DARLING INTERNATIONAL INC
Form 10-K/A
October 19, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A
Amendment No. 2

(Mark One)

X ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2005

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock $0.01 par value per share	American Stock Exchange (AMEX)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes _X_ No ___

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes __ No _X_

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 ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. _X_.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one): Large accelerated filer Accelerated filer _X_ Non-accelerated filer __

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

As of the last day of the Registrant s most recently completed second fiscal quarter, the aggregate market value of the shares of common stock held by nonaffiliates of the Registrant was approximately $204,191,000 based upon the closing price of the common stock as reported on the American Stock Exchange (AMEX) on that day. (In determining the market value of the Registrant s common stock held by non-affiliates, shares of common stock beneficially owned by directors, officers and holders of more than 10% of the Registrant s common stock have been excluded. This determination of affiliate status is not necessarily a conclusive determination for other purposes.)

There were 64,445,430 shares of common stock, $0.01 par value, outstanding at March 7, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

Selected designated portions of the Registrant s definitive Proxy Statement in connection with the Registrant s 2006 Annual Meeting of stockholders are incorporated by reference into Part III of this Annual Report.

Explanatory Note

Darling International Inc. (the "Company") is filing this Amendment No. 2 on Form 10-K/A ("Amendment No. 2") to amend the Company's previously filed Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (the "Original Form 10-K"), as filed with the Securities and Exchange Commission ("SEC") on March 14, 2006 and as amended by Amendment No. 1 on Form 10-K/A filed with the SEC on August 18, 2006 (as so amended, the "Form 10-K"). The purpose of this Amendment No. 2 is to respond to a comment letter received from the staff of the SEC and to amend our disclosures in Item 7 and Item 8 for the reasons set forth below.

Except as described in this explanatory note, no other changes have been made to the Form 10-K, and this Amendment No. 2 does not amend, update or change any other information contained in the Form 10-K. Information not affected by the changes described in this explanatory note is unchanged and reflects the disclosures made previously in the Form 10-K. Accordingly, this Amendment No. 2 should be read in conjunction with the Company's filings made with the SEC subsequent to the filing of the Form 10-K, including any amendments to those filings.

In accordance with Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, the complete text of Item 7 and Item 8 is set forth herein, including those portions of the text that have not been amended from that set forth in the Form 10-K.

The only changes to the text in Item 7 of the Form 10-K are as follows:

The first paragraph under Income Taxes (page 30 of the Original Form 10-K) was amended to discuss the impact of the reduction in the Company's effective tax rate (as disclosed in Note 10 to the Company's financial statements) on its results of operations for fiscal 2005.

Accounts Receivable and Allowance for Doubtful Accounts and Accrued Medical Claims Liability were removed from the Company's discussion of critical accounting policies (pages 38 and 40, respectively, of the Original Form 10-K) as the Company has determined that these policies are not critical accounting policies.

The only changes to the text in Item 8 of the Form 10-K are as follows:

The second paragraph under Note 1(b)(12)-Use of Estimates (page 57 of the Original Form 10-K) was added to address the Company's policy with regard to its disclosure of reasonably possible loss contingencies in accordance with Statement of Financial Accounting Standards 5, as well as certain other standards.

The first paragraph under Note 1(b)(13)-Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of (page 57 of the Original Form 10-K) was amended to provide the Company's disclosure policy with respect to complying with FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

The last sentence of the third paragraph of Note 14-Contingencies (page 72 of the Original Form 10-K) was revised to make it clear that the likelihood is remote that any additional liability from the lawsuits and claims mentioned in such Note 14 that may not be covered by insurance would have a material effect on the Company's financial statements.

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PART II

ITEM 7. 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 in Item 1A of this report, under the heading Risk Factors.

The following discussion should be read in conjunction with the historical consolidated financial statements and notes thereto included in Item 8 of this report. The Company is organized along two operating business segments, Rendering and Restaurant Services. See Note 15 of Notes to Consolidated Financial Statements.

Overview

Darling International Inc. is a recycler of food and animal by-products and provides grease trap services to food service establishments. The Company collects and recycles animal by-products and used cooking oil from food service establishments. The Company processes these raw materials at 24 facilities located throughout the United States into finished products such as protein (primarily MBM), tallow (primarily BFT), and YG. The Company sells these products nationally and internationally, primarily to producers of oleo-chemicals, soaps, pet foods and livestock feed, for use as ingredients in their products or for further processing. The Company s operations are currently organized into two segments: Rendering and Restaurant Services. For additional information on the Company s business, see Item 1, Business, and for additional information on the Company s segments, see Note 15 of Notes to Consolidated Financial Statements.

Major challenges faced by the Company during Fiscal 2005 included reduced raw material supplies, lower prices for all finished products and higher energy prices for natural gas and diesel fuel. During Fiscal 2005 a second case of Bovine Spongiform Encephalopathy (BSE) was announced. This continued to contribute to an environment of uncertainty regarding the implementation of the anticipated BSE regulations, which have not yet been implemented. Export markets in some foreign countries for U.S.-produced finished beef products and other cattle by-products continued to be closed throughout Fiscal 2005. The effects of these challenges during Fiscal 2005 are summarized in the sections that follow.

Operating income decreased by $14.4 million in Fiscal 2005 compared to Fiscal 2004. The challenges faced by the Company indicate there can be no assurance that operating results achieved by the Company in Fiscal 2005 are indicative of future operating performance of the Company.

Summary of Critical Issues Faced by the Company during Fiscal 2005

Lower raw material volumes were collected from suppliers during Fiscal 2005. Management believes that weak cattle slaughter margins in the meat processing industry, along with export restrictions on U.S. beef products, contributed to a decline in red meat raw material volumes collected by the Company during Fiscal 2005. This is a continuation of lower raw material volumes noted during the third quarter of Fiscal 2004. The financial impact of lower raw material volumes on sales revenue and raw material cost is summarized below in Results of Operations.

The average price of the Company s finished products was lower during Fiscal 2005 compared to the same period in Fiscal 2004. Management believes that closure of foreign export markets to U.S.-produced beef products in 2004 continued to result in lower commodity prices at the Company s export locations. In years prior to 2004, the Company received a premium to domestic commodity finished goods prices in certain of its export locations. The export market ban of U.S.-produced beef products resulted in the loss of that price premium during Fiscal 2004, and this continued into 2005. 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.

High energy prices for both natural gas and diesel fuel persisted throughout Fiscal 2005. The Company attempts to manage natural gas price risk by entering into forward purchase agreements, depending on market conditions, in order to purchase natural gas for future months when prices are relatively low. The Company also has the ability to burn alternate fuels at various plant locations when economically favorable to do so. The Company has limited diesel fuel storage capabilities at its plant locations and regional suppliers have not been willing to enter into forward purchase agreements on terms acceptable to the Company. The financial impact of higher natural gas and diesel fuel prices is summarized below in Results of Operations.

Summary of Critical Issues and Known Trends Faced by the Company in Fiscal 2005 and Thereafter

BSE Related Issues:

Effective August 1997, the FDA promulgated a rule prohibiting the use of mammalian proteins, with some exceptions, in feeds for cattle, sheep and other ruminant animals. The intent of this rule is to prevent the spread of BSE, commonly referred to as mad cow disease. See the risk factor entitled The Company s business may be affected by the impact of BSE beginning on page 14 for more information about BSE and its potential effects on the Company, including government regulations, finished product export restrictions by foreign governments, market price fluctuations for finished goods, reduced demand for beef and beef products by consumers, or increases in operating costs.

Other Critical Issues and Challenges

Over the next year the integration of the assets acquired in the Transaction from NBP will have a significant impact on the Company s personnel and operations. See the risk factor entitled The Company may be unable to successfully integrate National By-Products and achieve the benefits expected to result from the Transaction beginning on page 10 for more information.

Expenses related to compliance with requirements of Section 404 of the Sarbanes-Oxley Act of 2002 (the Sarbanes Act) are expected to continue throughout 2006 and thereafter. The Company complied with the Sarbanes Act in Fiscal 2004 and 2005. The Company expects recurring compliance costs related to the required updating of documentation and the testing and auditing of the Company s system of internal controls, as required by the Sarbanes Act.

Energy prices for natural gas and diesel fuel are expected to remain high in 2006. 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 2005 and represent an ongoing challenge to the Company s operating results for future periods.

Avian influenza (Bird Flu), a highly contagious disease that affects poultry, has recently spread throughout Asia to Europe at an unprecedented rate. Bird Flu is not a new disease, and while it does not currently exist in the U.S., it has occurred in this country twice within the past 25 years. The USDA has developed safeguards to protect the U.S. poultry industry from Bird Flu. Such safeguards are based on import restrictions, disease surveillance and a response plan for isolating and depopulating infected flocks if the disease is detected. Any significant outbreak of Bird Flu in the U.S. could have a negative impact on our business by reducing demand for MBM.

These challenges indicate there can be no assurance that operating results of the Company in Fiscal 2005 are indicative of future operating performance of the Company.

Results of Operations

Fifty-two Week Fiscal Year Ended December 31, 2005 (Fiscal 2005   ) Compared to Fifty-two Week Fiscal Year Ended January 1, 2005 (Fiscal 2004   )

Summary of Key Factors Impacting Fiscal 2005 Results:

Principal factors that contributed to a $14.4 million (47.1%) decrease in operating income, which are discussed in greater detail in the following section, were:

- Lower finished product sales prices,
- Lower raw material volume,
- Higher natural gas and diesel fuel expense, and
- Prior year insurance settlement with certain of the Company   s past insurers.

These decreases to operating income were partially offset by:

- Lower raw material prices, and
- Improved recovery of collection expense.

Summary of Key Indicators of Fiscal 2005 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 quoted on the Jacobsen index,
- Raw material volume,
- Production volume and related yield of finished product,
- Natural gas prices quoted on the NYMEX index,
- Collection fees and collection operating expense, and
- Factory operating expenses.

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 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 Fiscal 2005, compared to average Jacobsen prices for Fiscal 2004 follow:

	Avg. Price Fiscal 2005	Avg. Price Fiscal 2004	Increase/ (Decrease)	% Change
MBM (Illinois)	$167.53/ton	$190.36 /ton	$(22.83/ton)	(12.0%)

BFT (Chicago)	$ 17.46/cwt	$ 17.95 /cwt	$(0.49/cwt)	(2.7%)
YG (Illinois)	$ 14.44/cwt	$ 15.12 /cwt	$(0.68/cwt)	(4.5%)

The decrease in the average prices of the finished products the Company sells had an unfavorable impact on revenue which is partially offset by a positive impact to the Company s raw material cost, due to 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.

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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. Both of these factors negatively impacted the Company s yield during Fiscal 2005.

Natural gas commodity prices are quoted each day on the NYMEX exchange for future months of delivery of natural gas. The prices are important to the Company because natural gas is a major component of factory operating costs and natural gas prices are an indicator of achievement of the Company s business plan. Average NYMEX pricing for natural gas for the last two fiscal years are set forth below.

	Avg. Price Fiscal 2005	Avg. Price Fiscal 2004	Increase	% Increase
Natural Gas	$8.62 /mmbtu	$6.14 /mmbtu	$2.48 /mmbtu	40.4%

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 an indication of achievement of the Company s business plan.

The Company incurs factory operating expenses which are included in cost of sales. Each month the Company monitors factory operating expense. The importance of monitoring factory operating expense is that it provides an indication of achievement of the Company s business plan.

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, protein, and yellow grease. 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, grease trap services, and finished goods purchased for resale.

During Fiscal 2005, net sales decreased by $11.3 million (3.5%) to $308.9 million as compared to $320.2 million during Fiscal 2004. The decrease in net sales was primarily due to the following increases/(decreases) (in millions of dollars):

	Rendering	Restaurant Services	Corporate	Total
Lower finished goods prices	$(7.5)	$(7.8)	$	$(15.3)
Lower raw material volume	(2.7)	(1.5)		(4.2)
Lower yields on production	(2.7)	0.2		(2.5)
Improved recovery of collection expenses	2.7	3.0		5.7
Management fees and third party revenue		0.8		0.8
Purchases of finished product for resale	3.2	0.8		4.0
Other sales decreases		0.2		0.2
Product transfers	(1.7)	1.7		
	$(8.7)	$(2.6)	$	$(11.3)

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, 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 the plants to help manage the Company s price exposure to volatile energy markets.

During Fiscal 2005, cost of sales and operating expenses increased $3.8 million (1.6%) to $241.7 million as compared to $237.9 million during Fiscal 2004. 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 energy costs, primarily natural gas	$ 7.0	$ 2.2	$	$ 9.2
Purchases of finished product for resale	3.2	0.8		4.0
Prior year insurance settlement with certain of the Company s past insurers			2.8	2.8
Other	0.6	0.6	(0.5)	0.7
Third party cost of service		0.7		0.7
Sewer and trap disposal	(0.1)	1.0		0.9
Lower raw material prices	(7.4)	(6.0)		(13.4)
Lower raw material volume	(0.8)	(0.3)		(1.1)
Payroll and related benefits	(1.3)	1.3		
Product transfers	(1.7)	1.7		
	$(0.5)	$ 2.0	$ 2.3	$ 3.8

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $35.2 million during Fiscal 2005, a $1.3 million decrease (3.6%) from $36.5 million during Fiscal 2004, primarily due to the following (in millions of dollars):

	Rendering	Restaurant Services	Corporate	Total
Payroll and related benefits expense	$ 0.3	$ 0.4	$(2.2)	$(1.5)
Lower audit fees			(0.2)	(0.2)
Other expenses	0.2	0.3	(0.6)	(0.1)
Higher legal and professional fees			0.5	0.5
	$ 0.5			