DARLING INGREDIENTS INC.
Form 10-Q
November 10, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)
/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 1, 2016
OR

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

Commission File Number 001-13323

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

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

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

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

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

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

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

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

There were 164,604,558 shares of common stock, $0.01 par value, outstanding at November 3, 2016.

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DARLING INGREDIENTS INC. AND SUBSIDIARIES
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED OCTOBER 1, 2016

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DARLING INGREDIENTS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
October 1, 2016 and January 2, 2016
(in thousands, except share data)

	October 1, 2016 (unaudited)	January 2, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$148,585	$156,884
Restricted cash	294	331
Accounts receivable, net	382,857	371,392
Inventories	359,095	344,583
Prepaid expenses	40,341	36,175
Income taxes refundable	13,222	11,963
Other current assets	18,609	10,460
Total current assets	963,003	931,788
Property, plant and equipment, less accumulated depreciation of $802,172 at October 1, 2016 and $652,875 at January 2, 2016	1,535,185	1,508,167
Intangible assets, less accumulated amortization of $286,316 at October 1, 2016 and $252,719 at January 2, 2016	747,522	782,349
Goodwill	1,256,376	1,233,102
Investment in unconsolidated subsidiaries	261,690	247,238
Other assets	35,912	41,623
Deferred income taxes	17,196	16,352
	$4,816,884	$4,760,619
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$27,169	$45,166
Accounts payable, principally trade	168,556	149,998
Income taxes payable	9,374	6,679
Accrued expenses	254,561	239,825
Total current liabilities	459,660	441,668
Long-term debt, net of current portion	1,818,361	1,885,851
Other non-current liabilities	89,517	97,809
Deferred income taxes	363,949	360,681
Total liabilities	2,731,487	2,786,009
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value; 250,000,000 shares authorized; 167,619,651 and 167,070,983 shares issued at October 1, 2016 and at January 2, 2016, respectively	1,676	1,671
Additional paid-in capital	1,496,963	1,488,783
Treasury stock, at cost; 3,028,857 and 2,335,607 shares at October 1, 2016 and at January 2, 2016, respectively	(40,909)	(34,316)

Accumulated other comprehensive loss	(286,314)	(335,918)
Retained earnings	812,261	750,489
Total Darling's stockholders’ equity	1,983,677	1,870,709
Noncontrolling interests	101,720	103,901
Total stockholders' equity	$2,085,397	$1,974,610
	$4,816,884	$4,760,619

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

DARLING INGREDIENTS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
Three and nine months ended October 1, 2016 and October 3, 2015
(in thousands, except per share data)
(unaudited)

	Three Months Ended		Nine Months Ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Net sales	$853,856	$853,762	$2,510,838	$2,587,771
Costs and expenses:				
Cost of sales and operating expenses	671,167	671,321	1,947,175	2,024,118
Selling, general and administrative expenses	76,508	75,026	234,135	245,951
Acquisition and integration costs	—	1,280	401	7,807
Depreciation and amortization	70,653	67,327	212,440	199,970
Total costs and expenses	818,328	814,954	2,394,151	2,477,846
Operating income	35,528	38,808	116,687	109,925
Other expense:				
Interest expense	(23,867)	(24,828)	(71,748)	(82,222)
Foreign currency gain/(loss)	354	(2,461)	(2,241)	(3,299)
Other income/(expense), net	(2,007)	1,004	(5,685)	(704)
Total other expense	(25,520)	(26,285)	(79,674)	(86,225)
Equity in net income of unconsolidated subsidiaries	18,138	(12,021)	37,633	(9,657)
Income before income taxes	28,146	502	74,646	14,043
Income tax expense/(benefit)	(744)	7,859	9,102	14,639
Net income/(loss)	28,890	(7,357)	65,544	(596)
Net income attributable to noncontrolling interests	(196)	(1,730)	(3,772)	(5,302)
Net income/(loss) attributable to Darling	$28,694	$(9,087)	$61,772	$(5,898)
Basic income per share	$0.17	$(0.06)	$0.38	$(0.04)
Diluted income per share	$0.17	$(0.06)	$0.37	$(0.04)

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

DARLING INGREDIENTS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
Three and nine months ended October 1, 2016 and October 3, 2015
(in thousands)
(unaudited)

	Three Months Ended		Nine Months Ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Net income/(loss)	$28,890	$(7,357)	$65,544	$(596)
Other comprehensive income/(loss), net of tax:				
Foreign currency translation	(5,839)	(43,295)	43,684	(129,167)
Pension adjustments	727	780	2,104	2,327
Corn option derivative adjustments	734	1,861	1,255	574
Total other comprehensive income/(loss), net of tax	(4,378)	(40,654)	47,043	(126,266)
Total comprehensive income/(loss)	$24,512	$(48,011)	$112,587	$(126,862)
Comprehensive income/(loss) attributable to noncontrolling interests	(94)	39	1,211	7,929
Comprehensive income/(loss) attributable to Darling	$24,606	$(48,050)	$111,376	$(134,791)

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

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DARLING INGREDIENTS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Nine months ended October 1, 2016 and October 3, 2015
(in thousands)
(unaudited)

	October 1, 2016	October 3, 2015
Cash flows from operating activities:		
Net Income/(loss)	$65,544	$(596)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	212,440	199,970
Loss on disposal of property, plant, equipment and other assets	873	627
Gain on insurance proceeds from insurance settlements	(356)	(561)
Deferred taxes	(5,223)	8,640
Increase/(decrease) in long-term pension liability	(1,105)	678
Stock-based compensation expense	7,953	6,468
Write-off deferred loan costs	292	10,633
Deferred loan cost amortization	8,393	7,380
Equity in net loss/(income) of unconsolidated subsidiaries	(37,633)	9,657
Distributions of earnings from unconsolidated subsidiaries	26,317	26,155
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(3,058)	7,658
Income taxes refundable/payable	1,432	3,955
Inventories and prepaid expenses	(11,368)	7,667
Accounts payable and accrued expenses	27,438	(10,318)
Other	(11,377)	18,641
Net cash provided by operating activities	280,562	296,654
Cash flows from investing activities:		
Capital expenditures	(168,224)	(162,264)
Acquisitions, net of cash acquired	(8,511)	—
Gross proceeds from disposal of property, plant and equipment and other assets	4,492	2,473
Proceeds from insurance settlement	1,537	561
Payments related to routes and other intangibles	—	(2,939)
Net cash used by investing activities	(170,706)	(162,169)
Cash flows from financing activities:		
Proceeds from long-term debt	28,765	586,199
Payments on long-term debt	(128,364)	(595,872)
Borrowings from revolving credit facility	83,000	78,244
Payments on revolving credit facility	(93,028)	(130,876)
Net cash overdraft financing	—	(1,261)
Deferred loan costs	—	(17,119)
Issuance of common stock	143	171
Repurchase of treasury stock	(5,000)	(5,912)
Minimum withholding taxes paid on stock awards	(1,843)	(4,838)
Distributions to noncontrolling interests	(885)	(2,820)
Net cash used by financing activities	(117,212)	(94,084)
Effect of exchange rate changes on cash	(943)	(299)
Net increase/(decrease) in cash and cash equivalents	(8,299)	40,102

Cash and cash equivalents at beginning of period	156,884	108,784
Cash and cash equivalents at end of period	$148,585	$148,886
Supplemental disclosure of cash flow information:		
Accrued capital expenditures	$(3,302)	$940
Cash paid during the period for:		
Interest, net of capitalized interest	$62,395	$57,764
Income taxes, net of refunds	$14,018	$4,005
Non-cash financing activities		
Debt issued for assets	$10	$2,521
Contribution of assets to unconsolidated subsidiary	$2,674	$—

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

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DARLING INGREDIENTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
October 1, 2016
(unaudited)

(1) General

The accompanying consolidated financial statements for the three and nine month periods ended October 1, 2016 and October 3, 2015, have been prepared by Darling Ingredients Inc., a Delaware corporation ("Darling", and together with its subsidiaries, the "Company") in accordance with generally accepted accounting principles in the United States ("GAAP") 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 GAAP 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 2, 2016.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements include the accounts of Darling and its consolidated subsidiaries. Noncontrolling interests represent the outstanding ownership interest in the Company's consolidated subsidiaries that are not owned by the Company. In the accompanying Consolidated Statements of Operations, the noncontrolling interest in net income (loss) of the consolidated subsidiaries is shown as an allocation of the Company's net income and is presented separately as "Net income/(loss) attributable to noncontrolling interests". In the Company's Consolidated Balance Sheets, noncontrolling interests represent the ownership interests in the Company consolidated subsidiaries' net assets held by parties other than the Company. These ownership interests are presented separately as "Noncontrolling interests" within "Stockholders' Equity." 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 October 1, 2016, and include the 13 and 39 weeks ended October 1, 2016, and the 13 and 39 weeks ended October 3, 2015.

(c) Revenue Recognition

The Company recognizes revenue on sales when products are shipped and the customer takes ownership and assumes risk of loss. Certain customers may be required to prepay prior to shipment in order to maintain payment protection related to certain foreign and domestic sales. These amounts are recorded as unearned revenue and recognized when the products have shipped and the customer takes ownership and assumes risk of loss. The Company recognizes service revenue in the fiscal month the service occurs.

(d) Foreign Currency Translation and Remeasurement

Foreign currency translation is included as a component of accumulated other comprehensive income and reflects the adjustments resulting from translating the foreign currency denominated financial statements of foreign subsidiaries into U.S. dollars. The functional currency of the Company's foreign subsidiaries is the currency of the primary economic environment in which the entity operates, which is generally the local currency of the country. Accordingly, assets and liabilities of the foreign subsidiaries are translated into U.S. dollars at fiscal period end exchange rates, including intercompany foreign currency transactions that are of long-term investment nature. Income and expense items are translated at average exchange rates occurring during the period. Changes in exchange rates that affect cash flows and the related receivables or payables are recognized as transaction gains and losses in determining net income. The Company incurred net foreign currency translation gains of approximately $46.2 million for the nine months ended October 1, 2016 and net foreign currency translation losses of approximately $131.8 million for the nine months ended October 3, 2015.

(e) Reclassifications

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

(f) Earnings Per Share

Basic income per common share is computed by dividing net income attributable to Darling 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 attributable to Darling 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					
	October 1, 2016			October 3, 2015		
	Income	Shares	Per Share	Loss	Shares	Per Share
Basic:						
Net Income/(loss) attributable to Darling	$28,694	164,653	$0.17	$(9,087)	165,195	$(0.06)
Diluted:						
Effect of dilutive securities:						
Add: Option shares in the money and dilutive effect of non-vested stock awards		1,717			—	
Less: Pro forma treasury shares		(934)			—	
Diluted:						
Net income/(loss) attributable to Darling	$28,694	165,436	$0.17	$(9,087)	165,195	$(0.06)

	Net Income per Common Share (in thousands, except per share data)					
	Nine Months Ended					
	October 1, 2016			October 3, 2015		
	Income	Shares	Per Share	Loss	Shares	Per Share
Basic:						
Net Income/(loss) attributable to Darling	$61,772	164,574	$0.38	$(5,898)	165,086	$(0.04)
Diluted:						
Effect of dilutive securities:						
Add: Option shares in the money and dilutive effect of non-vested stock awards		1,222			—	
Less: Pro forma treasury shares		(642)			—	
Diluted:						
Net income/(loss) attributable to Darling	$61,772	165,154	$0.37	$(5,898)	165,086	$(0.04)

For the three months ended October 1, 2016 and October 3, 2015, respectively, 1,228,334 and 905,903 outstanding stock options were excluded from diluted income per common share as the effect was antidilutive. For the three months ended October 1, 2016 and October 3, 2015, respectively, 887,413 and 646,813 shares of non-vested stock and stock equivalents were excluded from diluted income per common share as the effect was antidilutive.

For the nine months ended October 1, 2016 and October 3, 2015, respectively, 1,122,165 and 947,095 outstanding stock options were excluded from diluted income per common share as the effect was antidilutive. For the nine months ended October 1, 2016 and October 3, 2015, respectively, 812,780 and 685,624 shares of non-vested stock and stock equivalents were excluded from diluted income per common share as the effect was antidilutive.

(3) Inventories

A summary of inventories follows (in thousands):

	October 1, 2016	January 2, 2016
Finished product	$174,727	$164,428
Work in process	92,677	84,474
Raw material	39,239	48,401
Supplies and other	52,452	47,280
	$359,095	$344,583

(4) Intangible Assets

The gross carrying amount of intangible assets not subject to amortization and intangible assets subject to amortization is as follows (in thousands):

	October 1, 2016	January 2, 2016
Indefinite Lived Intangible Assets		
Trade names	$53,097	$52,466
	53,097	52,466
Finite Lived Intangible Assets:		
Routes	385,118	390,888
Permits	501,672	494,754
Non-compete agreements	3,698	6,996
Trade names	76,200	75,825
Royalty, consulting, land use rights and leasehold	14,053	14,139
	980,741	982,602
Accumulated Amortization:		
Routes	(100,731)	(99,819)
Permits	(162,817)	(134,752)
Non-compete agreements	(1,672)	(4,628)
Trade names	(18,922)	(11,959)
Royalty, consulting, land use rights and leasehold	(2,174)	(1,561)
	(286,316)	(252,719)
Total Intangible assets, less accumulated amortization	$747,522	$782,349

Gross intangible routes, permits, trade names, non-compete agreements and other intangibles partially decreased in fiscal 2016 as a result of approximately $27.7 million of asset retirements. Amortization expense for the three and nine months ended October 1, 2016 and October 3, 2015, was approximately $19.6 million, $20.8 million and $58.4 million, $63.1 million, respectively.

(5) Goodwill

Changes in the carrying amount of goodwill (in thousands):

	Feed Ingredients	Food Ingredients	Fuel Ingredients	Total

Balance at January 2, 2016				
Goodwill	$ 812,797	$ 323,385	$ 112,834	$ 1,249,016
Accumulated impairment losses	(15,914)	—	—	(15,914)
	796,883	323,385	112,834	1,233,102
Goodwill acquired during year	827	—	2	829
Foreign currency translation	13,618	5,166	3,661	22,445
Balance at October 1, 2016				
Goodwill	827,242	328,551	116,497	1,272,290
Accumulated impairment losses	(15,914)	—	—	(15,914)
	$ 811,328	$ 328,551	$ 116,497	$ 1,256,376

(6) Investment in Unconsolidated Subsidiaries

On January 21, 2011 a wholly-owned subsidiary of Darling entered into a limited liability company agreement with a wholly-owned subsidiary of Valero Energy Corporation ("Valero") to form Diamond Green Diesel Holdings LLC (the "DGD Joint Venture"). The DGD Joint Venture is owned 50% / 50% with Valero and was formed to design, engineer, construct and operate a renewable diesel plant (the "DGD Facility"), which is capable of processing approximately 12,000 barrels per day of input feedstock to produce renewable diesel fuel and certain other co-products, and is located adjacent to Valero's refinery in Norco, Louisiana. The DGD Joint Venture reached mechanical completion and began the production of renewable diesel in late June 2013.

On May 31, 2011, the DGD Joint Venture and Diamond Green Diesel LLC, a wholly-owned subsidiary of the DGD Joint Venture ("Opco"), entered into (i) a facility agreement (the "Facility Agreement") with Diamond Alternative Energy, LLC, a wholly-owned subsidiary of Valero (the "Lender"), and (ii) a loan agreement (the "Loan Agreement") with the Lender, which provided the DGD Joint Venture with a 14 year multiple advance term loan facility of approximately $221.3 million (the "JV Loan") to support the design, engineering and construction of the DGD Facility, which is now in production. The Facility Agreement and the Loan Agreement prohibit the Lender from assigning all or any portion of the Facility Agreement or the Loan Agreement to unaffiliated third parties. Opco has also pledged substantially all of its assets to the Lender, and the DGD Joint Venture has pledged all of Opco's equity interests to the Lender, until the JV Loan has been paid in full and the JV Loan has terminated in accordance with its terms.

In addition to the DGD Joint Venture, the Company has investments in other unconsolidated subsidiaries that are insignificant to the Company. Selected financial information for the Company's DGD Joint Venture is as follows (in thousands):

(in thousands)	September 30, 2016	December 31, 2015
Assets:		
Total current assets	$ 207,392	$ 261,444
Property, plant and equipment, net	354,285	356,230
Other assets	14,094	3,034
Total assets	$ 575,771	$ 620,708
Liabilities and members' equity:		
Total current portion of long term debt	$ 17,023	$ 62,023
Total other current liabilities	24,093	19,935
Total long term debt	58,009	86,819
Total other long term liabilities	408	380
Total members' equity	476,238	451,551
Total liabilities and member's equity	$ 575,771	$ 620,708

(in thousands)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Revenues:				
Operating revenues	$ 141,656	$ 107,160	$ 345,650	$ 380,048
Expenses:				
Total costs and expenses less depreciation, amortization and accretion expense	96,569	123,779	244,643	376,157

Depreciation, amortization and accretion expense	7,445	4,959	20,370	14,924
Total costs and expenses	104,014	128,738	265,013	391,081
Operating income	37,642	(21,578)	80,637	(11,033)
Other income	114	41	199	93
Interest and debt expense, net	(1,406)	(3,122)	(6,148)	(10,629)
Net income/(loss)	$36,350	$(24,659)	$74,688	$(21,569)

As of October 1, 2016 under the equity method of accounting, the Company has an investment in the DGD Joint Venture of approximately $238.1 million on the consolidated balance sheet and has recorded an equity net gain of approximately $37.3 million and an equity net loss of approximately $10.8 million for the nine months ended October 1, 2016 and October 3, 2015, respectively. In the second quarter of fiscal 2016, the DGD Joint Venture received $156.4 million of the 2015 calendar year blenders tax credits from the Internal Revenue Service, made a debt payment of approximately $54.7 million and made dividend distributions to each partner in the amount $25.0 million. Additionally, with Congress' extension of the biodiesel blenders tax credit in December 2015 through December 31, 2016, the DGD Joint Venture fiscal 2016 results include blenders tax credits, while no blenders tax credits are included in the same period in the prior year.

(7) Debt

Debt consists of the following (in thousands):

	October 1, 2016	January 2, 2016
Amended Credit Agreement:		
Revolving Credit Facility ($9.4 million denominated in CAD at January 2, 2016)	$—	$9,358
Term Loan A ($89.3 million and $97.1 million denominated in CAD at October 1, 2016 and January 2, 2016, respectively)	187,590	277,181
Less unamortized deferred loan costs	(861)	(1,552)
Carrying value Term Loan A	186,729	275,629
Term Loan B	585,000	589,500
Less unamortized deferred loan costs	(6,670)	(7,774)
Carrying value Term Loan B	578,330	581,726
5.375% Senior Notes due 2022 with effective interest of 5.72%	500,000	500,000
Less unamortized deferred loan costs	(7,994)	(8,952)
Carrying value 5.375% Senior Notes due 2022	492,006	491,048
4.75% Senior Notes due 2022 - Denominated in euro with effective interest of 5.10%	574,740	560,912
Less unamortized deferred loan costs - Denominated in euro	(9,847)	(10,705)
Carrying value 4.75% Senior Notes due 2022	564,893	550,207
Other Notes and Obligations	23,572	23,049
	1,845,530	1,931,017
Less Current Maturities	27,169	45,166
	$1,818,361	$1,885,851

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. The ASU amends ASC (Subtopic 835-30), Interest - Imputation of Interest. The new standard requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying value of the debt liability, which is similar to the presentation of debt discounts or premiums. The costs will continue to be amortized to interest expense using the effective interest method. On January 3, 2016, the Company adopted this standard as a change in accounting principal on a retrospective basis. As of October 1, 2016 and January 2, 2016, the Company has presented debt issuance costs related to the Company's term loans and senior notes, previously reported in other assets, as direct deductions from the carrying amount of the debt liability. In addition, the Company has presented the debt issuance costs related to the Company's amended credit agreement as a deferred asset within other assets as permitted by ASU No. 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which was issued in August 2015. Upon adoption of ASU No. 2015-03, other assets of approximately $29.0 million were reclassified as a deduction from the carrying value of the recognized debt liability at January 2, 2016.

As of October 1, 2016, the Company had outstanding debt under a term loan facility denominated in Canadian dollars of CAD$117.6 million. See below for discussion relating to the Company's debt agreements. In addition, as of October 1, 2016, the Company had capital lease obligations denominated in Canadian dollars included in debt. The current and long-term capital lease obligation was approximately CAD$1.8 million and CAD$1.4 million, respectively.

As of October 1, 2016, the Company had outstanding debt under the Company's 4.75% Senior Notes due 2022 denominated in euros of €515.0 million. See below for discussion relating to the Company's debt agreements. In addition, at October 1, 2016, the Company had capital lease obligations denominated in euros included in debt. The current and long-term capital lease obligation was approximately €0.4 million and €0.3 million, respectively.

Senior Secured Credit Facilities. On January 6, 2014, Darling, Darling International Canada Inc. (“Darling Canada”) and Darling International NL Holdings B.V. (“Darling NL”) entered into a Second Amended and Restated Credit Agreement (as subsequently amended, the “Amended Credit Agreement”), restating its then existing Amended and Restated Credit Agreement dated September 27, 2013 (the “Former Credit Agreement”), with the lenders from time to time party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and the other agents from time to time party thereto.

The Company's Amended Credit Agreement provides for senior secured credit facilities in the aggregate principal amount of $2.65 billion comprised of (i) the Company's $350.0 million term loan A facility, (ii) the Company's $1.3 billion term loan B facility and (iii) the Company's $1.0 billion five-year revolving loan facility (approximately $250.0 million of which is available for a letter of credit sub-facility and $50.0 million of which is available for a swingline sub-facility) (collectively, the “Senior Secured Credit Facilities”). The Amended Credit Agreement also permits Darling and the other borrowers thereunder to incur ancillary facilities provided by any revolving lender party to the Senior Secured Credit Facilities (with certain restrictions). Up to $350.0 million of the revolving loan facility is available to be borrowed by Darling in U.S. dollars, Canadian dollars, euros and other currencies to be agreed and available to each applicable lender, to be borrowed by Darling Canada in Canadian dollars and to be borrowed by Darling NL, Darling Ingredients International Holding B.V. (“Darling BV”) and CTH Germany GmbH (“CTH”) in U.S. dollars, euros and other currencies to be agreed and available to each applicable lender. The revolving loan facility and term loan A facility will mature on September 27, 2018, and the term loan B facility will mature on January 7, 2021.

The interest rate applicable to any borrowings under the term loan A facility and the revolving loan facility will equal either LIBOR/euro interbank offered rate/CDOR plus 2.50% per annum or base rate/Canadian prime rate plus 1.50% per annum, subject to certain step-downs based on the Company's total leverage ratio. The interest rate applicable to any borrowings under the term loan B facility will equal (a) for U.S. dollar term loans, either the base rate plus 1.50% or LIBOR plus 2.50%, and (b) for euro term loans, the euro interbank offered rate plus 2.75%, in each case subject to a step-down based on Darling’s total leverage ratio. For term loan B loans, the LIBOR rate shall not be less than 0.75%.

As of October 1, 2016, the Company had $86.3 million outstanding under the term loan A facility at LIBOR plus a margin of 2.50% per annum for a total of 3.0625% per annum and $12.0 million outstanding under the term loan A facility at base rate plus a margin of 1.50% per annum for a total of 5.00% per annum. The Company had $585.0 million outstanding under the term loan B facility at LIBOR plus a margin of 2.50% per annum for a total of 3.25% per annum. The Company had CAD$117.6 million outstanding under the term loan A facility at CDOR plus a margin of 2.50% per annum for a total of 3.4624% per annum. As of October 1, 2016, the Company had unused capacity of $973.7 million under the Amended Credit Agreement taking into account amounts borrowed and letters of credit issued of $26.3 million. The Company also has foreign bank guarantees that are not part of the Company's Amended Credit Agreement in the amount of approximately $10.6 million at October 1, 2016.

The Amended Credit Agreement contains various customary representations and warranties by the Company, which include customary use of materiality, material adverse effect and knowledge qualifiers. The Amended Credit Agreement also contains (a) certain affirmative covenants that impose certain reporting and/or performance obligations on Darling and its subsidiaries, (b) certain negative covenants that generally prohibit, subject to various exceptions, Darling and its restricted subsidiaries from taking certain actions, including, without limitation, incurring indebtedness, making investments, incurring liens, paying dividends and engaging in mergers and consolidations, sale and leasebacks and asset dispositions, (c) financial covenants, which include a maximum total leverage ratio, a maximum secured leverage ratio and a minimum interest coverage ratio and (d) customary events of default (including a change of control) for financings of this type. Obligations under the Senior Secured Credit Facilities may be declared due and payable upon the occurrence and during the continuance of customary events of default.

5.375 % Senior Notes due 2022. On January 2, 2014, Darling Escrow Corporation, a wholly-owned subsidiary of Darling, issued $500.0 million aggregate principal amount of its 5.375% Notes due 2022 (the “5.375% Notes”) pursuant to a 5.375% Notes Indenture, dated as of January 2, 2014 (the “Original 5.375% Indenture”), among Darling Escrow Corporation, the subsidiary guarantors party thereto from time to time, and U.S. Bank National Association, as trustee

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(the “5.375% Trustee”). On January 8, 2014, Darling Escrow Corporation merged with and into Darling and entered into a supplemental indenture with Darling, the subsidiary guarantors party thereto and the 5.375% Trustee (the “Supplemental 5.375% Indenture,” and together with the Original 5.375% Indenture, the “5.375% Indenture”), pursuant to which Darling assumed all obligations under the 5.375% Notes and the 5.375% Indenture. Darling and the 5.375% Guarantors completed a registered exchange offer for the 5.375% Notes under the Securities Act during the third quarter of 2014. Darling used a portion of the proceeds from the offering of the 5.375% Notes to pay certain fees and expenses (including bank fees and expenses) related to the offering and the financing of its acquisition of its Darling Ingredients International business from VION Holding, N.V. (the “VION Acquisition”) and for purposes of satisfying, discharging and redeeming its 8.5% Notes due 2018. Darling used the remaining proceeds of the 5.375% Notes to pay certain other fees and expenses related to the completion of the VION Acquisition and its related financings, to repay a portion of the borrowings under its revolving credit facility used to fund a portion of the consideration for the VION Acquisition and for general corporate purposes.

The 5.375% Notes will mature on January 15, 2022. Darling will pay interest on the 5.375% Notes on January 15 and July 15 of each year, commencing on July 15, 2014. Interest on the 5.375% Notes will accrue at a rate of 5.375% per annum and be payable in cash. The 5.375% Notes are guaranteed on an unsecured senior basis by all of Darling's restricted subsidiaries (other than any foreign subsidiary or any receivables entity) that guarantee the Senior Secured Credit Facilities (the “5.375% Guarantors”). The 5.375% Notes and the guarantees thereof are senior unsecured obligations of Darling and the 5.375% Guarantors and rank equally in right of payment to all of Darling's and the 5.375% Guarantors' existing and future senior unsecured indebtedness. The 5.375% Indenture contains covenants limiting Darling's ability and the ability of its restricted subsidiaries to, among other things: incur additional indebtedness or issue preferred stock; pay dividends on or make distributions or repurchases of Darling's capital stock or make other restricted payments; create restrictions on the payment of dividends or other amounts from Darling's restricted subsidiaries to Darling or Darling's other restricted subsidiaries; make loans or investments; enter into certain transactions with affiliates; create liens; designate Darling's subsidiaries as unrestricted subsidiaries; and sell certain assets or merge with or into other companies or otherwise dispose of all or substantially all of Darling's assets.

Other than for extraordinary events such as change of control and defined assets sales, Darling is not required to make mandatory redemption or sinking fund payments on the 5.375% Notes. The 5.375% Notes are redeemable, in whole or in part, at any time on or after January 15, 2017 at the redemption prices specified in the 5.375% Indenture. Darling may redeem some or all of the 5.375% Notes at any time prior to January 15, 2017, at a redemption price equal to 100% of the principal amount of the 5.375% Notes redeemed, plus accrued and unpaid interest to the redemption date and an Applicable Premium as specified in the 5.375% Indenture.

4.75 % Senior Notes due 2022. On June 3, 2015, Darling Global Finance B.V. (the “4.75% Issuer”), a wholly-owned subsidiary of Darling, issued €515.0 million aggregate principal amount of the 4.75% Senior Notes due 2022 (the “4.75% Notes”) pursuant to a Senior Notes Indenture, dated as of June 3, 2015 (the “4.75% Indenture”), among the 4.75% Issuer, Darling (as guarantor), the subsidiary guarantors party thereto from time to time, Citibank, N.A., London Branch, as trustee (the “4.75% Trustee”) and principal paying agent, and Citigroup Global Markets Deutschland AG, as principal registrar. Darling used the gross proceeds from the sale of the 4.75% Notes to refinance a portion of the term loan B outstanding under Darling's Senior Secured Credit Facilities and to pay certain fees and expenses related to the offering of the 4.75% Notes and the refinancing of the term loan B. Darling intends to use any remaining proceeds for general corporate purposes.

The 4.75% Notes will mature on May 30, 2022. The 4.75% Issuer will pay interest on the 4.75% Notes on May 30 and November 30 of each year, commencing on November 30, 2015. Interest on the 4.75% Notes will accrue from June 3, 2015 at a rate of 4.75% per annum and be payable in cash. The 4.75% Notes are guaranteed on a senior unsecured basis by Darling and all of Darling's restricted subsidiaries (other than any foreign subsidiary, the 4.75% Issuer or any receivables entity) that guarantee the Senior Secured Credit Facilities (collectively “4.75% Guarantors”). The 4.75%

Notes and the guarantees thereof are senior unsecured obligations of the 4.75% Issuer and the 4.75% Guarantors and rank equally in right of payment to all of the 4.75% Issuer's and the 4.75% Guarantors' existing and future senior unsecured indebtedness. The 4.75% Indenture contains covenants limiting Darling's ability and the ability of its restricted subsidiaries (including the 4.75% Issuer) to, among other things: incur additional indebtedness or issue preferred stock; pay dividends on or make other distributions or repurchases of Darling's capital stock or make other restricted payments; create restrictions on the payment of dividends or certain other amounts from Darling's restricted subsidiaries to Darling or Darling's other restricted subsidiaries; make loans or investments; enter into certain transactions with affiliates; create liens; designate Darling's subsidiaries as unrestricted subsidiaries; and sell certain assets or merge with or into other companies or otherwise dispose of all of substantially all of Darling's assets.

Other than for extraordinary events such as change of control and defined assets sales, the 4.75% Issuer is not required to make mandatory redemption or sinking fund payments on the 4.75% Notes. The 4.75% Notes are redeemable, in whole or in part, at any time on or after May 30, 2018 at the redemption prices specified in the 4.75% Indenture. The 4.75% Issuer may redeem some or all of the 4.75% Notes at any time prior to May 30, 2018, at a redemption price equal to 100% of the principal amount of the 4.75% Notes redeemed, plus accrued and unpaid interest to the redemption date and an Applicable Premium as specified in the 4.75% Indenture and all additional amounts (if any) then due or which will become due on the redemption date as a result of the redemption or otherwise (subject to the rights of holders on the relevant record dates to receive interest due on the relevant interest payment date and additional amounts (if any) in respect thereof).

As of October 1, 2016, the Company believes it is in compliance with all of the financial covenants under the Amended Credit Agreement, as well as all of the other covenants contained in the Amended Credit Agreement, the 5.375% Indenture and the 4.75% Indenture.

(8) Income Taxes

The Company has provided income taxes for the three and nine month periods ended October 1, 2016 and October 3, 2015, based on its estimate of the effective tax rate for the entire 2016 and 2015 fiscal years. The Company's estimated annual effective tax rate is based on forecasts of income by jurisdiction, permanent differences between book and tax income, including Subpart F income and biofuel tax incentives, the relative proportion of income and losses by jurisdiction, and statutory income tax rates. Discrete events such as the assessment of the ultimate outcome of tax audits, audit settlements, recognizing previously unrecognized tax benefits due to the lapsing of statutes of limitation, recognizing or derecognizing deferred tax assets due to projections of income or loss and changes in tax laws are recognized in the period in which they occur.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company expects to indefinitely reinvest the earnings of its foreign subsidiaries outside of the United States and has generally not provided deferred income taxes on the accumulated earnings of its foreign subsidiaries.

The Company periodically assesses whether it is more likely than not that it will generate sufficient taxable income to realize its deferred income tax assets. In making this determination, the Company considers all available positive and negative evidence and makes certain assumptions. The Company considers, among other things, its deferred tax liabilities, the overall business environment, its historical earnings and losses, current industry trends and its outlook for future years. Certain VION Companies acquired as part of the VION Acquisition have deferred tax assets for tax loss carryforwards, and the Company has recorded valuation allowances in respect to those losses to the extent it has been determined that it is not more likely than not that the deferred tax assets will be realized.

Unrecognized tax benefits represent the difference between tax positions taken or expected to be taken in a tax return and the benefits recognized for financial statement purposes. As of October 1, 2016, the Company had $3.6 million of gross unrecognized tax benefits and $1.8 million of related accrued interest and penalties. An indemnity receivable of $4.7 million has been recorded for the uncertain tax positions related to the VION Acquisition. It is reasonably possible within the next twelve months that the Company's gross unrecognized tax benefits may decrease by up to $2.4 million, excluding interest and penalties, primarily due to potential settlements and expiration of certain statutes of limitations.

The Company's major taxing jurisdictions include the United States (federal and state), Canada, the Netherlands, Belgium, Brazil, Germany, France and China. The Company is subject to regular examination by various tax authorities and although the final outcome of these examinations is not yet determinable, the Company does not anticipate that any of the examinations will have a significant impact on the Company's results of operations or financial position. The statute of limitations for the Company's major tax jurisdictions is open for varying periods, but is generally closed through the 2009 tax year.

(9) Other Comprehensive Income

The Company follows FASB authoritative guidance for reporting and presentation of comprehensive income or loss and its components. Other comprehensive income (loss) is derived from adjustments that reflect pension adjustments, natural gas derivative adjustments, corn option adjustments and interest rate swap derivative adjustments. The components of other comprehensive income (loss) and the related tax impacts for the three and nine months months ended October 1, 2016 and October 3, 2015 are as follows (in thousands):

	Three Months Ended					
	Before-Tax Amount		Tax (Expense) or Benefit		Net-of-Tax Amount	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Defined benefit pension plans						
Amortization of prior service cost/(benefit)	$8	$(21)	$(2)	$9	$6	$(12)
Amortization of actuarial loss	1,168	1,286	(447)	(494)	721	792
Total defined benefit pension plans	1,176	1,265	(449)	(485)	727	780
Corn option derivatives						
Loss/(gain) reclassified to net income	(861)	(211)	334	82	(527)	(129)
Gain/(loss) activity recognized in other comprehensive income (loss)	2,060	3,254	(799)	(1,264)	1,261	1,990
Total corn option derivatives	1,199	3,043	(465)	(1,182)	734	1,861
Foreign currency translation	(5,839)	(43,295)	—	—	(5,839)	(43,295)
Other comprehensive income (loss)	$(3,464)	$(38,987)	$(914)	$(1,667)	$(4,378)	$(40,654)

	Nine Months Ended					
	Before-Tax Amount		Tax (Expense) or Benefit		Net-of-Tax Amount	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Defined benefit pension plans						
Amortization of prior service cost/(benefit)	$22	$(61)	$(7)	$29	$15	$(32)
Amortization of actuarial loss	3,502	3,855	(1,338)	(1,496)	2,164	2,359
Amortization of settlement	(123)	—	48	—	(75)	—
Total defined benefit pension plans	3,401	3,794	(1,297)	(1,467)	2,104	2,327
Corn option derivatives						
Loss/(gain) reclassified to net income	(3,204)	(792)	1,243	307	(1,961)	(485)
Gain/(loss) activity recognized in other comprehensive income (loss)	5,255	1,731	(2,039)	(672)	3,216	1,059
Total corn option derivatives	2,051	939	(796)	(365)	1,255	574
Foreign currency translation	43,684	(129,167)	—	—	43,684	(129,167)
Other Comprehensive income (loss)	$49,136	$(124,434)	$(2,093)	$(1,832)	$47,043	$(126,266)

The following table presents the amounts reclassified out of each component of other comprehensive income (loss), net of tax for the three and nine months months ended October 1, 2016 and October 3, 2015 as follows (in thousands):

	Three Months Ended October 1, 2016	Three Months Ended October 3, 2015	Nine Months Ended October 1, 2016	Nine Months Ended October 3, 2015	Statement of Operations Classification
Derivative instruments					
Corn option derivatives	$861	$ 211	$3,204	$ 792	Cost of sales and operating expenses
	861	211	3,204	792	Total before tax
	(334)	(82)	(1,243)	(307)	Income taxes
	527	129	1,961	485	Net of tax
Defined benefit pension plans					
Amortization of prior service (cost)/benefit	$(8)	$ 21	$(22)	$ 61	(a)
Amortization of actuarial loss	(1,168)	(1,286)	(3,502)	(3,855)	(a)
Amortization of settlement	—	—	123	—	(a)
	(1,176)	(1,265)	(3,401)	(3,794)	Total before tax
	449	485	1,297	1,467	Income taxes
	(727)	(780)	(2,104)	(2,327)	Net of tax
Total reclassifications	$(200)	$ (651)	$(143)	$ (1,842)	Net of tax

(a) These items are included in the computation of net periodic pension cost. See Note 11 Employee Benefit Plans for additional information.

The following table presents changes in each component of accumulated comprehensive income (loss) as of October 1, 2016 as follows (in thousands):

	Nine Months Ended October 1, 2016			
	Foreign Currency Translation	Derivative Instruments	Defined Benefit Pension Plans	Total
Accumulated Other Comprehensive Income (loss) January 2, 2016, attributable to Darling, net of tax	$(305,213)	$ 1,843	$(32,548)	$(335,918)
Other comprehensive gain before reclassifications	43,684	3,216	—	46,900
Amounts reclassified from accumulated other comprehensive income/(loss)	—	(1,961)	2,104	143
Net current-period other comprehensive income	43,684	1,255	2,104	47,043
Noncontrolling interest	(2,561)	—	—	(2,561)
Accumulated Other Comprehensive Income (loss) October 1, 2016, attributable to Darling, net of tax	(258,968)	$ 3,098	$(30,444)	$(286,314)

(10) Stockholders' Equity

In August 2015, the Company's Board of Directors approved a share repurchase program of up to an aggregate of $100.0 million of the Company's Common Stock depending on market conditions. The repurchases may be made from time to time on the open market at prevailing market prices or in negotiated transactions off the market. Repurchases may occur over the 24 month period ending in August 2017, unless extended or shortened by the Board of Directors. During the first nine months of fiscal 2016, the Company repurchased approximately $5.0 million of its Common Stock in the open market. As of October 1, 2016, the Company has approximately $89.1 million remaining under the share repurchase program approved in August 2015.

Fiscal 2015 Long-Term Incentive Opportunity Awards (2015 LTIP). The Company met the requisite performance measure under the 2015 LTIP. Accordingly, in accordance with the terms of the 2015 LTIP, the Company granted 452,878 stock options, 454,916 shares of nonvested stock and 147,390 restricted stock units in the first quarter of fiscal 2016.

Fiscal 2016 Long-Term Incentive Opportunity Awards (2016 LTIP). On February 25, 2016, the Compensation Committee (the “Committee”) of the Company's Board of Directors adopted the 2016 LTIP pursuant to which they awarded certain of the Company's key employees, including the Company's named executive officers', 1,092,942 stock options and 663,419 performance share units (the “PSUs”) under the Company's 2012 Omnibus Incentive Plan. The stock options vest 33.33% on the first, second and third anniversaries of the grant date. The PSUs are tied to two- and three-year forward-looking performance periods and will be earned based on the Company's average return on capital employed (ROCE), as calculated in accordance with the terms of the award agreement, relative to the average ROCE of the Company's performance peer group companies, with the earned award to be determined in the first quarter of fiscal 2018 or fiscal 2019, respectively, after the final results for the relevant performance period are determined. The PSUs were granted at a target of 100%, but each PSU will reduce or increase depending on the Company's ROCE relative to that of the performance peer group companies and is also subject to the application of a total shareholder return (TSR) cap/collar modifier depending on the Company's TSR during the performance period relative to that of the performance peer group companies. In addition, certain of the PSUs have a two-year holding requirement after vesting before the PSUs are settled in shares of the Company's Common Stock.

(11) Employee Benefit Plans

The Company has retirement and pension plans covering a substantial number of its domestic and foreign 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. Although various defined benefit formulas exist for employees, generally these are based on length of service and earnings patterns during employment. Effective January 1, 2012, the Company's Board of Directors authorized the Company to proceed with the restructuring of its domestic retirement benefit program to include the closing of Darling's salaried and hourly defined benefit plans to new participants as well as the freezing of service and wage accruals thereunder effective December 31, 2011 (a curtailment of these plans for financial reporting purposes) and the enhancing of benefits under the Company's domestic defined contribution plans. The Company-sponsored domestic hourly union plan has not been curtailed; however, several locations of the Company-sponsored domestic hourly union plan have been curtailed as a result of collective bargaining renewals for those sites.

In March 2016 a small pension plan acquired in the VION Acquisition was amended to terminate the plan effective in May 2016 (a curtailment of the plan for financial reporting purposes at April 2, 2016).

Net pension cost for the three and nine months months ended October 1, 2016 and October 3, 2015 includes the following components (in thousands):

	Pension Benefits Three Months Ended		Pension Benefits Nine Months Ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Service cost	$599	$ 1,633	$1,921	$ 4,978
Interest cost	1,702	2,622	5,217	7,907
Expected return on plan assets	(1,886)	(3,053)	(5,661)	(9,169)
Amortization of prior service cost/(benefit)	8	(21)	22	(61)
Amortization of net loss	1,168	1,286	3,502	3,855
Curtailment gain	(62)	—	(1,285)	—
Settlement gain	—	—	(123)	—
Net pension cost	$1,529	$ 2,467	$3,593	$ 7,510

The Company's funding policy for employee benefit pension plans is to contribute annually not less than the minimum amount required nor more than the maximum amount that can be deducted for federal and foreign income tax purposes. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. Based on actuarial estimates at October 1, 2016, the Company expects to contribute approximately $3.7 million to its pension plans to meet funding requirements during the next twelve months. Additionally, the Company has made tax deductible discretionary and required contributions to its pension plans for the nine months ended October 1, 2016 and October 3, 2015 of approximately $2.9 million and $5.0 million, respectively.

The Company participates in various multiemployer pension plans which provide defined benefits to certain employees covered by labor contracts. These plans are not administered by the Company and contributions are determined in accordance with provisions of negotiated labor contracts to meet their pension benefit obligations to their participants. The Company's contributions to each multiemployer plan represent less than 5% of the total contributions to each such plan. Based on the most currently available information, the Company has determined that, if a withdrawal were to occur, withdrawal liabilities on two of the plans in which the Company currently participates could be material to the Company, with one of these material plans certified as critical or red zone. With respect to the other multiemployer pension plans in which the Company participates and which are not individually significant, six plans have certified as critical or red zone, one plan has certified as endangered or yellow zone as defined by the Pension Protection Act of 2006.

The Company has received notices of withdrawal liability from two U.S. multiemployer plans in which it participated. As of October 1, 2016, the Company has an aggregate accrued liability of approximately $1.9 million representing the present value of scheduled withdrawal liability payments under these multiemployer plans. While the Company has no ability to calculate a possible current liability for under-funded multiemployer plans that could terminate or could require additional funding under the Pension Protection Act of 2006, the amounts could be material.

(12) 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 and foreign currency exchange rates.

The Company makes limited use of derivative instruments to manage cash flow risks related to natural gas usage, diesel fuel usage, inventory, forecasted sales and foreign currency exchange rates. The Company does not use derivative instruments for trading purposes. Natural gas swaps and options 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. Heating oil swaps and options are entered into with the intent of managing the overall cost of diesel fuel usage by reducing the potential impact of seasonal weather demands on diesel fuel that increases diesel fuel prices. Corn options and future contracts are entered into with the intent of managing U.S. forecasted sales of bakery by-products ("BBP") by reducing the impact of changing prices. Foreign currency forward contracts are entered into to mitigate the foreign exchange rate risk for transactions designated in a currency other than the local functional currency. At October 1, 2016, the Company had corn option contracts outstanding that qualified and were designated for hedge accounting as well as heating oil swap contracts, corn option and forward contracts and foreign currency forward contracts that did not qualify and were not designated for hedge accounting.

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

In fiscal 2015 and the first nine months of fiscal 2016, the Company entered into corn option contracts on the Chicago Board of Trade that are considered cash flow hedges. Under the terms of the corn option contracts, the Company hedged a portion of its U.S. forecasted sales of BBP through the fourth quarter of fiscal 2017. As of October 1, 2016, some of the contracts have settled while the remaining contract positions and activity are disclosed below. From time to time, the Company may enter into corn option contracts in the future.

As of October 1, 2016, the Company had the following outstanding forward contract amounts that were entered into to hedge the future payments of intercompany note transactions, foreign currency transactions in currencies other than the functional currency and forecasted transactions in currencies other than the functional currency. All of these transactions are currently not designated for hedge accounting (in thousands):

Functional Currency		Contract Currency	
Type	Amount	Type	Amount
Brazilian real	28,514	Euro	6,850
Brazilian real	73,423	U.S. dollar	20,125
Euro	188,728	U.S. dollar	211,779
Euro	9,825	Polish zloty	43,000
Euro	3,395	Japanese yen	385,211
Euro	33,928	Chinese renminbi	254,639
Euro	11,126	Australian dollar	16,400
Euro	117	British pound	100
Polish zloty	19,027	Euro	4,379
Japanese yen	25,835	U.S. dollar	237

The Company estimates the amount that will be reclassified from accumulated other comprehensive gain at October 1, 2016 into earnings over the next 12 months will be approximately $5.1 million. As of October 1, 2016, no amounts have been reclassified into earnings as a result of the discontinuance of cash flow hedges.

The following table presents the fair value of the Company's derivative instruments under FASB authoritative guidance as of October 1, 2016 and January 2, 2016 (in thousands):

Derivatives Designated as Hedges	Balance Sheet Location	Asset Derivatives Fair Value October 1, 2016	January 2, 2016
Corn options	Other current assets	$5,719	$ 3,215
Total asset derivatives designated as hedges		$5,719	$ 3,215
Derivatives Not Designated as Hedges			
Foreign currency contracts	Other current assets	$3,457	$ 644
Corn options and futures	Other current assets	710	599
Total asset derivatives not designated as hedges		$4,167	$ 1,243
Total asset derivatives		$9,886	$ 4,458

	Balance Sheet Location	Liability Derivatives Fair Value October 1, 2016	January 2, 2016
Derivatives Not Designated as Hedges			
Foreign currency contracts	Accrued expenses	$712	$ 4,435

Heating oil swaps and options	Accrued expenses	223	—
Corn options and futures	Accrued expenses	66	2
Total liability derivatives not designated as hedges		$1,001	$ 4,437
Total liability derivatives		$1,001	$ 4,437

The effect of the Company’s derivative instruments on the consolidated financial statements as of and for the three months ended October 1, 2016 and October 3, 2015 is as follows (in thousands):

Derivatives Designated as Cash Flow Hedges	Gain or (Loss) Recognized in Other Comprehensive Income (“OCI”) on Derivatives (Effective Portion) (a)		Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (b)		Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (c)	
	2016	2015	2016	2015	2016	2015
Corn options	$ 2,060	$ 3,254	$ 861	$ 211	$ 323	$ 1,206
Total	$ 2,060	$ 3,254	$ 861	$ 211	$ 323	$ 1,206

(a) Amount recognized in accumulated OCI (effective portion) is reported as accumulated other comprehensive income/(loss) of approximately $2.1 million and $3.3 million recorded net of taxes of approximately $(0.8) million and $(1.3) million as of October 1, 2016 and October 3, 2015, respectively.

(b) Gains and (losses) reclassified from accumulated OCI into income (effective portion) for corn options are included in cost of sales, respectively, in the Company’s consolidated statements of operations.

(c) Gains and (losses) recognized in income on derivatives (ineffective portion) for corn options are included in other income/ (expense), net in the Company’s consolidated statements of operations.

The effect of the Company’s derivative instruments on the consolidated financial statements as of and for the nine months ended October 1, 2016 and October 3, 2015 is as follows (in thousands):

Derivatives Designated as Cash Flow Hedges	Gain or (Loss) Recognized in Other Comprehensive Income (“OCI”) on Derivatives (Effective Portion) (a)		Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (b)		Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (c)	
	2016	2015	2016	2015	2016	2015
Corn options	$ 5,255	$ 1,731	$ 3,204	$ 792	$ 537	$ 479
Total	$ 5,255	$ 1,731	$ 3,204	$ 792	$ 537	$ 479

(a) Amount recognized in accumulated OCI (effective portion) is reported as accumulated other comprehensive income/(loss) of approximately $5.3 million and $1.7 million recorded net of taxes of approximately $(2.0) million and $(0.7) million as of October 1, 2016 and October 3, 2015, respectively.

(b) Gains and (losses) reclassified from accumulated OCI into income (effective portion) for corn options are included in cost of sales, respectively, in the Company’s consolidated statements of operations.

(c) Gains and (losses) recognized in income on derivatives (ineffective portion) for corn options are included in other income/ (expense), net in the Company’s consolidated statements of operations.

The table below summarizes the effect of derivatives not designated as hedges on the Company's consolidated statements of operations for the three and nine months months ended October 1, 2016 and October 3, 2015 (in thousands):

Derivatives not designated as hedging instruments	Location	Loss or (Gain) Recognized in Income on Derivatives Not Designated as Hedges Three Months Ended October 1, 2016	October 3, 2015	Nine Months Ended October 1, 2016	October 3, 2015
Foreign Exchange	Foreign currency loss/(gain)	$1,871	$2,003	$5,954	$(19,404)
Foreign Exchange	Selling, general and administrative expense	(786)	4,112	(7,565)	7,103
Corn options and futures	Net sales	267	(95)	612	(25)
Corn options and futures	Cost of sales and operating expenses	(997)	(1,516)	(1,610)	(1,138)
Heating Oil swaps and options	Net sales	323	—	476	—
Heating Oil swaps and options	Cost of sales and operating expenses	—	11	—	141
Soybean Meal	Net sales	—	—	7	—
Total		$678	$4,515	$(2,126)	$(13,323)

At October 1, 2016, the Company had forward purchase agreements in place for purchases of approximately $7.7 million of natural gas and diesel fuel. These forward purchase agreements have no net settlement provisions and the Company intends to take physical delivery of the underlying product. Accordingly, the forward purchase agreements are not subject to the requirements of fair value accounting because they qualify and the Company has elected to account for these as normal purchases as defined in the FASB authoritative guidance.

(13) Fair Value Measurements

FASB authoritative guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The following table presents the Company’s financial instruments that are measured at fair value on a recurring and nonrecurring basis as of October 1, 2016