DARLING INTERNATIONAL INC
Form 424B3
July 01, 2003

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Registration No. 333-88944

P R O S P E C T U S

DARLING INTERNATIONAL INC.

100,000 Shares of Series A Preferred Stock

Investing in our Series A Preferred Stock involves a high degree of risk which is described in the "Risk Factors" section beginning on page 8 of this prospectus. We urge you to carefully read the "Risk Factors" section before you make your investment decision.

We have prepared this prospectus to allow the selling stockholders we have identified herein, including their transferees, pledgees, donees and their successors, to offer for resale up to 100,000 shares of our Series A Preferred Stock held by them.

The securities offered by this prospectus could be sold in several ways, including, at prevailing market prices at the time of sale, or in privately negotiated transactions at prices agreed upon by the parties or through any other means described under the heading "Plan of Distribution" beginning on page 63. We cannot assure you that the selling stockholders will sell all or any portion of the Series A Preferred Stock offered under this prospectus. Our company is not selling any shares of Series A Preferred Stock in this offering and therefore we will not receive any proceeds from any sale of securities offered by this prospectus. We are registering the shares of Series A Preferred Stock offered under this prospectus to satisfy registration rights of the selling stockholders. We have agreed to pay for all expenses in connection with the registration of the securities offered by this prospectus.

There is no public market for the Series A Preferred Stock, and we do not intend to apply for listing of the Series A Preferred Stock on any securities exchange or for quotation through any automated quotation system.

Our principal executive office is located at 251 O'Connor Ridge Boulevard, Suite 300, Irving, Texas 75038 and our telephone number is 972.717.0300.

No underwriter or any other person has been engaged to facilitate the sale of the securities in this offering.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is June 30, 2003

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FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Factors that could contribute to these differences are discussed in the "Risk Factors" section beginning on page 7 of this prospectus, and elsewhere in this prospectus as well as in our previous filings with the SEC.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "continue," or the negative of such terms or other similar expressions. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements included in this prospectus.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur.

We urge you not to unduly rely on forward-looking statements contained or incorporated by reference in this prospectus.

The terms "Darling," "our," "we" and "us" as used in this prospectus, refer to Darling International Inc. and its wholly-owned subsidiaries, except where it is clear that the term refers only to the parent company.

We urge you to rely only on the information contained in this prospectus. We have not, and the selling stockholders have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, we urge you not to rely on it. The selling stockholders are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. We urge you to assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus only. Our business, financial condition, results of operations and prospects may have changed since that date.

We have not undertaken any action to permit a public offering of the securities offered by this prospectus outside the United States or to permit the possession or distribution of this prospectus outside the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about and observe any restrictions relating to the offering of the securities offered by this prospectus and the distribution of this prospectus outside of the United States.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary is not complete and may not contain all of the information that may be important to you. We urge you to read the entire prospectus carefully, including the "Risk Factors" section and the financial statements and related notes, before making an investment decision.

Darling International Inc.

Founded by the Swift meat packing interests and the Darling family in 1882, we were incorporated in Delaware in 1962 under the name "Darling-Delaware Company, Inc." On December 28, 1993, we changed our name from "Darling-Delaware Company, Inc." to "Darling International Inc."

We are a recycler of food processing by-products. We collect and recycle animal processing by-products and used cooking oil from food service establishments. We process such raw materials at 24 facilities located throughout the United States into finished products such as tallow, protein and yellow grease. We sell these products nationally and internationally, primarily to producers of various industrial and commercial oleo-chemicals, soaps, pet foods and livestock feed, for use as ingredients in their products or for further processing into basic chemical compounds. In addition, we provide grease trap service to food service establishments under the service mark TORVAC. Grease trap service includes the scheduled periodic removal of grease and solids from the grease trap to ensure the trap functions as intended, keeping these materials from entering the sewer system. Many cities and municipalities have ordinances and/or regulations that require periodic grease trap service as part of restaurant operations.

Our principal executive office is located at 251 O'Connor Ridge Boulevard, Suite 300, Irving, Texas 75038 and our telephone number is 972.717.0300. We maintain a site on the World Wide Web at the address http://www.darlingii.com. The information on our Web site is not a part of this prospectus.

Preliminary Note

The shares of our Series A Preferred Stock covered by this prospectus were issued to our lenders as part of a reduction in the principal amount and restructuring of our indebtedness (the "Recapitalization"). The Recapitalization was approved by our stockholders at an annual meeting of stockholders held on May 10, 2002 and was made effective as of that date. For a summary description of the Recapitalization, see "Recapitalization."

The Offering of Series A Preferred Stock

Securities offered for resale by the selling stockholders....................................	Up to 100,000 shares of Series A Pre value $0.01 per share, held by them.
Voting Rights..	Holders of the Series A Preferred St voting rights as to general corporat provided by Delaware law or, in limi as provided in the certificate of de to the Series A Preferred Stock. Se Capital Stock-- Preferred Stock-- Se Stock-- Voting Rights."
Use of Proceeds..	The selling stockholders will receiv proceeds from the sale of the securi this prospectus. We will not receiv proceeds from those sales.
Dividends..	We will pay dividends on the Series out of funds legally available for t dividends at an annual fixed rate of issue price of $100 per share. Divi A Preferred Stock will be cumulative date, whether or not declared, and a paid in cash semi-annually or, at ou accumulated, in which case the divid to the original issue price, and div thereafter accrue on the original is adjusted. However, our amended and credit agreement prohibits us from p dividends while any indebtedness rem

under such agreement. See "Descript
Credit Agreement."

Liquidation Preference................................ $100 per share liquidation preferenc
accumulated dividends and accrued an
not yet accumulated.

Mandatory Redemption; Change of Control................ We must redeem all shares of the Ser
Stock outstanding upon the earliest

- a change of control of
- a sale of all or subst
consolidated assets,
- a dissolution or liqui
company, and
- May 10, 2007,

to the extent we have legally availa
a redemption price equal to the aggr
issue price of the shares to be rede
dividends and accrued and unpaid div
accumulated to the date of redemptio

Optional Redemption................................... Subject to the prior payment in full
indebtedness outstanding under our s
agreement, we may redeem shares of S
Stock in multiples of not less than
time, upon 30 days notice, at a rede
to the sum of the original issue pri
be redeemed, plus accumulated divide
unpaid dividends not yet accumulated
redemption. If less than all shares
Preferred Stock are to be redeemed,
to be redeemed pro-rata based on the
of Series A Preferred Stock owned.

Ranking... With respect to dividends and liquid
the Series A Preferred Stock will ra
common stock and senior to other fut
preferred stock. We may issue addit
preferred stock that rank junior to
Preferred Stock without a vote of th
Series A Preferred Stock. We may on
classes of preferred stock that rank
parity with the Series A Preferred S
creation of those senior shares is a
holders of 66 2/3% of the then outst
the Series A Preferred Stock.

Listing... The Series A Preferred Stock is not
on any securities exchange or market
currently intend to, nor are we requ

shares of Series A Preferred Stock o
exchange or market.

We urge you to refer to the section entitled "Risk Factors" for an explanation of the risks of in
Preferred Stock.

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SUMMARY HISTORICAL CONSOLIDATED FINANCIAL DATA

The following summary historical consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and related notes thereto and unaudited consolidated financial statements and related notes thereto included elsewhere in this prospectus.

	Fiscal Year Ended (a)			
	December 28, 2002(b)	December 29, 2001(b)	December 30, 2000(b)	Janua 199
	(in thousands, except ratio and per sh			
Operating Data:				
Net sales	$ 262,236	$242,964	$229,273	$244
Cost of sales and operating expenses	194,559	185,019	177,638	198
Selling, general and administrative expenses	30,294	28,334	26,479	26
Depreciation and amortization	16,426	24,898	26,859	30
Operating income (loss)	20,957	4,713	(1,703)	(11
Interest expense	6,409	14,162	13,971	15
Other (income) expense, net	(2,001)	1,656	187	(1
Income (loss) from continuing operations before income taxes	16,549	(11,105)	(15,861)	(25
Income tax expense (benefit)	7,183	-	-	(9
Income (loss) from continuing operations	9,366	(11,105)	(15,861)	(15
Loss from discontinued operations, net of tax	(403)	(740)	(3,328)	
Net Income (loss)	$8,963	$(11,845)	$(19,189)	$(16
Basic earnings (loss) per common share	$0.18	$(0.76)	$(1.23)	$(
Diluted earnings (loss) per common share	$0.18	$(0.76)	$(1.23)	$(
Weighted average shares outstanding	45,003	15,568	15,568	15
Diluted weighted average shares				

outstanding	45,577	15,568	15,568	15
Other Data:				
EBITDA (c)	$37,383	$29,611	$25,156	$18
Depreciation	12,146	19,642	21,219	24
Amortization	4,280	5,256	5,640	5
Capital expenditures	13,433	8,847	7,287	9
Ratio of Earnings to Fixed Charges (d)	2.55	0.29	-	
Balance Sheet Data:				
Working capital (deficiency)	$9,152	$(116,718)	$(106,809)	$(5
Total assets	162,912	159,079	174,505	197
Current portion of long-term debt	8,372	120,053	109,528	7
Total long-term debt less current portion	60,055	-	-	110
Stockholders' equity (deficit)	35,914	(9,654)	2,724	21

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	T Marc 2 (i
Operating Data:	
Net sales	$ 6
Cost of sales and operating expenses	5
Selling, general and administrative expenses	
Depreciation and amortization	
Operating income	
Interest expense	
Other expense, net	
Income from continuing operations before income taxes	
Income tax expense	(
Income from continuing operations	
Income from discontinued operations, net of tax	
Net Income	$
Basic earnings per common share	$
Diluted earnings per common share	$
Weighted average shares outstanding	6
Diluted weighted average shares outstanding	6
Other Data:	
EBITDA (c)	$
Depreciation	
Amortization	
Capital expenditures	(
Ratio of Earnings to Fixed Charges (d)	

Balance Sheet Data:

Working capital (deficiency)	$
Total assets	15
Current portion of long-term debt	
Total long-term debt less current portion	5
Stockholders' equity (deficit)	3

(a) The fiscal years ended December 28, 2002, December 29, 2001, December 30, 2000, January 1, 2000 and January 2, 1999 each consisted of 52 weeks.

(b) As disclosed in Note 1(b)(13) and Note 15 to the consolidated financial statements included elsewhere herein, the Company adopted SFAS 144 in Fiscal 2002. SFAS 144 requires the classification of prior year operating results of discontinued operations to be consistent with the current year presentation. Accordingly, prior years' financial statements reflect reclassification of the Linkwood, MD results as discontinued operations.

(c) "EBITDA" represents, for any relevant period, operating income (loss) plus depreciation and amortization and impairment of long-lived assets. EBITDA is presented here not as a measure of operating results, but rather as a measure of the Company's debt service ability and is not intended to be a presentation in accordance with generally accepted accounting principles.

Reconciliation of Net Cash Provided by Operating Activities To EBITDA (in thousands):

	2002	2001	2000	1999
Net cash provided by operating activities	34,132	5,612	16,243	803
Interest	6,409	14,162	13,971	15,533
Net cash provided by discontinued operations	(867)	(996)	(623)	(2,178
Change in working capital	(4,602)	9,097	(4,478)	4,557
Taxes	2,749	-	-	(31
Other Income	(2,001)	1,656	187	(1,805
Gain on the sale of assets	1,563	80	(144)	2,060
EBITDA	37,383	29,611	25,156	18,939

	March 29, 2003	M
	(unaudite	
Net cash provided by operating activities	4,184	
Interest	492	
Net cash provided by discontinued operations	-	

Change in working capital	2,600
Taxes	1,577
Other Income	233
Gain on the sale of assets	(5)
	9,081

(d) For purposes of calculating the ratio of earnings to fixed charges, earnings consist of income (loss) from continuing operations before income taxes and fixed charges. Fixed charges consist of interest expense, and one-third of rental expense deemed to be the equivalent of interest. For the years ended December 29, 2001, December 30, 2000, January 1, 2000 and January 2, 1999, earnings were insufficient to cover fixed charges of $11.1 million, $15.9 million, $25.5 million and $24.9 million, respectively.

Ratio of Earnings to Fixed Charges
(in thousands, except ratio and per share data)

	December 28, 2002	December 29, 2001	December 30, 2000	Janu 2
Income (loss) from continuing operations before income taxes	$ 16,549	$(11,105)	$(15,861)	$(2
Fixed charges:				
Interest expense	6,409	14,162	13,971	1
Estimated interest within rental expense	1,409	1,382	1,069	
Preference security dividend requirements	1,756	-	-	
Total fixed charges	9,574	15,544	15,040	1
Earnings (loss) before preference security dividend	26,123	4,439	(821)	(
Less preference security dividend requirements	(1,756)	-	-	
		-		
Earnings (loss)	$ 24,367	$ 4,439	$ (821)	$ (
Ratio of earnings to fixed charges	2.55	0.29	-	
Deficiency in income to cover fixed charges	$ -	$ (11,105)	$ (15,861)	$ (2

	T Marc 20
Income from continuing operations before income taxes	$ 5

Fixed charges:	
Interest expense	
Estimated interest within rental expense	
Preference security dividend requirements	
Total fixed charges	1
Earnings before preference security dividend	6
Less preference security dividend requirements	
Earnings	6
Ratio of earnings to fixed charges	
Deficiency in income to cover fixed charges	

RISK FACTORS

We urge you to consider carefully all of the information set forth in this prospectus and incorporated by reference in this prospectus. Please refer to "Where You Can Find More Information." We urge you to particularly evaluate the following risks before deciding to purchase our Series A Preferred Stock. Various statements in this prospectus (including some of the following risk factors) constitute forward-looking statements. Please refer to the section entitled "Forward-Looking Statements."

Fluctuations in market prices of finished products--our profitability and cash flow may be reduced by decreases in the market price of our products.

Our finished products are commodities, the prices of which are quoted on established commodity markets. Accordingly, our profitability will be affected by fluctuations in the prevailing market prices of such finished products. A significant decrease in the market price of our products would have a material adverse effect on our profitability and cash flow.

Substantial leverage and debt service--we have substantial debt and have significant interest payment requirements which could adversely affect our ability to operate our business and fulfill our obligations under the Series A Preferred Stock.

We have a significant amount of indebtedness. Our substantial indebtedness could have important consequences to the holders of our Series A Preferred Stock including the risks that:

- we will be required to use a substantial portion of our cash flow from operations to pay our indebtedness, thereby reducing the availability of our cash flow to fund the implementation of our business strategy, working capital, capital expenditures, product development efforts and other general corporate purposes;

- our interest expense could increase if interest rates in general increase because all of our debt will bear interest based on market rates;

- our level of indebtedness will increase our vulnerability to general adverse economic and industry conditions;

- our debt service obligations could limit our flexibility in planning for, or reacting to, changes in our business;

- our level of indebtedness may place us at a competitive disadvantage compared to our competitors that have less debt;

- our level of indebtedness may prevent us from raising the funds necessary to redeem all of the Series A Preferred Stock upon the occurrence of a change of control or sale of all or substantially all of our assets as described under "Description of Capital Stock--Preferred Stock--Series A Preferred Stock;" and

- our failure to comply with the financial and other restrictive covenants in the agreements governing our indebtedness, which, among other things, may limit our ability to borrow additional funds and could result in an event of default, could have a material adverse effect on us.

As of March 25, 2003, we owed a contractual amount of $56.4 million in senior secured term loans with a carrying amount of $67.7 million and had no senior secured revolving loans under our senior credit agreement described under "Description of Senior Credit Agreement." As of such date, three letters of credit in the face amounts of $0.8 million, $3.7 million and $4.5 million, respectively were issued and outstanding under the senior credit facility. We will be able to incur additional indebtedness in the future, including $8.4 million of additional debt available under our revolving credit facility. Additional indebtedness will increase the risks described above. All borrowings under our senior credit agreement, are secured and senior to the Series A Preferred Stock and common stock.

For risks associated with the restrictive covenants in our debt instruments, see "--Restrictive covenants in our debt instruments."

History of net losses--we have a history of net losses and we may incur net losses, which in the future, could adversely affect our ability to service our indebtedness.

We have a history of net losses and have not been profitable in recent years and may not be profitable in the future. For the years ended December 29, 2001, December 30, 2000 and January 1, 2000, our net losses were approximately $11.8 million, $19.2 million and $16.0 million, respectively. However, following the Recapitalization completed in May 2002, as described below under "The Recapitalization," we reported a net profit of $9.0 million for the year ended December 28, 2002 and $3.4 million for the quarter ended March 29, 2003. If, however, we incur net losses in the future, our ability to pay principal and interest on our indebtedness could be adversely affected.

In order to establish consistent profitability, we must continue to do one or more of the following:

- maintain our collection fees at levels sufficient to recover an adequate portion of collection costs;

- increase gross margins to the extent of inflation;
- maintain our distribution capability;
- maintain competitiveness in pricing;
- continue to manage our operating expenses; and
- limit any increases in our indebtedness.

There can be no assurance that we will achieve these objectives or attain consistent profitability.

Limitation on net operating loss carryforwards--as a result of the Recapitalization, our ability to apply federal income tax net operating loss carryforwards will be limited.

As a result of the Recapitalization, our ability to use federal income tax net operating loss carryforwards to offset future taxable income that may be generated will be limited. In particular, we have undergone a change in ownership under Section 382 of the Code as a result of the Recapitalization. By virtue of such a change in ownership, an annual limitation (generally equal to the pre-change value of our stock multiplied by the adjusted federal tax-exempt rate, which is set monthly by the IRS based on prevailing interest rates and equal to 5.01% for May 2002) will be applied to the use of those net operating loss carryforwards against future taxable income.

Restrictive covenants in our debt instruments--restrictions imposed by our senior credit agreement, and future debt agreements may, limit our ability to make payments on the Series A Preferred Stock, finance future operations or capital needs or engage in other business activities that may be in our interest.

Our senior credit agreement will, and future debt agreements may, restrict our ability to:

- incur additional indebtedness;
- issue additional capital stock or preferred stock;
- pay dividends and make other distributions;
- prepay subordinated debt;
- make restricted payments;
- create liens;
- merge, consolidate or acquire other businesses;

- sell and otherwise dispose of assets; and
- enter into transactions with affiliates.

These terms may impose restrictions on our ability to finance future operations, implement our business strategy, fund our capital needs or engage in other business activities that may be in our interest. In addition, our senior credit agreement will, and future indebtedness may, require us to maintain compliance with specified financial ratios. Although we are currently in compliance with the financial ratios and do not plan on engaging in transactions that may cause us to not be in compliance with the ratios, our ability to comply with these ratios may be affected by events beyond our control, including the risks described in the other risk factors.

A breach of any of these restrictive covenants or our inability to comply with the required financial ratios could result in a default under the senior credit agreement. In the event of a default under the senior credit agreement, the lenders under the senior credit agreement may elect to:

- declare all borrowings outstanding, together with accrued and unpaid interest and other fees, to be immediately due and payable; or

- require us to apply all of our available cash to repay these borrowings.

The lenders will also have the right in these circumstances to terminate any commitments they have to provide further financing, including under the revolving credit facility.

If we are unable to repay these borrowings when due, the lenders under the senior credit agreement also will have the right to proceed against the collateral, which consists of substantially all of our assets. If the indebtedness under the senior credit agreement were to be accelerated, it is likely that our assets may be insufficient to repay this indebtedness in full under those circumstances. Any future credit agreement or other agreement relating to our indebtedness to which we may become a party may include the covenants described above and other restrictive covenants. See "Description of Senior Credit Agreement."

Ranking of the Series A Preferred Stock and common stock--upon any distribution to our creditors in a bankruptcy, liquidation or reorganization or similar proceeding relating to our company or our property, the holders of our debt will be entitled to be paid in cash before any payment may be made with respect to the Series A Preferred Stock and common stock.

Our obligations with respect to the Series A Preferred Stock are subordinate and junior in right of payment to all our present and future indebtedness, including indebtedness under our senior credit agreement, but will rank senior to our common stock. In the event of our bankruptcy, liquidation or reorganization, our assets will be available to pay obligations on the Series A Preferred Stock and then the common stock only after all holders of our indebtedness and all our other creditors have been paid. As a result, in the event of our liquidation or bankruptcy it is likely that there will be no assets available for distribution to our equity holders and thus no value to our equity.

While any shares of the Series A Preferred Stock are outstanding, without the written consent of 66 2/3% of the outstanding shares of the Series A Preferred Stock, we may not create, authorize, issue or reclassify

- any class of stock ranking prior or equal to the Series A Preferred Stock with respect to dividends or upon liquidation, dissolution, winding up or otherwise; or o any security that is convertible or exchangeable into such stock.

Dividends--our ability to pay any dividends on the Series A Preferred Stock may be limited.

We cannot assure the holders of the Series A Preferred Stock that we will be able to pay dividends on the Series A Preferred Stock.

Our ability to pay any cash or noncash dividends on the Series A Preferred Stock is subject to applicable provisions of state law and to the terms of our senior credit agreement. The terms of our senior credit agreement prohibit us from paying any cash dividends on the Series A Preferred Stock so long as any indebtedness or

commitments remain outstanding under our senior credit agreement. Moreover, under Delaware law, we are permitted to pay cash or accumulated dividends on our capital stock, including the Series A Preferred Stock, only out of surplus, or if there is no surplus, out of our net profits for the fiscal year in which a dividend is declared or for the immediately preceding fiscal year. Surplus is defined as the excess of a company's total assets over the sum of its total liabilities plus the par value of its outstanding capital stock. In order to pay dividends, we must have surplus or net profits equal to the full amount of the dividends at the time such dividend is declared. In determining our ability to pay dividends, Delaware law permits our Board of Directors to revalue our assets and liabilities from time to time to their fair market values in order to establish the amount of surplus. We cannot predict what the value of our assets or the amount of our liabilities will be in the future and, accordingly, we cannot assure the holders of the Series A Preferred Stock that we will be able to pay dividends on the Series A Preferred Stock.

Inability to redeem the Series A Preferred Stock prior to or at maturity--we may not have sufficient funds to make a change of control or sale of assets offer when required by the certificate of designation relating to the Series A Preferred Stock because of prohibitions in our senior credit agreement.

In the event that we experience a change of control or sell all or substantially all of our assets, we cannot assure the holders of the Series A Preferred Stock that we would have sufficient funds to satisfy all of our obligations under the senior credit agreement and the Series A Preferred Stock.

If we experience a change of control or sell all or substantially all of our assets, to the extent we have legally available funds for the payment, we must offer to redeem all shares of Series A Preferred Stock then outstanding in cash. However, we are prohibited by the senior credit agreement from redeeming any shares of our Series A Preferred Stock so long as any indebtedness or commitments remain outstanding under the senior credit agreement. The senior credit agreement also provides that a change of control event constitutes a default under the senior credit agreement. See "Description of Senior Credit Agreement." We may also become a party to, or guarantor under, future credit agreements or other agreements relating to senior indebtedness that contain similar restrictions or provisions.

If we experience a change of control or sell all or substantially all of our assets when we are prohibited from redeeming the Series A Preferred Stock, we could seek the consent of the lenders under the senior credit agreement to redeem the Series A Preferred Stock or could attempt to refinance the borrowings that contain the prohibition. If we do not obtain the consent and do not refinance the borrowings, we would remain prohibited from redeeming the

Series A Preferred Stock. This could have adverse consequences to the holders of the Series A Preferred Stock as well as us. If a default occurs with respect to any senior indebtedness, the subordination provisions of the certificate of designation relating to the Series A Preferred Stock would restrict payments to the holders of the Series A Preferred Stock.

There is no prior market for the Series A Preferred Stock and holders of the Series A Preferred Stock cannot be assured that an active trading market will develop for the Series A Preferred Stock. If an active trading market for the Series A Preferred Stock does not develop, the liquidity and value of the Series A Preferred Stock could be harmed.

The shares of Series A Preferred Stock are securities for which there is currently no trading market. If an active trading market for the Series A Preferred Stock does not develop, the liquidity and value of the Series A Preferred Stock could be harmed. We do not intend to apply for listing of the Series A Preferred Stock on any securities exchange or interdealer quotation system.

Material tax considerations for the Series A Preferred Stock--holders of the Series A Preferred Stock will have to recognize income in advance of their receipt of the cash attributable to this income.

Section 305(c) of the Internal Revenue Code provides that the entire amount of a redemption premium with respect to preferred stock that is subject to mandatory redemption (such as the Series A Preferred Stock) is treated as being distributed to the holders of such preferred stock on an economic accrual basis over the period the stock is outstanding notwithstanding that the cash attributable to the redemption premium will not be received by the holder until a subsequent period. Preferred stock generally is considered to have a redemption premium for this purpose if the price at which it must be redeemed exceeds its issue price by more than a de minimis amount. The Series A Preferred Stock provides for cumulative preferred dividends. Thus, the redemption price will depend on whether dividends on such stock are paid currently. The legislative history of section 305(c) states that if at the time

of issuance of cumulative preferred stock there is "no intention" for dividends to be paid currently, the IRS may treat such dividends as a disguised redemption premium. Under that approach, the excess of the redemption price of the Series A Preferred Stock (including any disguised redemption premium) over its issue price is taxable as constructive distributions to the holder (treated as a dividend to the extent of our company's current and accumulated earnings and profits) over the term of the preferred stock using a constant interest rate method similar to that for accruing original issue discount. To date, the IRS has not promulgated such regulations, although the issue remains under consideration. In the current situation, we intend to take the position that we do not have "no intention" to pay dividends currently (although our senior credit agreement prohibits us from paying any cash dividends while any indebtedness remains outstanding under such agreement) and thus that holders of the Series A Preferred Stock should not be required to treat any excess of the final redemption price over the issue price as a series of constructive distributions over the period such stock is outstanding. This issue is not, however, free from doubt. Holders of Series A Preferred Stock are urged to consult their tax advisors with respect to this issue. For a more detailed discussion of the U.S. Federal income tax consequences to the holders of the Series A Preferred Stock of the ownership and disposition of the Series A

Preferred Stock, see "Material U.S. Federal Tax Considerations."

Additional Issuance of Shares--we may issue additional common stock or preferred stock, which could dilute your interests.

Our certificate of incorporation, as amended does not limit the issuance of additional common stock or additional series of preferred stock ranking junior to the Series A Preferred Stock. As of April 28, 2003 we have available for issuance 37,711,832 authorized but unissued shares of common stock and 900,000 authorized but unissued shares of preferred stock that may be issued in additional series. We may not, without the approval of 66 2/3% of the then outstanding Series A Preferred Stock, issue any securities senior to or on parity with the Series A Preferred Stock. None of the provisions of the certificate of designation relating to the Series A Preferred Stock affords the holders of the Series A Preferred Stock protection in the event of a highly leveraged or other transactions that might adversely affect their interests.

Volatility of Share Price--the market price of our Series A Preferred Stock could be volatile.

The market price of our common stock has been subject to volatility and, in the future, the market price of our common stock and Series A Preferred Stock could fluctuate widely in response to numerous factors, many of which are beyond our control. These factors include, among other things, actual or anticipated variations in our operating results, earnings releases by us, changes in financial estimates by securities analysts, sales of substantial amounts of our Series A Preferred Stock pursuant to this offering, market conditions in the industry and the general state of the securities markets, governmental legislation or regulation, currency and exchange rate fluctuations, as well as general economic and market conditions, such as recessions.

Key Personnel--Our success is dependent on our key personnel.

Our success depends to a significant extent upon a number of key employees, including members of senior management. The loss of the services of one or more of these key employees could have a material adverse effect on our business and prospects. We believe that our future success will depend in part on our ability to attract, motivate and retain skilled technical, managerial, marketing and sales personnel. Competition for such personnel is intense and there can be no assurance that we will be successful in attracting, motivating and retaining key personnel. The failure to hire and retain such personnel could materially adversely affect our business and results of operations.

Competition--the most competitive aspect of our business is the procurement of raw materials.

Our management believes that the most competitive aspect of our business is the procurement of raw materials rather than the sale of finished products. During the last ten plus years, pronounced consolidation within the meat packing industry has resulted in bigger and more efficient slaughtering operations, the majority of which utilize "captive" processors. Simultaneously, the number of small meat packers, which have historically been a dependable source of supply for non-captive processors, such as us, has decreased significantly. Although the total amount of slaughtering may be flat or only moderately increasing, the availability, quantity and quality of raw materials available to the independent processors from these sources have all decreased. Major competitors include: Baker Commodities in the West; National By-Products in the Midwest; and Griffin Industries in Texas and the

Southeast. Each of these businesses compete in both the Rendering and Restaurant Service segments. A significant decrease in raw materials available could materially and adversely affect our business and results of operations.

The rendering and restaurant services industry is highly fragmented and very competitive. We compete with other rendering and restaurant services businesses and alternative methods of disposal of animal processing by-products and used restaurant cooking oil provided by trash haulers and waste management companies, as well as the alternative of illegal disposal. We charge a collection fee to offset a portion of the cost incurred in collecting raw material. In recent years we have become highly dependent upon these collection fees. To the extent suppliers of raw materials look to alternate methods of disposal, whether as a result of our collection fees being deemed too expensive or otherwise, our raw material supply will decrease and our collection fee revenues will decrease, which could materially and adversely affect our business and results of operations.

Government regulations and approvals--we may incur material costs and liabilities in complying with government regulations.

We are subject to the rules and regulations of various federal, state and local governmental agencies. Material rules and regulations and the applicable agencies are:

- the Food and Drug Administration (FDA), which regulates food and feed safety;
- the United States Department of Agriculture (USDA), which regulates collection and production methods;
- the Environmental Protection Agency (EPA), which regulates air and water discharge requirements, as well as local and state agencies governing air and water discharge;
- state Departments of Agriculture, which regulate animal by-product collection and transportation procedures and animal feed quality; and
- the United States Department of Transportation (USDOT), as well as local and state agencies, which regulate the operation of our commercial vehicles.

Such rules and regulations may influence our operating results at one or more facilities. There can be no assurance that we will not incur material costs and liabilities in connection with such regulations.

Ownership of our company--our lenders have the ability to exercise significant control over all major corporate transactions and may have interests that conflict with the interests of the other holders of the Series A Preferred Stock.

Our lenders, through their beneficial ownership of our common stock, in the aggregate own 75% of our voting equity. If they act in concert, the lenders have effective control of us by virtue of their ability to elect the majority of our directors, to approve any action requiring the approval of our stockholders, including amendments to our charter documents, and to effect fundamental corporate transactions such as mergers and asset sales. The interests of the lenders as stockholders may differ from the interests of the other holders of the Series A Preferred Stock and common stock, thus the lenders may take actions that may disadvantage our other stockholders. However, we were advised at the time of the Recapitalization in May 2002, that the lenders do not have and do not expect to have any contracts, arrangements or understandings to vote as a group for the election of directors or on any other issue or to hold or dispose of their common stock or Series A Preferred Stock.

We are highly dependent on natural gas.

Our operations are highly dependent on the use of natural gas. A material increase in natural gas prices over a sustained period of time could materially adversely affect our business, financial condition and results of operations.

Certain of our 24 operating facilities are highly dependent upon a few suppliers.

Certain of our 24 operating facilities are highly dependent on one or a few suppliers. Should any of these suppliers choose alternate methods of disposal, cease their operations, have their operations interrupted by casualty, or otherwise cease using our collection services, such operating facilities would be materially and adversely affected.

In certain markets we are highly dependent upon the continued and uninterrupted operation of a single operating facility.

In the majority of our markets, in the event of a casualty or condemnation involving a facility located in such market, we would utilize a nearby operating facility to continue to serve our customers in such market. In certain markets, however, we do not have alternate operating facilities. In the event of a casualty or condemnation, we would experience an interruption in our ability to service our customers and to procure raw materials. This would materially and adversely affect our business and results of operations in such markets. In addition, after an operating facility affected by a casualty or condemnation is restored, there could be no assurance that customers who in the interim choose to use alternative disposal services would return to use our services.

Bovine spongiform encephalopathy (BSE) or "mad cow disease."

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," should the disease ever occur in the United States. Our management believes that we are in compliance with the provisions of the rule.

The European fear of "mad cow disease" could adversely impact acceptance of our finished products in Europe. To date, the "mad cow disease" situation in Europe and new FDA restrictions, coupled with much lower prices for competing commodities, has caused lower prices for some of our key products. If "mad cow disease" were to spread to the United States, this could have a material adverse affect on our business and results of operations.

Events such as those of September 11, 2001 and the war with Iraq may adversely affect the U.S. and international economies, the markets for our common stock and Series A Preferred Stock and our operations.

Following the September 11, 2001 terrorist attacks, there has been substantial volatility in the U.S., Canadian and international financial markets. Continued military or other response by the United States or its allies, future terrorist attacks or the anticipation of any such actions or events may have adverse impacts on the U.S. and world economies and may disrupt financial markets (including payment systems and clearinghouses) for extended periods of time. These armed conflicts or attacks may also directly impact our physical facilities or those of our suppliers or customers and could have an impact on our domestic and international sales, supply chain, production capability and ability to deliver our products to our customers.

Political and economic instability in some regions of the world may also result and could negatively impact our business and financial condition and our expectations as described in forward-looking statements. The foregoing events may adversely affect our financial condition and the trading price of our common shares.

RECAPITALIZATION

The Recapitalization Transactions

On May 13, 2002, we consummated a comprehensive recapitalization plan designed to provide us with sufficient financing to implement our business plan and improve our debt and capital structure. The principal components of the Recapitalization consisted of:

- the issuance to the lenders of (a) 46,705,086 shares of common stock, such that the lenders collectively own 75% our issued and outstanding common stock and (b) 100,000 shares of 6% cumulative redeemable Series A Preferred Stock with a liquidation preference of $100 per share in exchange for the cancellation of an aggregate of approximately $64.6 million of indebtedness owed by us, comprised of (i) $55.4 million principal amount of loans under our previous credit agreement, (ii) $5.3 million of accrued and unpaid interest and commitment fees owing under our previous credit agreement and (iii) the $3.9 million forbearance fee we owed to the lenders under the forbearance agreement then existing;

- a new amended and restated credit agreement with the lenders that provides for a $61.0 million term loan and a revolving credit facility of $17.3 million for working capital loans and letters of credit. The term loan and the revolving credit facility mature on May 10, 2007. See "Description of the Senior Credit Agreement";

- the reduction of our indebtedness to the lenders from approximately $126.9 million to $61.0 million principal, as of the date of the Recapitalization;

- the reduction in the size of our Board of Directors from six to five members and the nomination for election of the three designees of the lenders and two existing directors to our Board of Directors until our 2003 annual meeting of stockholders;

- our granting certain preemptive rights to the lenders; and

- our filing this registration statement with the Securities and Exchange Commission and granting the lenders certain other registration rights relating to the shares of common stock and

Series A Preferred Stock issued to them.

USE OF PROCEEDS

The selling stockholders will receive all of the proceeds from the resale of the securities offered hereby. We will not receive any proceeds from the resale of such securities.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is quoted and traded on the American Stock Exchange under the symbol "DAR." The table below presents, for the fiscal quarters indicated, the high and low closing sales prices per share for each such fiscal quarter.

	2003		2002		2001	
Fiscal Quarter	High	Low	High	Low	High	Low
First Quarter	$2.25	$1.72	$1.30	$0.30	$1.25	$0.44
Second Quarter			0.90	0.55	0.84	0.50
Third Quarter			1.50	0.67	1.00	0.50
Fourth Quarter			1.90	0.85	0.91	0.50

On June 26, 2003, the closing sales price of our common stock on the American Stock Exchange was $2.26. We have been notified by our stock transfer agent that as of April 21, 2003, there were 100 holders of record of our common stock.

DIVIDEND POLICY

We have not declared or paid any dividends on our common stock since January 3, 1989. In addition, our current financing arrangements prohibit us from paying cash dividends on our common stock in the foreseeable future. We currently intend to retain future earnings, if any, for use in the operation of our business, to reduce our indebtedness and to fund future growth. Any future determination to pay cash dividends on our common stock will be at the discretion of our Board of Directors and will be based upon our financial condition, operating results, capital requirements, plans for expansion, restrictions imposed by any financing arrangements and any other factors that the Board of Directors feels are relevant.

CAPITALIZATION

The following table sets forth the capitalization of our company as of March 29, 2003.

	March 29, 2003 (in thousands)
Cash and cash equivalents.....................................	$ 10,863
Current portion of long-term debt..............................	$ 8,033
Long-term debt, less current portion	54,583
Series A 6% Cumulative Redeemable Preferred Stock, $0.01 par value; 1,000,000 shares authorized; 100,000 shares issued and outstanding..	8,955
Shareholders' Equity (Deficit):	
Common stock, $0.01 par value per share; 100,000,000 shares authorized; and 62,302,448 shares issued and outstanding ...	623
Additional paid-in capital......................................	74,395
Treasury stock, at cost; 21,000 shares	(172)
Accumulated comprehensive loss	(3,907)
Accumulated deficit..	(31,958)
Total shareholders' equity.....................................	38,981
Total Capitalization.....................................	$110,552

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following selected historical consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and related notes thereto and unaudited consolidated financial statements and related notes thereto included elsewhere in this prospectus.

Fiscal Year Ended (a)

	December 28, 2002(b)	December 29, 2001(b)	December 30, 2000(b)	Janua 199
		(in thousands,	except ratio	and shar
Operating Data:				
Net sales	$262,236	$242,964	$229,273	$244
Cost of sales and operating expenses	194,559	185,019	177,638	198
Selling, general and administrative expenses	30,294	28,334	26,479	26
Depreciation and amortization	16,426	24,898	26,859	30
Operating income (loss)	20,957	4,713	(1,703)	(11
Interest expense	6,409	14,162	13,971	15
Other (income) expense, net	(2,001)	1,656	187	(1
Income (loss) from continuing operations before income taxes	16,549	(11,105)	(15,861)	(25
Income tax expense (benefit)	7,183	-	-	(9
Income (loss) from continuing operations	9,366	(11,105)	(15,861)	(15
Loss from discontinued operations, net of tax	(403)	(740)	(3,328)	
Net Income (loss)	$8,963	$(11,845)	$(19,189)	$(16
Basic earnings (loss) per common share	$0.18	$(0.76)	$(1.23)	$(
Diluted earnings (loss) per common share	$0.18	$(0.76)	$(1.23)	$(
Weighted average shares outstanding	45,003	15,568	15,568	15
Diluted weighted average shares outstanding	45,577	15,568	15,568	15
Other Data:				
EBITDA (c)	$37,383	$29,611	$25,156	$18
Depreciation	12,146	19,642	21,219	24
Amortization	4,280	5,256	5,640	5
Capital expenditures	13,433	8,847	7,287	9
Ratio of Earnings to Fixed Charges (d)	2.55	0.29	-	
Balance Sheet Data:				
Working capital (deficiency)	$9,152	$(116,718)	$(106,809)	$(5
Total assets	162,912	159,079	174,505	197
Current portion of long-term debt	8,372	120,053	109,528	7
Total long-term debt less current portion	60,055	-	-	110
Stockholders' equity (deficit)	35,914	(9,654)	2,724	21

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Operating Data:	
Net sales	$ 6
Cost of sales and operating expenses	5
Selling, general and administrative expenses	
Depreciation and amortization	

Operating income	
Interest expense	
Other expense, net	

Income from continuing operations before income taxes	
Income tax expense	(

Income from continuing operations	
Income from discontinued operations, net of tax	

Net Income	$
	===
Basic earnings per common share	$
Diluted earnings per common share	$
Weighted average shares outstanding	6
Diluted weighted average shares outstanding	6
Other Data:	
EBITDA (c)	$
Depreciation	
Amortization	
Capital expenditures	(
Ratio of Earnings to Fixed Charges (d)	
Balance Sheet Data:	
Working capital (deficiency)	$
Total assets	15
Current portion of long-term debt	
Total long-term debt less current portion	5
Stockholders' equity (deficit)	3

(a) The fiscal years ended December 28, 2002, December 29, 2001, December 30, 2000, January 1, 2000 and January 2, 1999 each consisted of 52 weeks.

(b) As disclosed in Note 1(b)(13) and Note 15 to the consolidated financial statements included elsewhere herein, the Company adopted SFAS 144 in Fiscal 2002. SFAS 144 requires the classification of prior year operating results of discontinued operations to be consistent with the current year presentation. Accordingly, prior years' financial statements reflect reclassification of the Linkwood, MD results as discontinued operations.

(c) "EBITDA" represents, for any relevant period, operating income (loss) plus depreciation and amortization and impairment of long-lived assets. EBITDA is presented here not as a measure of operating results, but rather as a measure of the Company's debt service ability and is not intended to be a presentation in accordance with generally accepted accounting principles.

Reconciliation of Net Cash Provided by Operating Activities to EBITDA (in thousands):

	2002	2001	2000	1999
Net cash provided by operating activities	34,132	5,612	16,243	803
Interest	6,409	14,162	13,971	15,533
Net cash provided by discontinued operations	(867)	(996)	(623)	(2,178)
Change in working capital	(4,602)	9,097	(4,478)	4,557
Taxes	2,749	-	-	(31)
Other Income	(2,001)	1,656	187	(1,805)
Gain on the sale of assets	1,563	80	(144)	2,060
EBITDA	37,383	29,611	25,156	18,939

	March 29, 2003 (unaudi
Net cash provided by operating activities	4,184
Interest	492
Net cash provided by discontinued operations	-
Change in working capital	2,600
Taxes	1,577
Other Income	233
Gain on the sale of assets	(5)
EBITDA	9,081

(d) For purposes of calculating the ratio of earnings to fixed charges, earnings consist of income (loss) from continuing operations before income taxes and fixed charges. Fixed charges consist of interest expense, and one-third of rental expense deemed to be the equivalent of interest. For the years ended December 29, 2001, December 30, 2000, January 1, 2000 and January 2, 1999, earnings were insufficient to cover fixed charges of $11.1 million, $15.9 million, $25.5 million and $24.9 million, respectively.

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. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the heading "Risk Factors" and elsewhere in this prospectus. The following discussion should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere in this prospectus.

General

Darling is a recycler of food processing by-products. We collect and recycle animal processing by-products and used cooking oil from food service establishments. We process such raw materials at 24 facilities located throughout the United States into finished products such as tallow, protein and yellow grease. We sell these products nationally and internationally, primarily to producers of various industrial and commercial oleo-chemicals, soaps, pet foods and livestock feed, for use as ingredients in their products or for further processing into basic chemical compounds. In addition, we provide grease trap service to food service establishments under the service mark TORVAC. Grease trap service includes the scheduled periodic removal of grease and solids from the grease trap to ensure the trap functions as intended, keeping these materials from entering the sewer system. Many cities and municipalities have ordinances and/or regulations that require periodic grease trap service as part of restaurant operations.

Results of Operations

3 Months Ended March 29, 2003 vs. 3 Months Ended March 30, 2002

General. We recorded income from continuing operations of $3.4 million for the first quarter of the fiscal year ending January 3, 2004 (first quarter of Fiscal 2003), as compared to income from continuing operations of $0.5 million for the first quarter of the fiscal year ended December 28, 2002 (first quarter of Fiscal 2002), an improvement of $2.9 million. Principal factors affecting these comparative results, which are discussed further in the following section were higher sales prices and lower interest expense, partially offset by higher raw material prices, lower yield on production, higher energy expense, payroll and related benefits, and higher income tax expense.

Net sales. We collect and process 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 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, which constitutes approximately 6.8% of total sales for the first quarter of Fiscal 2003 and approximately 8.8% of total sales for the first quarter of Fiscal 2002.

During the first quarter of Fiscal 2003, net sales increased by $10.0 million (17.0%), to $68.7 million, as compared to $58.7 million during the first quarter of Fiscal 2002, primarily due to the following: (1) increases in aggregate finished goods prices resulted in an $8.8 million increase in sales in the first quarter of Fiscal 2003, compared to the first quarter of Fiscal 2002, (average yellow grease prices increased 50.4%; average tallow prices increased 51.1%; and average protein prices decreased 1.7%); (2) finished products purchased for resale increased $1.3 million; (3) improved recovery of collection expenses, $0.6 million; and (4) other net increase of $0.3 million; partially offset by (5) lower yields on production of finished goods decreased sales by $1.0 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. We utilize 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 market conditions. Raw materials purchased under formula prices are correlated with specific finished goods prices.

During the first quarter of Fiscal 2003, cost of sales and operating expenses increased $7.4 million (16.9%) to $51.1 million as compared to $43.7 million during the first quarter of Fiscal 2002 primarily as a result of: (1) higher raw material prices of $2.5 million, which are due in part to higher finished product prices, which increase formula raw material pricing arrangements with raw material suppliers; (2) higher energy prices, $1.5 million; (3) higher finished products purchased for resale increased cost of sales $1.3 million; (4) higher factory and collection payroll and related benefits of $0.8 million; (5) higher fleet fuel expense, $0.4 million; (6) higher insurance expense of $0.3 million; and (7) other expense increased $0.6 million.

Selling, General and Administrative Costs. Selling, general and administrative costs were $8.5 million during the first quarter of Fiscal 2003, a $1.3 million increase from $7.2 million for the first quarter of Fiscal 2002, primarily due to increases in employee benefits of $1.1 million, and other increases of $0.2 million.

Depreciation and Amortization. Depreciation and amortization charges decreased $0.4 million to $3.7 million during the first quarter of Fiscal 2003 as compared to $4.1 million during the first quarter of Fiscal 2002. The decrease is primarily due to various property and equipment assets becoming fully depreciated during Fiscal 2002.

Interest Expense. Interest expense decreased $3.4 million from $3.9 million during the first quarter of Fiscal 2002 to $0.5 million during the first quarter of Fiscal 2003, primarily due to changes resulting from the effect of the provisions of SFAS 15 as they apply to our May 13, 2002 Recapitalization Agreement (see note 6 to the consolidated financial statements for the quarter ended March 29, 2003 included elsewhere herein), which reduced interest expense on bank debt by approximately $2.0 million, and due to forbearance fees accrued in the first quarter of Fiscal 2002 of approximately $1.4 million.

Other Income (Expense). Other income (expense) decreased $0.1 million from net other income of $0.7 million during the first quarter of Fiscal 2002 to net other income of $0.6 million during the first quarter of Fiscal 2003, primarily due to inclusion of a gain on extinguishment of debt of $0.8 million, which resulted from retirement of debt with a carrying value of $4.9 million and a cash payment of $4.1 million, due to SFAS 15 accounting, and other net expense of $0.2 million. Included in net other income in the first quarter of Fiscal 2002 was a gain of $1.0 million resulting from insurance proceeds received in excess of net book value of assets destroyed by fire at the Company's Norfolk, NE facility, and other net expense of $0.3 million.

Income Taxes. Our recorded income tax expense of $2.1 million during the first quarter of Fiscal 2003 is based on our estimate of the effective tax rate for the entire year.

Capital Expenditures. We made capital expenditures of $2.7 million and acquired rendering and grease businesses for a net investment of approximately $1.1 million, which included machinery, equipment and routes during the first quarter of Fiscal 2003 compared to capital expenditures of $3.6 million during the first quarter of Fiscal 2002, an increase of $0.2 million.

52 Week Fiscal Year Ended December 28, 2002 (Fiscal 2002) vs. 52 Week Fiscal Year Ended December 29, 2001 (Fiscal 2001)

General. We reported a sales increase of $19.2 million (7.9%) for Fiscal 2002 and operating income of $21.0 million compared to operating income of $4.7 million in Fiscal 2001, an improvement of $16.3 million. Principal factors affecting these comparative results, which are discussed further in the following section, were: (1) higher finished goods prices; (2) higher collection fees which improved recovery of collection expenses; (3) lower depreciation expense; and (4) lower energy expense; partially offset by (5) higher raw material prices. We reported income from continuing operations of $9.4 million for Fiscal 2002 compared to a loss from continuing operations of $11.1 million for Fiscal 2001, an improvement of $20.5 million.

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Net Sales. During Fiscal 2002, net sales increased by $19.2 million (7.9%) to $262.2 million as compared to $243.0 million during Fiscal 2001. The increase in net sales was primarily due to the following: (1) favorable finished goods prices resulted in a $15.7 million increase (our average yellow grease prices increased 15.4%, average tallow prices increased 13.3%, and average protein prices decreased 0.2%); (2) improved recovery of collection expenses, $5.6 million; and (3) improved yields on production increased $0.9 million; partially offset by (4) raw material inage decrease, $1.6 million; (5) hide sales decrease, $1.3 million; and (6) other net decreases, $0.1 million.

Cost of Sales and Operating Expenses. During Fiscal 2002, cost of sales and operating expenses increased $9.6 million (5.2%) to $194.6 million as compared to $185.0 million during Fiscal 2001. The increase in cost of sales and operating expenses was primarily due to the following: (1) higher raw material prices, $8.0 million; (2) higher payroll and related benefits, $5.1 million; (3) higher insurance expense, $1.4 million; (4) higher contract hauling expense, $1.0 million; (5) higher cost on sales of equipment, $0.6 million; and (6) other net increases of $0.2 million; partially offset by (7) lower energy expense of $6.3 million; and (8) lower inage of $0.4 million.

Selling, General and Administrative Costs. Selling, general and administrative expenses were $30.3 million during Fiscal 2002, a $2.0 million increase (7.1%) from $28.3 million during Fiscal 2001, primarily due to the following: (1) higher payroll and related benefit expense of $0.9 million, which included $1.0 million in charges for compensation to be paid to our former chief executive officer over a two-year period due to the change in control of our company; (2) higher legal and audit expense of $0.3 million; (3) higher insurance expense of $0.2 million; (4) higher marketing, advertising and product development expense of $0.2 million; and (5) other net increases of $0.4 million.

Depreciation and Amortization. Depreciation and amortization charges decreased $8.5 million (34.1%), to $16.4 million during Fiscal 2002 as compared to $24.9 million during Fiscal 2001. The decrease is primarily due to various property and equipment assets becoming fully depreciated during Fiscal 2002.

Included in Fiscal 2001, depreciation and amortization expense is an impairment charge of $0.8 million.

Interest Expense. Interest expense was $6.4 million during Fiscal 2002, compared to $14.2 million during Fiscal 2001, a decrease of $7.8 million (54.9%), primarily due to changes resulting from the effect of the provisions of SFAS 15 as it applies to our Recapitalization (see Note 2 to the consolidated financial statements elsewhere herein), which reduced interest expense on bank debt by approximately $7.2 million; reduced interest expense resulting from forbearance fees of approximately $0.4 million; and other decreases of $0.2 million.

Other Income (Expense). Other income was $2.0 million in Fiscal 2002, a $3.7 million increase from other expense of $1.7 million in Fiscal 2001. Included in other income in Fiscal 2002 is: a gain of $1.7 million resulting from insurance proceeds received in excess of the net book value of assets destroyed by fire at our Norfolk, Nebraska facility; a gain on extinguishment of debt of $0.8 million, which resulted from retirement of debt with a carrying value of $4.5 million with a cash payment of $3.7 million due to SFAS 15 accounting; and other net expense of $0.5 million. Included in net other expense in Fiscal 2001 was: a loss on the early retirement of a non-compete liability of $0.4 million; fair value adjustment on interest rate swap agreements of $1.4 million; and other net expense of $0.4 million; partially offset by gain related to the ineffective portion of natural gas hedge transactions of $0.5 million.

Income Taxes. We recorded income tax expense of $7.2 million for Fiscal 2002. We also recorded tax benefits of $2.2 million from utilization of net operating loss carryforwards which arose prior to our 1993 "Fresh Start Reporting" as direct increases to additional paid in capital rather than as an income tax benefit, in accordance with Statement of Position 90-7 (see Note 11 to the consolidated financial statements elsewhere herein).

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We did not record a tax benefit in 2001 because of the inability to carryback net operating losses and the uncertainty of future taxable income.

Discontinued Operations. We recorded a loss from discontinued operations in Fiscal 2002 of $0.4 million, compared to a loss of $0.7 million in Fiscal 2001, an improvement of $0.3 million. The loss from discontinued operations both fiscal years relates to our Linkwood, Maryland facility, which was sold October 18, 2002. Included in the loss incurred in Fiscal 2002, is an impairment charge of $0.4 million, recorded to reduce the carrying value of the Linkwood assets to fair value, based upon the cash consideration of $4.3 million received from the third party purchaser.

Capital Expenditures. We made capital expenditures of $13.4 million during Fiscal 2002 as compared to $8.8 million in Fiscal 2001, an increase of $4.6 million (52.3%). The increase is primarily due to expansion of our Sioux City plant location, completed during the third quarter of Fiscal 2002, which will process raw material inage from the Norfolk, Nebraska plant which was destroyed by fire.

52 Week Fiscal Year Ended December 29, 2001 (Fiscal 2001) vs. 52 Week Fiscal Year Ended December 30, 2000 (Fiscal 2000)

General. We reported a sales increase of $13.7 million (6.0%) for Fiscal 2001 and operating income of $4.7 million compared to a $1.7 million operating loss in Fiscal 2000, an improvement of $6.4 million. Principal factors affecting these comparative results, which are discussed further in the following section, were higher collection fees which improved recovery of collection expenses, favorable finished goods prices, and lower depreciation expense, partially offset by higher energy expense. We reported a loss from continuing operations of $11.1 million for Fiscal 2001 compared to a loss from continuing operations of $15.9 million for Fiscal 2000, a reduction of the operating loss of $4.8 million.

Net Sales. During Fiscal 2001, net sales increased by $13.7 million (6.0%) to $243.0 million as compared to $229.3 million during Fiscal 2000. The increase in net sales was primarily due to the following: (1) improved recovery of collection expenses, $9.2 million; (2) favorable finished goods prices resulted in a $3.8 million increase (our average yellow grease prices increased 6.7%, average tallow prices increased 10.4%, and average protein prices decreased 3.2%); (3) hide sales increased $2.0 million; (4) higher inage increased sales $1.9 million; (5) other net increases during Fiscal 2001 of $0.3 million; partially offset by (6) finished product purchased for resale decreased $3.1 million; and (7) lower yields decreased sales $0.4 million.

Cost of Sales and Operating Expenses. During Fiscal 2001, cost of sales and operating expenses increased $7.4 million (4.2%) to $185.0 million as compared to $177.6 million during Fiscal 2000. The increase in cost of sales and operating expenses was primarily due to the following: (1) energy expense increased $5.7 million; (2) repairs expense increased $3.1 million; (3) leased vehicle expenses increased $1.0 million; (4) contract hauling expenses increased $0.6 million; (5) other net increased expenses during Fiscal 2001 of $0.1 million; partially offset by (6) finished product purchased for resale decreased $3.1 million.

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Selling, General and Administrative Expenses. Selling, general and administrative expenses were $28.3 million during Fiscal 2001, a $1.8 million (6.8%), $26.5 million during Fiscal 2000, primarily due to higher payroll expense.

Depreciation and Amortization. Depreciation and amortization charges decreased $2.0 million (7.4%), to $24.9 million during Fiscal 2001 as compared to $26.9 million during Fiscal 2000. Included in Fiscal 2001 and Fiscal 2000 depreciation and amortization expense are impairment charges of $0.8 million and $1.9 million, respectively.

The Fiscal 2001 impairment charge of $0.8 million pertains solely to assets held for sale in our rendering business segment. The impairment charges were necessary to reduce the carrying value of these assets to management's estimate of their net realizable value in light of current economic conditions. Estimated net realizable values were based on information from business and real estate brokers, comparable sales, property tax valuations and internal discussions with our employees working in the geographic areas who were familiar with the specific assets. A summary of the impairment charge follows (in millions):

Land	$0.1
Leaseholds and buildings	0.1
Equipment and furniture	0.6
Total impairment	$0.8

The Fiscal 2000 impairment charge of $1.9 million consists of: (1) $0.1 million and $0.4 million related to restaurant services business segment equipment and allocable goodwill, respectively, and (2) $1.4 million related to our rendering business segment. The impairment charges of the assets were made to reduce the carrying value to estimated fair value based on the discounted future cash flows of the assets, or from management's estimate of their net realizable value based on information from a business broker. A summary of the impairment charge follows (in millions):

	Rendering	Restaurant Services	Total
Leaseholds and buildings	$ 0.3	$ --	$ 0.3
Equipment and furniture	1.1	0.1	1.2
Goodwill	--	0.4	0.4
Total impairment	$ 1.4	$ 0.5	$ 1.9

Interest Expense. Interest expense was $14.2 million during Fiscal 2001, compared to $14.0 million during Fiscal 2000, an increase of $0.2 million (1.4%). The effects of amortization of loan forbearance fees included in interest expense of $2.1 million and higher debt levels during Fiscal 2001 were partially offset by declining interest rates on our floating rate debt.

Other Income (Expense). Other income (expense) in Fiscal 2001 was net other expense of $1.7 million, compared to net other expense of $0.2 million in Fiscal 2000, an increase in expense of $1.5 million. Included in other expense in Fiscal 2001 were fair value adjustments on interest rate swap agreements of $1.4 million and loss on the early retirement of a non-compete agreement of $0.4 million, partially offset by gain related to the ineffective portion of natural gas hedge transactions of $0.5 million. Included in other expense in Fiscal 2001 were bank service charges and closed plant expenses, partially offset by gains on the sale of fixed assets.

Income Taxes. We did not record a tax benefit in Fiscal 2001 because of the inability to carryback net operating losses and the uncertainty of future taxable income.

Discontinued Operations. We recorded a loss from discontinued operations in Fiscal 2001, of $0.7 million, compared to a loss of $3.3 million in Fiscal 2000, an improvement of $2.6 million. The losses from discontinued operations in both Fiscal 2001 and Fiscal 2000 relate to our Linkwood, Maryland facility, which was sold October 18, 2002; the loss in Fiscal 2000 includes our Bakery By-Products Recycling business segment, which was sold in 1999. Included in the loss incurred in Fiscal 2000, is an impairment charge of $2.1 million, recorded to reduce the carrying value of the Linkwood assets to estimated fair value, based upon the estimated discounted cash flows of the Linkwood facility. Also included in the Fiscal 2000 loss is a net gain of $0.4 million recorded on the Bakery By-Products Recycling business segment as a result of adjustment of an indemnification liability in Fiscal 2000, upon termination of the indemnification period.

Capital Expenditures. We made capital expenditures of $8.8 million during Fiscal 2001 as compared to $7.3 million in Fiscal 2000, an increase of $1.5 million (20.5%). Fiscal 2001 capital expenditures were principally for: operating equipment, $5.8 million; vehicles (primarily trucks or tractor-trailers), $1.6 million; office equipment, $1.2 million; and other capital expenditures, $0.5 million. We incurred $0.3 million of capital expenditures at our Linkwood, Maryland facility, which has been accounted for as a discontinued operation.

Financing, Liquidity and Capital Resources

As described further under "Recapitalization" on May 13, 2002, we consummated the Recapitalization and executed a new amended and restated credit agreement with our lenders. The credit agreement reflects the effect of applying the provisions of Statement of Financial Accounting Standards No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings (SFAS 15). SFAS 15 requires that the previously existing amount of debt owed by us to the lenders be reduced by the fair value of the equity interest granted and that no gain from restructuring our bank debt be recognized. As a result the carrying amount of the term loan of $62.5 million exceeds its contractual amount of $52.3 million by $10.2 million at March 29, 2003. Interest expense on the remaining carrying amount of debt reported in our financial statements is based on a new effective interest rate (0.20% at March 29, 2003) that equates the present value of the future cash payment specified by the new terms of the term loan with the carrying amount of the debt.

In connection with the Recapitalization and our entry into the credit agreement, we exchanged borrowings outstanding under our previous credit agreement, a portion of the accrued interest and commitment fees, and forbearance fees payable for 46,705,086 shares of newly issued common stock, equal to 75% of our then total outstanding common stock on a fully diluted basis (exclusive of stock options issued and outstanding), and 100,000 shares of 6% cumulative redeemable Series A Preferred Stock with a liquidation preference of $100 per share and a face value of $10.0 million, recorded at a discount of approximately $1.9 million, resulting in a yield of 10%, which approximates the market yield at the date of issue. The term loan and the revolving credit facility (under which there were no borrowings at the date of the Recapitalization) mature on May 10, 2007.

Our credit agreement consists of the following elements at March 29, 2003 (in thousands):

Term loan:	
Contractual amount	$ 52,266
SFAS 15 effect	10,187
Carrying amount	$ 62,453
Revolving credit facility:	
Maximum availability	$ 17,337
Borrowings outstanding	-
Letters of credit issued	8,950
Availability	$ 8,387

Substantially all of our assets 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. As of March 29, 2003, no cash dividends could be paid to our stockholders pursuant to the credit agreement.

The classification of long-term debt in the accompanying December 28, 2002 and March 29, 2003 consolidated balance sheets is based on the contractual and excess cash flow repayment terms of the debt issued under the credit agreement pursuant to the Recapitalization. At December 29, 2001, all indebtedness was classified as a current liability because the former credit agreement had a maturity date of June 30, 2001, and we were subject to a forbearance agreement. Under the terms of the credit agreement, 25% of the excess cash flow (as defined in the credit agreement) in Fiscal 2002 is due to the lenders in Fiscal 2003. Included in current maturities of long-term debt at December 28, 2002, is $4.2 million, due under this provision of the credit agreement.

On March 29, 2003, we had working capital of $5.9 million and our working capital ratio was 1.13 to 1. On December 28, 2002, we had working capital of $9.2 million a our working capital ratio was 1.19 to 1 compared to a working capital deficit of $116.7 million and a working capital ratio of 0.26 to 1 on December 29, 2001. At March 29, 2003, we had unrestricted cash of $10.7 million and funds available under the revolving credit facility of $8.4 million.

Net cash provided by operating activities was $4.2 million and $4.9 million in the first quarter ending March 29, 2003 and March 30, 2002, respectively. Cash used by investing activities was $3.8 million during the first quarter ending March 29, 2003 compared to $2.7 million in the first quarter ending March 30, 2002. Net cash used by financing activities was $5.1 million in the first quarter ending March 29, 2003 compared to cash used of $2.9 million in the first quarter ending March 30, 2002, principally due to reductions of long-term debt.

Net cash provided by operating activities was $34.1 million, $5.6 million, and $16.2 million in Fiscal 2002, Fiscal 2001 and Fiscal 2000, respectively. Net cash provided by operating activities in Fiscal 2002 increased principally due to an increase in our profitability resulting from higher finished goods prices, higher collection fees, and lower energy expense. Cash used by investing activities was $8.1 million during Fiscal 2002 compared to $9.3 million in Fiscal 2001; the $1.2 million decrease is primarily due to increased capital expenditures for machinery and equipment, net of proceeds from the sale of our Linkwood, Maryland facility and insurance proceeds on the Norfolk, Nebraska facility which was destroyed by fire in Fiscal 2001. Net cash used by financing activities was $14.2 million in Fiscal 2002 compared to cash provided of $3.8 million in Fiscal 2001, principally due to reductions of long-term debt in the Fiscal 2002 period compared to additions to indebtedness during Fiscal 2001.

Based upon current actuarial estimates, we do not expect any payments will be necessary in order to meet minimum pension funding requirements during Fiscal 2003.

Our management believes that cash flows from operating activities at the current level in Fiscal 2003, unrestricted cash, and funds available under the credit agreement should be sufficient to meet our working capital needs and capital expenditures for at least the next 12 months. However, the current economic environment in our markets has the potential to adversely impact our liquidity in a variety of ways, including through reduced sales, potential inventory buildup, or higher operating costs.

The principal products that we sell are commodities, the prices of which are quoted on established commodity markets and are subject to volatile changes. Although the current market prices of these commodities are favorable, a decline in these prices has the potential to adversely impact our liquidity. A disruption in international sales, a decline in commodities prices, or a rise in energy prices, resulting from the recent war with Iraq and the subsequent political instability and uncertainty, has the potential to adversely impact our liquidity. There can be no assurance that a decline in commodities prices, a rise in energy prices, a slowdown in the U.S. or international economy, or other factors, including the political instability in the Middle East or elsewhere, and the macroeconomic effects of those events, will not cause us to fail to meet management's expectations, or otherwise result in liquidity concerns.

Contractual Obligations and Other Commercial Commitments

The following table summarizes our expected material contractual payment obligations, including both on- and off-balance sheet arrangements at March 29, 2003 (in thousands):

	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years
Contractual obligations:				
Debt	$62,616	$ 8,033	$20,822	$33,761
Operating lease obligations	20,298	3,646	5,404	2,264
Purchase commitments	3,386	3,386	-	-
Other liabilities	1,541	1,272	82	80
Total	$87,841	$16,337	$26,308	$36,105

Our off-balance sheet contractual obligations and commercial commitments as of March 29, 2003 relate to operating lease obligations, letters of credit, forward purchase agreements, and employment agreements. We have excluded these items from the balance sheet in accordance with accounting principles generally accepted in the United States of America.

The following table summarizes our other commercial commitments, including both on- and off-balance sheet arrangements at March 29, 2003 (in thousands):

Other commercial commitments:	
Standby letters of credit	$ 8,950
Total other commercial commitments:	$ 8,950

Quantitative and Qualitative Disclosures About Market Risks

Market risks affecting our company are exposures to changes in prices of the finished products we sell, interest rates on debt, availability of raw material supply and the price of natural gas used in our plants. The amount of raw materials available to us are impacted by seasonal factors, including holidays, when raw material inage declines; warm weather, which can adversely affect the quality of raw material processed and finished products produced; and cold weather, which can impact the collection of raw material. Predominately all of our finished products are commodities that are generally sold at prices prevailing at the time of sale. We have used, through June 2002, interest rate and, through March 2001, natural gas swaps to manage these related risks. Beginning in April 2001, we are using natural gas forward purchase agreements with our suppliers to manage the price risk of natural gas used in our facilities. We operate in international markets. Political and economic instability in some regions of the world may result, and could negatively impact our business and financial condition.

We were a party to two interest rate swap agreements at December 29, 2001. 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 matured June 27, 2002, bore interest at 6.5925% and our receive rate was based on the three-month LIBOR. The second swap agreement for $20 million matured on J