COSTS

Selling, general and administrative costs were $6.8 million during the second quarter of Fiscal 2001, a $0.1 million decrease from $6.9 million for the second quarter of Fiscal 2000, primarily due to decreases in payroll expense of $0.1 million.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization charges decreased $0.3 million to $6.5 million during the second quarter of Fiscal 2001 as compared to $6.8 million during the second quarter of Fiscal 2000.

INTEREST EXPENSE

Interest expense decreased $0.2 million from $3.5 million during the second quarter of Fiscal 2000 to $3.3 million during the second quarter of Fiscal 2001, primarily due to decreases in interest rates.

OTHER INCOME (EXPENSE)

Other expense increased $1.0 million from net other expense of $0.1 million during the second quarter of Fiscal 2000 to net other expense of $1.1 million during the second quarter of Fiscal 2001. This increase was primarily due to loss on the early retirement of a noncompete liability of $0.4 million and loss on fair value adjustments on the interest rate swap agreements which extend beyond the June, 2001, maturity date of the Credit Agreement of $0.5 million.

INCOME TAXES

The Company recorded a $2.0 million increase in the valuation allowance to reduce the carrying value of deferred tax assets during the second quarter of Fiscal 2001 with the result that no deferred tax benefit was recorded attributable to the Fiscal 2001 second quarter loss.

CAPITAL EXPENDITURES

The Company made capital expenditures of $2.3 million during the second quarter of Fiscal 2001 compared to capital expenditures of $2.2 million during the second quarter of Fiscal 2000, an increase of $0.1 million.

Six Months Ended June 30, 2001 Compared to Six Months Ended July 1, 2000

GENERAL

The Company recorded a loss of $6.9 million for the first six months of Fiscal 2001, as compared to a net loss of $7.7 million for the first six months of Fiscal 2000, an improvement of $0.8 million. The decrease in the operating loss was primarily due to increases in collection fees and finished hide prices, reductions in depreciation, and interest expense, partially offset by higher energy expenses in Fiscal 2001. Interest expense decreased from $6.9 million in Fiscal 2000 to $6.5 million in Fiscal 2001, primarily due to interest rate reductions.

NET SALES

The Company collects and processes animal by-products (fat, bones and offal) and used restaurant cooking oil to produce finished products of tallow, meat and bone meal, and yellow grease. In addition, the Company provides grease trap collection services to restaurants. Sales are significantly affected by finished goods prices, quality of raw material, and volume of raw material. Net sales include the sales of produced finished goods, trap grease services, and finished goods purchased for resale, which constitutes 9.2% of total sales for the first six months of Fiscal 2001 and 11.5% of total sales for the first six months of Fiscal 2000.

During the first six months of Fiscal 2001, net sales decreased $2.1 million (1.7%), to $122.3 million as compared to $124.4 million during the first six months of Fiscal 2000, primarily due to the following: 1) Decreases in overall finished goods prices resulted in a $5.2 million decrease in sales in the first six months of Fiscal 2001 versus the first six months of Fiscal 2000. Average market prices for yellow grease were 4.7% lower, tallow prices were 1.9% lower, and meat and bone meal prices were 5.3% lower; 2) Decreases in products purchased for resale resulted in a $3.4 million sales decrease; 3) Decreases in yield on production of finished product resulted in a $0.4 million sales decrease; and 4) Other decreases of $0.1 million; partially offset by 5) Increases in collection fees of $5.4 million; and 6) Increases in finished hide sales of $1.6 million.

COST OF SALES AND OPERATING EXPENSES

Cost of sales and operating expenses include prices paid to raw material suppliers, the cost of product purchased for resale, and the cost to collect and process raw material. The Company utilizes both fixed and formula pricing methods for the purchase of raw materials. Fixed prices are adjusted where possible as needed 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.

During the first six months of Fiscal 2001, cost of sales and operating expenses decreased $3.4 million (3.5%) to $95.0 million as compared to $98.4 million during the first six months of Fiscal 2000 primarily as a result of the following: 1) Lower raw material prices paid resulted in a decrease of $5.3 million; 2) Decreases in products purchased for resale resulted in a $3.4 million decrease; 3) Decreases in payroll of $0.9 million; partially offset by 4) Increased energy expenses of $5.6 million; and 5) Other increases of $0.6 million.

SELLING, GENERAL AND ADMINISTRATIVE COSTS

Selling, general and administrative costs were $13.8 million during the first six months of Fiscal 2001, a $0.3 million increase from $13.5 million for the first six months of Fiscal 2000. The increase results from higher bad debt expense of $0.4 million and higher legal expense of $0.3 million, net of decreases in various expenses of $0.4 million.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization charges decreased $0.2 million to $13.3 million during the first six months of Fiscal 2001 as compared to $13.5 million during the first six months of Fiscal 2000.

INTEREST EXPENSE

Interest expense decreased $0.4 million from $6.9 million during the first six months of Fiscal 2000 to $6.5 million during the first six months of Fiscal 2001, primarily due decreases in interest rates.

INCOME TAXES

The Company recorded a $2.4 million increase in the valuation allowance to reduce the carrying value of deferred tax assets during the first six months of Fiscal 2001, with the result that no deferred tax benefit was recorded attributable to the Fiscal 2001 loss for the first six months.

CAPITAL EXPENDITURES

The Company made capital expenditures of $3.8 million during the first six months of Fiscal 2001 compared to capital expenditures of $3.4 million during the first six months of Fiscal 2000.

DISCONTINUED OPERATIONS

The operations of the Bakery By-Products Recycling segment is classified as discontinued operations. The Company recorded a $0.1 million gain during the first six months of Fiscal 2000. The sale of this business segment was closed on April 5, 1999.

LIQUIDITY, GOING CONCERN RISK AND CAPITAL RESOURCES

The Company generated a net loss of $6.9 million for the six months ended June 30, 2001 compared to a net loss of $7.7 million in the six months ended July 1, 2000.

Cash used by operating activities was $9.0 million in the six months ended June 30, 2001, compared to cash provided by operating activities of $1.6 million in the prior year comparable period. This decline is primarily due to payment on drawn letters of credit and accrued interest. Prices for the products the Company sells decreased approximately 15% during the six months ended June 30, 2001. Increases in collection fees partially offset this decline.

Substantially all assets of the Company are either pledged or mortgaged as collateral for borrowings under the Credit Agreement. The Credit Agreement contains certain terms and covenants, which, among other matters, restrict the incurrence of additional indebtedness, the payment of cash dividends, the retention of certain proceeds from sales of assets, and the annual amount of capital expenditures, and requires the maintenance of certain minimum financial ratios.

On June 30, 2001, the Company had a working capital deficit of $113.8 million and its working capital ratio was 0.26 to 1 compared to a working capital deficit of $106.8 million and a working capital ratio of 0.30 to 1 on December 30, 2000.

RECENT ACCOUNTING PRONOUNCEMENTS

In July, 2001, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards No. 141 "Business Combinations" and No. 142 "Goodwill and Other Intangible Assets." Statement 141 requires that all business combinations initiated after June 30, 2001, be accounted for under the purchase method and Statement 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. The pronouncement of Statement No. 142 will be effective for fiscal years beginning after December 15, 2001. Also, the FASB has voted to issue Statement No. 143 "Accounting for Asset Retirement Obligations" which establishes requirements for the accounting of removal-type costs associated with asset retirements. Statement No. 143 is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. The Company is currently assessing the impact of these standards on its financial statements.

FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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 located elsewhere herein regarding industry prospects and the Company's financial position are forward-looking statements. 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 elsewhere in this report, important factors that could cause actual results to differ materially from the Company's expectations include: the Company's ability to refinance its Credit Agreement which expired June 30, 2001, and was extended by a four-month forbearance agreement to October 31, 2001; the Company's continued ability to obtain sources of supply for its rendering operations; general economic conditions in the European and Asian markets; and prices in the competing commodity markets which are volatile and are beyond the Company's control. Among other things, future profitability may be affected by the Company's ability to grow its business which faces competition from companies which may have substantially greater resources than the Company.

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, and the price of natural gas used in the Company's plants. Predominantly all of the Company's finished products are commodities which are generally sold at prices prevailing at the time of sale. The Company uses interest rate and, through March, 2001, natural gas swaps to manage these related risks. Beginning in April, 2001, the Company is using natural gas forward purchase agreements with its suppliers to manage the price risk of natural gas used in its facilities. While the Company does have international operations, and operates in international markets, it considers its market risks in such activities to be immaterial.

At June 30, 2001, the Company was party to two interest rate swap agreements. Under the terms of the swap agreements, the interest obligation on $45 million of Credit Agreement floating-rate debt was exchanged for fixed rate contracts which bear interest, payable quarterly. One swap agreement for $25 million matures June 27, 2002, bears interest at 6.5925% and the Company's receive rate is based on the three-month LIBOR. The second swap agreement for $20 million matures on June 27, 2002, with a one-time option for the bank to cancel at June 27, 2001, which the bank has declined to exercise, bears interest at 9.17% and the Company's receive rate is based on the Base Rate. A third swap agreement for $25 million matured June 27, 2001, bore interest at 9.83% and the Company's receive rate was based on the Base Rate.

As of June 30, 2001, the Company has forward purchase agreements in place for purchases of approximately 195,800 mmbtu's of natural gas per month for July through December, 2001, with an average purchase price of $4.98/mmbtu.

DARLING INTERNATIONAL INC. AND SUBSIDIARIES
FORM 10-Q FOR THE THREE MONTHS ENDED APRIL 1, 2000

PART II: Other Information

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The matters voted upon at the annual meeting of stockholders held on May 16, 2001 were as follows:

The election of six directors to serve until the next annual meeting of stockholders or until their successors have been elected and qualified. The number of votes cast for and against the election of each nominee, as well as the number of abstentions and broker non-votes with respect to the election of each nominee, were as follows:

```
Joe Colonnetta
--------------
        For     13,592,696            Against/Withheld     8,547

Fredric J. Klink
----------------
        For     13,592,496            Against/Withheld     8,747

Dennis B. Longmire
------------------
        For     13,244,981            Against/Withheld 356,262

James A. Ransweiler
-------------------
        For     13,592,396            Against/Withheld     8,847

Denis J. Taura
--------------
        For     13,592,696            Against/Withheld     8,547

Bruce Waterfall
---------------
        For     13,360,096            Against/Withheld 241,147
```

Amended the Company s 1994 Employee Flexible Stock Option Plan (the 1994 Plan) to reduce restrictions on award of stock options in any year, to delete vesting period requirements, to add a six-month holding period requirement for option holders utilizing Company stock to pay the exercise price of options, to give the Compensation Committee the ability to permit transfer of nonqualified stock options by the option holder, to allow the Compensation Committee flexibility to permit post-termination exercise periods in excess of periods formerly mandated under the 1994 Plan, to clarify employee transfers to subsidiaries and affiliates of the Company does not result in termination, but sale of the Company s interests in such entities constitutes termination, to simplify procedures to amend the 1994 Plan in the future, and approve the CEO Option whereby the CEO was granted options to buy 540,000 shares of Common Stock at an exercise price equal to $0.50 per share.

```
        For     9,869,511              Against/Withheld 3,731,732
```

Authorized the Board of Directors to grant under the 1994 Plan on or after June 4, 2001 options to purchase 735,355 shares of Common Stock at 100% of fair market value on such date to key employees who surrendered an equal number of options on December 1, 2000.

For	9,371,494	Against/Withheld 4,229,749

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits

None.

Reports on Form 8-K

The Registrant filed the following current report on Form 8-K during the quarter ended June 30, 2001.

Current Report on Form 8-K dated April 9, 2001, including information regarding the notice from its Lenders that an "Event of Default" had occurred under a provision of the Company's Credit Agreement.

Current Report on Form 8-K dated July 11, 2001, effective June 29, 2001, including information regarding the four-month forbearance agreement that extends the Company's Credit Agreement, as amended, until October 31, 2001.

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.
Registrant

Date: August 14, 2001

By: /s/ Denis J. Taura
Denis J. Taura
Chairman and
Chief Executive Officer

Date: August 14, 2001

By: /s/ John O. Muse
John O. Muse

Executive Vice President
Administration and Finance
(Principal Financial Officer)