

DARLING INTERNATIONAL INC

Form 10-Q

May 14, 2009

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended April 4, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-24620

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

Delaware  
(State or other jurisdiction  
of incorporation or organization)

36-2495346  
(I.R.S. Employer  
Identification Number)

251 O'Connor Ridge Blvd., Suite 300  
Irving, Texas  
(Address of principal executive offices)

75038  
(Zip Code)

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	Non-accelerated filer	Smaller reporting company
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(Do not check if a smaller  
reporting company)

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

There were 82,216,690 shares of common stock, \$0.01 par value, outstanding at May 7, 2009.

DARLING INTERNATIONAL INC. AND SUBSIDIARIES  
FORM 10-Q FOR THE THREE MONTHS ENDED APRIL 4, 2009

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## DARLING INTERNATIONAL INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

April 4, 2009 and January 3, 2009

(in thousands, except shares)

	April 4, 2009 (unaudited)	January 3, 2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 38,178	\$ 50,814
Restricted cash	430	449
Accounts receivable	41,337	40,424
Inventories	18,142	22,182
Income taxes refundable	11,098	11,248
Other current assets	6,926	6,696
Deferred income taxes	6,430	6,656
Total current assets	122,541	138,469
Property, plant and equipment, less accumulated depreciation of \$214,289 at April 4, 2009 and \$211,306 at January 3, 2009	147,692	143,291
Intangible assets, less accumulated amortization of \$48,209 at April 4, 2009 and \$47,281 at January 3, 2009	38,372	35,982
Goodwill	66,958	61,133
Other assets	6,840	6,623
Deferred income taxes	5,876	8,877
	\$ 388,279	\$ 394,375
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 5,000	\$ 5,000
Accounts payable, principally trade	17,175	16,243
Accrued expenses	37,321	49,780
Total current liabilities	59,496	71,023
Long-term debt, net of current portion	31,250	32,500
Other non-current liabilities	54,278	54,274
Total liabilities	145,024	157,797
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value; 100,000,000 shares authorized; 82,619,970 and 82,169,076 shares issued at April 4, 2009 and at January 3, 2009, respectively	826	822

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Additional paid-in capital	157,961	156,899
Treasury stock, at cost; 403,280 and 401,094 shares		
at		
April 4, 2009 and January 3, 2009, respectively	(3,855)	(3,848)
Accumulated other comprehensive loss	(29,042)	(29,850)
Retained earnings	117,365	112,555
Total stockholders' equity	243,255	236,578
	\$ 388,279	\$ 394,375

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

DARLING INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Three months ended April 4, 2009 and March 29, 2008

(in thousands, except per share data)  
(unaudited)

	April 4, 2009	March 29, 2008
Net sales	\$ 133,000	\$ 201,956
Costs and expenses:		
Cost of sales and operating expenses	103,543	146,296
Selling, general and administrative expenses	14,757	14,701
Depreciation and amortization	5,937	5,792
Total costs and expenses	124,237	166,789
Operating income	8,763	35,167
Other income/(expense):		
Interest expense	(658)	(845)
Other, net	(237)	167
Total other income/(expense)	(895)	(678)
Income from operations before income taxes	7,868	34,489
Income taxes	3,058	13,028
Net income	\$ 4,810	\$ 21,461
Basic income per share	\$ 0.06	\$ 0.26
Diluted income per share	\$ 0.06	\$ 0.26

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

## DARLING INTERNATIONAL INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended April 4, 2009 and March 29, 2008

(in thousands)

(unaudited)

	April 4, 2009	March 29, 2008
Cash flows from operating activities:		
Net income	\$ 4,810	\$ 21,461
Adjustments to reconcile net income to net cash provided by		
operating activities:		
Depreciation and amortization	5,937	5,792
Loss (Gain) on disposal of property, plant, equipment and		
other assets	104	(33)
Deferred taxes	3,227	(702)
Stock-based compensation expense	304	342
Changes in operating assets and liabilities, net of effects from acquisitions:		
Restricted cash	19	24
Accounts receivable	(913)	883
Income taxes refundable	150	-
Inventories and prepaid expenses	3,666	(6,479)
Accounts payable and accrued expenses	(11,679)	4,048
Other	1,752	2,405
Net cash provided by operating activities	7,377	27,741
Cash flows from investing activities:		
Capital expenditures	(6,149)	(4,708)
Acquisitions	(12,500)	-
Gross proceeds from disposal of property, plant and equipment		
and other assets	76	634
Net cash used by investing activities	(18,573)	(4,074)
Cash flows from financing activities:		
Payments on debt	(1,250)	(1,250)
Contract payments	(19)	(46)
Issuance of common stock	-	128
Minimum withholding taxes paid on stock awards	(108)	(67)
Excess tax benefits from stock-based compensation	(63)	114
Net cash used by financing activities	(1,440)	(1,121)
Net increase/(decrease) in cash and cash equivalents	(12,636)	22,546
Cash and cash equivalents at beginning of period	50,814	16,335
Cash and cash equivalents at end of period	\$ 38,178	\$ 38,881
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		

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Interest	\$	667	\$	766
Income taxes, net of refunds	\$	248	\$	1,329

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

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DARLING INTERNATIONAL INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

April 4, 2009

(unaudited)

(1) General

The accompanying consolidated financial statements for the three month periods ended April 4, 2009 and March 29, 2008 have been prepared in accordance with generally accepted accounting principles in the United States of America by Darling International Inc. (“Darling”) and its subsidiaries (Darling and its subsidiaries are collectively referred to herein as the “Company”) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The information furnished herein reflects all adjustments (consisting only of normal recurring accruals) that are, in the opinion of management, necessary to present a fair statement of the financial position and operating results of the Company as of and for the respective periods. However, these operating results are not necessarily indicative of the results expected for a full fiscal year. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. However, management of the Company believes, to the best of their knowledge, that the disclosures herein are adequate to make the information presented not misleading. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements contained in the Company’s Form 10-K for the fiscal year ended January 3, 2009.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

(b) Fiscal Periods

The Company has a 52/53 week fiscal year ending on the Saturday nearest December 31. Fiscal periods for the consolidated financial statements included herein are as of April 4, 2009, and include the 13 weeks ended April 4, 2009, and the 13 weeks ended March 29, 2008.

(c) Earnings Per Share

On January 4, 2009, the Company adopted Financial Accounting Standard Board (“FASB”) Staff Position No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (“FSP EITF 03-6-1”). FSP EITF 03-6-1 addresses determinations as to whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method described in paragraphs 60 and 61 of Statement of Financial Accounting Standards No. 128, Earnings Per Share. Non-vested and restricted share awards granted to the Company’s employees and non-employee directors contain non-forfeitable dividend rights and, therefore, are considered participating securities in accordance with FSP EITF 03-6-1. The Company has prepared the current period earnings per share computations and retrospectively revised the Company’s comparative prior

period computations to include in basic and diluted earnings per share non-vested and restricted share awards considered participating securities. The adoption of FSP EITF 03-6-1 increased the number of common shares included in basic and diluted earnings per share, but had no impact on reported earnings per share.

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

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

	Three Months Ended					
	April 4, 2009		March 29, 2008			
	Income	Shares	Per Share	Income	Shares	Per Share
Basic:						
Net income	\$4,810	81,896	\$ 0.06	\$21,461	81,394	\$ 0.26
Diluted:						
Effect of dilutive securities:						
Add: Option shares in the money	—	764	—	—	1,309	—
Less: Pro forma treasury shares	—	(578)	—	—	(504)	—
Net income	\$4,810	82,082	\$ 0.06	\$21,461	82,199	\$ 0.26

For the three months ended April 4, 2009 and March 29, 2008, respectively, 56,000 and 20,000 outstanding stock options were excluded from diluted income per common share as the effect was antidilutive.

(3) Acquisitions

On February 23, 2009, the Company acquired substantially all of the assets of Boca Industries, Inc., a grease trap services business headquartered in Smyrna, Georgia (the "Boca Transaction") for approximately \$12.5 million. The purchase was accounted for as an asset purchase pursuant to the terms of the asset purchase agreement between the Company and Boca Transport, Inc. and Donald E. Lenci. The assets acquired in the Boca Transaction will increase the Company's capabilities to grow revenues and continue the Company's strategy of broadening its restaurant services segment.

Effective February 23, 2009, the Company began including the operations of the Boca Transaction into the Company's consolidated financial statements. Pro forma results of operations have not been presented because the effect of the acquisition is not material. The Company paid approximately \$12.5 million in cash for assets consisting of property, plant and equipment of \$3.3 million, intangible assets of \$3.3 million, goodwill of \$5.8 million and other of \$0.1 million on the closing date. The goodwill was assigned to the restaurant services segment and is expected to be deductible for tax purposes and the identifiable intangibles have a weighted average life of nine years.

On August 25, 2008, Darling completed the acquisition of substantially all of the assets of API Recycling's used cooking oil collection business (the "API Transaction"). API Recycling is a division of American Proteins, Inc. The purchase was accounted for as an asset purchase pursuant to the terms of the asset purchase agreement between the

Company and American Proteins, Inc. Effective August 25, 2008, the Company began including the operations of the API Transaction into the Company's consolidated financial statements. Pro forma results of operations have not been presented because the effect of the acquisition is not deemed material to revenues and net income of the Company for fiscal 2008.

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(4) Contingencies

The Company is a party to several lawsuits, claims and loss contingencies arising in the ordinary course of its business, including assertions by certain regulatory and governmental agencies related to permitting requirements and air, wastewater and storm water discharges from the Company's processing facilities.

The Company's workers' compensation, auto and general liability policies contain significant deductibles or self-insured retentions. The Company estimates and accrues its expected ultimate claim costs related to accidents occurring during each fiscal year and carries this accrual as a reserve until such claims are paid by the Company.

As a result of the matters discussed above, the Company has established loss reserves for insurance, environmental and litigation matters. At April 4, 2009 and January 3, 2009, the reserves for insurance, environmental and litigation contingencies reflected on the balance sheet in accrued expenses and other non-current liabilities for which there are no insurance recoveries were approximately \$17.5 million and \$17.3 million, respectively. Management of the Company believes these reserves for contingencies are reasonable and sufficient based upon present governmental regulations and information currently available to management; however, there can be no assurance that final costs related to these matters will not exceed current estimates. The Company believes that the likelihood is remote that any additional liability from such lawsuits and claims that may not be covered by insurance would have a material effect on the Company's financial statements.

The Company has been named as a third party defendant in a lawsuit pending in the Superior Court of New Jersey, Essex County, styled New Jersey Department of Environmental Protection, The Commissioner of the New Jersey Department of Environmental Protection Agency and the Administrator of the New Jersey Spill Compensation Fund, as Plaintiffs, vs. Occidental Chemical Corporation, Tierra Solutions, Inc., Maxus Energy Corporation, Repsol YPF, S.A., YPF, S.A., YPF Holdings, Inc., and CLH Holdings, as Defendants (Docket No. L-009868-05) (the "Tierra/Maxus Litigation"). In the Tierra/Maxus Litigation, which was filed on December 13, 2005, the plaintiffs seek to recover from the defendants past and future cleanup and removal costs, as well as unspecified economic damages, punitive damages, penalties and a variety of other forms of relief, purportedly arising from the alleged discharges into the Passaic River of a particular type of dioxin and other unspecified hazardous substances. The damages being sought by the plaintiffs from the defendants are likely to be substantial. On February 4, 2009, two of the defendants, Tierra Solutions, Inc. ("Tierra") and Maxus Energy Corporation ("Maxus"), filed a third party complaint against over 300 entities, including the Company, seeking to recover all or a proportionate share of cleanup and removal costs, damages or other loss or harm, if any, for which Tierra or Maxus may be held liable in the Tierra/Maxus Litigation. Tierra and Maxus allege that Standard Tallow Company, an entity that the Company acquired in 1996, contributed to the discharge of the hazardous substances that are the subject of this case while operating a former plant site located in Newark, New Jersey. The Company is investigating these allegations and intends to defend itself vigorously. As of the date of this report, there is nothing that leads the Company to believe that this matter will have a material effect on the Company's financial position or results of operation.

## (5) Business Segments

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

Included in corporate activities are general corporate expenses and the amortization of intangibles. Assets of corporate activities include cash, unallocated prepaid expenses, deferred tax assets, prepaid pension and miscellaneous other assets.

## Rendering

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

## Restaurant Services

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

## Business Segment Net Sales (in thousands):

	Three Months Ended	
	April 4, 2009	March 29, 2008
Rendering:		
Trade	\$ 103,541	\$ 147,576
Intersegment	3,629	13,483
	107,170	161,059
Restaurant Services:		
Trade	29,459	54,380
Intersegment	2,163	1,824
	31,622	56,204
Eliminations	(5,792)	(15,307)
Total	\$ 133,000	\$ 201,956

## Business Segment Profit/(Loss) (in thousands):

	Three Months Ended	
	April 4, 2009	March 29, 2008
Rendering	\$ 17,518	\$ 35,061
Restaurant Services	301	10,053
Corporate	(12,351)	(22,808)
Interest expense	(658)	(845)
Net Income	\$ 4,810	\$ 21,461

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

## Business Segment Assets (in thousands):

	April 4, 2009	January 3, 2009
Rendering	\$ 152,158	\$ 155,318
Restaurant Services	60,218	46,718
Combined Rendering/Restaurant Services	101,008	99,857
Corporate	74,895	92,482
Total	\$ 388,279	\$ 394,375

## (6) Income Taxes

The Company has provided income taxes for the three-month periods ended April 4, 2009 and March 29, 2008, based on its estimate of the effective tax rate for the entire 2009 and 2008 fiscal years.

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

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



(7)

## Debt

## Credit Agreement

The Company has a \$175 million credit agreement (the "Credit Agreement") effective April 7, 2006. The Credit Agreement provides for a total of \$175.0 million in financing facilities, consisting of a \$50.0 million term loan facility and a \$125.0 million revolver facility, which includes a \$35.0 million letter of credit sub-facility. As of April 4, 2009, the Company has borrowed all \$50.0 million under the term loan facility, which provides for quarterly scheduled amortization payments of \$1.25 million over a six-year term ending April 7, 2012; at that point, the remaining balance of \$22.5 million will be payable in full. The revolving credit facility has a five-year term ending April 7, 2011. The proceeds of the revolving credit facility may be used for: (i) the payment of fees and expenses payable in connection with the Credit Agreement, acquisitions and the repayment of indebtedness; (ii) financing the working capital needs of the Company; and (iii) other general corporate purposes.

The Credit Agreement allows for borrowings at per annum rates based on the following loan types. Alternate base rate loans under the Credit Agreement will bear interest at a rate per annum based on the greater of (a) the prime rate and (b) the federal funds effective rate (as defined in the Credit Agreement) plus 1/2 of 1% plus, in each case, a margin determined by reference to a pricing grid and adjusted according to the Company's adjusted leverage ratio. Eurodollar loans will bear interest at a rate per annum based on the then applicable London Inter-Bank Offer Rate ("LIBOR") multiplied by the statutory reserve rate plus a margin determined by reference to a pricing grid and adjusted according to the Company's adjusted leverage ratio. At April 4, 2009 under the Credit Agreement, the interest rate for \$36.25 million of the term loan that was outstanding was based on LIBOR plus a margin of 1.0% per annum for a total of 2.25% per annum. At April 4, 2009 there were no outstanding borrowings under the Company's revolving facility.

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

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

The Credit Agreement consisted of the following elements at April 4, 2009 and January 3, 2009, respectively (in thousands):

	April 4, 2009	January 3, 2009
Term Loan	\$ 36,250	\$ 37,500
Revolving Credit Facility:		
Maximum availability	\$ 125,000	\$ 125,000
Borrowings outstanding	—	—
Letters of credit issued	16,253	16,424
Availability	\$ 108,747	\$ 108,576

The obligations under the Credit Agreement are guaranteed by Darling National LLC, a Delaware limited liability company that is a wholly-owned subsidiary of Darling (“Darling National”), and are secured by substantially all of the property of the Company, including a pledge of all equity interests in Darling National. As of April 4, 2009, the Company was in compliance with all the covenants contained in the Credit Agreement. At April 4, 2009, the Company had unrestricted cash of \$38.2 million, compared to unrestricted cash of \$50.8 million at January 3, 2009 and \$38.9 million at March 29, 2008.

#### (8) Derivatives

The Company’s operations are exposed to market risks relating to commodity prices that affect the Company’s cost of raw materials, finished product prices and energy costs and the risk of changes in interest rates.

The Company makes limited use of derivative instruments to manage cash flow risks related to interest expense, natural gas usage and inventory. Interest rate swaps are entered into with the intent of managing overall borrowing costs by reducing the potential impact of increases in interest rates on floating-rate long-term debt. Natural gas swaps and collars are entered into with the intent of managing the overall cost of natural gas usage by reducing the potential impact of seasonal weather demands on natural gas that increases natural gas prices. Inventory swaps are entered into with the intent of managing seasonally high concentrations of protein inventories by reducing the potential of decreasing prices. The Company does not use derivative instruments for trading purposes. At April 4, 2009, the Company had two interest rate swaps and no natural gas swaps or collars or inventory swaps.

Under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (“SFAS 133”), entities are required to report all derivative instruments in the statement of financial position at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding the instrument. If certain conditions are met, entities may elect to designate a derivative instrument as a hedge of exposures to changes in fair value, cash flows or foreign currencies. If the hedged exposure is a cash flow exposure, the effective portion of the gain or loss on the derivative instrument is reported initially as a component of other comprehensive income (outside of earnings) and is subsequently reclassified into earnings when the forecasted transaction affects earnings. Any amounts excluded from the assessment of hedge effectiveness as well as the ineffective portion of the gain or loss are reported in earnings immediately. If the derivative instrument is not designated as a hedge, the gain or loss is recognized in earnings in the period of change.

## Cash Flow Hedges

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

The Company estimates the amount that will be reclassified from accumulated other comprehensive loss at April 4, 2009 into earnings over the next 12 months will be approximately \$1.5 million. No cash flow hedges were discontinued during the first quarter 2009.

The following table presents the fair value of the Company's derivatives designated as hedging instruments under SFAS 133 as of April 4, 2009 and January 3, 2009 (in thousands):

Derivatives Designated as Hedges	Balance Sheet Location	Liability Derivatives Fair Value	
		April 4, 2009	January 3, 2009
Interest rate swaps	Other noncurrent liabilities	\$ 3,368	\$ 3,593
Total derivatives not designated as hedges		–	–
Total liability derivatives		\$ 3,368	\$ 3,593

The effect of the Company's derivative instruments on the consolidated statement of operations for the three months ended April 4, 2009 and March 29, 2008 are as follows (in thousands):

Derivative in SFAS 133 Cash Flow Hedging Relationships	Amount of Loss Recognized in OCI on Derivatives (Effective Portion)	
	April 4, 2009	March 29, 2008
Interest rate swaps (a)	\$ 3,158	\$ 3,112

- (a) Amount recognized in other comprehensive income (effective portion) is reported as accumulated other comprehensive loss of \$3.2 million and \$3.1 million recorded net of taxes of approximately \$1.2 million and \$1.2 million for the three months ended April 4, 2009 and March 29, 2008, respectively.

Location of Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion)	
	April 4, 2009	March 29, 2008
Interest expense	\$ 370	\$ 63

  

Location of Loss Recognized in Income On Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Loss Recognized Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	April 4, 2009	March 29, 2008
Other, net	\$ 14	\$ -

At April 4, 2009, the Company has forward purchase agreements in place for purchases of approximately \$10.7 million of natural gas and diesel fuel. These forward purchase agreements have no net settlement provisions and the Company intends to take physical delivery. Accordingly, the forward purchase agreements are not subject to the requirements of SFAS 133 because they qualify as normal purchases as defined in the standard.

(9) Comprehensive Income

The Company follows the provisions of Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income (“SFAS 130”). SFAS 130 establishes standards for reporting and presentation of comprehensive income or loss and its components. For the three months ended April 4, 2009 and March 29, 2008, total comprehensive income was \$5.6 million and \$20.8 million, respectively.

(10) Revenue Recognition

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

(11) Employee Benefit Plans

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

Net pension cost for the three months ended April 4, 2009 and March 29, 2008 includes the following components (in thousands):

	April 4, 2009	March 29, 2008
Service cost	\$ 246	