FULTON FINANCIAL CORP
Form DEF 14A
March 10, 2005

FULTON FINANCIAL

CORPORATION

P.O. Box 4887
One Penn Square
Lancaster, Pennsylvania 17604

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD APRIL 13, 2005

TO THE SHAREHOLDERS OF FULTON FINANCIAL CORPORATION:

NOTICE IS HEREBY GIVEN that, pursuant to the call of its directors, the regular Annual Meeting of the shareholders of FULTON FINANCIAL CORPORATION will be held on Wednesday, April 13, 2005, at 12:00 noon, at the Hershey Lodge and Convention Center, West Chocolate Avenue and University Drive, Hershey, Pennsylvania, for the purpose of considering and voting upon the following matters:

1. ELECTION OF DIRECTORS. To elect seven directors for the terms specified.

2. AMENDMENT OF THE ARTICLES OF INCORPORATION. To approve a proposal adopted by the Board of Directors to amend the Articles of Incorporation for the purpose of increasing the number of authorized shares of common stock from 400 million shares to 600 million shares.

3. OTHER BUSINESS. To consider such other business as may properly be brought before the meeting and any adjournments thereof.

Only those shareholders of record at the close of business on February 24, 2005 shall be entitled to be given notice of, and to vote at, the meeting.

It is requested that you promptly execute the enclosed Proxy and return it in the enclosed postpaid envelope. Alternatively, you may vote by telephone or electronically through the Internet by following the instructions on the proxy card. You are cordially invited to attend the meeting. Your Proxy is revocable and may be withdrawn at any time before it is voted at the meeting.

A copy of the Annual Report of Fulton Financial Corporation is enclosed.

BY ORDER OF THE BOARD OF DIRECTORS
GEORGE R. BARR, JR.
Secretary

Enclosures
March 10, 2005

PROXY STATEMENT

Dated and To Be Mailed on or about: March 10, 2005

FULTON FINANCIAL

CORPORATION

P.O. Box 4887, One Penn Square
Lancaster, Pennsylvania 17604
(717) 291 2411

ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 13, 2005

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GENERAL

Introduction

Fulton Financial Corporation, a Pennsylvania business corporation and registered financial holding company, was organized pursuant to a plan of reorganization adopted by Fulton Bank and implemented on June 30, 1982. On that date, Fulton Bank became a wholly owned subsidiary of Fulton Financial Corporation and the shareholders of Fulton Bank became shareholders of Fulton Financial Corporation. Since that time, Fulton Financial Corporation has acquired other banks and currently owns the following subsidiary banks: Fulton Bank, Delaware National Bank, Lebanon Valley Farmers Bank, FNB Bank, N.A., Hagerstown Trust Company, Lafayette Ambassador Bank, Swineford National Bank, The Bank, The Peoples Bank of Elkton, Skylands Community Bank, Premier Bank, Resource Bank and First Washington State Bank. In addition, Fulton Financial Corporation has the following direct, non-banking subsidiaries: Fulton Financial Realty Company (which owns or leases certain properties on which certain branch and operational facilities are located), Fulton Reinsurance Company, Ltd. (which reinsures credit life, health and accident insurance that is directly related to extensions of credit by subsidiary banks of Fulton Financial Corporation), Central Pennsylvania Financial Corp. (which owns, directly or indirectly, certain limited partnership interests, principally in low-moderate income and elderly housing projects), FFC Management, Inc. (which holds certain investment securities and corporate owned life insurance policies), Fulton Financial Advisors, National Association (which offers fiduciary and investment services), Fulton Insurance Services Group, Inc. (which operates an insurance agency selling life insurance and related insurance products), FFC Penn Square, Inc. (a holder of trust preferred securities), PBI Capital Trust, Premier Capital Trust II, Resource Capital Trust II and Resource Capital Trust III (issuers of trust preferred securities) and Virginia Financial Services, LLC (management consulting services).

On January 11, 2005, Fulton Financial Corporation entered into a definitive agreement to acquire SVB Financial Services, Inc. (SVB), of Somerville, New Jersey. SVB is a $475 million bank holding company whose primary subsidiary is Somerset Valley Bank, which operates eleven community-banking offices in Somerset, Hunterdon and Middlesex Counties, New Jersey.

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Under the terms of the merger agreement, the conversion of each outstanding share of SVB's common stock will be exchanged into either .9519 shares of the Corporation's common stock; $21.00 in cash (the "Cash Consideration"); or a combination of the Common Stock and the Cash Consideration. At a minimum, 20%, and, at a maximum, 40%, of SVB's outstanding shares will receive the Cash Consideration. In addition, each outstanding option will be exchanged at the option holder's election into Common Stock, the number and exercise price of which shall be based on the Conversion Ratio, or cash equal to the number of shares subject to the option, times the difference between $21.00 and the exercise price of the option. A minimum of 20%, and a maximum of 40%, of SVB's outstanding options will receive the Cash Consideration.

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As a result of the acquisition, SVB will merge into Fulton Financial Corporation and Somerset Valley Bank will become a wholly owned subsidiary of Fulton Financial Corporation. The acquisition is expected to be completed in the third quarter of 2005.

The meeting to which this Proxy Statement relates will be the twenty-third Annual Meeting of the shareholders of Fulton Financial Corporation.

Date, Time and Place of Meeting

The regular Annual Meeting of the shareholders of Fulton Financial Corporation will be held on Wednesday, April 13, 2005, at 12:00 noon, at the Hershey Lodge and Convention Center, West Chocolate Avenue and University Drive, Hershey, Pennsylvania.

Shareholders Entitled to Vote

Only those shareholders of record at the close of business on February 24, 2005 shall be entitled to receive notice of, and to vote at, the meeting.

Purpose of Meeting

The shareholders will be asked to consider and vote upon the following matters at the meeting: (i) to elect seven directors for the terms specified herein; (ii) to approve a proposal adopted by the Board of Directors to amend the Articles of Incorporation for the purpose of increasing the number of authorized shares of common stock from 400 million shares to 600 million shares; and (iii) to consider and vote upon such other business as may be properly brought before the meeting and any adjournment thereof.

Solicitation of Proxies

This Proxy Statement is furnished in connection with the solicitation of proxies, in the accompanying form, by the Board of Directors of Fulton Financial Corporation for use at the Annual Meeting of shareholders to be held at 12:00 noon on Wednesday, April 13, 2005, and any adjournments thereof.

The expense of soliciting proxies will be borne by Fulton Financial Corporation. The Corporation has retained Georgeson Shareholder Communications Inc., 17 State Street, New York, New York 10004, to aid in the solicitation. For these services, Fulton Financial Corporation will pay Georgeson a fee of $8,500 and reimburse it for certain out-of-pocket disbursements and expenses. In addition to the use of the mails and the proxy solicitor, directors, officers and employees of Fulton Financial Corporation and its subsidiaries may, without additional compensation, solicit proxies personally or by telephone.

Revocability and Voting of Proxies

The execution and return of the enclosed proxy will not affect a shareholder's right to attend the meeting and to vote in person. A shareholder may revoke any proxy given pursuant to this solicitation by delivering written notice of revocation to George R. Barr, Jr., Secretary of Fulton Financial Corporation, at any time before the proxy is voted at the meeting. Unless revoked, any proxy given pursuant to this solicitation will be voted at the meeting in accordance with the instructions thereon of the shareholder giving the proxy. In the absence of instructions, all proxies will be voted FOR the election of the seven nominees identified in this Proxy Statement and FOR the approval to amend the Articles of Incorporation. Although the Board of Directors knows of no other business to be presented, in the event that any other matters are properly brought before the meeting, any proxy given pursuant to this solicitation will be voted in accordance with the recommendations of the Board of Directors of Fulton Financial Corporation.

Shares held for the account of shareholders who participate in the Dividend Reinvestment and Stock Purchase Plan and for the account of employees who participate in the Employee Stock Purchase Plan will be voted in accordance with the instructions of each shareholder as set forth in his or her proxy. If a shareholder who participates in these plans does not return a proxy, the shares held for the shareholder's account by the Plan Agent will not be voted.

Shares held for the account of employees of Fulton Financial Corporation and its subsidiaries who participate in the Fulton Financial Stock Fund of the Fulton Financial Corporation Profit Sharing Plan and Affiliate 401(k) Savings Plan will be voted by the Plan Trustee (Fulton Financial Advisors, National Association) in accordance with the instructions of each participant as set forth in the separate voting instruction card sent to the participant with respect to such shares. To allow sufficient time for the Plan Trustee to vote, participants' voting instructions must be received by April 8, 2005. Shares held under the Fulton Financial Stock Fund with respect to which no voting instructions are received by April 8, 2005, will be voted by the Plan Trustee FOR the election of the seven nominees identified in the Proxy Statement and FOR the approval to amend the Articles of Incorporation.

Voting of Shares and Principal Holders Thereof

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At the close of business on February 24, 2005, which is the record date for determination of shareholders entitled to receive notice of, and to vote at, the meeting and any adjournment thereof, Fulton Financial Corporation had outstanding 125,966,286 shares of common stock. There is no other class of stock outstanding. As of the record date,2,903,345 shares of Fulton Financial Corporation common stock were held by Fulton Financial Advisors, National Association, a subsidiary of Fulton Financial Corporation, as sole fiduciary. The shares held by Fulton Financial Advisors, National Association as sole fiduciary represent in the aggregate approximately 2.30 percent of the total shares outstanding and will be voted FOR the election of the seven nominees identified in this Proxy Statement and FOR the approval to amend the Articles of Incorporation.
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A majority of the outstanding common stock present in person or by proxy constitutes a quorum for the conduct of business. The judge of election will treat shares of Fulton Financial Corporation common stock represented by a properly signed and returned proxy as present at the Annual Meeting for purposes of determining a quorum, without regard to whether the proxy is marked as casting a vote or abstaining. Likewise, the judge of election will treat shares of common stock represented by "broker non-votes" (i.e., shares of common stock held in record name by brokers or nominees as to which (i) instructions have not been received from the beneficial owners or persons entitled to vote, (ii) the broker or nominee does not have discretionary voting power under applicable rules of the National Association of Securities Dealers, Inc. or the instrument under which it serves in such capacity, and (iii) the record holder has indicated on the proxy or otherwise notified Fulton Financial Corporation that it does not have authority to vote such shares on that matter) as present for purposes of determining a quorum.

Each share is entitled to one vote on all matters submitted to a vote of the shareholders. A majority of the votes cast at a meeting at which a quorum is present is required in order to approve any matter submitted to a vote of the shareholders, except in cases where the vote of a greater number of shares is required by law or under the Articles of Incorporation or Bylaws.

In the case of the election of directors, the seven candidates receiving the highest number of votes cast at the Annual Meeting shall be elected to the Board of Directors. Abstentions and broker non-votes will be counted as shares that are present at the meeting, but will not be counted as votes cast on the election of directors.

Under the Articles of Incorporation, the affirmative vote of 66-2/3 percent of the outstanding shares entitled to vote is required to approve the proposal to amend the Articles of Incorporation for the purpose of increasing the number of authorized shares of common stock from 400 million shares to 600 million shares.

To the knowledge of Fulton Financial Corporation, no person owned of record or beneficially on the record date more than five percent of the outstanding common stock of Fulton Financial Corporation.

Recommendation of the Board of Directors

The Board of Directors recommends that the shareholders vote FOR the election of the seven nominees identified in this Proxy Statement and FOR the approval to amend the Articles of Incorporation.

Shareholder Proposals

Shareholder proposals intended to be presented at the 2006 Annual Meeting must be received at the executive offices of Fulton Financial Corporation at One Penn Square, Lancaster, Pennsylvania not later than November 10, 2005, in order to be included in the proxy statement and proxy form to be prepared by Fulton Financial Corporation in connection with the 2006 Annual Meeting. A shareholder may not submit more than one proposal, and the proposal, including any accompanying supporting statement, may not exceed 500 words.

In order to be eligible to submit a proposal, a shareholder must have continuously held at least $2,000 in market value of Fulton Financial Corporation common stock for at least one year before the date the proposal is submitted. The shareholder must continue to hold that stock through the date of the 2006 Annual Meeting.

Any shareholder submitting a shareholder proposal to Fulton Financial Corporation must also provide Fulton Financial Corporation with a written statement verifying ownership of stock and confirming the shareholder's intention to continue to hold the stock through the date of the 2006 Annual Meeting. The shareholder, or a qualified representative, must attend the 2006 Annual Meeting to present the proposal.

Contacting the Board of Directors

Any shareholder of Fulton Financial Corporation who desires to contact the Board of Directors may do so by writing to: Board of Directors, Fulton Financial Corporation, P.O. Box 4887, One Penn Square, Lancaster, PA 17604. These written communications will be provided to the Chair of the Executive Committee of the Board of Directors who will determine further distribution based on the nature of the information in the communication. For example, communications concerning accounting, internal accounting controls or auditing matters will be shared with the Chair of the Audit Committee of the Board of Directors.

Code of Conduct

Fulton Financial Corporation has had a Code of Conduct ("Code") for two decades that governs the conduct of its directors, officers and employees. The Code was revised last year to comply with the requirements of the Sarbanes-Oxley Act of 2002 and NASDAQ listing standards, and Fulton Financial Corporation provides the Code to each director, officer and employee. A copy of the Code of Conduct can be obtained, without cost, by writing to the Corporate Secretary at: Fulton Financial Corporation, P.O. Box 4887, One Penn Square, Lancaster, PA 17604.

SELECTION OF DIRECTORS

General Information

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The Bylaws of Fulton Financial Corporation provide that the Board of Directors shall consist of not less than two nor more than thirty-five persons and that the directors shall be classified with respect to the time they shall severally hold office by dividing them into three classes, each consisting as nearly as possible of one-third of the number of the whole Board of Directors. The Bylaws further provide that the directors of each class shall be elected for a term of three years, so that the term of office of one class of directors shall expire at the Annual Meeting each year. The Bylaws provide that the Board of Directors shall determine the number of directors in each class of directors.

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A majority of the Board of Directors may increase the number of directors between meetings of the shareholders. Any vacancy occurring in the Board of Directors, whether due to an increase in the number of directors, resignation, retirement, death or any other reason, may be filled by appointment by the remaining directors. Any director who is appointed to fill a vacancy shall hold office until the next Annual Meeting of the shareholders and until a successor is elected and shall have qualified. There is a mandatory retirement provision in the Bylaws, which states that the office of a director shall be considered vacant at the Annual Meeting of shareholders next following the director's attaining the age of 70 years.

Procedure for Shareholder Nominations

Section 3 of Article II of the Bylaws of Fulton Financial Corporation requires that nominations, other than those made by or on behalf of the existing management of Fulton Financial Corporation, must be made in writing and must be delivered or mailed to the Chief Executive Officer of Fulton Financial Corporation not less than 14 days nor more than 50 days prior to the date of the Annual Meeting; provided, however, that if less than 21 days' notice of the meeting is given to the shareholders, such nominations must be mailed or delivered to the Chief Executive Officer of Fulton Financial Corporation not later than the close of business on the sixth day following the day on which notice of the meeting was mailed. The required notice must set forth the name, age, residence address and principal occupation of each nominee. The chairman of the meeting is required to determine whether nominations have been made in accordance with the requirements of the Bylaws and, if he determines that a nomination is defective, the nomination and any votes cast for the nominee shall be disregarded.

Director Qualifications

In considering individuals nominated for board membership, the Board of Directors considers a variety of factors, including whether the candidate is recommended by executive management; the individual's professional and personal qualifications, including business experience, education and community and charitable activities; and the individual's familiarity with the communities in which Fulton Financial Corporation is located or is seeking to locate. In 2004, the Board of Directors formed a nominating committee of the Board, whose members are independent and are responsible for recommending director nominees to the independent members of the Board of Directors. The charter for the nominating committee is available on Fulton Financial Corporation's web site: www.fult.com.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

General Information

The Board of Directors has fixed the number of directors at eighteen[1]. There are eleven continuing directors whose terms of office will expire at either the 2006 Annual Meeting or the 2007 Annual Meeting. The Board of Directors has nominated the following persons for election to the Board of Directors for the terms specified below:

For a Term of Two Years - Class of 2007

Thomas W. Hunt

For a Term of Three Years - Class of 2008

Patrick J. Freer	Abraham S. Opatut
Carolyn R. Holleran	Mary Ann Russell

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Donald W. Lesher, Jr. Gary A. Stewart

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Each of the above nominees is presently a director of Fulton Financial Corporation. The independent directors of the Board at a regular board meeting on January 18, 2005, unanimously approved their nomination. In addition, with the exception of Directors Holleran, Russell and Stewart, each nominee currently serves on one bank subsidiary board of directors and will continue to serve on such board as follows: Director Hunt - Resource Bank; Director Freer - Lebanon Valley Farmers Bank; Director Lesher - Lebanon Valley Farmers Bank; and Director Opatut - First Washington State Bank. **The Board of Directors recommends that the shareholders vote FOR the election of the seven nominees listed above.**

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In the Agreement and Plan of Merger with SVB, Fulton Financial Corporation has agreed following the closing to add one director to its board from SVB's current board. That action will likely occur in the third quarter of 2005 and will increase board membership to nineteen.

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In the event that any of the foregoing nominees is unable to accept nomination or election, any proxy given pursuant to this solicitation will be voted in favor of such other persons as the Board of Directors of Fulton Financial Corporation may recommend. However, the Board of Directors has no reason to believe that any of its nominees will be unable to accept nomination or to serve as a director if elected.

Information about Nominees and Continuing Directors

Information concerning the seven persons nominated by the Board for election to the Board of Directors of Fulton Financial Corporation at the 2005 Annual Meeting and concerning the eleven continuing directors is set forth below, including whether they were determined by the Board of Directors to be independent for purposes of the NASDAQ listing standards approved by the Securities and Exchange Commission ("SEC") on November 4, 2003. For some directors, years of service as a director include service as a director of Fulton Bank prior to the formation of Fulton Financial Corporation.

NOMINEES

CLASS OF 2007

(Two-Year Term)

THOMAS W. HUNT, (Independent) age 49. Vice President, Summit Enterprises, Inc. (investment management company). Director since 2004.

NOMINEES

CLASS OF 2008

(Three-Year Term)

PATRICK J. FREER, (Independent) age 55. President, Strickler Insurance Agency, Inc. (insurance broker). Director since 1996.

CAROLYN R. HOLLERAN, (Independent) age 66. Retired Partner, Jerlyn Associates (real estate investments). Director since 1994.

DONALD W. LESHER, JR., (Independent) age 60. Retired President, Lesher Mack Sales and Service (truck dealership). Director since 1998.

ABRAHAM S. OPATUT, age 58. President, Colonial Marketing Associates (wholesale foods). Director since 2005.

MARY ANN RUSSELL, (Independent) age 69. Retired President and Chief Executive Officer, Maple Farm, Inc. (provider of health care services). Director since 1991.

GARY A. STEWART, (Independent) age 57. Partner, Stewart Associates (real estate developer). Director since 2001.

CONTINUING DIRECTORS

CLASS OF 2006

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JEFFREY G. ALBERTSON, (Independent) age 64. Attorney, Albertson Ward (law firm). Director since 1996.

CRAIG A. DALLY, (Independent) age 48. Attorney, Pierce & Dally, LLP (law firm). Director since 2000. Mr. Dally is a member of the Pennsylvania House of Representatives, serving District 138.

RUFUS A. FULTON, JR., age 64. Chairman of the Board and Chief Executive Officer, Fulton Financial Corporation. Director since 1984. Mr. Fulton also serves as a director of Burnham Holdings, Inc.

EUGENE H. GARDNER, (Independent) age 69. President, Gardner, Russo & Gardner (investment advisor). Director since 1981.

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CLYDE W. HORST, (Independent) age 66. President, Horst Hotels Co. (hotel operations). Director since 1978.
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R. SCOTT SMITH, JR., age 58. President and Chief Operating Officer, Fulton Financial Corporation. Director since 2001.

CLASS OF 2007

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DONALD M. BOWMAN, JR., (Independent) age 66. Partner, Bowman Group (trucking and real estate business). Director since 1994.

CLARK S. FRAME, age 54. Chairman, Premier Bank (banking). Director since 2003.

GEORGE W. HODGES, (Independent) age 54. President, The Wolf Organization, Inc. (distributors of lumber and building supplies). Director since 2001. Mr. Hodges also serves as a director of York Water Company, which is subject to the periodic reporting requirements of Section 15(d) of the Securities Exchange Act of 1934.

JOSEPH J. MOWAD, M.D., (Independent) age 69. Director of Urology, Geisinger Medical Center (urologist). Director since 1999.

JOHN O. SHIRK, (Independent) age 61. Attorney, Barley Snyder LLC (law firm). Director since 1983.

Security Ownership of Directors, Nominees and Management

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The following table sets forth the number of shares of common stock beneficially owned as of February 24, 2005, by each director, nominee for director and executive officer named in the Summary Compensation Table under "Executive Officer Compensation" below. Unless otherwise indicated in a footnote, shares shown as beneficially owned by each nominee, continuing director or executive officer are held either (i) individually by the person indicated, (ii) individually by the person's spouse or children living in the same household, (iii) jointly with the person's spouse or children living in the same household, or (iv) in the name of a bank, broker or nominee for the account of the person or the person's spouse. None of these individuals owns more than one percent of the Corporation's common stock. The directors, nominees and executive officers of the Corporation as a group, owned of record and beneficially 3,779,792[1] shares of Fulton Financial Corporation common stock, representing 3% percent of such shares then outstanding.
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Beneficial Owner	Title	Number of Common Shares Beneficially Owned
Jeffrey G. Albertson	Director	181,164[2]
Richard J. Ashby, Jr.	Executive Vice President	282,531[3]
Donald M. Bowman, Jr.	Director	487,561[4]
Craig A. Dally	Director	122,062[5]
Clark S. Frame	Director	259,771[6]
Patrick J. Freer	Nominee for Director	54,011[7]
Rufus A. Fulton, Jr.	Director and Chairman and Chief Executive Officer	419,357[8]
Eugene H. Gardner	Director	40,350
George W. Hodges	Director	24,815[9]

Carolyn R. Holleran	Nominee for Director	28,436
Clyde W. Horst	Director	80,951[(10)]
Thomas W. Hunt	Nominee for Director	323,383[(11)]
Donald W. Lesher, Jr.	Nominee for Director	114,753[(12)]
Joseph J. Mowad	Director	46,476[(13)]
Charles J. Nugent	Senior Executive Vice President and Chief Financial Officer	312,460[(14)]
Abraham S. Opatut	Nominee for Director	277,516[(15)]
Mary Ann Russell	Nominee for Director	45,327
John O. Shirk	Director	39,978[(16)]
R. Scott Smith, Jr.	Director and President and Chief Operating Officer	375,461[(17)]
Gary A. Stewart	Nominee for Director	263,429[(18)]

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Footnotes

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(1) Includes 984,577 shares issuable upon the exercise of vested stock options which have been treated as outstanding shares for purposes of calculating the percentage of outstanding shares owned by directors and executive officers as a group.
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(2) Includes 8,814 shares held by his spouse and 476 shares held by his child. Also, includes 14,526 shares held in the Albertson Ward Profit Sharing Plan. Mr. Albertson disclaims beneficial ownership of any of the shares held in the Albertson Ward Profit Sharing Plan beyond his pro rata vested interest as a participant in such Plan.

(3) Includes 6,552 shares held in the Corporation's Profit Sharing Plan and 196,815 shares which may be acquired pursuant to the exercise of stock options. Also includes 34,745 shares held by his spouse.

(4) Includes 28,381 shares held by his spouse and 94,638 shares held by Bowman Sales & Equipment, Inc.

(5) Includes 12,730 shares held as custodian for his children.

(6) Includes 24,762 shares held as custodian for his children. Also includes 46,068 shares held in trust. Mr. Frame disclaims any beneficial ownership of the 46,068 shares held in trust.

(7) Includes 184 shares owned by his spouse. Also includes 36,815 shares held by Strickler Insurance Agency, Inc. Mr. Freer disclaims beneficial ownership of any of these shares beyond his pro rata interest in the company.

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(8) Includes 6,272 shares held by his spouse. Mr. Fulton disclaims any beneficial ownership in 6,272 shares held by

his spouse. Includes 40,684 shares held in the Corporation's Profit Sharing Plan and 140,837 shares which may be acquired pursuant to the exercise of stock options.
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(9) Includes 17,605 shares owned by his spouse and 6,173 shares which may be acquired pursuant to the exercise of stock options.

(10) Includes 33,865 shares held by his spouse.

(11) Includes 162,923 shares owned by his spouse. Also includes 89,190 shares held by his children and 37,654 shares which may be acquired pursuant to the exercise of stock options.

(12) Includes 4,134 shares held by his spouse.

(13) Includes 40,673 shares held by his spouse.

(14) Includes 29,558 shares held by his spouse. Also includes 18,506 shares held in the Corporation's Profit Sharing Plan and 254,489 shares which may be acquired pursuant to the exercise of stock options.

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(15) Includes 5,211 shares owned by his spouse. Also includes 30,620 shares owned by a partnership of which Mr. Opatut is a partner; 12,102 shares owned by a limited liability company of which Mr. Opatut is a managing member; and 78,008 shares which may be acquired pursuant to the exercise of stock options.
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(16) Includes 13,053 shares owned by his spouse and 2,517 shares held as custodian for a child. Also includes 2,481 shares held in a trust.

(17) Includes 995 shares held by his children. Also includes 13,507 shares held in the Corporation's Profit Sharing Plan and 270,601 shares which may be acquired pursuant to the exercise of stock options.

(18) Includes 68,294 shares held in a grantor retained annuity trust and 68,025 shares held in the Stewart Foundation. Mr. Stewart disclaims beneficial ownership of any of these shares beyond his pro rata interest in the Foundation.

Vote Required for Proposal No. 1

The seven candidates receiving the highest number of votes cast at the Annual Meeting shall be elected to the Board of Directors. Abstentions and broker non-votes will be counted as shares that are present at the meeting, but will not be counted as votes cast on the election of directors.

PROPOSAL NO. 2

APPROVAL OF AMENDMENT OF THE ARTICLES OF INCORPORATION

General Information

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The Articles of Incorporation of Fulton Financial Corporation, as presently in effect, provide that the authorized capital of Fulton Financial Corporation shall consist exclusively of 400 million shares of common stock, par value $2.50 per share, and 10 million shares of preferred stock without par value. As of February 24, 2005, there were 134,241,577 shares of common stock outstanding, which shares were held by 19,849 owners of record. In addition, as

of that date, 17,768,378 shares of common stock were reserved for issuance pursuant to stock option plans, 376,863 shares were reserved for issuance pursuant to the Dividend Reinvestment and Stock Purchase Plan, 155,972,636 shares were reserved for issuance pursuant to the Shareholder Rights Plan adopted on June 20, 1989 and amended and restated April 27, 1999, and 3,585,818 shares have been reserved for issuance in connection with the acquisition of SVB Financial Services, Inc. Thus, 88,054,728 shares of common stock are currently available for future financing, acquisitions and other corporate purposes. (For each additional share issued, one share must be reserved for issuance pursuant to the Shareholders Rights Plan; therefore only 44,027,364 shares remain available for discretionary issuance.) No shares of preferred stock have been issued by Fulton Financial Corporation.
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On January 18, 2005, the Board of Directors adopted a proposal to amend Article 5 of the Articles of Incorporation of Fulton Financial Corporation for the purpose of increasing the number of authorized shares of common stock from 400 million to 600 million shares. Under the proposed amendment, no change would be made in the number of authorized shares of preferred stock. The Board of Directors believes that it is desirable to have additional authorized shares of common stock available for issuance for the purpose of raising additional capital and for use in connection with stock dividends, stock splits, acquisitions, issuance pursuant to the Dividend Reinvestment and Stock Purchase Plan and employee benefit plans and other general corporate purposes. Having additional authorized shares of common stock available for issuance in the future would provide Fulton Financial Corporation with greater flexibility in pursuing such corporate purposes and would allow additional shares to be issued without the expense and delay of further amendments to the Articles of Incorporation, which would require shareholder approval at an annual or special shareholders meeting. Having this flexibility has supported Fulton Financial Corporation's history of declaring stock splits or dividends and has been a key element of Fulton Financial Corporation's successful acquisition strategy that has resulted in 23 acquisitions since 1982. These acquisitions have been a significant contributing factor to the Corporation's growth and earnings over the years. The rules of the NASDAQ National Market System, on which Fulton Financial Corporation common stock trades, and the Pennsylvania Business Corporation Law, may, however, require shareholder approval before additional shares could be issued under certain circumstances.

The additional shares of Fulton Financial Corporation common stock for which authorization is sought would be part of the existing class of common stock and, if and when issued, would have the same rights and privileges as the shares of common stock presently outstanding. The holders of Fulton Financial Corporation common stock do not have preemptive rights in connection with the issuance of additional shares of common stock.

If approved by the shareholders, the proposed amendment will become effective upon the filing of Articles of Amendment with the Secretary of State of the Commonwealth of Pennsylvania.

The proposed amendment to increase the number of authorized shares of common stock is not proposed to discourage a takeover or change in control of Fulton Financial Corporation. Nevertheless, in certain instances, a proposal to increase the amount of authorized stock may have an anti-takeover effect. In the event that a hostile takeover of Fulton Financial Corporation is threatened, the Board of Directors could issue shares of common stock or preferred stock to dilute the stock ownership of persons seeking to obtain control of the company.

The Board of Directors believes that its proposal to amend the Articles of Incorporation for the purpose of increasing the number of authorized shares of common stock is in the best interests of Fulton Financial Corporation and its shareholders. **The Board of Directors recommends that the shareholders vote FOR the approval of the amendment of the Articles of Incorporation.**

Vote Required For Proposal No. 2

Under the Articles of Incorporation of Fulton Financial Corporation, the affirmative vote of 66-2/3 percent of the outstanding shares entitled to vote is required in order to approve the proposed amendment.

Abstentions and broker non-votes will be counted as shares that are present at the meeting, but will not be counted as a vote cast on approval of the amendment. Therefore, an abstention or broker non-vote has the effect of a vote against approval of the amendment.

INFORMATION CONCERNING EXECUTIVE OFFICERS

Executive Officers

The following persons are the executive officers of Fulton Financial Corporation:

Name	Age	Office Held and Term of Office
Rufus A. Fulton, Jr.	64	Chairman of the Board and Chief Executive Officer of Fulton Financial Corporation since January 1999; previously President and Chief Executive Officer of Fulton Financial Corporation. Member of Senior Management of Fulton Financial Corporation.
R. Scott Smith, Jr.	58	President and Chief Operating Officer of Fulton Financial Corporation since January 2001; previously Executive Vice President of Fulton Financial Corporation and Chairman, President and Chief Executive Officer of Fulton Bank. Member of Senior Management of Fulton Financial Corporation.
Charles J. Nugent	56	Senior Executive Vice President and Chief Financial Officer of Fulton Financial Corporation since January 2001; previously Executive Vice President and Chief Financial Officer of Fulton Financial Corporation. Member of Senior Management of Fulton Financial Corporation.
Richard J. Ashby, Jr.	60	Executive Vice President of Fulton Financial Corporation and since January 2002, Chairman and Chief Executive Officer of Fulton Bank; previously Chairman, President and Chief Executive Officer of Fulton Bank; President and Chief Operating Officer of Fulton Bank; and Chairman of the Board, President and Chief Executive Officer of Lafayette Ambassador Bank. Member of Senior Management of Fulton Financial Corporation and Fulton Bank.

Executive Compensation

The following summary compensation table shows all compensation paid by Fulton Financial Corporation for services rendered during the past three fiscal years by the Chief Executive Officer and each of the most highly compensated named executive officers whose total annual salary and bonus exceeded $100,000 in 2004.

SUMMARY COMPENSATION TABLE

	Annual Compensation	Long-term Compensation

Name and Principal Position	Year	Salary	Bonus	Options	All Other Compensation*
Rufus A. Fulton, Jr.,	2004	$818,518.74	$ 31,481.49	65,000	$122,777.81
Chairman of the Board and Chief Executive Officer	2003	$777,777.78	$ 28,703.70	36,000	$116,666.60
	2002	$688,518.30	$ 26,481.48	34,500	$103,277.78
R. Scott Smith, Jr., President and Chief Operating Officer	2004	$495,926.08	$19,074.08	55,000	$ 74,388.91
	2003	$466,851.78	$17,222.22	30,000	$ 70,027.02
	2002	$404,444.44	$15,555.56	28,700	$ 60,666.67
Charles J. Nugent,	2004	$390,000.00	$15,000.00	48,000	$ 58,500.00
Senior Executive Vice President and Chief Financial Officer	2003	$376,111.11	$13,888.89	26,000	$ 56,416.67
	2002	$337,037.04	$12,962.96	24,700	$ 50,555.56
Richard J. Ashby, Jr.	2004	$346,666.85**	$13,333.33	40,000	$ 52,000.03
Executive Vice President	2003	$335,925.92**	$12,407.41	22,000	$ 50,388.89
	2002	$298,962.96**	$11,037.04	20,550	$ 43,044.44

* Amounts accrued under the Fulton Financial Corporation Profit Sharing Plan for the account of each named executive officer.

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** Includes amounts, the receipt of which has been deferred pursuant to the Fulton Financial Corporation Deferred Compensation Plan.

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STOCK OPTION GRANTS IN FISCAL YEAR 2004

Name	Options Granted	% of Total Options Granted to Employees	Exercise or Base Price Per Share	Expiration Date	Potential Realized Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%	10%
Rufus A. Fulton, Jr.	65,000	6.23%	$20.185	June 30, 2014	$825,125.47	$2,091,029.95
R. Scott Smith, Jr.	55,000	5.27%	$20.185	June 30, 2014	$698,183.09	$1,769,333.04
Charles J. Nugent	48,000	4.60%	$20.185	June 30, 2014	$609,323.43	$1,544,145.19
Richard J. Ashby, Jr.	40,000	3.83%	$20.185	June 30, 2014	$507,769.52	$1,286,787.66

AGGREGATED STOCK OPTION EXERCISES IN FISCAL YEAR 2004
AND FISCAL YEAR END OPTION VALUES

Name	Shares Acquired on Exercise*	Value Realized	Number of Unexercised Options at Fiscal Year End**	Value of Unexercised In-the-Money Options at Fiscal Year End*
	122,355	$947,768.59	192,894	$1,036,433.53

Rufus A. Fulton, Jr.				
R. Scott Smith, Jr.	34,791	$448,695.69	270,601	$2,050,916.53
Charles J. Nugent	18,757	$237,859.16	254,489	$2,054,023.13
Richard J. Ashby, Jr.	19,922	$258,850.87	208,852	$1,657,298.90

* Restated to reflect a 5% stock dividend paid on June 4, 2004.

** All options are currently exercisable.

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EQUITY COMPENSATION PLAN INFORMATION[(1)]

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders[(2)]	5,272,691	$13.43	12,811,200
Equity compensation plans not approved by security holders	0	0	0
Total	5,272,691	$13.43	12,811,200

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(1) As of December 31, 2004.

(2) The plans are Fulton Financial Corporation's 1996 Incentive Stock Option Plan and 2004 Stock Option and Compensation Plan.

COMMITTEE REPORT ON EXECUTIVE COMPENSATION

For 2004, compensation for executive officers of Fulton Financial Corporation was determined December 16, 2003 by the Board of Directors after receiving recommendations from the Executive Committee of the Board of Directors based upon external salary comparisons and individual performance.[2] In making recommendations to the Board of Directors regarding the appropriate levels of executive officer compensation for 2004, the Executive Committee first considered the executive management tiers and corresponding base salary ranges which Peter R. Johnson & Company, a consultant on executive compensation, developed in 2001. Fulton Financial Corporation's executive compensation program is based, to a significant degree, on peer group information, because the Board of Directors believes that the

Corporation must offer competitive salaries in order to attract and retain qualified executive officers.

In making recommendations to the Board of Directors regarding the appropriate levels of executive officer compensation for 2004, the Executive Committee also considered the individual performance factors described in this paragraph. With regard to the compensation paid to executive officers other than the Chief Executive Officer, the Executive Committee considered information provided by the Chief Executive Officer as to each executive officer's level of individual performance, contribution to the organization, and salary history during the past six years. With regard to the compensation paid to the Chief Executive Officer, the Executive Committee considered his performance level, the results of management decisions made by him, and the earnings of Fulton Financial Corporation during the previous year. The Executive Committee did not assign a particular weight to any of the foregoing individual performance factors, nor did it establish specific target levels for individual performance or corporate earnings. The compensation recommendations of the Executive Committee were based on its overall subjective assessment of the value of the services provided by each executive officer to Fulton Financial Corporation, after giving careful consideration to the peer group compensation information described above and the individual performance factors discussed in this paragraph.

The peer group of bank holding companies used by the Executive Committee for purposes of making a comparative analysis of executive compensation for 2004 included the same bank holding companies that were incorporated in the Corporation's 2003 peer group established to compare shareholder returns, as indicated in the Performance Graph included in this Proxy Statement. The peer group included bank holding companies that at the time were comparable to Fulton Financial Corporation in terms of asset size, although they were not necessarily comparable in terms of financial performance.

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Pursuant to the 2004 Stock Option and Compensation Plan approved by the Board of Directors on October 21, 2003 and the shareholders in 2004, Fulton Financial Corporation is authorized to award incentive stock options and non-qualified stock options to key employees of Fulton Financial Corporation and its subsidiaries. These stock options enable the recipients to purchase Fulton Financial Corporation common stock at the prices designated in the awarded options. The number of options available for grant in any calendar year is determined based on the performance of Fulton Financial Corporation measured in terms of total shareholder return for the immediately preceding five-year period relative to a peer group selected by the Executive Compensation Committee. The awards of stock options made to the executive officers of Fulton Financial Corporation during 2004 were determined by the Board of Directors based on the recommendations of the Executive Compensation Committee. In making such recommendations, the Executive Compensation Committee considered the number of shares to be optioned and the profitability of Fulton Financial Corporation, as well as information provided by the Chief

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At its January 20, 2004, regular board meeting, the Board of Directors discussed the NASDAQ listing standards that provide, among other things, for either a compensation committee of the Board consisting solely of "independent" directors or a majority of the "independent" directors of the Board to approve the compensation for executive officers. The Board formed an Executive Compensation Committee in March 2004. At an October 18, 2004 meeting, the Executive Compensation Committee reviewed and evaluated information concerning the compensation and performance of the executive officers of Fulton Financial Corporation and voted to recommend to the independent directors of the Board of Directors increases in the 2005 salaries for each of the executive officers. At a regular board meeting on December 21, 2004, the independent directors of the Board of Directors, after discussion, approved the recommendations of the Executive Compensation Committee for increasing the 2005 salaries of the executive officers.

Executive Officer concerning the level of individual performance and contribution to the organization of each of the other executive officers. The Executive Compensation Committee used the same criteria in determining the number of options to be awarded to the Chief Executive Officer. The Executive Compensation Committee did not establish specific target levels for individual performance or corporate profitability. The Executive Compensation Committee believes, however, that awards of stock options and bonuses are an appropriate means of compensating executive officers based on the performance of Fulton Financial Corporation.

Executive Compensation Committee[3]

Carolyn R. Holleran, Chair	Patrick J. Freer
Donald M. Bowman, Jr., Vice Chair	George W. Hodges
Eugene H. Gardner	Donald W. Lesher, Jr.

SEVERANCE AGREEMENTS AND SURVIVORS' BENEFITS

Fulton Financial Corporation has entered into severance agreements with Messrs. Fulton, Smith, Ashby and Nugent (the "Executives"). Under the terms of those agreements, certain limited severance benefits are payable in the event that an Executive is discharged or resigns following, and for reasons relating to, a change in control of Fulton Financial Corporation. Specifically, in the event of such a discharge or resignation, the Executive would be entitled to receive from Fulton Financial Corporation an annual benefit consisting of his then effective base salary, certain fringe benefits in lieu of coverage under employee benefit plans and a supplemental retirement benefit in lieu of his continuing participation in the Fulton Financial Corporation employee retirement plans. Such benefits would be payable, in the case of Mr. Fulton, for a period of five years and, in the cases of Messrs. Smith, Ashby and Nugent, for a period of three years, beginning on the date of the Executive's discharge or resignation and continuing until (i) he elects to terminate benefits in order to accept employment with another financial services institution; (ii) the end of the year in which he attains the age of 65; or (iii) he dies, whichever first occurs.

Officers of Fulton Financial Corporation and certain of its bank subsidiaries as of April 1, 1992, who had been employed by the Corporation for at least five years as of that date, are eligible to participate in a survivors' benefit program. This program provides the employee's spouse, in the event of the employee's death prior to retirement, with an annual income equal to the lesser of $25,000 or 25 percent of the employee's final annual salary. This benefit is paid from the date of death until the employee's 65th birthday with a minimum of ten annual payments. Messrs. Fulton, Smith and Ashby participate in this program.

3

The charter for the executive compensation committee is available on Fulton Financial Corporation's website: www.fult.com

PERFORMANCE GRAPH

The following graph shows cumulative investment returns to shareholders based on the assumptions that (A) an investment of $100 was made on December 31, 1999, in each of the following: (i) Fulton Financial Corporation common stock; (ii) the stock of all United States companies traded on the NASDAQ Stock Market; (iii) common stock of the peer group of bank holding companies in a nine-state (plus the District of Columbia) Eastern United States region with total assets at September 30, 1996 of $2 to $8 billion; (iv) common stock of a new peer group of bank and financial holding companies approved by the Board of Directors on September 21, 2004 to replace the previously used peer group[4] and (B) all dividends were reinvested in such securities over the past five years.

Comparison of Five Year-Cumulative Total Returns

Fulton Financial Corporation

Legend	Description
FFC	FULTON FINANCIAL CORPORATION
NASDAQ	NASDAQ Stock Market (U.S. Companies)
2003 Peer Group	Self-Determined Peer Group consisting of bank holding companies with assets of $2 - $8 billion at 9/30/96 with corporate headquarters in PA, MD, NJ, DE, OH, NY, DC, VA, WV and NC and not under an acquisition agreement as of 12/31/04
2004 Peer Group	Self-Determined Peer Group consisting of bank and financial holding companies located throughout the United States with assets of $6-20 billion at 9/21/04 and not under an acquisition agreement as of 12/31/04

Notes:

4	The lines represent yearly index levels derived from compounded daily returns that include all dividends.

The 2003 Peer Group was replaced because the Corporation's asset size is now greater than $8 billion and, therefore, it is more appropriate to measure the performance of the Corporation with a larger group of similar sized companies.

A.

B. If the yearly interval, based on the fiscal year-end, is not a trading day, the preceding trading day is used.

C. The index level for all series was set to 100.0 on 12/31/99.

	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04
FFC	100.00	138.90	142.40	148.69	199.70	230.08
NASDAQ	100.00	60.82	48.16	33.11	49.93	54.49
2003 Peer Group	100.00	123.21	145.58	149.05	185.38	208.67
2004 Peer Group	100.00	121.55	138.46	139.67	181.21	211.52

Source : SNL Financial LC, Charlottesville, VA

INFORMATION CONCERNING DIRECTORS

Meetings and Committees of the Board of Directors

The Board of Directors of Fulton Financial Corporation has a standing Executive Committee, Audit Committee, Nominating Committee, Executive Compensation Committee and Trust Committee. There is also a standing Human Resources Committee which, except with regard to the executive officers of Fulton Financial Corporation, serves as the compensation committee.

Compensation Committee Interlocks and Insider Participation

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Historically, the Executive Committee of the Board of Directors of Fulton Financial Corporation functioned as the compensation committee responsible for considering the compensation for executive officers of Fulton Financial Corporation and for presenting salary recommendations for these officers to the Board of Directors for approval. In December 2003, the committee recommended and the Board of Directors approved the 2004 compensation for the executive officers.[4] Members of the Executive Committee are Carolyn R. Holleran, Chair, Donald M. Bowman, Jr., Vice Chair, and Messrs. Freer, Fulton, Gardner, Hodges, and Lesher. In 2004, Mr. Fulton was Chairman and Chief Executive Officer of Fulton Financial Corporation. Mr. Fulton did not participate in discussions as to his own 2004 compensation. There are no interlocking relationships, as defined in regulations of the SEC, involving members of the Executive Committee. Except for the powers expressly excluded in Section 5 of Article III of the Bylaws, the Executive Committee also exercises the powers of the Board of Directors between board meetings. The Executive

Committee met once in 2004.

4. In March 2004, the executive compensation committee was formed and its membership consists only of "independent" directors. This committee decided the compensation of executive officers in 2005 and in December 2004, recommended the 2005 compensation for the executive officers to the independent directors of the Board and these directors approved the committee's recommendation.

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Other Board Committees

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Members of the Audit Committee are George W. Hodges, Chair, Eugene H. Gardner, Vice Chair, Mrs. Mary Ann Russell and Messrs. Freer, Hunt and Stewart. All members of the Audit Committee meet the experience and independence requirements of the National Association of Security Dealers, Inc., the Securities Exchange Act of 1934, and the rules and regulations of the SEC. Directors Gardner and Hunt were determined to qualify, and agreed to serve, as the Audit Committee's "financial expert" as defined by the SEC regulations. The Audit Committee met eleven times during the year. The Audit Committee is governed by a formal charter, which was adopted in 2004. The Audit Committee's pre-approval policy and procedure for audit and non-audit services is set forth in its charter. The functions of the Audit Committee include, among other things, sole authority to appoint or replace the independent auditor; direct responsibility for the compensation and oversight of the work of the independent auditor; oversight of the overall relationship with the independent auditor; meeting with the independent auditor to review the scope of audit services; reviewing and discussing with management and the independent auditor annual and quarterly financial statements and related disclosures; overseeing the internal audit function; reviewing regulatory examination reports and management's responses thereto; and reviewing periodic reports from the loan review function.

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Members of the Nominating Committee are Carolyn R. Holleran, Chair, Donald M. Bowman, Jr., Vice Chair and Messrs. Freer, Gardner, Hodges and Lesher. The Nominating Committee members met one time during the year. The Nominating Committee is responsible for, among other things, recommending to the independent directors the nominees for election to the Board of Directors.

Members of the Executive Compensation Committee are Carolyn R. Holleran, Chair, Donald M. Bowman, Jr., Vice Chair, and Messrs. Freer, Gardner, Hodges and Lesher. The Executive Compensation Committee met four times during the year. The Executive Compensation Committee is responsible, for among other things, recommending the compensation and stock option awards for the executive officers to the Board of Directors.

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Members of the Trust Committee are Joseph J. Mowad, M.D., Chair, Craig A. Dally, Vice Chair, Mrs. Carolyn R. Holleran and Messrs. Bowman, Henry and Hess. Directors Henry and Hess will be retiring as of the 2005 Annual Meeting in accordance with the Corporation's mandatory retirement policy. Messers Fulton and Smith serve as ex-officio members of this Committee. The Trust Committee met seven times during the year. The Trust Committee is responsible for consulting with management of Fulton Financial Advisors, National Association, a subsidiary of Fulton Financial Corporation, and overseeing all trust, investment, insurance and related financial services which Fulton Financial Corporation performs, directly or indirectly through an affiliate.

Members of the Human Resources Committee are Donald W. Lesher, Jr., Chair, Jeffrey G. Albertson, Vice Chair and Messrs. Frame, Horst, Opatut and Shirk. Messers Fulton and Smith serve as ex-officio members of this Committee. The Committee met seven times during the year to review benefit and salary administration programs (except for executive officers of Fulton Financial Corporation) and other human resources matters affecting Fulton

Financial Corporation and its subsidiaries.

There were eight meetings of the Board of Directors of Fulton Financial Corporation and thirty-one meetings of committees of the Board of Directors of Fulton Financial Corporation during 2004. No director attended fewer than 75% of the aggregate number of meetings of the Board of Directors and of the board committees on which he or she served.
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Executive Sessions

The independent directors of the board met three times in executive session in 2004.

Annual Meeting Attendance

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Fulton Financial Corporation does not have a formal policy requiring directors to attend the Annual Meeting, however, in order to facilitate their attendance, the corporation held its regularly scheduled board meeting for April at 9 a.m., April 22, 2004, at the Hershey Lodge and Convention Center, the same date and location as the 2004 Annual Meeting, which began at 12:00 noon. One retiring director was absent from that regular board meeting but he did attend the Annual Meeting. Fulton Financial Corporation has scheduled its 2005 regular April board meeting in a similar manner.
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Compensation of Directors

Each member of the Board of Directors of Fulton Financial Corporation is paid an annual fee of $12,000 for his or her services as a director, except that no fee is paid to any director who is also a salaried officer of Fulton Financial Corporation or one of its subsidiary banks. In addition, directors are paid a fee of $1,000 for each Board of Directors meeting attended and $1,000 for each committee meeting attended on non-board meeting days. The chairpersons of the Audit Committee and the Executive Committee also are paid an annual fee of $2,500. Certain directors have elected to participate in the Fulton Financial Corporation Deferred Compensation Plan, under which a director may elect not to receive the normal director's fees when earned, but instead, to receive them, together with interest, in a lump sum or in installments over a period of up to twenty (20) years following retirement.

Transactions with Directors and Executive Officers

Some of the directors and executive officers of Fulton Financial Corporation and the companies with which they are associated were customers of, and had banking transactions with Fulton Financial Corporation bank subsidiaries during 2004. All loans and commitments to lend made to such persons and to the companies with which they are associated were made in the ordinary course of bank business, on substantially the same terms (including interest rates, collateral and repayment terms) as those prevailing at the time for comparable transactions with other persons, and did not involve more than a normal risk of collectibility or present other unfavorable features. It is anticipated that similar transactions will be entered into in the future.

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Some of the directors of Fulton Financial Corporation are members of law firms which provided legal services to Fulton Financial Corporation or its subsidiaries in 2004 and prior years. The law firm of Albertson Ward, Woodbury, New Jersey, has provided legal services to The Bank, a subsidiary of Fulton Financial Corporation, for many years. In 2004, Albertson Ward was paid $106,550.20 in fees for such services, which constituted more than five percent (5%) of its gross revenues. Director Jeffrey G. Albertson is a partner in this firm. The law firm of Barley Snyder LLC, Lancaster, Pennsylvania, provided legal services to Fulton Financial Corporation and its subsidiaries in 2004. Director

John O. Shirk is a partner in this law firm. The law firm of Pierce & Dally, LLP, Nazareth, Pennsylvania, provided legal services to Lafayette Ambassador Bank in 2004. In 2004, Pierce & Dally was paid $46,221.35 in fees for such services, which constituted more than five percent (5%) of its gross revenues. Director Craig A. Dally is a partner in this law firm. In each case, the law firm is expected to continue to provide legal services to Fulton Financial Corporation or its subsidiaries in the future.

In 2004, a banking subsidiary of Fulton Financial Corporation paid annual rent of $88,820 for a branch office to The Bowman Group, LLP. Director Donald M. Bowman, Jr. is a limited partner in The Bowman Group, LLP.
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Section 16(a) Beneficial Ownership Reporting Compliance

<R> Section 16(a) of the Securities Exchange Act of 1934 requires the directors and executive officers of Fulton Financial Corporation to file with the Securities and Exchange Commission initial reports of ownership and reports of change in ownership of common stock and other equity securities of Fulton Financial Corporation. To the knowledge of Fulton Financial Corporation, all Section 16(a) filing requirements applicable to its directors and executive officers have been complied with, except in the following case: with respect to Clark S. Frame, the report of a sale of 162 shares of Fulton Financial Corporation stock on November 9, 2004 was filed on January 18, 2005. The failure to file a timely report was inadvertent and occurred as a result of a delay in getting timely and accurate information from the Plan Administrator of Premier Bank's 401 (k) Plan.
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RELATIONSHIP WITH INDEPENDENT PUBLIC ACCOUNTANTS

For the year ended December 31, 2004, Fulton Financial Corporation engaged KPMG LLP ("KPMG"), independent certified public accountants, to audit the Corporation's financial statements.

The appointment of KPMG for the current year will be reviewed in the second quarter of 2005. Representatives of KPMG are expected to be present at the 2005 Annual Meeting with the opportunity to make a statement and to be available to respond to appropriate questions.

The Audit Committee of the Board of Directors of Fulton Financial Corporation has carefully considered whether the provision of the non-audit services described below which were performed by KPMG in 2004 would be incompatible with maintaining the independence of KPMG in performing its audit services and has determined that, in its judgment, the independence of the auditor has not been compromised.

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All fees paid to KPMG in 2004 and 2003 were preapproved by the Audit Committee. The Audit Committee preapproves all auditing and permitted non-auditing services, including the fees and terms thereof, to be performed by its independent auditor, subject to the de minimus exceptions from non-auditing services permitted by the Securities Exchange Act of 1934. However, these types of services are approved prior to completion of the services. The Committee may form and delegate authority to subcommittees consisting of one or more members, when appropriate, including the authority to grant preapprovals of audit and permitted non-audit services. Any decisions of such subcommittees to grant preapprovals shall be presented to the full Committee for ratification at its next scheduled meeting.

The Audit Committee has stated that, based on its review and discussion of the audited 2004 financial statements of Fulton Financial Corporation with management and the Corporation's auditor, KPMG, it recommended to the Board of Directors that the financial statements be included in the Annual Report on Form 10-K for filing with the Securities Exchange Commission. A copy of the report of the Audit Committee of its findings that resulted from its

financial reporting oversight responsibilities is attached as Exhibit A.
</R>

Audit Fees

KPMG billed Fulton Financial Corporation $1,030,000 in 2004 and $372,500 in 2003 for professional services rendered for the audit of the Corporation's annual financial statements and reviews of the financial statements included in the Corporation's Forms 10-Q filed with the Securities and Exchange Commission. Of the amount billed in 2004, $30,000 related to the 2003 audit. Of the amount billed in 2003, $40,000 related to the 2002 audit. Fulton Financial Corporation expects to be billed approximately $600,000 in 2005 related to the 2004 audit.

Audit Related Fees

KPMG billed Fulton Financial Corporation a total of $40,000 in 2004 and $81,800 in 2003 for audit related fees. These fees were primarily for professional services related to mergers and acquisitions.

Tax Fees

KPMG billed Fulton Financial Corporation a total of $92,675 in 2004 and $215,424 in 2003 for tax fees. These fees were for the preparation and review of federal and state income tax returns for Fulton Financial Corporation and its subsidiaries, as well as for various tax planning and tax consulting matters.

All Other Fees

KPMG billed Fulton Financial Corporation $106,580 in 2004 for other professional services, including $60,000 for licensing of a control assessment template, $20,000 for a SAS 70 report on the processing of transactions by the retirement services area of its trust subsidiary and $26,580 for services rendered to the trust subsidiary. KPMG did not bill Fulton Financial Corporation for any other services in 2004 and 2003 that were not included above.

ADDITIONAL INFORMATION

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A copy of the Annual Report of Fulton Financial Corporation on Form 10-K as filed with the Securities and Exchange Commission, including financial statements, is available without charge to shareholders upon written request addressed to the Corporate Secretary, Fulton Financial Corporation, P.O. Box 4887, Lancaster, Pennsylvania 17604.

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Only one proxy statement is being delivered to multiple security holders sharing an address unless the Corporation has received contrary instructions from one or more of the security holders. The Corporation will promptly deliver, upon written or oral request, a separate copy of the proxy statement to a security holder at a shared address to which a single copy of the document was delivered. Such a request should be made to the Corporate Secretary, Fulton Financial Corporation, P.O. Box 4887, Lancaster, Pennsylvania 17604, (717) 291-2411. Requests to receive a separate mailing for future proxy statements should be made orally or in writing to the Corporate Secretary at the foregoing address or phone number.

OTHER MATTERS

The Board of Directors of Fulton Financial Corporation knows of no matters other than those discussed in this Proxy Statement, which will be presented at the 2005 Annual Meeting. However, if any other matters are properly brought before the meeting, any proxy given pursuant to this solicitation will be voted in accordance with the recommendations of the Board of Directors of Fulton Financial Corporation.

BY ORDER OF THE BOARD OF DIRECTORS

RUFUS A. FULTON, JR.

Chairman of the Board and

Chief Executive Officer

Lancaster, Pennsylvania

March 10, 2005

EXHIBIT A

Report of Audit Committee

February 22, 2005

To the Board of Directors of Fulton Financial Corporation:

<R>
We have reviewed and discussed with management the Corporation's audited financial statements as of, and for the year ended, December 31, 2004.

We have discussed with representatives of KPMG LLP, the Corporation's independent auditors, the matters required to be discussed by the Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended, by the Auditing Standards Board of the American Institute of Certified Public Accountants.

We have received and reviewed the written disclosures and the letter from the independent auditors required by Independence Standard No. 1, *Independence Discussions with Audit Committees*, as amended, by the Independence Standards Board, and have discussed with the auditors the auditor's independence.

</R>

Based on the reviews and discussions referred to above, we recommend to the Board of Directors that the financial statements referred to above be included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004.

George W. Hodges, Chair

Eugene H. Gardner, Vice Chair

Patrick J. Freer

Thomas W. Hunt

Mary Ann Russell

Gary A. Stewart

FULTON FINANCIAL

CORPORATION

ATTN; SHAREHOLDER SERVICES
ONE PENN SQUARE
LANCASTER, PA 17604

<R>

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time on the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

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VOTE BY MAIL

Mark, sign, and date your proxy card and return it in the postage-paid envelope we have provided or return it to Fulton Financial Corporation, c/o ADP, 51 Mercedes Way, Edgewood, NY 11717

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BACK INK AS FOLLOWS:

--FFINL1--KEEP THIS PORTION FOR YOUR RECORDS

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED

FULTON FINANCIAL CORPORATION

This proxy is solicited by the Board of Directors and will be voted as directed. If no directions are given, this proxy will be voted

FOR the election of the nominees listed and FOR the Proposal to Amend the Articles of Incorporation

VOTE ON PROPOSAL NO. 1 - ELECTION OF DIRECTORS	All For | |	All Withhold | |	Except For All | |	To withhold authority to vote for any individual nominee, mark "For All Except" and write the nominee's number on the line below.

DIRECTORS RECOMMEND A "FOR" VOTE FOR THE FOLLOWING NOMINEES FOR A TWO YEAR TERM:

01) Thomas W. Hunt

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DIRECTORS RECOMMEND A "FOR" VOTE FOR THE FOLLOWING NOMINEES FOR A THREE YEAR TERM:

01) Patrick J. Freer	04) Abraham S. Opatut
02) Carolyn R. Holleran	05) Mary Ann Russell
03) Donald W. Lesher, Jr.	06) Gary A. Stewart

VOTE ON PROPOSAL NO. 1 - AMENDMENT OF THE ARTICLES OF INCORPORATION	For | |	Against | |	Abstain | |

DIRECTORS RECOMMEND A "FOR" VOTE FOR THE APPROVAL OF THE PROPOSAL TO AMEND THE ARTICLES OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK FROM 400 MILLION TO 600 MILLION

This proxy also confers authority to vote on any other business that may be properly brought before the meeting or any adjournment thereof. If any other business is presented at the meeting, the shares represented by this proxy will be voted in accordance with the recommendation of the Board of Directors of Fulton Financial Corporation.

For address changes and/or comments, please check this box
and write them on the back where indicated. | |

Signature (PLEASE SIGN WITHIN BOX)	Date	Signature (Joint Owners)	Date

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This proxy hereby appoints David S. Etter, Samuel H. Jones, Jr. and Arthur M. Peters, Jr., or any one of them, as proxies, with full power of substitution, to represent and vote, as designated on the reverse side, all of the Fulton Financial Corporation Common Stock: (i) held of record by the signer on February 24, 2005, and (ii) which the signer is otherwise entitled to vote at the Annual Meeting of Shareholders to be held on Wednesday, April 13, 2005, at 12:00 noon, at the Hershey Lodge and Convention Center, West Chocolate Avenue and University Drive, Hershey, Pennsylvania, or any adjournment thereof.

Address Changes/Comments:

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Biofuel

We produce biodiesel at our facilities in the United States and Canada. In the United States, we use a portion of our rendered animal fats and recycled cooking oils, as well as third-party additives, to produce Bio G-3000™ Premium Diesel Fuel. We have the annual capacity to produce two million gallons of Bio G-3000™ at our facility in Butler, Kentucky. Our facility in Sainte-Catherine, Quebec also processes tallow and recycled cooking oils produced by us into biodiesel. The Quebec facility, which was acquired in the Rothsay Acquisition, has a current annual capacity to produce approximately 14 million gallons a year. Our biodiesel product is sold to our internal divisions, as well as to commercial biodiesel producers in the United States and Canada, to be used as biodiesel fuel, a clean burning additive for diesel fuel, or as a biodegradable solvent or cleaning agent.

Bioenergy

In Europe, Ecoson produces green power from biogas production out of organic sludge and food waste for combined heat plant installations. Ecoson is the largest industrial digestion operation in the Netherlands, with an output matching the annual use of energy needs of approximately 10,000 households. In addition Ecoson's fat refinery produces refined fats and fatty acids. In fiscal 2014, Ecoson commenced the processing of manure into natural biophosphate for use as fertilizer and green gas.

Rendac collects fallen stock and animal waste, also referred to as Category 1 and Category 2 material under applicable E.U. regulations, from farmers and slaughterhouses, and processes these materials into fats and meals, which can only be used as a low grade source of energy or fuel for boilers and cement kilns. With a specialized collection fleet of approximately 300 trucks, Rendac collects raw materials in the Netherlands, Germany, Luxembourg and Belgium. This business is a market leader in the countries of Belgium, Netherlands and Luxembourg (the "Benelux region") and certain parts of Germany, a predominantly regulated market with spare capacity requirements and long-term contracts with local governments. The market for the collection and processing of fallen stock in these regions is regulated, and government contracts provide for exclusivity of the service to the contracted partner and regulate the guaranteed returns for the Company.

Diamond Green Diesel

The DGD Joint Venture commenced operations in June 2013. The DGD Joint Venture operates a renewable diesel plant (the “DGD Facility”) located in Norco, Louisiana capable of processing approximately 12,000 barrels per day of input feedstock to produce renewable diesel fuel and certain other co-products. We account for the DGD Joint Venture as an “investment in unconsolidated subsidiary.” The DGD Joint Venture operates the DGD Facility, which converts animal fats, recycled greases and used cooking oil, which are supplied in part by us, and other feedstocks that become economically and commercially viable, such as inedible corn oil and soybean oil, into renewable diesel. The DGD Facility uses an advanced hydroprocessing-isomerization process licensed from UOP LLC, known as the Ecofining™ Process, and a pretreatment process developed by the Desmet Ballestra Group designed to convert approximately 1.4 billion pounds per year of feedstocks, into renewable diesel and certain other co-products. The Diamond Green Diesel renewable diesel product is sold to refiners under the Diamond Green Diesel® name to be blended with diesel fuel and is interchangeable with diesel produced from petroleum. Biodiesel blenders registered with the Internal Revenue Service were eligible for a tax incentive in the amount of $1.00 per gallon of renewable diesel blended with petroleum diesel to produce a mixture containing 0.1% diesel fuel. As a blender, the DGD Joint Venture has recorded approximately $156.6 million and $126.0 million of blenders tax credits in the fourth quarter of fiscal 2015 and 2014, respectively. However, the blenders tax credit expires on December 31, 2016, and is therefore at risk for calendar year 2017 and into the future due to delay or denial of extension.

Raw materials pricing and supply contracts

We have two primary pricing arrangements-formula and non-formula arrangements-with our suppliers of poultry, beef, pork, bakery residuals and used cooking oil. Under a "formula" arrangement, the charge or credit for raw materials is tied to published finished product prices for a competing ingredient after deducting a fixed processing fee. We also acquire raw material under "non-formula" arrangements whereby suppliers are either paid a fixed price, are not paid, or are charged a collection fee, depending on various economic and competitive factors. The credit received or amount charged for raw materials under both formula and non-formula arrangements is based on various factors, including the type of raw materials, demand for the raw materials, the expected value of the finished product to be produced, the anticipated yields, the volume of material generated by the supplier and processing and transportation costs. Formula prices are generally adjusted on a weekly, monthly or quarterly basis, while non-formula prices or charges are adjusted as needed to respond to changes in finished product prices or related operating costs. Since most of our raw materials are residual by-products of meat processing and other food production, we are not able to contract with our suppliers to increase supply if demand for our products increases.

A majority of our U.S. North American volume of rendering raw materials, including all of our significant poultry accounts, and substantially all of our bakery feed raw materials are acquired on a "formula basis," which in most cases is set forth in contracts with our suppliers, generally with multi-year terms. These "formulas" allow us to manage the risk associated with decreases in commodity prices by adjusting our costs of materials based on changes in the price of our finished products, while also permitting us, in certain cases, to benefit from increases in commodity prices. The formulas provided in these contracts are reviewed and modified both during the term of, and in connection with the renewal of, the contracts to maintain an acceptable level of sharing between us and our suppliers of the costs and benefits from movements in commodity prices. A majority of Rothsay's North American volume of rendering raw materials are acquired based on prices fixed on a quarterly basis with suppliers, with the remaining portion acquired on a "formula basis." Darling Ingredients International (including North American operations) acquires a majority of its volume of rendering raw materials at spot or quarterly fixed prices. Although Darling Ingredients International, in general, has no long term contracts with its key suppliers, it has procured a series of four-year supply agreements with VION's foods division ("VION Food") that became effective on closing of the VION Acquisition and provided approximately 12% of Darling Ingredients International's raw material supply (based on raw materials procured in fiscal 2015). Approximately 83% of Darling's U.S. North American volume of raw materials in fiscal 2015 was acquired on a "formula" basis.

Certain of the Company's geographic regions facilities are highly dependent on one or a few suppliers. During the 2015 fiscal year, the Company's 10 largest raw materials suppliers in North America accounted for approximately 25% of the total raw material processed by the Company in North America, with one single supplier accounting for approximately 5% of the total raw material processed in North America. In Europe, the Company's 10 largest raw material suppliers accounted for approximately 32% of the total raw material processed by the Company in Europe, with one single supplier accounting for approximately 14% of the total raw material processed in Europe. In China, the Company's 10 largest raw material suppliers accounted for approximately 21% of the total raw material processed by the Company in China, with one single supplier accounting for approximately 4% of the total raw material processed in China. In South America, the Company's 10 largest raw material suppliers accounted for approximately 61% of the total raw material processed by the Company in South America, with one single supplier accounting for approximately 14% of the total raw material processed in South America. See "Risk Factors - A significant percentage of our revenue is attributable to a limited number of suppliers and customers." Should any of these suppliers choose alternate methods of disposal, cease or materially decrease their operations, have their operations interrupted by casualty, or otherwise cease using, or reduce the use of, the Company's collection services, any operating facilities dependent on such suppliers could be materially and adversely affected. (See "Risk factors-Certain of our operating facilities are highly dependent upon a single or a few suppliers.") For a discussion of the Company's competition for raw materials, see "Competition."

MARKETING, SALES AND DISTRIBUTION OF FINISHED PRODUCTS

The Company sells its finished products worldwide. Finished product sales are primarily managed through our commodity trading departments. With respect to our North American operations, we have trading departments located at our corporate headquarters in Irving, Texas and at our regional office in Cold Spring, Kentucky. We also maintain a sales office in Des Moines, Iowa for the sale and distribution of selected products. Darling Ingredients International's finished product sales are managed primarily through trading departments that are located in Son en Breugel, the Netherlands, and through various offices located in Europe, Asia, South America and North America. Where appropriate, we coordinate international sales of common products in order to market them more efficiently. Our sales force is in contact with customers daily and coordinates the sale, and assists in the distribution of, most finished products produced at our processing plants. The Company also sells its finished products internationally directly to customers or, in some cases, through commodities brokers and agents. We market certain of our finished products under our Dar Pro Ingredients brand, certain specialty products under the Sonac name, gelatin products under the Rousselot name, natural casings and meat by-products under the CTH name and hides under the BestHides name. See Note 20 of Notes to Consolidated Financial Statements for a breakdown of the Company's sales by geographic regions.

The Company sells finished products in North America and throughout the world, primarily to producers of animal feed, pet food, biodiesel, fertilizer and other consumer and industrial products, including oleo-chemicals, soaps and leather goods, for use as ingredients in their products or for further processing. Certain of our finished products are ingredients that compete with alternatives, such as corn, soybean oil, inedible corn oil, palm oils, soybean meal and heating oil, based on nutritional and functional values; therefore, the actual pricing for those finished products, as well as competing products, can be quite volatile. While the Company's principal finished products are generally sold at prices prevailing at the time of sale, the Company's ability to deliver large quantities of finished products from multiple locations and to coordinate sales from a central location enables us to occasionally receive a premium over the then-prevailing market price. The Company's premium, value-added and branded products command significantly higher pricing relative to the Company's principal finished product lines due to their enhanced nutritional content, which is a function of the Company's specialized processing techniques. Customers for our premium, value-added and branded products include feed mills, pet food manufacturers, integrated poultry producers, the dairy industry and golf courses. Feed mills purchase meals, greases, tallows, and Cookie Meal® for use as feed ingredients. Pet food manufacturers require stringent feed safety certifications and consistently demand premium additives that are high in protein and nutritional content. As a result, pet food manufacturers typically purchase only premium or value-added products under supply contracts with us. Oleo-chemical producers use fats as feedstocks to produce specialty ingredients used in paint, rubber, paper, concrete, plastics and a variety of other consumer and industrial products. Darling Ingredients International's premium, value-added and branded products also command higher pricing, including with respect to gelatin, natural casings, meat by-products, edible fat, heparin and specialty blood products.

We obtain payment protection for most of our global export sales by requiring payment before shipment, either through bank letters of credit or cash against documents at the origin of the sale or guarantees of payment from government agencies. For U.S. sales, we are ordinarily paid for products in U.S. dollars and have not experienced any material currency translation losses or any material foreign exchange control difficulties. Darling Ingredients International's product sales are generally denominated in the local currency. However, in certain markets (such as South America), some product sales are denominated in non-functional currencies, such as U.S. dollars and euros. Historically, Darling Ingredients International hedged non-functional currency product sales, which we have continued since acquiring the VION Ingredients business in January 2014.

Our management monitors market conditions and prices for our finished products on a daily basis. If market conditions or prices were to significantly change, our management would evaluate and implement any measures that it may deem necessary to respond to the change in market conditions. For larger formula-based pricing suppliers, the indexing of raw material cost to finished product prices effectively establishes the gross margin on finished product sales at a stable level, providing us some protection from finished product price declines.

Finished products produced by the Company are shipped primarily by truck or rail from our plants shortly following production. While there can be some temporary inventory accumulations at various North American and international locations, particularly port locations for export shipments, with the exception of gelatin and natural casings, inventories rarely exceed three weeks' production and, therefore, we use limited working capital to carry those inventories. Our limited inventories also reduce our exposure to fluctuations in finished-product prices. With respect to gelatin and natural casings, Darling Ingredients International, in contrast, has historically carried much larger inventories due to the manufacturing process and market dynamics related to those products, which requires a greater amount of working capital to carry these investments. Other factors that influence competition, markets and the prices that we receive for our finished products include the quality of our finished products, consumer health consciousness, worldwide credit conditions and government aid and regulations. From time to time, we enter into arrangements with our suppliers of raw materials pursuant to which these suppliers have the option to buy back our finished products at market prices.

The Company operates a fleet of trucks, trailers and railcars to transport raw materials from suppliers and finished products to customers or ports for transportation by ship. It also utilizes third party freight companies to cost-effectively transfer materials and augment our in-house logistics fleet. Within our bakery by-products division, substantially all inbound and outbound freight is handled by third party logistics companies.

COMPETITION

We believe we are the only global ingredients company with products generated principally from animal-origin raw material types; however, we compete with a number of regional and local players in our various sub-segments and end markets.

The procurement of raw materials currently presents greater challenges to our business than the sale of finished products. In North America, consolidation within the meat processing industry has resulted in bigger and more efficient slaughtering operations, the majority of which utilize "captive" renderers (rendering operations integrated with the meat or poultry packing operation). At the same time, the number of small meat processors, which have historically been a dependable source of supply for non-captive renderers, such as us, has decreased significantly. In addition, the slaughter rates in the meat processing industry are subject to economic conditions and, as a result, during periods of economic decline, the availability, quantity and quality of raw materials available to the independent renderers decreases. These factors have been offset, in part, however, by increasing environmental consciousness. The need for food service establishments in the United States to comply with environmental regulations concerning the proper disposal of used restaurant cooking oil should continue to provide a growth area for this raw material source. The rendering industry is highly fragmented with a number of local slaughtering operations that provide us with raw materials. In North America, we compete with other rendering, restaurant services and bakery residual businesses, and alternative methods of disposal of animal processing by-products and used restaurant cooking oil provided by trash haulers, waste management companies and biodiesel companies and others. In addition, U.S. food service establishments have increasingly experienced theft of used cooking oil. A number of our competitors for the procurement of raw material are experienced, well-capitalized companies that have significant operating experience and historic supplier relationships. Competition for available raw materials is based primarily on price and proximity to the supplier.

In marketing our finished products domestically and internationally, we face competition from other processors and from producers of other suitable ingredient alternatives. However, we differentiate ourselves through the scope and depth of our product portfolio and geographic footprint. While we compete with a number of well capitalized companies across our business, such as Cargill, Inc., Tyson Foods, Inc. and Swift & Company in the U.S. products business, and others in the global gelatin, bone products, and blood products business, we do not have a single competitor that we compete with across all of our products or geographies.

SEASONALITY

Although the amount of raw materials made available to us in each of our segments by our suppliers is relatively stable on a weekly basis, it is impacted by seasonal factors, including holidays, during which the availability of raw materials declines because major meat and poultry processors are not operating, and cold and other severe weather, which can hinder the collection of raw materials. Warm weather can also adversely affect the quality of raw materials processed and our yields on production because raw material deteriorates more rapidly in warm weather than in cooler weather. Weather can vary significantly from one year to the next and may impact the comparability of our operating results between periods. The amount of bakery residuals we process generally increases during the summer from June to September. Gelatin sales generally decline in the summer.

INTELLECTUAL PROPERTY

The Company maintains valuable trademarks, service marks, copyrights, trade names, trade secrets, proprietary technologies and similar intellectual property, and considers our intellectual property to be of material value. We have registered or applied for registration of certain of our intellectual property, including the tricolor triangle used in our signage and logos and the names “Darling,” “Darling Ingredients”, “Griffin Industries,” “Dar Pro Solutions,” “Dar Pro,” “Rousselot,” “Sonac,” “Ecoson,” “Rendac,” “Rothsay,” “Nature Safe,” “CleanStar,” “Peptan,” “Cookie Meal,” and “Bakery Fe certain patents, both domestically and internationally, relating to the process for preparing nutritional supplements and the drying and processing of raw materials.

EMPLOYEES AND LABOR RELATIONS

As of January 2, 2016, the Company employed globally approximately 10,000 persons full-time. While we have no national or multi-plant union contracts, at January 2, 2016, approximately 23% of the Company's North American employees were covered by multiple collective bargaining agreements. In addition, approximately 42% of Darling Ingredients International's employees are covered by various collective bargaining agreements. Management believes that our relations with our employees and their representatives are satisfactory. There can be no assurance, however, that these satisfactory arrangements will continue, or that new agreements will be reached without union action or on terms satisfactory to us.

REGULATIONS

We are subject to the rules and regulations of various federal, state, local and foreign governmental agencies including the following principal governmental agencies in the following countries:

United States

- The Food and Drug Administration (“FDA”), which regulates pharmaceutical products and food and feed safety. The FDA has promulgated rules prohibiting the use of mammalian proteins, with some exceptions, in feeds for cattle, sheep and other ruminant animals (21 C.F.R. 589.2000, referred to herein as the “BSE Feed Rule”) to prevent further spread of bovine spongiform encephalopathy, which is commonly referred to as "mad cow" disease (“BSE”). With respect to BSE in the United States, on October 26, 2009, the FDA began enforcing new regulations intended to further reduce the risk of spreading BSE (the “Enhanced BSE Rule”). These new regulations included amending the BSE Feed Rule to prohibit the use of tallow having more than 0.15% insoluble impurities in feed for cattle or other ruminant animals. In addition, the Enhanced BSE Rule prohibits the use of brain and spinal cord material from cattle aged 30 months and older or the carcasses of such cattle, if the brain and spinal cord are not removed, in the feed or food for all animals. Management believes we are in compliance with the provisions of these rules. In addition, the FDA is responsible for implementing and enforcing the Food Safety Modernization Act, which was signed into law on January 6, 2011, and gave FDA a series of powers intended to better protect human and animal health by adopting a modern, preventive and risk-based approach to food safety regulation. See Item 1A “Risk Factors - Our business may be affected by the impact of BSE and other food safety issues,” for more information regarding certain FDA rules that affect our business, including changes to the BSE Feed Rule and rules and regulations under the Food Safety Modernization Act.

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- The United States Department of Agriculture ("USDA"), which has authority over meat, poultry, and egg products and inspects producers to ensure compliance with applicable laws and regulations. The USDA regulates our collection and production methods as well as the safety of our rendering and processing operations. Within the USDA, two agencies exercise direct regulatory oversight of our activities:

- Animal and Plant Health Inspection Service ("APHIS") certifies facilities and claims made for exported materials to meet importing country requirements and establishes and enforces import requirements for live animals and animal by-products as well as plant products, and

- Food Safety Inspection Service ("FSIS") regulates sanitation of our facilities and our food safety programs, among other things.

On January 12, 2004, FSIS issued three interim final rules designed to enhance its BSE safeguards in order to minimize human exposure to BSE infective tissues and assure consumers of the safety of the meat supply. These regulations prohibited non-ambulatory animals from entering the food chain, required removal of specified risk materials at slaughter and prohibited carcasses from cattle tested for BSE from entering the food chain until the animals tested negative for BSE, among other provisions. On July 13, 2007, FSIS published an affirmation of the interim final rules concerning prohibition of specific risk materials and non-ambulatory animals and the use of stunning devices, with several amendments.

On November 19, 2007, APHIS implemented revised import regulations that allowed Canadian cattle 30 months of age and older and born on or after March 1, 1999, and bovine products derived from such cattle to be imported into the United States for any use, if such cattle and products complied with specific FDA and FSIS regulations. Imports of Canadian cattle younger than 30 months of age have been allowed since March 2005. Imports of specialized risk material ("SRM") from Canadian-born cattle slaughtered in Canada are not permitted. On March 4, 2014, APHIS implemented amended import regulations concerning cattle and bovine products. The final rule established a system for classifying regions as to BSE risk that is consistent with international standards set by the World Organization for Animal Health ("OIE"), and based importation requirements for cattle and beef products on: (i) the inherent risk of BSE infectivity in the commodity to be imported and (ii) the BSE risk status of the region from which the commodity originates.

- The U.S. Environmental Protection Agency ("EPA"), which regulates air and water discharges and hazardous and solid waste requirements among other environmental requirements, as well as local and state environmental agencies with jurisdiction over environmental matters affecting the Company's operations. The EPA also administers the National Renewable Fuel Standard Program ("RFS2").

- The Association of American Feed Control Officials ("AAFCO"), which is a voluntary membership association of local, state, and federal agencies that regulate the sale and distribution of animal feeds and animal drug remedies. Although, AAFCO has no regulatory authority, it brings together stakeholders and works to develop and implement uniform and equitable laws, regulations, standards, definitions, and enforcement polices for regulating the manufacture, labeling, distribution and sale of animal feeds.

- State Departments of Agriculture, which regulate animal by-product collection and transportation procedures and animal feed quality.

- The United States Department of Transportation ("USDOT"), as well as local and state transportation agencies, which regulate the operation of our commercial vehicles.

- The U.S. Occupational Safety and Health Administration ("OSHA"), which is the main federal agency charged with the enforcement of worker safety and health legislation.

- The Securities and Exchange Commission ("SEC"), which regulates securities and information required in annual, quarterly and other reports filed by publicly traded companies.

European Union and E.U. Member States

- The European Commission, Directorate-General for Health and Food Safety, which addresses regulations for food, feed, human and animal health, technical uses of animal by-products and packaging.
- The European Medicines Agency, which establishes guidance for pharmaceutical products, bovine products and metal residues.

- The European Directorate for the Quality of Medicine and Healthcare, which protects public health by enabling the development, supporting the implementation, and monitoring the application of quality standards for safe medicines and their safe use.

- The European Pharmacopeia, which establishes requirements for the qualitative and quantitative composition of medicines, the tests to be carried out on medicines and on substances and materials used in their production.

- The European Chemicals Agency, which is responsible for the implementation of the European Council's Regulation on the Registration, Evaluation, Authorisation and Restriction of Chemicals.

- The European Commission, Directorate-General for the Environment, which establishes regulations on pollution and waste, such as the Directives on Industrial Emissions, Integrated Pollution Prevention and Control and Best Available Techniques Reference Document on the Slaughterhouses and Animal By-products Industries.

- European Union Member States must ensure adequate control and supervision of principles set forth in numerous EU Directives, such as minimum safety and health requirements for the workplace and use of work equipment by workers. EU Member States are allowed to maintain or establish more stringent measures in their own legislation. In general, each EU Member State's ministry of labor affairs is responsible for regulating health and safety at work and labor inspection services and is in charge of controlling compliance with applicable legislation and regulations.

- The Netherlands Food and Consumer Product Safety Authority (Nederlandse Voedsel- en Warenautoriteit), which issues permits, approvals and registrations to establishments or plants engaged in certain activities related to the handling of animal by-products and food and feed production.

- Belgian Federal Agency for the Safety of the Food Chain (FASFC) (Federal Agentschap voor de Veiligheid van de Voedselketen), which issues permits, approvals and registrations to establishments or plants engaged in certain activities related to the handling of animal by-products and food and feed production.

- Belgium's Public Waste Agency of Flanders (Openbare Afvalstoffenmaatschappij voor het Vlaams Gewest), which issues permits, approvals and registrations to establishments or plants carrying out certain activities related to the handling of animal by-products.

- The German Competent Authorities at state (Länder) level, which issue permits, approvals and registrations to establishments or plants carrying out certain activities related to the handling of animal by-products and food and feed production.

- The United Kingdom's Health and Safety Executive is the government body responsible for enforcing health and safety at work legislation, such as the Health and Safety at Work Act 1974, and enforcing health and safety law in industrial workplaces, together with local authorities.

- The United Kingdom's Food Standards Agency issues permits, approvals and registrations to plants carrying out certain activities related to the handling of animal by-products.

Canada

- The Canadian Food Inspection Agency ("CFIA"), which regulates animal health and the disposal of animals and their products or by-products.

- Canadian provincial ministries of agriculture and the environment, which regulate food safety and quality, air and water discharge requirements and the disposal of deadstock.

- The Canadian Department of the Environment ("Environment Canada"), which ensures compliance with Canadian federal air and water discharge and wildlife management requirements, and the various provincial and local environmental ministries and agencies.

- The Canadian Technical Standards and Safety Authority ("TSSA"), a non-profit organization that regulates the safety of fuels and pressure vessels and boilers.

China

- The General Administration of Quality Supervision, Inspection and Quarantine, which supervises the import and export of food and feed.

- The Ministry of Health of the People’s Republic of China, which establishes standards for food and pharmaceutical products.
- The Chinese Pharmacopeia, which establishes standards for pharmaceutical products.
- Ministry of Environmental Protection of the People's Republic of China, which regulates the environmental protection standards.
- Ministry of Labor and Social Security of the People's Republic of China, which establishes the regulations of labor, welfare and health insurance.
- State Administration of Work Safety, which establishes the work safety standards and regulations.

Brazil

- The Ministry of Agriculture, Cattle and Supply (Ministério da Agricultura, Pecuária e Abastecimento), which regulates the production of gelatin.
- Ministry of Labor (Ministério do Trabalho), which regulates labor health and safety.
- National Water Agency (ANA), which regulates waste water discharge permits.
- State Government Agency CETESB, responsible for the control, supervision, monitoring and licensing process for pollution generating activities.

Argentina

- The National Department for Food Safety and Quality (Servicio Nacional de Sanidad y Calidad Agroalimentaria), which regulates the production of gelatin.
- The National Department of Animal Health (Servicio Nacional de Sanidad Animal), which at the local level is equivalent to the FDA in Argentina.
- Ministry of Labor (MMTT - Ministerio de Trabajo) which proposes, designs develops, manages and monitors policies for all areas of labor, employment and labor relations, vocational training and social security.
- Department of Sustainable Development (OPDS - Organizmo Provincial para el Desarrollo Sostenible), which regulates all environmental affairs and issuing of the Environmental Aptitude Certificate.
- National Water Authority (ADA - Autoridad Del Agua), which regulates water consumption and waste water discharge.

Australia

- The Australian Quarantine and Inspection Service, which regulates the import and export of agricultural products, including animal by-products.
- The Department of Agriculture, Fisheries and Forestry, which administers meat and animal by-product legislation.

- PrimeSafe, which is the principal regulator of meat and animal by-product businesses in the State of Victoria.

- The Australian Competition and Consumer Commission, which regulates Australia’s competition and consumer protection law.

- The Australian Securities and Investments Commission, which regulates Australia’s company and financial services laws.

- Worksafe Victoria, which is the regulator responsible for administering and enforcing occupational health and safety laws and regulations in the State of Victoria.

- Environment Protection Authority Victoria, which administers environmental protection laws in Victoria.

- Goulburn-Murray Rural Water Corporation, which manages allocation and use of water under local water laws in Victoria.

Rules and regulations promulgated by these and other agencies may influence our operating results at one or more facilities.

AVAILABLE INFORMATION

Under the Securities Exchange Act of 1934, the Company is required to file annual, quarterly and special reports, proxy statements and other information with the SEC, which can be read and/or copies made at the SEC's Public Reference Room at 100 F Street N.E., Washington D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the Public Reference Room. The SEC maintains a web site at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The Company files electronically with the SEC.

We make available, free of charge, through our investor relations web site, our reports on Forms 10-K, 10-Q and 8-K, and amendments to those reports, as well as all other filings with the SEC, as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act.

The Company's website is http://www.darlingii.com and the address for the Company's investor relations web site is http://ir.darlingii.com. Information contained on these websites is not and should not be deemed to be a part of this report or any filing filed with, or furnished to, the SEC by us.

ITEM 1A. RISK FACTORS

An investment in Darling involves substantial risks. In consultation with your financial, tax and legal advisors, you should carefully consider, among other matters, the following risks in, as well as the other information contained in or incorporated by reference into, this report. If any of the events described in the following risk factors actually occur, our business, financial condition, prospects or results of operations could be materially adversely affected, the market price of our common stock could decline and you may lose all or part of your investment in the common stock. The risks and uncertainties described below are not the only risks we face. Additional risks and uncertainties that are not currently known or that are currently deemed to be immaterial may also materially and adversely affect our business operations and financial condition or the market price of our common stock. The risks described below also include forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements. See the section entitled “Forward-Looking Statements” in this filing.

Risks Related to the Company

The prices of many of our products are subject to significant volatility associated with commodities markets.

Our principal finished products include MBM, BFT, YG and hides, which are commodities. We also manufacture and sell a number of other products that are derived from animal by-products and many of which are commodities or compete with commodities. The prices of these commodities are quoted on, or derived from prices quoted on, established commodity markets. Accordingly, our results of operations will be affected by fluctuations in the prevailing market prices of these finished products or of other commodities that may be substituted for our products by our customers. Historically, market prices for commodity grains, fats and food stocks have fluctuated in response to a number of factors, including global changes in supply and demand resulting from changes in local and global economic conditions, changes in global government agriculture programs, changes in energy policies of U.S. and foreign governments, changes in international agricultural trading policies, impact of disease outbreaks on protein sources and the potential effect on supply and demand, as well as weather conditions during the growing and harvesting seasons. While we seek to mitigate the risks associated with price declines, including by diversifying our finished products offerings, through the use of formula pricing tied to commodity prices for a substantial portion of our raw materials (which may not protect our margins in periods of rapidly declining prices) and hedging, a significant decrease in the market price of any of our products or of other commodities that may be substituted for our products would have a material adverse effect on our results of operations and cash flow. Furthermore, rapid and material changes in finished goods prices, including competing agricultural-based alternative ingredients, generally have an immediate and, often times, material impact on the Company's gross margin and profitability resulting from the lag effect or lapse of time from the procurement of the raw materials until they are processed and the finished goods are sold.

The prices available for the Company's Food Ingredients segment's gelatin, edible fats and natural casings products are influenced by other competing ingredients, including plant-based and synthetic hydrocolloids and artificial casings. In the gelatin operation, in particular, the cost of the Company's animal-based raw material moves in relationship to the selling price of the finished goods. The processing time for gelatin and casings is generally 30 to 60 days, which is substantially longer than the Company's animal by-products operations. Consequently, the Company's gross margin and profitability in this segment can be

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influenced by the movement of finished goods prices from the time the raw materials were procured until the finished goods are sold.

In addition, increases in the market prices of raw materials would require us to raise prices for our premium, value-added and branded products to avoid margin deterioration. There can be no assurance as to whether we could implement future price increases in response to increases in the market prices of raw materials or how any such price increases would affect future sales volumes to our customers. Our results of operations could be materially and adversely affected in the future by this volatility.

Our business is dependent on the procurement of raw materials, which is the most competitive aspect of our business.

Our management believes that the most competitive aspect of our business is the procurement of raw materials rather than the sale of finished products. Many of our raw materials are derived directly or indirectly from animal by-products, which results in the following challenges:

- In North America, consolidation within the meat processing industry has resulted in bigger and more efficient slaughtering operations, the majority of which utilize “captive” renderers (rendering operations integrated with the meat or poultry packing operation).

- Concurrently, the number of small U.S. meat processors, which have historically been a dependable source of supply for non-captive or independent U.S. renderers, such as us, has decreased significantly.

- The slaughter rates in the U.S. and international meat processing industry are subject to decline during poor economic conditions when consumers generally reduce their consumption of protein, and as a result, during such periods of decline, the availability, quantity and quality of raw materials available to the independent renderers, such as us, decreases.

- In addition, the Company has seen an increase in the use of used cooking oil in the production of biodiesel, which has increased competition for the collection of used cooking oil from restaurants and other food service establishments and contributed to an increase in the frequency and magnitude of theft of used cooking oil in the United States.

- Furthermore, a decline in the general performance of the global economy (including a decline in consumer confidence) and any inability of consumers and companies to obtain credit in the financial markets could have a negative impact on our raw material volume, such as through the forced closure of any of our raw material suppliers. A significant decrease in available raw materials or a closure of a significant number of raw material suppliers could materially and adversely affect our business, results of operations and financial condition, including the carrying value of certain of our assets.

The rendering industry is highly fragmented and both the rendering and bakery residual industries are very competitive. We compete with other rendering businesses and alternative methods of disposal of animal by-products, bakery residue and used cooking oil provided by trash haulers, waste management companies and biodiesel companies, as well as the alternative of illegal disposal. See Item 1. “Competition.” In addition, U.S. restaurants experience theft of used cooking oil, the frequency and magnitude of which increases with the rise in value of used cooking oil. Depending on market conditions, we either charge a collection fee to offset a portion of the cost incurred in collecting raw material or will pay for the raw material. To the extent suppliers of raw materials look to alternate methods of disposal, whether as a result of our collection fees being deemed too expensive, the payments we offer being deemed too low or otherwise, our raw material supply will decrease and our collection fee revenues will decrease, which could materially and adversely affect our business, results of operations and financial condition. In addition, the amount of raw material acquired, which has a direct impact on the amount of finished goods produced, can also have a material effect on our gross margin reported, as the Company has a substantial amount of fixed operating costs.

A majority of the Company's U.S. volume of animal by-product raw materials, including all of its significant U.S. poultry accounts, and substantially all of the Company's U.S. bakery feed raw materials, are acquired on a "formula basis," which in most cases is set forth in contracts with our suppliers, generally with multi-year terms. These "formulas" allow us to mitigate the risks associated with decreases in commodity prices by adjusting our costs of materials based on changes in the price of our finished products, while also permitting us, in certain cases, to benefit from increases in commodity prices. The formulas provided in these contracts are reviewed and modified both during the term of, and in connection with the renewal of, the contracts to maintain an acceptable level of sharing between us and our suppliers of the costs and benefits from movements in commodity prices. Changes to these formulas or the inability to renew such contracts could have a material adverse effect on our business, results of operations and financial condition. A majority of Rothsay's animal by-product raw materials are acquired based on prices fixed on a quarterly basis with suppliers, with the remaining portion acquired on a "formula basis." A majority of Darling Ingredients International's volume of animal by-product raw materials are acquired at spot or quarterly fixed prices. Although Darling Ingredients International, in general, has no long term contracts with its key suppliers, it has procured a series of four-year supply agreements with VION Food that became effective concurrently with the completion of the VION Acquisition and provided approximately 12% of Darling Ingredients International's raw material supply in fiscal 2015.

Our business may be adversely impacted by fluctuations in exchange rates, which could affect our ability to comply with our financial covenants.

Our international operations have expanded significantly and our exposure to fluctuations in currency exchange rates has increased accordingly. We now carry out transactions in a number of foreign currencies, principally the euro, the Canadian dollar, the Chinese renminbi, the Brazilian real, the British pound, the Japanese yen, the Argentine peso, the Australian dollar and the Polish zloty. To the extent possible, we attempt to match revenues and expenses in each of the currencies in which we operate. However, we will still be exposed to currency fluctuations when we translate the results of our overseas operations into U.S. dollars, our functional currency, in the preparation of our consolidated financial statements. The exchange rates between these currencies and the U.S. dollar may fluctuate and these fluctuations may affect our U.S. dollar-denominated results of operations and financial condition even if our underlying operations and financial condition, in local currency terms, remain unchanged. While we have entered into and may from time to time enter into the use of currency hedging instruments to provide us with protection from adverse fluctuations in currency exchange rates, there can be no assurance that such instruments will successfully protect us from more pronounced swings in such exchange rates. Further, by utilizing these instruments we potentially forego the benefits that might result from favorable fluctuations in currency exchange rates.

We also face risks arising from the possible future imposition of exchange controls and currency devaluations. Exchange controls may limit our ability to convert foreign currencies into U.S. dollars or to remit dividends and other payments by our foreign subsidiaries located in, or business conducted within, a country imposing such controls. Currency devaluations would result in a diminished value of funds denominated in the currency of the country instituting the devaluation.

Any fluctuations in exchange rates or the imposition of exchange controls or currency devaluation may adversely impact our ability to comply with the financial and other covenants under the documents governing our indebtedness, which could affect our ability to incur indebtedness, pay dividends, make investments or take other actions that might be in our best interest. Should our international operations continue to expand, they will represent a larger part of our business and such exchange rate fluctuations may have a greater impact on our business, financial condition and results of operations.

We are highly dependent on natural gas, diesel fuel and electricity, the price of which can be volatile, and such dependency could materially adversely affect our business.

Our operations are highly dependent on the use of natural gas, diesel fuel and electricity. We consume significant volumes of natural gas to operate boilers in our plants, which generate steam to heat raw materials. Natural gas prices represent a significant cost of facility operations included in cost of sales. We also consume significant volumes of diesel fuel to operate our fleet of tractors and trucks used to collect raw materials. Diesel fuel prices represent a significant component of cost of collection expenses included in cost of sales. Prices for both natural gas and diesel fuel can be volatile and therefore represent an ongoing challenge to our operating results. Although we continually manage these costs and hedge our exposure to changes in fuel prices through our formula pricing and from time to time derivatives, a material increase in prices for natural gas and/or diesel fuel over a sustained period of time could materially adversely affect our business, results of operations and financial condition. We also require a significant amount of electricity in operating certain of our facilities, a disruption of which or a significant increase in the cost of which could have a material adverse affect on the business and results of operations of the affected facility.

A significant percentage of our revenue is attributable to a limited number of suppliers and customers.

In fiscal 2015, the Company's top ten customers for finished products accounted for approximately 19% of product sales. In addition, the Company's top ten raw material suppliers accounted for approximately 21% of its raw material supply in the same period. VION Food, Darling Ingredients International’s largest raw materials supplier, accounted for approximately 12% of Darling Ingredients International’s raw materials supply in fiscal 2015. Darling Ingredients International has entered into supply agreements with VION Food pursuant to which VION Food supplies Darling Ingredients International with by-products generated by VION Food’s operations. The supply agreements all have a term of four years and became effective concurrently with the completion of the VION Acquisition. MFI, Rothsay’s largest raw materials supplier, accounted for approximately 23% of Rothsay’s raw materials supply in fiscal 2015. In connection with the Rothsay Acquisition, we entered into a seven-year supply agreement with MFI to supply us with substantially all of the MFI raw materials processed by Rothsay prior to the sale.

Disruptions or modifications to, or termination of, our relationships with any of our significant suppliers or customers, or financial difficulties experienced by any of our suppliers or customers that lead to curtailment or termination of their operations, could cause our businesses to suffer significant financial losses and could have a material adverse impact on our business, earnings, financial condition and/or cash flows.

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

Certain of our operating facilities are highly dependent on one or a few suppliers. Should any of these suppliers choose alternate methods of disposal, cease their operations, have their operations interrupted by casualty, curtail their operations or otherwise cease using our collection services, these operating facilities may be materially and adversely affected, which could materially and adversely affect our business, results of operations and financial condition.

We face risks associated with our international activities, which could negatively affect our sales to customers in foreign countries and our operations and assets in such countries.

We conduct foreign operations in Europe, Canada, Asia, South America and Australia. While we expect that our geographical diversity reduces our exposure to risks in any one country or part of the world, it also subjects us to the various risks and uncertainties relating to international sales and operations, including:

- imposition of tariffs, quotas, trade barriers and other trade protection measures imposed by foreign countries regarding the importation of poultry, beef and pork products, in addition to operating, import or export licensing requirements imposed by various foreign countries;
- imposition of border restrictions by foreign countries with respect to the import of poultry, beef and pork products due to animal disease or other perceived health or safety issues;
- impact of currency exchange rate fluctuations between the U.S. dollar and foreign currencies, particularly the euro, the Canadian dollar, the Chinese renminbi, the Brazilian real, the British pound, the Japanese yen, the Argentine peso, the Australian dollar and the Polish zloty, which may reduce the U.S. dollar value of the revenues, profits and cash flows we receive from non-U.S. markets or of our assets in non-U.S. countries or increase our supply costs, as measured in U.S. dollars in those markets;
- exchange controls and other limits on our ability to import raw materials, import or export finished products or to repatriate earnings from overseas, such as exchange controls in effect in China, that may limit our ability to repatriate earnings from those countries;
- different regulatory structures (including creditor rights that may be different than in the United States) and unexpected changes in regulatory environments (including, without limitation, in China), including changes resulting in potentially adverse tax consequences or imposition of onerous trade restrictions, price controls, industry controls, animal and human food safety controls, employee welfare schemes or other government controls;
- political or economic instability, social or labor unrest or changing macroeconomic conditions or other changes in political, economic or social conditions in the respective jurisdictions;
- changes in our effective tax rate including, tax rates that may exceed those in the United States, earnings that may be subject to withholding requirements and incremental taxes upon repatriation, changes in the mix of our business from year to year and from country to country, changes in rules related to accounting for income taxes, changes in tax laws in any of the jurisdictions in which we operate and adverse outcomes from tax audits;

- compliance with and enforcement of a wide variety of complex U.S. and non-U.S. laws, treaties and regulations, including, without limitation, anti-bribery laws such as the U.S. Foreign Corrupt Practices Act (the “FCPA”), the U.K. Bribery Act 2010, the Brazilian corporate anti-corruption law and similar anti-corruption legislation in many jurisdictions in which we operate, as well as economic and trade sanctions enforced by the U.S. Department of the Treasury’s Office of Foreign Assets Control, the EU and other governmental entities; and
- distribution costs, disruptions in shipping or reduced availability or increased costs of freight transportation.

These risks and uncertainties could jeopardize or limit our ability to transact business in one or more of our international markets or in other developing markets and may have a material adverse affect on our business, results of operations, cash flows and financial condition.

The DGD Joint Venture subjects us to a number of risks.

In January 2011, our wholly-owned subsidiary entered into a limited liability company agreement with a wholly-owned subsidiary of Valero to form the DGD Joint Venture, which was formed to design, engineer, construct and operate 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. The DGD Facility, which is located adjacent to Valero's refinery in Norco, Louisiana, reached mechanical completion and began production of renewable diesel in late June 2013. As of January 2, 2016, under the equity method of accounting, we had an investment in the DGD Joint Venture of approximately $225.8 million included on the consolidated balance sheet. There is no assurance that the DGD Joint Venture will continue to be profitable or allow us to continue to make a return on our investment.

The DGD Joint Venture is dependent on governmental energy policies and programs, such as the RFS2 and low carbon fuel standards (LCFS) (such as in the state of California), which positively impact the demand for and price of renewable diesel. Any changes to, a failure to enforce or a discontinuation of any of these programs could have a material adverse affect on the DGD Joint Venture. See the section entitled "Risk Factors-Risks Related to the Company-Our biofuels business may be affected by energy policies of U.S. and foreign governments." Similarly, the DGD Joint Venture is subject to the risk that new or changing technologies may be developed that could meet demand for renewable diesel under governmental mandates in a more efficient or less costly manner than the technologies used by the DGD Joint Venture, which could negatively affect the price of renewable diesel and have a material adverse affect on the DGD Joint Venture.

In addition, the operation of a joint venture such as this involves a number of risks that could harm our business and result in the DGD Joint Venture not performing as expected, such as:

- problems integrating or developing operations, personnel, technologies or products;
- the unanticipated breakdown or failure of equipment or processes, including any unforeseen issues that may arise in connection with the operation of the DGD Facility;
- the inaccuracy of our assumptions about prices for the renewal diesel that the DGD Joint Venture produces;
- unforeseen engineering or environmental issues, including new or more stringent environmental regulations affecting operations;
- the inaccuracy of our assumptions about the timing and amount of anticipated revenues and operating costs including feedstock prices;
- the diversion of management time and resources;
- difficulty in obtaining and maintaining permits and other regulatory issues, potential license revocation and changes in legal requirements;
- difficulties in establishing and maintaining relationships with suppliers and end user customers;
- limitations in the DGD Joint Venture's loan agreement with Valero prohibit the payment of distributions to the DGD Joint Venture partners until certain conditions required by the loan agreement with Valero are satisfied; however,

those conditions were met in fiscal 2015 and the DGD Joint Venture distributed $50.0 million to the DGD Joint Venture partners;

- the risk that one or more competitive new renewable diesel plants are constructed that use different technologies from the DGD Joint Venture facility and result in the marketing of products that are more effective as a substitute for carbon-based fuels or less expensive than the products marketed by the DGD Joint Venture;

- performance below expected levels of output or efficiency;

- reliance on Valero and its adjacent refinery facility for many services and processes;

- if any of the risks described in connection with the DGD Joint Venture occur, possible impairment of the acquired assets, including intangible assets;
- possible third party claims of intellectual property infringement; and
- being forced to sell our equity interests in the DGD Joint Venture pursuant to buy/sell provisions in the DGD Joint Venture's operating agreement and not realizing the benefits of the DGD Joint Venture.

If any of these risks described above were to materialize and the operations of the DGD Joint Venture were significantly disrupted, a material adverse effect on our business, financial condition and results of operations could result.

Our biofuels business may be affected by energy policies of U.S. and foreign governments.

Pursuant to the requirements established by the Energy Independence and Security Act of 2007, the EPA finalized regulations for RFS2 in 2010. The regulation mandated the domestic use of biomass-based diesel (biodiesel or renewable diesel) of 1.0 billion gallons in 2012. Beyond 2012, the regulation requires a minimum of 1.0 billion gallons of biomass-based diesel for each year through 2022, which amount is subject to increase by the Administrator of the EPA. On November 30, 2015, the EPA issued a final rule establishing the biomass-based diesel obligations for 2014 (1.63 billion gallons), 2015 (1.73 billion gallons), 2016 (1.9 billion gallons) and 2017 (2.0 billion gallons). In addition the EPA established the advanced biofuel requirements for 2014 (2.67 billion RINs), 2015 (2.88 billion RINs) and 2016 (3.61 billion RINs), as well as the total renewable fuel obligation for 2014 (16.28 billion RINs), 2015 (16.93 billion RINs) and 2016 (18.11 billion RINs). Biomass-based diesel qualifies to fulfill the biomass based diesel requirement, the non-specified portion of the advanced biofuel requirement and the total renewable fuel requirement. In order to qualify as a "renewable fuel" each type of fuel from each type of feedstock is required to lower greenhouse gas emissions ("GHG") by levels specified in the regulation. The EPA has determined that biofuels (either biodiesel or renewable diesel) produced from waste oils, fats and greases result in an 86% reduction in GHG emissions, exceeding the 50% requirement established by the regulation. Prices for our finished products may be impacted by worldwide government policies relating to renewable fuels and GHG. Programs like RFS2 and LCFS and tax credits for biofuels both in the United States and abroad may positively impact the demand for our finished products. In fiscal 2015, the amount of tax credits for biofuels impacting the Company was material. Conversely, legal challenges to, changes to, a failure to enforce, reductions in the mandated volumes under, or discontinuing any of these programs could have a negative impact on our business and results of operations. Furthermore, the blenders tax credits expire on December 31, 2016, and is therefore at risk for calendar year 2017 and into the future due to delay or denial of extension.

We may incur material costs and liabilities in complying with government regulations.

We are subject to the rules and regulations of various governmental agencies in the United States, the European Union (the "EU"), Canada, China and the other countries in which Darling Ingredients International operates. These include rules and regulations administered by governmental agencies at the supranational, federal, state, provincial or local level. See Item1. "Business - Regulations" for a listing of certain governmental agencies to which we are subject.

The applicable rules, regulations and guidance promulgated by these and other agencies, which are likely to change over time, affect our operations and may influence our operating results at one or more facilities. Furthermore, the loss of or failure to obtain necessary federal, state, provincial or local permits and registrations at one or more of our facilities could halt or curtail operations at impacted facilities, which could result in impairment charges related to the affected facility and otherwise adversely affect our operating results. In addition, our failure to comply with applicable rules, regulations and guidance, including obtaining or maintaining required operating certificates or permits, could subject us to: (i) administrative penalties and injunctive relief; (ii) civil remedies, including fines, injunctions and product recalls; and (iii) adverse publicity. There can be no assurance that we will not incur material costs and liabilities in connection with these rules, regulations and guidance.

Because of our international operations throughout much of the world, we could be adversely affected by violations of the FCPA and similar anti-bribery laws. The FCPA and similar anti-bribery laws generally prohibit companies and their intermediaries from making improper payments or providing anything of value to improperly influence government officials or other third parties for the purpose of obtaining or retaining business or obtaining an unfair business advantage. Recent years have seen a substantial increase in the global enforcement of anti-corruption laws. Our operations outside the United States, including in developing countries, could increase the risk of such violations. In addition, we may enter into joint ventures with joint venture partners who are domiciled in areas of the world with anti-bribery laws, regulations and business practices that differ from those in the United States. There is risk that our joint venture partners will violate the FCPA or other applicable anti-bribery laws and regulations. While our policies mandate compliance with the FCPA and other anti-bribery laws, we cannot provide assurance that our internal control policies and procedures will always protect us from violations committed by our employees, joint venture partners or agents. Violations of the FCPA or other anti-bribery laws, or allegations of such violations, could result in lengthy investigations and possibly disrupt our business, lead to criminal and/or civil legal proceedings brought by governmental agencies and/or third parties, result in material fines and legal and other costs and have a material adverse effect on our reputation, business, results of operations, cash flows and financial condition.

Given the competitive nature of our industry, we could be adversely affected by violations of various countries' antitrust, competition and consumer protection laws. These laws generally prohibit companies and individuals from engaging in anticompetitive and unfair business practices. While our policies mandate compliance with these laws, we cannot provide assurance that our internal control policies and procedures will always protect us from reckless or criminal acts committed by our employees, joint venture partners or agents.

Seasonal factors and weather, including the physical impacts of climate change, can impact the availability, quality and volume of raw materials that we process and negatively affect our operations.

The quantity of raw materials available to us is impacted by seasonal factors, including holidays, when raw material volumes decline, and cold weather, which can impact the collection of raw materials. In addition, warm weather can adversely affect the quality of raw materials processed and our yield on production due to more rapidly degrading raw materials. In addition to seasonal impacts, depending upon the location of our facilities and those of our suppliers, our operations could be subject to the physical impacts of climate change, including changes in rainfall patterns, water shortages, changing sea levels, changing storm patterns and intensities and changing temperature levels. Physical damage, flooding, excessive snowfall or drought resulting from changing climate patterns could adversely impact our costs and business operations, the availability and costs of our raw materials, and the supply and demand for our end products. These effects could be material to our results of operations, liquidity or capital resources. The quality and volume of the finished products that we are able to produce could be negatively impacted by unseasonable or severe weather or unexpected declines in the volume of raw materials available during holidays, which in turn could have a material adverse impact on our business, results of operations and financial condition. In addition, severe weather events may also impact our ability to collect or process raw materials or to transport finished products.

Downturns and volatility in global economies and commodity and credit markets could materially adversely affect our business, results of operations and financial condition.

Our results of operations are materially affected by the conditions of the global economies and the credit, commodities and stock markets. Among other things, we may be adversely impacted if our domestic and international customers and suppliers are not able to access sufficient capital to continue to operate their businesses or to operate them at prior levels. A decline in consumer confidence or changing patterns in the availability and use of disposable income by consumers can negatively affect both our suppliers and customers. Declining discretionary consumer spending or the loss or impairment of a meaningful number of our suppliers or customers could lead to a dislocation in either raw material availability or customer demand. Any tightening in credit supply could negatively affect our customers' ability to pay for our products on a timely basis or at all and could result in a requirement for additional bad debt reserves. Although many of our customer contracts are formula-based, continued volatility in the commodities markets could negatively impact our revenues and overall profits. Counterparty risk on finished product sales can also impact revenue and operating profits when customers either are unable to obtain credit or refuse to take delivery of finished products due to market price declines.

Our substantial level of indebtedness could adversely affect our financial condition.

As of January 2, 2016, our total indebtedness, including trade debt was approximately $2.0 billion. Our high level of indebtedness could have important consequences, including the following:

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making it more difficult for us to satisfy our obligations to our financial lenders and our contractual and commercial commitments;

- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements on commercially reasonable terms or at all;
- requiring us to use a substantial portion of our cash flows from operations to pay principal and interest on our indebtedness instead of other purposes, thereby reducing the amount of our cash flows from operations available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- increasing our vulnerability to adverse economic, industry and business conditions;

- exposing us to the risk of increased interest rates as certain of our borrowings are at variable rates of interest;
- increasing our exposure to the impact on our debt level of changes in foreign exchange rate conversion to functional currency;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- placing us at a competitive disadvantage compared to other, less leveraged competitors; and
- increasing our cost of borrowing.

In addition, the indenture that governs our senior notes and the credit agreement governing our senior secured credit facilities contain restrictive covenants that limit our ability to engage in activities that may be in our long-term best interest. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all our funded indebtedness. See Item 7. “Management Discussion and Analysis of Financial Condition and Results of Operations” - “Senior Secured Credit Facilities”, “5.375% Senior Notes due 2022” and “4.75% Senior Notes due 2022.”

Despite our existing level of indebtedness, we and our subsidiaries may still be able to incur substantially more indebtedness, which could further exacerbate the risks to our financial condition described above.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future, including additional secured indebtedness under the senior secured credit facilities. Although the indenture that governs the senior notes and the credit agreement governing the senior secured credit facilities contain restrictions on our incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and the additional indebtedness that could be incurred in compliance with these restrictions could be substantial. To the extent that we or our subsidiaries incur additional indebtedness, the risks associated with our indebtedness, including our possible inability to service our indebtedness, could intensify. See Item 7. “Management Discussion and Analysis of Financial Condition and Results of Operations” - “Senior Secured Credit Facilities”, “5.375% Senior Notes due 2022” and “4.75% Senior Notes due 2022.”

We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations and to meet our other cash needs, we could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance our indebtedness. We may not be able to effect any such alternative measures, if necessary, on commercially reasonable terms or at all and, even if successful, such alternative actions may not allow us to meet our scheduled debt service obligations and our other cash needs. The credit agreement governing our senior secured credit facilities and the indenture governing our senior notes restrict our ability to use the proceeds from the disposition of assets, debt incurrence or sales of equity to repay other indebtedness when it becomes due. We may not be able to consummate any such dispositions or to obtain debt or equity proceeds in amounts sufficient to meet any debt service obligations then due, and we may be restricted under the credit agreement governing our senior secured credit facilities or the indenture governing our senior notes from using any such amounts to service other debt obligations.

If we cannot make scheduled payments under any of the agreements governing our debt, we would be in default under such agreements, which could allow lenders under any credit facilities to terminate their commitments to loan money and could allow the applicable lenders or other debt holders to declare all outstanding principal and interest of such debt to be immediately due and payable, and, in the case of secured debt, to foreclose against the assets securing such debt and apply the proceeds from such foreclosure to repay amounts owed to them. Any of these events would likely in turn trigger cross-acceleration or cross-default provisions in our other debt instruments, which would allow the creditors under those instruments to exercise similar rights. If any of these actions are taken, we could be forced into restructuring, bankruptcy or liquidation.

Our ability to repay our indebtedness depends in part on the performance of our subsidiaries, including our non-guarantor subsidiaries, and their ability to make payments.

We conduct a significant portion of our operations through our subsidiaries, a number of which operate outside the United States. Accordingly, repayment of our indebtedness is dependent, to a significant extent, on the generation of cash flow by our subsidiaries and their ability to make such cash available to us. Unless they are guarantors of the indebtedness, our subsidiaries do not have any obligation to pay amounts due on the indebtedness or to make funds available for that purpose. Under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from our subsidiaries. For example, our subsidiaries that are organized under the laws of, and operate in, China, currently have substantial regulatory restrictions on their ability to make cash available to us. While the credit agreement governing the senior secured credit facilities, the indenture governing our senior notes and the agreements governing certain of our other indebtedness will limit the ability of certain of our subsidiaries to incur consensual restrictions on their ability to make other intercompany payments to us, these limitations are subject to certain significant qualifications and exceptions.

Our business may be affected by the impact of BSE and other food safety issues.

Effective August 1997, the FDA promulgated the BSE Feed Rule to prevent further spread of BSE. Detection of the first case of BSE in the United States in December 2003 resulted in additional U.S. government regulations, finished product export restrictions by foreign governments, market price fluctuations for our finished products and reduced demand for beef and beef products by consumers. Even though the export markets for U.S. beef have recovered to meet or exceed pre-BSE levels, many export markets remain closed to MBM derived from U.S. beef. On May 29, 2013, the USDA announced that the OIE had officially upgraded the BSE-status for the United States from “controlled risk” to “negligible risk” based on a thorough review of BSE safeguards implemented in the United States. Attaining a negligible risk status for BSE is an important step toward regaining access to export markets for U.S. MBM and some markets reopened following this change. We do not expect this trade disruption to have a material impact on our business, financial condition or results of operations. However, continued concern about BSE in the United States, and other countries in which we operate now or in the future, may result in additional regulatory and market related challenges that may affect our operations or increase our operating costs.

With respect to BSE in the United States, on October 26, 2009, the FDA began enforcing the Enhanced BSE Rule. These new regulations amended the BSE Feed Rule to also prohibit the use of tallow having more than 0.15% insoluble impurities in feed for cattle or other ruminant animals. In addition, the Enhanced BSE Rule prohibits brain and spinal cord material from cattle aged 30 months and older or the carcasses of such cattle, if the brain and spinal cord are not removed (collectively, “Prohibited Cattle Materials”), and tallow derived from Prohibited Cattle Materials that also contains more than 0.15% insoluble impurities in the feed or food for all animals. We have made capital expenditures and implemented processes and procedures to be compliant with the Enhanced BSE Rule at all of our U.S. operations. In Canada, the CFIA implemented feed restrictions, which were similar to the FDA’s BSE Feed Rule, in 1997 to prevent the spread of BSE. Following confirmation of nine positive cases of BSE between May 2003 and July 2007, however, the CFIA amended the Canadian Health of Animals Regulations to strengthen Canada’s BSE safeguards (“SRM Ban”). These enhanced safeguards, which became effective July 2007, required the removal of all SRMs from animal feed, pet food and fertilizer; placed the removal, transport and disposal of SRM under direct CFIA control; prohibited the use of tallow containing more than 0.15% insoluble impurities in any animal feed; and extended the retention time for keeping relevant records from two years to 10 years. Other cases of BSE have been reported in Canada since the SRM Ban was implemented. The most recent case occurred on February 12, 2015 and the CFIA reported that no part of the infected carcass entered human or animal food systems. We can provide no assurance that unanticipated costs and/or reductions in raw material volumes related to our compliance with the Enhanced BSE Rule, the SRM Ban or the occurrence of new cases of BSE will not negatively impact our operations and financial performance.

With respect to human food, pet food and animal feed safety in the United States, the Food and Drug Administration Amendments Act of 2007 (the "FDAAA") directed the FDA to establish a Reportable Food Registry ("RFR"), which was implemented on September 8, 2009. On June 11, 2009, the FDA issued "Guidance for Industry: Questions and Answers Regarding the Reportable Food Registry as Established by the Food and Drug Administration Amendments Act of 2007: Draft Guidance" ("RFR Draft Guidance"). Although the RFR Draft Guidance was revised in September 2009 and again in May 2010, it had not been finalized as of the date of this report. In the RFR Draft Guidance, the FDA defined a reportable food, which the manufacturer or distributor would be required to report in the RFR, to include materials used as ingredients in animal feeds and pet foods, if there is reasonable probability that the use of, or exposure to, such materials will cause serious adverse health consequences or death to humans or animals. In March 2014, the FDA issued an advance notice of proposed rulemaking to solicit comments and information regarding provisions in the Food Safety Modernization Act ("FSMA") that amended Section 417 of the Food, Drug and Cosmetic Act ("FD&C Act"), which governs the RFR, to permit the FDA to require the submission of "consumer-oriented information" regarding a reportable food. The FDA later reopened the comment period for the advance notice of proposed rulemaking and set August 18, 2014 as the deadline for comments. In July 2013, the FDA announced the criteria to be used to determine whether the agency will prioritize regulatory action against pet food and farmed animal feeds that may be injurious to health because they are contaminated with Salmonella (and therefore considered to be adulterated under section 402(a)(1) of FD&C Act) in the "Compliance Policy Guide Sec. 690.800, Salmonella in Food for Animals" (the "CPG"). According to the CPG, any finished pet food contaminated with any species of Salmonella will be considered adulterated and the FDA believes regulatory action is warranted in cases involving such pet foods because of the heightened risk to humans given the high likelihood of direct human contact with the pet food. Finished animal feeds intended for pigs, poultry and other farmed animals, however, will be considered to be adulterated only if the feed is contaminated with a species of Salmonella that is considered to be pathogenic for the animal species for which the feed is intended. The finalization of the RFR Draft Guidance and the possible issuance of a rule pursuant to the FSMA by the FDA may impose additional requirements on us. We believe that we have adequate procedures in place to assure that our finished products are safe to use in animal feed and pet food and we do not currently anticipate that the FDAAA will have a significant impact on our operations or financial performance. Any pathogen, such as Salmonella, that is correctly or incorrectly associated with our finished products could have a negative impact on the demand for our finished products.

In addition, the FSMA was enacted on January 4, 2011. The FSMA gave the FDA new authorities, which became effective immediately. Included among these is a mandatory recall authority for adulterated foods that are likely to cause serious adverse health consequences or death to humans or animals, if the responsible party fails to cease distribution and recall such adulterated foods voluntarily. The FSMA further instructed the FDA to amend existing regulations that define its administrative detention authority. Prior to the FSMA becoming law, the FDA had authority to order that an article of food be detained only if there was credible evidence or information indicating that the article of food presented a threat of serious adverse health consequences or death to humans or animals. On May 5, 2011, the FDA issued an interim final rule amending its administrative detention authority and lowering both the level of proof and the degree of risk required for detaining an article of food. This interim final rule, which became a final rule on February 5, 2013, gives the FDA authority to detain an article of food if there is reason to believe the food is adulterated or misbranded. The FSMA also requires the FDA to develop new regulations that, among other provisions, place additional registration requirements on food and feed producing firms. Section 102 of the FSMA amends facility registration requirements in the FD&C Act for domestic and foreign manufacturers, processors, packers or holders of food for human or animal consumption. Such facility registrations were previously required to be updated when changes in a facility occurred, but there were no provisions for renewing facility registrations. The FSMA, however, requires that facility registrations be renewed during the fourth quarter of each even-numbered year, beginning October 1, 2012. On April 9, 2015, the FDA published a proposed rule that would, among other things, require electronic submission of facility registrations (no sooner than January 4, 2016), require registrations to indicate the type of activity conducted at the facility for each food product category and provide for verification of certain information submitted in registrations. Other new FDA regulations mandated by the FSMA, some of which are still in the proposed stage, will require registered facilities to perform hazard analyses and to implement preventive measures to control those hazards identified to be reasonably likely to occur; increase the length of time that records are required to be retained; and regulate the sanitary transportation of food, which is defined in Section 201(f) of the FD&C Act to include "articles used for food or drink for man or other animals." The FDA proposed new rules on January 16, 2013 and October 29, 2013 addressing preventive controls ("PCs") for food for humans and for animals, respectively, and issued amended proposed rules for human food and animal feed on September 29, 2014. The FDA finalized these rules for human food and animal feed on September 17, 2015 ("Human Food PC Rule" and "Animal Food PC Rule," respectively), creating regulations applicable to facilities that manufacture, process, pack and hold human or animal food and requiring these facilities to establish and implement written food safety plans, which include hazard analyses, written PCs to ensure that significant hazards identified as known or reasonably foreseeable will be significantly reduced or prevented, monitoring of PCs, corrective actions, verification and recordkeeping. Both rules are intended to better protect human and animal health by adopting a modern, preventive and risk-based approach to food safety regulation. Each rule also specifies compliance dates, based on firm size, by which facilities must implement new requirements under the rule. The Human Food PC Rule updates existing Current Good Manufacturing Practices ("CGMPs") and the Animal Food PC Rule establishes baseline CGMPs, which set forth minimum current good manufacturing requirements for each of the following areas: personnel, the facility and grounds, sanitation, water supply, equipment and utensils, facility operations and the holding and distribution of the human or animal food. Under these rules, human and animal food facilities will need "PC qualified individuals," i.e., those with appropriate training or job experience in the development and application of risk-based PCs, to prepare, evaluate and maintain the safety plan and PCs. A supply-chain program and recall plan must also be included in the food safety plans for human and animal food facilities. Large firms, including Darling, are required to comply with most sections of the Human Food PC Rule and the CGMP requirements of the Animal Food PC Rule by September 19, 2016, and with the PC and related portions of the Animal Food PC Rule by September 18, 2017. Compliance dates with respect to supply-chain program requirements under both rules are dependent on when suppliers must comply with applicable rules. On July 29, 2013 FDA proposed a rule regarding verification of foreign suppliers that would extend similar requirements to imported foods intended for humans or animals, and then published a revised proposed rule on September 29, 2014. FDA finalized this rule, entitled "Foreign Supplier Verification Program for Importers of Food for Humans and Animals" ("FSVP Rule") on November 27, 2015. The FSVP Rule establishes requirements for importers of both human and animal food by providing a flexible, risk-based approach to foreign supplier verification consistent with the hazard analysis and risk-based PC requirements for food facilities established in the Human Food PC Rule and Animal Food PC Rule. Under the FSVP Rule, importers of human food and animal food must verify that their foreign suppliers produce food in a manner that provides the same level of public health protection as the Human Food PC Rule and Animal Food PC Rule, or FDA's regulations established under FSMA regarding produce safety, as appropriate, and must ensure that suppliers' food is not adulterated and is not misbranded with respect to allergen labeling of human food. A foreign supplier verification program must be developed by a qualified individual and include: a written hazard analysis, an evaluation of the risks posed by a food and the foreign supplier's performance, supplier verification activities to allow the importer to approve the foreign supplier and corrective action procedures. The FSVP Rule designates the importer as the party responsible for supplier verification and for meeting the FSVP Rule requirements. Any required audits must be conducted by a qualified auditor. On February 5, 2014, the FDA proposed new regulations for the sanitary transportation of human and animal foods, which establish sanitary transportation practices that are to be used by shippers, motor vehicle and rail carriers, and receivers engaged in the transportation of food. This rule has not been finalized as of the date of this report. We have followed the FSMA throughout its legislative and rulemaking history and, based on previously published animal food and human food proposed rules, have implemented CGMP, PCs and other procedures at our domestic facilities, which are being reviewed to determine if they comply to the applicable final Human Food PC Rule or Animal Food PC Rule. We are also reviewing similar procedures in place at Darling's foreign facilities for compliance with the FSVP Rule. Such rulemaking could, among other things, limit our ability to import necessary raw materials or finished products or require us to amend certain of our other operational policies and procedures. Unforeseen issues and requirements may arise as the FDA implements these and other final rules or promulgates other new regulations provided for by the FSMA.

As a result of our international operations, we could be adversely affected by additional foreign regulations regarding BSE and other food safety issues. For example, an enforceable ban on the feeding of restricted animal material to ruminant animals was introduced in Australia in 1996. This ban is part of a comprehensive national program to prevent the entry and establishment of the BSE agent in Australia. Inspections and audits are undertaken to ensure compliance. In addition, in the EU, harmonized rules have been adopted for prevention, control and eradication of transmissible spongiform encephalopathies ("TSEs"), which includes BSE, in Regulation (EC) No 999/2001, as amended ("TSE Regulation") and in other instruments such as Regulation (EC) No 1069/2009 on animal by-products ("Animal by-Products Regulation") and food and other feed hygiene regulations. The TSE Regulation establishes a "feed ban," which is the basic preventive measure against TSE and consists of a ban on the use of processed animal protein ("PAP") in feed for farmed animals. A ban on the feeding of mammalian PAP to cattle, sheep and goats was first introduced in July 1994. The ban was expanded in January 2001 with the feeding of all PAP to all farmed animals being prohibited, with certain limited exceptions. Only certain animal proteins considered to be safe (such as fishmeal) can be used, and even then under very strict conditions. Other animal-derived products besides PAP, such as collagen and gelatin derived from non-ruminants and hydrolyzed protein derived from parts of non-ruminants or from ruminant hides and skins, are not subject to the "feed ban." In June 2013, the "feed ban" was lifted for the feeding of aquaculture animals and the European Commission has been investigating -the options to lift the ban for other non-ruminants, such as pigs and poultry. Although Darling Ingredients International may profit from the possible lifting of the ban for pigs and poultry, changes to the "feed ban" may adversely affect Darling Ingredients International, possibly restricting the allowed use of some of their products. The TSE Regulation applies to the production and placing on the market of live animals and products of animal origin. For that purpose, the BSE status of member states of the EU ("EU Member States"), non-EU members of the European Economic Area and other countries or regions (such other countries or regions, "Third Countries") is to be determined by classification into one of three categories depending on the BSE risk involved: a negligible risk, a controlled risk and an undetermined risk. This classification is in line with that of the OIE. The determination of BSE status is based on a risk assessment and the implementation of a surveillance program. For each risk category there are trade rules to provide the necessary guarantees for protecting public and animal health. Currently, the following EU Member States are classified as having a controlled BSE risk: Germany, Greece, Lithuania, Poland, Spain and the United Kingdom. The other EU Member States are classified as having a negligible BSE risk. A change in the BSE status of one or more EU Member States may have a negative impact on Darling Ingredients International. Under EU legislation, imported products from outside the EU must meet the same safety standards as products produced in EU Member States. Therefore, the TSE Regulation imposes strict import requirements related to TSEs for live animals and animal by-products, such as full traceability of imported animals and animal by-products, a ban on the use of MBM in feed for ruminants and the prohibition of the import of specified risk material or mechanically recovered meat. The detailed import requirements depend on the BSE status of Third Countries. The Animal by-Products Regulation establishes rules intended to prevent the outbreak of certain diseases such as BSE. The Animal by-Products Regulation imposes, for example, rules for the use and disposal of specified risk material and other high risk material. A BSE outbreak or other event viewed as hazardous to animal or human health could lead to the adoption of more stringent rules on the use and disposal of animal by-products, which could require Darling Ingredients International to change its production processes and could have a material adverse effect on our business, results of operations or financial condition.

Our business may be negatively impacted by the occurrence of any disease correctly or incorrectly linked to animals.

The emergence of diseases such as 2009 H1N1 flu (initially known as “Swine Flu”), highly pathogenic strains of avian influenza (collectively known as “Bird Flu”), including H5N1, H7N3, H7N8, H7N9, H10N8 and H5N8 strains of avian influenza and severe acute respiratory syndrome (“SARS”) that are in or associated with animals and have the potential to also threaten humans has created concern that such diseases could spread and cause a global pandemic. Bird Flu generally refers to highly aggressive and fatal diseases of birds caused by flu viruses that, once established, can spread rapidly from flock to flock and have also been known to affect humans. Different strains of flu viruses can cause Bird Flu, including, but not limited to the H5, H7 and H10 strains. Each of these flu virus strains may be further divided into subtypes such as H5N1. Human illnesses and deaths have occurred among people having direct contact with poultry infected with the H5N1, as well as other strains of Bird Flu. In 2008, world health experts were concerned that this and other H5 strains of Bird Flu could develop into a global pandemic if the virus adapted further and could be spread from person to person. While cases of people contracting Bird Flus from direct contact with poultry have been reported in China and other parts of Asia, none of these viruses have been spread among humans. To date, the original H5N1 strain thought to potentially cause a human pandemic has not been reported in North America but outbreaks of other H5 strains recently occurred in commercial poultry flocks outside Asia. A H5 strain of Bird Flu was reported on commercial poultry farms in Germany, The Netherlands and in the United Kingdom in November 2014. This same H5 strain was subsequently reported in commercial poultry farms in Western Canada and backyard flocks in the Northwestern United States in December 2014 and commercial turkey farms in California on January 24, 2015. Since these initial reports that the disease had reached Canada and the United States, migratory birds have been blamed for spreading this and two additional H5 strains among commercial poultry flocks in the Midwestern United States and Ontario, Canada. Migratory birds, however, are not believed to be the source of a highly pathogenic strain of H7N8 confirmed on January 15, 2016 in a commercial turkey flock in Indiana. Instead, animal health officials believe a low pathogenic strain of H7N8 present in nearby flocks mutated to be highly pathogenic. This latest outbreak of Bird Flu was confined to a single flock. As of the date of this report, commercial poultry flocks in 15 states were confirmed to have one or more strain of Bird Flu. To date, there have been no reports of humans contracting any of the H5 or H7 strains that occurred recently in Europe, the United States or Canada, nor have there been any reports that these Bird Flu strains can be spread from person to person. The response plans followed by APHIS in the United States to control outbreaks and prevent the spread of Bird Flu include, among other procedures, restricting the movement of poultry and poultry products into or out of the site of infection, using humane methods to depopulate the infected flock or farm and disposal of the euthanized birds on-site to avoid transporting infected material outside the established quarantine zone.

In April 2013, the first case of porcine epidemic diarrhea (“PED”) virus was confirmed in the United States on a hog farm in Ohio. The disease has since spread into 33 states in the United States and in Ontario and three other Canadian provinces. The PED virus is highly contagious among pigs, but does not affect other animals and is not transmissible to humans. The effects of the PED virus on hog production will vary according to the age of the pigs affected. Death rates can be very high among young pigs, while symptoms are mild in older animals. Because the PED virus is common in other parts of the world and poses no threat to human health or food safety, its presence in a country or region does not restrict trade in pork or pork products. However, any outbreak that is severe enough to significantly reduce the pig population in a country or region could reduce the availability of pork raw material to our plants. Animal health experts believe the PED virus is spread primarily through contaminated feces, although other transmission routes continue to be studied. On January 30, 2015, scientists in the College of Veterinary Sciences at the University of Minnesota released its report titled “Risk Assessment of Feed Ingredients as Vehicles in the Transmission of the PED Virus.” This risk assessment concluded that the virus is unlikely to survive the rendering process. Therefore, the risk of spreading PED through rendered animal fats and proteins was determined to be negligible. Because data on the effects of spray drying on the virus is limited, the risk of spreading PED through spray dried blood products was determined to be negligible to low. Any reports, proven or perceived, that implicate animal feed or feed ingredients, including but not limited to animal byproducts, as contributing to the spread of the PED virus could negatively affect demand for our products as ingredients in pig feeds in the United States and in Canada.

From December 2002 to June 2003, China and some other countries experienced an outbreak of SARS, a highly contagious form of atypical pneumonia. On July 5, 2003, the World Health Organization declared that the SARS outbreak had been contained. In April 2004, however, a number of isolated new cases of SARS were reported, including in central China.

Although no global disease pandemic among humans has been linked to Bird Flu, Swine Flu, PED virus or SARS as of the date of this report, governments may be pressured to address these concerns, including by executive action such as temporarily closing certain businesses, including meat and animal processing facilities, within their jurisdictions suspected of contributing to the spread of such diseases or by legislative or other policy action, such as prohibiting imports of animals, meat and animal by-products from countries or regions where the disease is detected or suspected. For example, during May and June 2003, many businesses in China were temporarily closed by the Chinese government to prevent transmission of SARS.

The EU has enacted several disease control directives, as well as other legislation regarding the notification of animal diseases within the community and veterinary and zootechnical checks, among others. The applicable legislation generally enables the EU to take preventive measures, as well as act promptly in case of an outbreak, by restricting the circulation of livestock and products at risk of being infected within the EU and implementing bans on the imports of such products. For instance, there are preventive measures against Bird Flu that must be implemented by all the EU Member States. In the event of an outbreak of Bird Flu, the Directive 2005/94/EC on the control of avian influenza provides for preventive measures relating to the surveillance and the early detection of Bird Flu and the minimum control measures to be applied in the event of an outbreak of that disease in poultry or other captive birds. The EU Member States are empowered to act quickly in the case of an outbreak by defining protection and surveillance risk zones and adopting measures such as restricting the movement of live poultry and certain poultry products to other EU Member States or to Third Countries. In addition, EU import bans have also been placed on potentially risky poultry products and susceptible imports from Third Countries with Bird Flu outbreaks.

If Swine Flu, Bird Flu, the PED virus, SARS or any other disease that is correctly or incorrectly linked to animals and has a negative impact on meat or poultry consumption or animal production occurs in any jurisdiction in which we operate, such occurrence could have a material negative impact on the volume of raw materials available to us or the demand for our finished products.

If we or our customers are the subject of product liability claims, product recalls or other product related claims, we may incur significant and unexpected costs and our business reputation could be adversely affected.

We and our customers for whom we manufacture products may be exposed to product liability claims and adverse public relations if consumption or use of our products is alleged to cause injury or illness to humans or animals. In addition, we and our customers may be subject to product recalls or other claims resulting from developments relating to the discovery of unauthorized adulterations to food additives or from allegations that our food ingredients were mislabeled, were not produced in accordance with the customer’s specifications and/or have not performed adequately in the end product, even where food safety is not a concern. Product recalls in one jurisdiction may result in product recalls in other jurisdictions, as is the case in the EU, where an EU Member State could recall a product in connection with the recall of such product in another EU Member State. Our insurance may not be adequate to cover all liabilities we incur in connection with product liability claims, whether or not legitimate, or product recalls, whether voluntary or mandatory. We may not be able to maintain our existing insurance or obtain comparable insurance at a reasonable cost, if at all. A product liability judgment against us or against one of our customers for whom we manufacture or provide products, or our or their agreement to settle a product liability claim, product recall or other product related claim, could also result in substantial and unexpected expenditures, which would reduce operating income and cash flow. In addition, even if product liability or other claims against us or our customers for whom we manufacture products are not successful or are not fully pursued, defending these claims would likely be costly and time-consuming and may require management to spend time defending the claims rather than operating our business. Any such claim could also result in adverse publicity and negatively impact our reputation.

Product liability claims, product recalls or any other events that cause consumers to no longer associate our brands or those of our customers for whom we manufacture products with high quality and safety may harm the value of our and their brands and lead to decreased demand for our products. In addition, as a result of any such claims against us or product recalls, we may be exposed to claims by our customers for damage to their reputations and brands. Product liability claims and product recalls may also lead to increased scrutiny by federal, state and foreign regulatory agencies of our operations and could have a material adverse effect on our brands, business, results of operations and financial condition.

Changes in consumer preference could negatively impact our business.

The food industry in general is subject to changing consumer trends, demands and preferences. Trends within the food industry change often, and failure to identify and react to changes in these trends could lead to, among other things, reduced demand and price reductions for our products or those of our customers for whom we manufacture products, and could have an adverse effect on our financial results.

Our operations are subject to various laws, rules and regulations relating to the protection of the environment and to health and safety, and we could incur significant costs to comply with these requirements or be subject to sanctions or held liable for environmental damages.

Our operations subject us to various and increasingly stringent environmental, health and safety requirements in the various jurisdictions where we operate, including those governing air emissions, wastewater discharges, the management, storage and disposal of materials in connection with our facilities, occupational health and safety, product packaging and labeling and our handling of hazardous materials and wastes, such as gasoline and diesel fuel used by our trucking fleet and operations. Failure to comply with these requirements could have significant consequences, including recalls, penalties, injunctive relief, claims for personal injury and property and natural resource damages and negative publicity. Our operations require the control of air emissions and odor and the treatment and discharge of wastewater to municipal sewer systems and the environment. We operate boilers at many of our facilities and store wastewater in lagoons or, as permitted, discharge it to publicly owned wastewater treatment systems or surface waters, or through land application. We have incurred significant capital and operating expenditures to comply with environmental requirements, including for the upgrade of wastewater treatment facilities, and will continue to incur such costs in the future.

We could be responsible for the remediation of environmental contamination and may be subject to associated liabilities and claims for personal injury and property and natural resource damages. We own or operate numerous properties, have been in business for many years and have acquired and disposed of properties and businesses over that time. During that time, we or other owners or operators may have generated or disposed of wastes or stored or handled other materials that are or may be considered hazardous or may have polluted the soil, surface water or groundwater at or around our facilities. Under some environmental laws, such as the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 in the United States, also known as the Superfund law, responsibility for the cost of cleanup of a contaminated site can be imposed upon current or former site owners and operators, or upon any party that sent waste to the site, regardless of the lawfulness of the activities that led to the contamination. Similar laws outside the United States impose liability for environmental cleanup, often under the polluter pays theory of liability but also based upon ownership in some circumstances. There can be no assurance that we will not face extensive costs or penalties that would have a material adverse effect on our financial condition and results of operations. For example, we have received notice from the EPA relating to alleged river sediment contamination in the Lower Passaic River area of New Jersey. See Item 3. "Legal Proceedings." In addition, future developments, such as more aggressive enforcement policies, new laws or discoveries of currently unknown contamination conditions, may also require expenditures that may have a material adverse effect on our business and financial condition.

In addition, increasing efforts to control emissions of GHG are likely to impact our operations. We operate in certain jurisdictions subject to the Kyoto Protocol, which mandates reduced GHG emissions in certain participating countries, and the EPA's recent rule establishing mandatory GHG reporting for certain activities may apply to some of our facilities if we exceed the applicable thresholds. The EPA has also announced a regulatory finding relating to GHG emissions that has led to further regulation of GHG emissions. Legislation to regulate GHG emissions has periodically been proposed in the U.S. Congress and a growing number of states and foreign countries are taking action to require reductions in GHG emissions. Future GHG emissions limits may require us to incur additional capital and operational expenditures. EPA regulations limiting exhaust emissions also have become more restrictive, and the National Highway Traffic Safety Administration and the EPA have adopted new regulations that govern fuel efficiency and GHG emissions beginning in 2014. Compliance with these and similar regulations could increase the cost of new fleet vehicles and increase our operating expenses. Compliance with future GHG regulations may require expenditures that could materially adversely affect our business, results of operations and financial condition.

We have approximately 10,000 employees world-wide and are subject to a wide range of local, provincial and national laws and regulations governing the health and safety of workers, including, for example, OSHA in the United States. We can be subject to potential fines and civil and, in egregious cases, criminal actions if we are found to be in violation of worker health and safety laws in any of these jurisdictions. Further, as such laws and regulations change, we may sometimes be required to commit to unplanned capital expenditures in order to continue to comply with workplace safety requirements at our facilities. In addition, we operate and maintain an extensive vehicle fleet to transport products to and from customer locations in all jurisdictions where we have facilities. Our fleets and drivers are subject to federal, state, local and foreign laws and licensing requirements applicable to commercial fleets, their cargo and their hours and methods of operation. Failure to comply with these laws and regulations in any location could materially adversely affect our business, results of operations, financial condition and reputation.

If we experience difficulties or a significant disruption in our information systems or if we fail to implement new systems and software successfully, our business could be materially adversely affected.

We depend on information systems throughout our business to collect and process data that is critical to our operations and accurate financial reporting. Among other things, these information systems process incoming customer orders and outgoing supplier orders, manage inventory, and allow us to efficiently collect raw materials and distribute products, process and bill shipments to and collect cash from our customers, respond to customer and supplier inquiries, contribute to our overall internal control processes, maintain records of our property, plant and equipment, and record and pay amounts due vendors and other creditors.

If we were to experience a disruption in our information systems that involve interactions with suppliers and customers, it could result in a loss of raw material supplies, sales and customers and/or increased costs, which could have a material adverse effect on our business, financial condition and results of operations. In addition, any such disruption could adversely affect our ability to meet our financial reporting obligations. We may also encounter difficulties in developing new systems or maintaining and upgrading existing systems. Such difficulties may lead to significant expenses or losses due to unexpected additional costs required to implement or maintain systems, disruption in business operations, loss of sales or profits, or cause us to incur significant costs to reimburse third parties for damages, and, as a result, may have a material adverse effect on our results of operations and financial condition. We could also experience impairment of our reputation if any of these events were to occur.

The Company is in the process of a multi-year project to replace our existing work management, financial and supply chain software applications with a new suite of systems, including a company-wide enterprise resource planning ("ERP") system. This multi-year project will be extended to the replacement of Rothsay's system as part of the process of integrating that system with Darling's systems. We currently do not intend to replace Darling Ingredients International's system. The ERP system's implementation process involves a number of risks that may adversely hinder our business operations and/or affect our financial condition and results of operations, if not implemented successfully. The need to implement this project in connection with the integration of the operations of Rothsay could create additional risks. The ERP system's implementation is a complex and time-consuming project that involves substantial expenditures for implementation consultants, system hardware, software and implementation activities, as well as the transformation of business and financial processes.

As with any large software project, there are many factors that may materially affect the schedule, cost, execution and implementation of this project. Those factors include: problems during the design, implementation and testing phases; system delays and/or malfunctions; the risk that suppliers and contractors will not perform as required under their contracts; the diversion of management's attention from daily operations to the project; re-works due to changes in business processes or financial reporting standards; and other events, some of which are beyond our control. These types of issues could disrupt our business operations and/or our ability to timely and accurately process and report key components of our financial results and and/or complete important business processes such as the evaluation of our internal controls and attestation activities pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. Accordingly, material deviations from the project plan or unsuccessful execution of the plan may adversely affect our business, results of operations and financial condition.

Increased information technology security threats and more sophisticated computer crime pose a risk to our systems, networks, products and services.

We rely upon our information systems and networks in connection with a variety of business activities, and we collect and store sensitive data. Increased security threats to information systems and more sophisticated computer crime pose a risk to the security of our systems and networks and the confidentiality, availability and integrity of our data. A failure of or breach in technology security could expose us and our customers and suppliers to risks of misuse of information or systems, the compromising of confidential information, manipulation and destruction of data, defective products, production downtimes and operating disruptions, which in turn could adversely affect our reputation, competitive position, business and results of operations. In addition, such breaches in security could result in litigation, regulatory action and potential liability and the costs and operational consequences of implementing further data protection measures.

Our success is dependent on our key personnel.

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

In certain markets we are highly dependent upon a single operating facility and various events beyond our control could cause an interruption in the operation of our facilities, which could adversely affect our business in those markets.

Our facilities are subject to various federal, state, provincial and local environmental and other permitting requirements of the countries in which we operate, depending on the locations of those facilities. Periodically, these permits may be reviewed and subject to amendment or withdrawal. Applications for an extension or renewal of various permits may be subject to challenge by community and environmental groups and others. In the event of a casualty, condemnation, work stoppage, permitting withdrawal or delay, severe weather event, or other unscheduled shutdown involving one of our facilities, in a majority of our markets we would utilize a nearby operating facility to continue to serve our customers in the affected market. In certain markets, however, we do not have alternate operating facilities. In the event of a casualty, condemnation, work stoppage, permitting withdrawal or delay, severe weather event or other unscheduled shutdown in these markets, we may experience an interruption in our ability to service our customers and to procure raw materials, and potentially an impairment of the value of that facility. Any of these circumstances may materially and adversely affect our business and results of operations in those markets. In addition, after an operating facility affected by a casualty, condemnation, work stoppage, permitting withdrawal or delay or other unscheduled shutdown is restored, there could be no assurance that customers who in the interim choose to use alternative disposal services would return to use our services.

We could incur a material weakness in our internal control over financial reporting that would require remediation.

Any future failures to maintain the effectiveness of our disclosure controls and procedures, including our internal control over financial reporting, could subject us to a loss of public confidence in our internal control over financial reporting and in the integrity of our financial statements and our public filings with the SEC and other governmental agencies and could harm our operating results or cause us to fail to meet our regulatory reporting obligations in a timely manner. The continued integration of the operations of Darling Ingredients International following the VION Acquisition could create additional risks to our disclosure controls, including our internal controls over financial reporting.

Changes in our tax rates or exposure to additional income tax liabilities could impact our profitability.

We are subject to income taxes in the United States and in various other foreign jurisdictions. Our effective tax rates could be adversely affected by changes in the mix of earnings by jurisdiction, changes in tax laws or tax rates including potential tax reform in the U.S. to broaden the tax base and reduce deductions or credits, changes in the valuation of deferred tax assets and liabilities, and material adjustments from tax audits. In addition, the amount of income taxes we pay is subject to ongoing audits in various jurisdictions and a material assessment by a governing tax authority could affect our profitability.

An impairment in the carrying value of our goodwill or other intangible assets may have a material adverse effect on our results of operations.

As of January 2, 2016, the Company had approximately $1.2 billion of goodwill. We are required to annually test goodwill to determine if impairment has occurred. Additionally, impairment of goodwill must be tested whenever events or changes in circumstances indicate that impairment may have occurred. If the testing performed indicates that impairment has occurred, we are required to record a non-cash impairment charge for the difference between the carrying value of the goodwill and the implied fair value of the goodwill in the period the determination is made. The testing of goodwill for impairment requires us to make significant estimates about our future performance and cash flows, as well as other assumptions. These estimates can be affected by numerous factors, including changes in economic, industry or market conditions, changes in business operations or regulation, or changes in competition. Changes in these factors, or changes in actual performance compared with estimates of our future performance, may affect the fair value of goodwill, which may result in an impairment charge. For example, a deterioration in demand for, or increases in costs for producing, a supplier’s principal products could lead to a reduction in the supplier’s output of raw materials, thus impacting the fair value of a plant processing that raw material. We cannot accurately predict the amount and timing of any impairment of assets. Should the value of goodwill become impaired, there may be a material adverse effect on our results of operations.

We may be subject to work stoppages at our operating facilities, which could cause interruptions in the manufacturing or distribution of our products.

While we currently have no international, national or multi-plant union contracts, as of January 2, 2016 approximately 23% of Darling’s North American employees, 28% of Rothsay’s employees and 42% of Darling Ingredients International’s employees were covered by various collective bargaining agreements. Furthermore, local laws and regulations in certain jurisdictions in which we operate provide for worker groups with prescribed powers and rights with regard to working conditions, wages and similar matters. In jurisdictions where such groups do not exist, labor organizing activities could result in additional employees becoming unionized and higher ongoing labor costs. Darling’s collective bargaining agreements expire at varying times over the next five years. In contrast, Darling Ingredients International’s collective bargaining agreements generally have one to two year terms. Rothsay agreements generally have terms up to three years. Some of our collective bargaining agreements have already expired and are in the process of being renegotiated. There can be no assurance that we will be able to negotiate the terms of any expiring or expired agreement in a manner acceptable to us. If our workers were to engage in a strike, work stoppage, slowdown or other collective action in the future in any of our locations, we could experience a significant disruption of our operations, which could have a material adverse effect on our business, results of operations and financial condition. We may also be subject to general country strikes or work stoppages unrelated to our business or collective bargaining agreements that could have a direct or indirect adverse effect on our business, results of operation or financial condition.

Litigation or regulatory proceedings may materially adversely affect our business, results of operations and financial condition.

We are a party to several lawsuits, claims and loss contingencies arising in the ordinary course of our business, including employment, commercial and contract related matters and assertions by certain regulatory and governmental agencies related to permitting requirements and air, wastewater and storm water discharges from our processing facilities. The outcome of litigation, particularly class action lawsuits, and regulatory proceedings is difficult to assess or quantify. Plaintiffs (including governmental agencies) in these types of lawsuits and proceedings may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to such lawsuits or proceedings may remain unknown for substantial periods of time. The costs of responding to or defending future litigation or regulatory proceedings may be significant and any future litigation or regulatory proceedings may divert the attention of management away from our strategic objectives. There may also be adverse publicity associated with litigation or regulatory proceedings that may decrease customer confidence in our business, regardless of whether the allegations are valid or whether we are ultimately found liable. As a result, litigation or regulatory proceedings may have a material adverse effect on our business, results of operations and financial condition. For more information related to our litigation and regulatory proceedings, see Item 3. "Legal Proceedings."

Certain U.S. multiemployer defined benefit pension plans to which we contribute are underfunded and these plans and our European pension funds may require minimum funding contributions.

We participate in various U.S. multiemployer pension plans which provide defined benefits to certain employees covered by labor contracts. These plans are not administered by us and contributions are determined in accordance with provisions of negotiated labor contracts to meet their pension benefit obligations to their participants. Based upon the most currently available information, certain of these multiemployer plans are under-funded due partially to a decline in the value of the assets supporting these plans, a reduction in the number of actively participating members for whom employer contributions are required and the level of benefits provided by the plans. In addition, the U.S. Pension Protection Act, which went into effect in January 2008, requires under-funded pension plans to improve their funding ratios within prescribed intervals based on the level of their under-funding. As a result, our required contributions to these plans may increase in the future. Furthermore, under current law, a termination of, our voluntary withdrawal from or a mass withdrawal of all contributing employers from any underfunded multiemployer defined benefit plan to which we contribute would require us to make payments to the plan for our proportionate share of such multiemployer plan's unfunded vested liabilities. Also, if a multiemployer defined benefit plan fails to satisfy certain minimum funding requirements, the Internal Revenue Service ("IRS") may impose a nondeductible excise tax of 5% on the amount of the accumulated funding deficiency for those employers not contributing their allocable share of the minimum funding to the plan. Requirements to pay increased contributions, withdrawal liability and excise taxes could negatively impact our liquidity and results of operations.

In the EU, pension funds are generally subject to the Institution for Occupational Retirement Provision Directive (Directive 2003/41/EC) (the "IORP Directive") as implemented in the relevant EU Member States. The IORP Directive provides for certain general solvency requirements but allows EU Member States discretion to impose specific national requirements. As a result, the solvency of EU pension funds are mostly regulated on a national level. The IORP Directive is currently being reformed. In March 2014, the European Commission published a new draft IORP Directive ("IORP Directive II"). The IORP Directive II, as published, does not make substantive changes to the solvency requirements under the current IORP Directive. The IORP Directive II is currently going through the legislative process at the EU level. It is difficult to predict, at this stage, what form the final legislation will take and what impact (if any) it will have on the solvency requirements of pension funds. It is possible that the final legislation could require us to comply with increased minimum coverage requirements, which could burden us and negatively impact our liquidity and results of operations.

If the number or severity of claims for which we are self-insured increases, if we are required to accrue or pay additional amounts because the claims prove to be more severe than our recorded liabilities, if our insurance premiums increase or if we are unable to obtain insurance at acceptable rates or at all, our financial condition and results of operations may be materially adversely affected.

Our workers compensation, auto and general liability policies contain significant deductibles or self-insured retentions. We develop bi-yearly and record quarterly an estimate of our projected insurance-related liabilities. We estimate the liabilities associated with the risks retained by us, in part, by considering historical claims experience, demographic and severity factors and other actuarial assumptions. Any actuarial projection of losses is subject to a degree of variability. If the number or severity of claims for which we are self-insured increases, or we are required to accrue or pay additional amounts because the claims prove to be more severe than our original assessments, our financial condition and results of operations may be materially adversely affected. In addition, in the future, our insurance premiums may increase and we may not be able to obtain similar levels of insurance on reasonable terms or at all. Any such inadequacy of, or inability to obtain, insurance coverage could have a material adverse effect on our business, financial condition and results of operations.

We may not successfully identify and complete acquisitions on favorable terms or achieve anticipated synergies relating to any acquisitions, and such acquisitions could result in unknown liabilities, unforeseen operating difficulties and expenditures and require significant management resources.

We regularly review potential acquisitions of complementary businesses, services or products. However, we may be unable to identify suitable acquisition candidates in the future. Even if we identify appropriate acquisition candidates, we may be unable to complete or finance such acquisitions on favorable terms, if at all. In addition, the process of integrating an acquired business, service or product into our existing business and operations may result in unforeseen operating difficulties and expenditures. Integration of an acquired company also may require significant management resources that otherwise would be available for ongoing development of our business. Moreover, we may not realize the anticipated benefits of any acquisition or strategic alliance and such transactions may not generate anticipated financial results. Future acquisitions could also require us to incur debt, assume contingent liabilities or amortize expenses related to intangible assets, any of which could harm our business. Finally, acquisitions may be structured in such a manner that would result in the assumption of unknown liabilities not disclosed by the seller or uncovered during pre-acquisition due diligence.

Terrorist attacks or acts of war may cause damage or disruption to us and our employees, facilities, information systems, security systems, suppliers and customers, which could significantly impact our net sales, costs and expenses and financial condition.

Terrorist attacks, such as those that occurred on September 11, 2001, have contributed to economic instability in the U.S. and in certain other countries, and further acts of terrorism, bioterrorism, cyberterrorism, violence or war could affect the markets in which we operate, our business operations, our expectations and other forward-looking statements contained in this report. The potential for future terrorist attacks, the U.S. and international responses to terrorist attacks and other acts of war or hostility, including the ongoing conflicts in the Middle East, North Korea, Southeast Asia and Ukraine, may cause economic and political uncertainties and cause our business to suffer in ways that cannot currently be predicted. Events such as those referred to above could cause or contribute to a general decline in investment valuations. In addition, terrorist attacks, particularly acts of bioterrorism, that directly impact our facilities or those of our suppliers or customers could have an impact on our sales, supply chain, production capability and costs and our ability to deliver our finished products.

Our products may infringe upon the intellectual property rights of others, which may cause us to incur unexpected costs or prevent us from selling our products.

We maintain valuable trademarks, service marks, copyrights, trade names, trade secrets, proprietary technologies and similar intellectual property, and consider our intellectual property to be of material value. We have in the past and may in the future be subject to legal proceedings and claims in the ordinary course of our business, including claims of alleged infringement of patents, trademarks and other intellectual property rights of third parties by us or our customers. Any such claims, whether or not meritorious, could result in costly litigation and divert the efforts of our management. Moreover, should we be found liable for infringement, we may be required to enter into licensing agreements (if available on acceptable terms or at all) or to pay damages and cease making or selling certain products. Any of the foregoing could cause us to incur significant costs and prevent us from manufacturing or selling our products and thereby materially adversely affect our business, results of operations and financial condition.

The healthcare reform legislation in the United States and its implementation regulations could impact the healthcare benefits we are required to provide our employees in the United States and cause our compensation costs to increase, potentially reducing our net income and adversely affecting our cash flows.

In March 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act (the “ACA”), were signed into law in the United States. This healthcare reform legislation and its applicable implementing regulations contain provisions that could materially impact our future healthcare costs, including the contributions we are required to make to our benefit plans. In particular, the requirement that we either offer our full-time employees healthcare coverage that satisfies the ACA's affordability and minimum value standards or potentially be subject to an excise tax penalty became effective in calendar year 2015. In addition, beginning in 2016, we must file information returns with the IRS regarding the health insurance coverage offered to our full-time employees in the prior calendar year. Failure to do so could expose us to reporting penalties under applicable sections of the Internal Revenue Code. While the ultimate impact is not yet known, it is possible that these provisions, once implemented, could significantly increase our U.S. compensation costs, which would reduce our net income and adversely affect our cash flows.

Because of our prior acquisitions and future acquisitions we may engage in, our historical operating results may be of limited use in evaluating our historical performance and predicting our future results.

Darling has acquired a number of businesses in recent years, including Rothsay and VION Ingredients, and we expect that we will engage in acquisitions of other businesses from time to time in the future. The operating results of the acquired businesses are included in our financial statements from the date of the completion of such acquisitions. All of Darling's acquisitions have been accounted for using the acquisition method of accounting. Use of this method has resulted in a new valuation of the assets and liabilities of the acquired companies. We expect a substantial increase in our depreciation and amortization and reduction in our operating and net income commensurate with such increase. As a result of these acquisitions and any future acquisitions, our historical operating results may be of limited use in evaluating our historical performance and predicting our future results.

We may incur significant charges in the event we close or divest all or part of a manufacturing plant or facility.

We periodically assess our manufacturing operations in order to manufacture and distribute our products in the most efficient manner. Based on our assessments, we may make capital improvements to modernize certain units, move manufacturing or distribution capabilities from one plant or facility to another plant or facility, discontinue manufacturing or distributing certain products or close or divest all or part of a manufacturing plant or facility. The closure or divestiture of all or part of a manufacturing plant or facility could result in future charges that could be significant.

Risks Related to our Common Stock

The market price of our common stock has been and may continue to be volatile, which could cause the value of your investment to decline.

The market price of our common stock has been subject to volatility and, in the future, the market price of our common stock could fluctuate widely in response to numerous factors, many of which are beyond our control. Numerous factors, including many over which we have no control, may have a significant impact on the market price of our common stock. In addition to the risk factors discussed in this report, the price and volume volatility of our common stock may be affected by:

- actual or anticipated fluctuations in ingredient prices;
- actual or anticipated variations in our operating results;
- our earnings releases and financial performance;
- changes in financial estimates or buy/sell recommendations by securities analysts;
- our ability to repay our debt;
- our access to financial and capital markets to refinance our debt;
- performance of our joint venture investments, including the DGD Joint Venture;
- our dividend policy;
- market conditions in the industry and the general state of the securities markets;
- investor perceptions of us and the industry and markets in which we operate;
- governmental legislation or regulation;
- currency and exchange rate fluctuations that impact our earnings and balance sheet; and
-

general economic and market conditions, such as U.S. or global reactions to economic developments, including regional recessions, currency devaluations or political unrest.

Future sales of our common stock or the issuance of other equity may adversely affect the market price of our common stock.

We are not restricted from issuing additional common stock, including securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. The issuance of additional shares of our common stock or convertible securities, including our outstanding options, or otherwise, will dilute the ownership interest of our common stockholders.

Sales of a substantial number of shares of our common stock or other equity-related securities in the public market could depress the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities. We cannot predict the effect that future sales of our common stock or other equity-related securities would have on the market price of our common stock.

Our common stock is an equity security and is subordinate to our existing and future indebtedness.

Shares of our common stock are equity interests and do not constitute indebtedness. As such, the shares of common stock will rank junior to all of our indebtedness, including our trade debt, and to other non-equity claims on us and our assets available to satisfy claims on us, including claims in a bankruptcy, liquidation or similar proceedings. Our existing indebtedness restricts, and future indebtedness may restrict, payment of dividends on the common stock.

Unlike indebtedness, where principal and interest customarily are payable on specified due dates, in the case of common stock, (i) dividends are payable only when and if declared by our board of directors or a duly authorized committee of the board and (ii) as a corporation, we are restricted under applicable Delaware law to making dividend payments and redemption payments only from legally available assets. Further, under our certificate of incorporation, there are no restrictions on our business or operations or on our ability to incur indebtedness or engage in any transactions arising as to our common stock, subject only to the voting rights available to stockholders generally.

In addition, our rights to participate in the assets of any of our subsidiaries upon any liquidation or reorganization of any subsidiary will be subject to the prior claims of that subsidiary's creditors (except to the extent we may ourselves be a creditor of that subsidiary), including that subsidiary's trade creditors and our creditors who have obtained or may obtain guarantees from the subsidiaries. As a result, our common stock will be subordinated to our and our subsidiaries' obligations and liabilities, which currently include borrowings and guarantees. See Item 7. "Management Discussion and Analysis of Financial Condition and Results of Operations" - "Senior Secured Credit Facilities", "5.375% Senior Notes due 2022" and "4.75% Senior Notes due 2022."

Our ability to pay any dividends on our common stock may be limited and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We have not paid any dividends on our common stock since January 3, 1989 and we have no current plans to do so. Our current financing arrangements permit us to pay cash dividends on our common stock within limitations defined by the terms of our existing indebtedness, including our senior secured credit facility and senior notes due 2022 and any indentures or other financing arrangements that we enter into in the future. For example, our senior secured credit facility restricts our ability to make payments of dividends in cash if certain coverage ratios are not met. Even if such coverage ratios are met in the future, any determination to pay cash dividends on our common stock will be at the discretion of our board of directors and will be based upon our financial condition, operating results, capital requirements, plans for expansion, business opportunities, restrictions imposed by any of our financing arrangements, provisions of applicable law and any other factors that our board of directors determines are relevant at that point in time.

The issuance of shares of preferred stock could adversely affect holders of common stock, which may negatively impact your investment.

Our board of directors is authorized to cause us to issue classes or series of preferred stock without any action on the part of our stockholders. The board of directors also has the power, without stockholder approval, to set the terms of any such classes or series of preferred shares that may be issued, including the designations, preferences, limitations and relative rights senior to the rights of our common stock with respect to dividends or upon the liquidation, dissolution or winding up of our business and other terms. If we issue preferred shares in the future that have a preference over the common stock with respect to the payment of dividends or upon liquidation, dissolution or winding up, or if we issue preferred shares with voting rights that dilute the voting power of the common stock, the rights of holders of the common stock or the market price of the common stock could be adversely affected. As of the date of this report, we have no outstanding shares of preferred stock but we have available for issuance 1,000,000 authorized but unissued shares of preferred stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of January 2, 2016, the Company's corporate headquarters is located at 251 O'Connor Ridge Boulevard, Suite 300, Irving, Texas, 75038.

As of January 2, 2016, the Company operates a global network of over 200 locations, including 140 production facilities, across five continents. All of the processing facilities are owned except for 15 leased facilities and the Company owns or leases a network of transfer stations. The following is a listing of a majority of the Company's operating plants as of January 2, 2016 by operating segment with a description of the plants principal process.

LOCATION	DESCRIPTION
Feed Ingredients Segment	-
Albertville, Alabama, United States	Bakery By-Products
Bastrop, Texas, United States	Animal By-Products
Bellevue, Nebraska, United States	Animal By-Products
Berlin, Wisconsin, United States	Animal By-Products
Blue Earth, Minnesota, United States	Animal By-Products
Blue Island, Illinois, United States	Animal By-Products
Boise, Idaho, United States	Animal By-Products
Bryan, Texas, United States	Bakery By-Products
Burgum, Netherlands	Animal By-Products
Butler, Kentucky, United States	Animal By-Products
Butler, Kentucky, United States	Bakery By-Products
Clinton, Iowa, United States	Animal By-Products
Coldwater, Michigan, United States	Animal By-Products
Collinsville, Oklahoma, United States	Animal By-Products
Dallas, Texas, United States	Animal By-Products
Dardanelle, Arkansas, United States	Animal By-Products
Denver, Colorado, United States	Animal By-Products
Des Moines, Iowa, United States	Animal By-Products
Doswell, Virginia, United States	Bakery By-Products
Dundas, Ontario, Canada	Animal By-Products
Eching, Germany	Hides
East Dublin, Georgia, United States	Animal By-Products
E. St. Louis, Illinois, United States	Animal By-Products
Ellenwood, Georgia, United States	Animal By-Products
Fresno, California, United States	Animal By-Products
Henderson, Kentucky, United States	Animal By-Products
Henderson, Kentucky, United States	Bakery By-Products
Hickson, Ontario, Canada	Animal By-Products
Honey Brook, Pennsylvania, United States	Bakery By-Products
Houston, Texas, United States	Animal By-Products
Jackson, Mississippi, United States	Animal By-Products
Kansas City, Kansas, United States	Animal By-Products
Kansas City, Missouri, United States	Hides
Lexington, Nebraska, United States	Animal By-Products
Lingen, Germany	Blood
Loenen, Netherlands	Animal By-Products
Los Angeles, California, United States	Animal By-Products
Luohe, China	Blood
Maquoketa, Iowa, United States	Blood
Marshville, North Carolina, United States	Bakery By-Products
Maryborough, Australia	Blood
Mason City, Illinois, United States	Animal By-Products
Memmingen, Germany	Hides

Mering, Germany	Animal By-Products
Moorefield, Ontario, Canada	Animal By-Products
Muscatine, Iowa, United States	Bakery By-Products
Newark, New Jersey, United States	Animal By-Products
Newberry, Indiana, United States	Animal By-Products
North Baltimore, Ohio, United States	Bakery By-Products
Omaha, Nebraska, United States	Animal By-Products
Paducah, Kentucky, United States	Wet Pet Food
Ravenna, Nebraska, United States	Wet Pet Food
Russellville, Kentucky, United State	Animal By-Products
San Francisco, California, United States	Animal By-Products
Sioux City, Iowa, United States	Animal By-Products
Smyrna, Georgia, United States	Animal By-Products

Son, Netherlands	Animal By-Products
Starke, Florida, United States	Animal By-Products
Suzhou, China	Blood
Tacoma, Washington, United States	Animal By-Products
Tampa, Florida, United States	Animal By-Products
Truro, Novia Scotia, Canada	Animal By-Products
Turlock, California, United States	Animal By-Products
Union City, Tennessee, United States	Animal By-Products
Usnice, Poland	Animal By-Products
Wahoo, Nebraska, United States	Animal By-Products
Watts, Oklahoma, United States	Bakery By-Products
Wichita, Kansas, United States	Animal By-Products
Winnipeg, Manitoba, Canada	Animal By-Products
-	-
Food Ingredients Segment	-
Almere, Netherlands	CTH
Amparo, Brazil	Gelatin
Angouleme, France	Gelatin
Da'an, China	Gelatin
Dubuque, Iowa, United States	Gelatin
Eindhoven, Netherlands	Fat
Elsholz, Germany	Fat
Erolzheim, Germany	Fat
Gent, Belgium	Gelatin
Girona, Spain	Gelatin
Harlingen, Netherlands	Fat
Hurlingham, Argentina	Gelatin
Ilse-Sur-La-Sorgue, France	Gelatin
Kaiping, China	Gelatin
Peabody, Massachusetts, United States	Gelatin
Presidente Epitacio, Brazil	Gelatin
Stoke-on Trent, United Kingdom	Bone
Versmold, Germany	Fat
Vuren, Netherlands	Bone
Wenzhou, China	Gelatin
Zhejiang, China	Gelatin
-	-
Fuel Ingredients Segment	-
Belm-Icker, Germany	Bioenergy
Butler, Kentucky, United States	Biodiesel
Denderleeuw, Belgium	Bioenergy
Jagel, Germany	Bioenergy
Rotenburg, Germany	Bioenergy
Saint-Catherine, Quebec Canada	Biodiesel
Son, Netherlands	Bioenergy

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Rent expense for our leased properties was $7.5 million in the aggregate in fiscal 2015.

Substantially all assets of the Company are either pledged or mortgaged as collateral for borrowings under our senior secured credit facilities.

ITEM 3. LEGAL PROCEEDINGS

The Company is a party to several lawsuits, claims and loss contingencies arising in the ordinary course of its business, including employment, commercial and contract related matters and 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 these claims are paid by the Company.

As a result of the matters discussed above, the Company has established loss reserves for insurance, environmental, litigation and tax matters. At January 2, 2016 and January 3, 2015, the reserves for insurance, environmental, litigation and tax matter contingencies reflected on the balance sheet in accrued expenses and other non-current liabilities were approximately $54.6 million and $56.8 million, respectively. The Company has insurance recovery receivables of approximately $12.2 million and $11.4 million as of January 2, 2016 and January 3, 2015, respectively, related to these liabilities. The Company's management 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 these lawsuits and claims that may not be covered by insurance would have a material effect on the Company's financial position, results of operations or cash flows.

Lower Passaic River Area. In December 2009, the Company, along with numerous other entities, received notice from the United States Environmental Protection Agency ("EPA") that the Company (as successor-in-interest to Standard Tallow Company) is considered a potentially responsible party with respect to alleged contamination in the lower Passaic River area which is part of the Diamond Alkali Superfund Site located in Newark, New Jersey. The Company's designation as a potentially responsible party is based upon the operation of a former plant site located in Newark, New Jersey by Standard Tallow Company, an entity that the Company acquired in 1996. In the letter, EPA requested that the Company join a group of other parties in funding a remedial investigation and feasibility study at the site. As of the date of this report, the Company has not agreed to participate in the funding group. The Company's ultimate liability for investigatory costs, remedial costs and/or natural resource damages in connection with the lower Passaic River area cannot be determined at this time; however, 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, results of operations or cash flows.

Fresno Facility Permit Issue. The Company has been named as a defendant and a real party in interest in a lawsuit filed on April 9, 2012 in the Superior Court of the State of California, Fresno County, styled Concerned Citizens of West Fresno vs. Darling International Inc. The complaint, as subsequently amended, alleges that the Company's Fresno facility is operating without a proper use permit and seeks, among other things, injunctive relief. The complaint had at one time also alleged that the Company's Fresno facility constitutes a continuing private and public nuisance, but the plaintiff has since amended the complaint to drop these allegations. The City of Fresno was also named as a defendant in the original complaint but has since had a judgment entered in its favor and is no longer a defendant in the lawsuit; however, in December 2013 the City of Fresno filed a motion to intervene as a plaintiff in this matter. The Superior Court heard the motion on February 4, 2014, and entered an order on February 18, 2014 denying the motion. Rendering operations have been conducted on the site since 1955, and the Company believes that it possesses all of the required federal, state and local permits to continue to operate the facility in the manner currently conducted and that its operations do not constitute a private or public nuisance. Accordingly, the Company intends to defend itself vigorously in this matter. Discovery has begun and this matter was scheduled for trial in July 2014; however, the parties have agreed to stay the litigation while they participate in a mediation process. While management cannot predict the ultimate outcome of this matter, management does not believe the outcome will have a material effect on the Company's financial condition, results of operations or cash flows.

The Company is engaged in other legal proceedings from time to time. The proceedings described above and such other proceedings can be complex and take many months, or even years, to reach resolution, with the final outcome being dependent upon a number of variables, some of which are not within the control of the Company. Therefore, although the Company will vigorously defend itself in each of the described actions, the ultimate resolution and potential financial impact on the Company is uncertain.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company’s common stock is traded on the New York Stock Exchange (“NYSE”) under the symbol “DAR”. The following table sets forth, for the quarters indicated, the high and low closing sales prices per share for the Company's common stock as reported on the NYSE.

	Market Price	
Fiscal Quarter	High	Low
2015:		
First Quarter	$18.25	$13.81
Second Quarter	$15.99	$13.66
Third Quarter	$14.22	$10.92
Fourth Quarter	$11.75	$9.10
2014:		
First Quarter	$21.13	$19.15
Second Quarter	$21.27	$19.19
Third Quarter	$20.99	$18.42
Fourth Quarter	$19.09	$16.75

On February 24, 2016, the closing sales price of the Company's common stock on the NYSE was $8.60. The Company has been notified by its stock transfer agent that as of February 24, 2016, there were 156 holders of record of the common stock.

The Company has not paid any dividends on its common stock since January 3, 1989 and does not expect to pay cash dividends in 2016. The agreements underlying the Company's senior secured credit facilities and senior notes permit the Company to pay cash dividends on its common stock within limitations defined in such agreements. Any future determination to pay cash dividends on the Company’s common stock will be at the discretion of the Company’s board of directors and will be based upon the Company’s financial condition, operating results, capital requirements, plans for expansion, restrictions imposed by any existing or future financing arrangements, and any other factors that the board of directors determines are relevant.

Set forth below is a line graph comparing the change in the cumulative total stockholder return on the Company's common stock with the cumulative total return of the Russell 2000 Index, the Dow Jones US Waste and Disposal Service Index, and the Agri-Equities Index - Tier One for the period from January 1, 2011 to January 2, 2016, assuming the investment of $100 on January 1, 2011 and the reinvestment of dividends.

The stock price performance shown on the following graph only reflects the change in the Company's stock price relative to the noted indices and is not necessarily indicative of future price performance.

EQUITY COMPENSATION PLANS

The following table sets forth certain information as of January 2, 2016, with respect to the Company's equity compensation plans (including individual compensation arrangements) under which the Company's equity securities are authorized for issuance, aggregated by (i) all compensation plans previously approved by the Company's security holders, and (ii) all compensation plans not previously approved by the Company's security holders. The table includes:

- the number of securities to be issued upon the exercise of outstanding options and granted non-vested stock;
- the weighted-average exercise price of the outstanding options and granted non-vested stock; and
- the number of securities that remain available for future issuance under the plans.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights		(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	1,462,927	(1)	$17.19	8,004,569
Equity compensation plans not approved by security holders	–		–	–
Total	1,462,927		$17.19	8,004,569

(1) Includes shares underlying options that have been issued and granted non-vested stock pursuant to the Company's 2012 Omnibus Incentive Plan (the "2012 Plan") as approved by the Company's stockholders. See Note 13 of Notes to Consolidated Financial Statements for information regarding the material features of the 2012 Plan.

ITEM 6. SELECTED FINANCIAL DATA

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following table presents selected consolidated historical financial data for the periods indicated. The selected historical consolidated financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements of the Company for the three years ended January 2, 2016, January 3, 2015, and December 28, 2013, and the related notes thereto.

	Fiscal 2015 Fifty-two Weeks Ended January 2, 2016	Fiscal 2014 Fifty-three Weeks Ended January 3, 2015 (j)	Fiscal 2013 Fifty-two Weeks Ended December 28, 2013 (i)	Fiscal 2012 Fifty-two Weeks Ended December 29, 2012 (h)	Fiscal 2011 Fifty-two Weeks Ended December 31, 2011
	(dollars in thousands, except per share data)				
Statement of Operations Data:					
Net sales (k)	$3,397,446	$3,956,443	$1,802,268	$1,772,552	$1,797,249
Cost of sales and operating expenses (a), (k)	2,654,025	3,123,171	1,339,819	1,303,727	1,268,221
Selling, general and administrative expenses	322,574	374,580	170,825	151,713	136,135
Depreciation and amortization	269,904	269,517	98,787	85,371	78,909
Acquisition and integration costs	8,299	24,667	23,271	—	—
Operating income	142,644	164,508	169,566	231,741	313,984
Interest expense (b)	105,530	135,416	38,108	24,054	37,163
Foreign currency (gain)/loss (e)	4,911	13,548	(28,107)	—	—
Other (income)/expense, net, (c), (d)	6,839	(299)	3,547	(1,760)	2,955
Equity in net (income)/loss of unconsolidated subsidiary	(73,416)	(65,609)	(7,660)	2,662	1,572
Income from continuing operations before income taxes	98,780	81,452	163,678	206,785	272,294
Income tax expense	13,501	13,141	54,711	76,015	102,876
Net Income	$85,279	$68,311	$108,967	$130,770	$169,418
Net Income attributable to minority interests	(6,748)	(4,096)	—	—	—
Net Income attributable to Darling	$78,531	$64,215	$108,967	$130,770	$169,418
Basic earnings per common share	$0.48	$0.39	$0.91	$1.11	$1.47
Diluted earnings per common share	$0.48	$0.39	$0.91	$1.11	$1.47
Weighted average shares outstanding	165,031	164,627	119,526	117,592	114,924
Diluted weighted average shares outstanding	165,119	165,059	119,924	118,089	115,525
Other Financial Data:					
Adjusted EBITDA (a), (f)	$412,548	$434,025	$268,353	$317,112	$392,893
Depreciation	186,595	185,955	66,691	57,305	50,891
Amortization	83,309	83,562	32,096	28,066	28,018
Capital expenditures (g)	229,848	228,918	118,307	115,413	60,153
Balance Sheet Data:					
Working capital (l)	$488,042	$525,211	$950,698	$158,578	$92,423
Total assets (l)	4,789,602	5,126,547	3,244,133	1,552,416	1,417,030
Current portion of long-term debt	47,244	54,401	19,888	82	10
Total long-term debt less current portion	1,912,756	2,098,039	866,947	250,142	280,020
Stockholders' equity attributable to Darling	1,870,709	1,952,990	2,020,952	1,062,436	920,375

(a)

Included in fiscal 2014 are non-cash charges for the step-up of inventory acquired in the VION Acquisition of approximately $49.8 million. Additionally, fiscal 2011 includes certain immaterial amounts that have been reclassified to conform to fiscal 2013 through fiscal 2015 presentation.

(b) Included in interest expense for fiscal 2015 is the write-off of approximately $10.6 million related to the payoff of the euro term loan B. Included in interest expense for fiscal 2014 is a redemption premium and a write-off of deferred loan costs of approximately $27.3 million and $4.3 million, respectively. Included in interest expense for fiscal 2013 is approximately $13.0 million for bank financing fees from an unutilized bridge facility. Fiscal 2012 includes the write-off of approximately $0.7 million in deferred loan costs as a result of the final payoff on the term loan portion of the Company's previous secured credit facilities. Included in interest expense for fiscal 2011 is approximately $4.9 million in deferred loan costs that were written off due to early payoff of a portion of a term loan from the Company's previous secured credit facilities.

(c) Included in other (income)/expense in fiscal 2015 is a write-off of property and other costs for fire and casualty losses of approximately $3.0 million for fire and casualty losses in Canada, the Netherlands and Brazil. In additions fiscal 2015 includes approximately $1.8 million for a legal settlement.

(d) Included in other (income)/expense in fiscal 2012 are gain contingencies from insurance proceeds from fiscal 2012 and fiscal 2010 fire and casualty losses of approximately $4.7 million.

(e) Included in fiscal 2014 and fiscal 2013, the Company recorded a loss of approximately $12.6 million and a gain of approximately $27.5 million, respectively on foreign currency exchange forward hedge contracts for the VION Acquisition.

(f) Adjusted EBITDA is presented here not as an alternative to net income, but rather as a measure of the Company's operating performance and is not intended to be a presentation in accordance with U.S. generally accepted accounting principles ("GAAP"). Adjusted EBITDA is calculated below and represents, for any relevant period, net income/(loss) plus depreciation and amortization, goodwill and long-lived asset impairment, interest expense, (income)/loss from discontinued operations, net of tax, income tax provision, other income/(expense) and equity in net loss of unconsolidated subsidiary. The Company believes adjusted EBITDA is a useful measure for investors because it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the Company's industry. In addition, management believes that adjusted EBITDA is useful in evaluating the Company's operating performance compared to that of other companies in the food ingredients and agriculture industries because the calculation of adjusted EBITDA generally eliminates the effects of financing, income taxes and certain non-cash and other items that may vary for different companies for reasons unrelated to overall operating performance. As a result, the Company's management uses adjusted EBITDA as a measure to evaluate performance and for other discretionary purposes. However, adjusted EBITDA is not a recognized measurement under GAAP, should not be considered as an alternative to net income as a measure of operating results or to cash flow as a measure of liquidity, and is not intended to be a presentation in accordance with GAAP. Also, since adjusted EBITDA is not calculated identically by all companies, the presentation in this report may not be comparable to those disclosed by other companies. In addition to the foregoing, management also uses or will use adjusted EBITDA to measure compliance with certain financial covenants under the Company's senior secured credit facilities and senior unsecured notes that were outstanding at January 2, 2016. The amounts shown below for adjusted EBITDA differ from the amounts calculated under similarly titled definitions in the Company's Senior Secured Credit Facilities and Senior Unsecured Notes, as those definitions permit further adjustments to reflect certain other non-cash charges.

Reconciliation of Net Income to Adjusted EBITDA

(dollars in thousands)	January 2, 2016	January 3, 2015	December 28, 2013	December 29, 2012	December 31, 2011
Net income attributable to Darling	$78,531	$64,215	$108,967	$130,770	$169,418
Depreciation and amortization	269,904	269,517	98,787	85,371	78,909
Interest expense	105,530	135,416	38,108	24,054	37,163
Income tax expense	13,501	13,141	54,711	76,015	102,876
Other, net	11,750	13,249	(24,560)	(1,760)	2,955
Equity in net (income)/loss of unconsolidated subsidiaries	(73,416)	(65,609)	(7,660)	2,662	1,572
Net income attributable to noncontrolling interests	6,748	4,096	—	—	—
Adjusted EBITDA	$412,548	$434,025	$268,353	$317,112	$392,893

(g) Fiscal 2015 excludes the capital assets acquired in an immaterial acquisition. Fiscal 2014 excludes the capital assets acquired as part of the VION Acquisition and the Custom Blenders acquisition of approximately $984.2 million. Excludes the capital assets acquired in the Terra Holding Company, a Delaware corporation, and its wholly owned subsidiaries, Terra Renewal Services, Inc., an Arkansas corporation ("TRS"), and EV Acquisition, Inc., an Arkansas corporation (the "Terra Transaction") and the Rothsay Acquisition in fiscal 2013 of approximately

$167.0 million. Excludes the capital assets acquired as part of the RVO BioPur, LLC acquisition in fiscal 2012 of approximately $0.6 million.

(h) Subsequent to the date of acquisition, fiscal 2012 includes 29 weeks of contribution from the RVO BioPur, LLC assets.

(i) Subsequent to the date of acquisition, fiscal 2013 includes 18 weeks of contribution from the TRS assets and 9 weeks of contribution from the assets of Rothsay.

(j) Subsequent to the date of acquisition, fiscal 2014 includes 52 weeks of contribution from the VION Acquisition and 14 weeks of contribution from the Custom Blenders acquisition.

(k) Includes certain reclassifications from net sales to cost of sales and operating expenses of approximately $78.7 million and $71.1 million in fiscal 2013 and fiscal 2012, respectively to conform to fiscal 2015 and fiscal 2014 presentation.

(l) Fiscal 2014 includes certain reclassifications for deferred taxes from current assets and liabilities to non-current assets and liabilities to conform with fiscal 2015 presentation that impacted working capital by approximately $44.4 million and total assets by approximately $44.2 million.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth below under the heading “Forward Looking Statements” and in Item 1A of this report under the heading “Risk Factors.”

The following discussion should be read in conjunction with the historical consolidated financial statements and notes thereto included in Item 8. Commencing with the first quarter of 2014, the Company's business operations were reorganized into three new reportable operating segments: Feed Ingredients, Food Ingredients and Fuel Ingredients. This change was necessitated by the VION Acquisition and aligns the Company's operations based on the products and services offered to various end markets; however, none of the Company's historical operations for fiscal 2013 fall within the Food Ingredients operating segment and therefore, there is no comparable financial information for the Food Ingredients operating segment for fiscal 2013. Comparative segment revenues and related financial information are discussed herein and are presented in Note 20 to the Consolidated Financial Statements.

Fiscal 2015 Overview

The Company is a global developer and producer of sustainable natural ingredients from edible and inedible bio-nutrients, creating a wide range of ingredients and customized specialty solutions for customers in the pharmaceutical, food, pet food, feed, technical, fuel, bioenergy and fertilizer industries. With operations on five continents, the Company collects and transforms all aspects of animal by-product streams into useable and specialty ingredients, such as gelatin, edible fats, feed-grade fats, animal proteins and meals, plasma, pet food ingredients, organic fertilizers, yellow grease, fuel feedstocks, green energy, natural casings and hides. The Company also recovers and converts used cooking oil and commercial bakery residuals into valuable feed and fuel ingredients. In addition, the Company provides grease trap services to food service establishments, environmental services to food processors and sells restaurant cooking oil delivery and collection equipment.

The Feed Ingredients operating segment includes the Company's global activities related to (i) the collection and processing of beef, poultry and pork animal by-products in North America and Europe into non-food grade oils and protein meals, (ii) the collection and processing of bakery residuals in North America into Cookie Meal®, which is predominantly used in poultry and swine rations, (iii) the collection and processing of used cooking oil in North America into non-food grade fats, as well as the production and sale of a variety of cooking oil collection delivery systems, (iv) the collection and processing of bovine, porcine and bovine blood in China, Europe, North America and Australia into blood plasma powder and hemoglobin, (v) the processing of cattle hides and hog skins in North America and Europe, (vi) the production of organic fertilizers using protein produced from the Company’s animal by-products processing activities in North America and Europe, and (vii) the provision of grease trap services to food service establishments and environmental services to food processors. Non-food grade oils and fats produced and marketed by the Company are principally sold to third parties to be used as ingredients in animal feed and pet food, as an ingredient for the production of biodiesel and renewable diesel, or to the oleo-chemical industry to be used as an ingredient in a wide variety of industrial applications. Protein meals produced and marketed by the Company are sold to third parties to be used as ingredients in animal feed, pet food and aquaculture. Blood plasma powder and hemoglobin produced and marketed by the Company are sold to third parties to be used as ingredients in animal feed, pet food and aquaculture.

The Food Ingredients operating segment includes the Company's global activities related to (i) the collection and processing of beef and pork bone chips, beef hides, pig skins, and fish skins into gelatin and hydrolyzed collagen in Europe, China, South America and North America, (ii) the collection and processing of porcine and bovine intestines into natural casings in Europe, China and North America, (iii) the extraction and processing of porcine mucosa into crude heparin in Europe, (iv) the collection and refining of animal fat into food grade fat in Europe, and (v) the processing of bones to bone chips for the gelatin industry and bone ash. Gelatins produced and marketed by the Company are sold to third parties to be used as ingredients in the pharmaceutical, nutriceutical, food, and technical (e.g., photographic) industries. Natural casings produced and marketed by the Company are sold to third parties to be used as an ingredient in the production of sausages and other similar food products.

The Fuel Ingredients operating segment includes the Company's global activities related to (i) the conversion of animal fats and recycled greases into biodiesel in North America, (ii) the conversion of organic sludge and food waste into biogas in Europe, (iii) the collection and conversion of fallen stock and certain animal by-products pursuant to applicable E.U. regulations into low-grade energy sources to be used in industrial applications, (iv) commencing in the second quarter of 2014, the processing of manure into natural bio-phosphate in Europe, and (v) the Company’s share of the results of its equity investment in Diamond Green Diesel Holdings LLC, a joint venture with Valero Energy Corporation ("Valero") (the "DGD Joint Venture") to convert animal fats, recycled greases, used cooking oil, inedible corn oil, soybean oil, or other feedstocks that become economically and commercially viable into renewable diesel as described in Note 7 to the Company's Consolidated Financial Statement for the period ended January 2, 2016 included herein.

Corporate Activities principally includes unallocated corporate overhead expenses, acquisition-related expenses, interest expense net of interest income, and other non-operating income and expenses.

Operating Performance Indicators

The Company is exposed to certain risks associated with a business that is influenced by agricultural-based commodities. These risks are further described in Item 1A of this report under the heading “Risk Factors.”

The Company’s Feed Ingredients segment animal by-products, bakery residuals, used cooking oil recovery, and blood operations are each influenced by prices for agricultural-based alternative ingredients such as corn, soybean oil, soybean meal, and palm oil. In these operations, the costs of the Company's raw materials change with, or in certain cases are indexed to, the selling price or the anticipated selling price of the finished goods produced from the acquired raw materials and/or in some cases, the price spread between various types of finished products. The Company believes that this methodology of procuring raw materials generally establishes a relatively stable gross margin upon the acquisition of the raw material. Although the costs of raw materials for the Feed Ingredients segment are generally based upon actual or anticipated finished goods selling prices, rapid and material changes in finished goods prices, including competing agricultural-based alternative ingredients, generally have an immediate and often times, material impact on the Company’s gross margin and profitability resulting from the lag effect or lapse of time from the procurement of the raw materials until they are processed and the finished goods sold. In addition, the amount of raw material volume acquired, which has a direct impact on the amount of finished goods produced, can also have a material effect on the gross margin reported, as the Company has a substantial amount of fixed operating costs.

The prices available for the Company’s Food Ingredients segment gelatin and natural casings products are influenced by other competing ingredients including plant-based and synthetic hydrocolloids and artificial casings. In the gelatin operation, in particular, the cost of the Company's animal-based raw material moves in relationship to the selling price of the finished goods. The processing time for gelatin and casings is generally 30 to 60 days, which is substantially longer than the Company's animal by-products operations. Consequently, the Company’s gross margin and profitability in this segment can be influenced by the movement of finished goods prices from the time the raw materials were procured until the finished goods are sold.

The reporting currency for the Company's financial statements is the U.S. dollar. The Company operates in over 15 countries and therefore, certain of the Company's assets, liabilities, revenues and expenses are denominated in functional currencies other than the U.S. dollar, primarily in the euro, Brazilian real, Chinese renminbi, Canadian dollar, Argentine peso, Japanese yen and Polish zloty. To prepare the Company's consolidated financial statements the Company must translate those assets, liabilities, revenues, and expenses into U.S. dollars at the applicable exchange rate. As a result, increases or decreases in the value of the U.S. dollar against these other currencies will affect the amount of these items recorded in the Company's consolidated financial statements, even if their value has not changed in the functional currency. This could have a significant impact on the Company's results, if such increase or decrease in the value of the U.S. dollar relative to these other currencies is substantial.

The Company monitors the performance of its business segments using key financial metrics such as segment operating income, metric tons of raw material processed, gross margin percentage, foreign currency, and Adjusted EBITDA. The Company’s operating results can vary significantly due to changes in factors such as the fluctuation in energy prices, weather conditions, crop harvests, government policies and programs, changes in global demand, changes in standards of living, protein consumption, and global production of competing ingredients. Due to these unpredictable factors that are beyond the control of the Company, the Company does not provide forward-looking financial or operational estimates.

Results of Operations

Fiscal Year Ended January 2, 2016 Compared to Fiscal Year Ended January 3, 2015

Fiscal 2014 includes an additional week of operations which occurs every five to six years. In fiscal 2014 the additional week increased net sales and operating income by approximately $71 million and $3 million, respectively.

The Company's results for the twelve months of fiscal 2015 and fiscal 2014 each include 52 weeks of operations from the VION Acquisition. Net income attributable to Darling for the fiscal year ended January 2, 2016 was $78.5 million, or $0.48 per diluted share, as compared to net income of $64.2 million, or $0.39 per diluted share, for the fiscal year ended January 3, 2015. The results for the fiscal 2015 and 2014, respectively, include the following after-tax costs:

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Fiscal 2015

- $4.8 million ($0.03 per diluted share) associated with the integration of VION Ingredients and Rothsay, a staff reduction in Angoulême, France and the implementation of internal controls over financial reporting per the Sarbanes-Oxley Act of 2002 for VION Ingredients;
- $6.2 million ($0.03 per diluted share) related to the write-off of deferred loan costs associated with the retirement of the Company's European portion of its term loan B term note on June 3, 2015; and
- $2.8 million ($0.02 per diluted share) related to the non-operating casualty losses in Canada, the Netherlands and Brazil and a legal settlement.

Fiscal 2014

- $31.3 million ($0.19 per diluted share) related to a non-cash inventory step-up associated with the required purchase accounting for the VION Acquisition related to the portion of acquired inventory sold during the period;
- $19.9 million ($0.12 per diluted share) related to the redemption premium and write-off of deferred loan costs associated with the retirement of the Company's 8.5% Senior Notes on February 7, 2014;
- $21.0 million ($0.13 per diluted share) associated with the acquisition and integration of Rothsay and VION Ingredients during the period; and
- $7.9 million ($0.05 per diluted share) related to certain euro forward contracts entered into to hedge against foreign exchange risks related to the closing of the VION Acquisition

Excluding the items listed above, net income and diluted earnings per common share would have been $92.3 million and $0.56 per diluted share, respectively, for the year ended January 2, 2016, as compared to $144.3 million and $0.88 per share, respectively, for the year ended January 3, 2015. When comparing the year ended January 2, 2016 to the year ended January 3, 2015 this would have resulted in a $52.0 million decrease in net income. The decrease is attributable to lower finished product prices and the impact of foreign exchange rates as a function of the strengthening U.S. dollar as compared mainly to the euro and Canadian dollar, which were partially offset by an increase in raw material volumes.

Non-U.S. GAAP Measures

Adjusted EBITDA is presented here not as an alternative to net income, but rather as a measure of the Company's operating performance and is not intended to be a presentation in accordance with GAAP. Since EBITDA (generally, net income plus interest expenses, taxes, depreciation and amortization) is not calculated identically by all companies, the presentation in this report may not be comparable to EBITDA or adjusted EBITDA presentations disclosed by other companies. Adjusted EBITDA is calculated below and represents, for any relevant period, net income/(loss) plus depreciation and amortization, goodwill and long-lived asset impairment, interest expense, (income)/loss from discontinued operations, net of tax, income tax provision, other income/(expense) and equity in net (income)/loss of unconsolidated subsidiary. Management believes that Adjusted EBITDA is useful in evaluating the Company's operating performance compared to that of other companies in its industry because the calculation of Adjusted EBITDA generally eliminates the effects of financing, income taxes and certain non-cash and other items that may vary for different companies for reasons unrelated to overall operating performance.

As a result, the Company's management uses Adjusted EBITDA as a measure to evaluate performance and for other discretionary purposes. However, Adjusted EBITDA is not a recognized measurement under GAAP, should not be considered as an alternative to net income as a measure of operating results or to cash flow as a measure of liquidity, and is not intended to be a presentation in accordance with GAAP. In addition to the foregoing, management also uses or will use Adjusted EBITDA to measure compliance with certain financial covenants under the Company's Senior Secured Credit Facilities, 5.375% Notes and 4.75% Notes that were outstanding at January 2, 2016. However, the amounts shown below for Adjusted EBITDA differ from the amounts calculated under similarly titled definitions in the Company’s Senior Secured Credit Facilities, 5.375% Notes and 4.75% Notes, as those definitions permit further adjustments to reflect certain other non-recurring costs, non-cash charges and cash dividends from the DGD Joint Venture. Additionally, the Company evaluates the impact of foreign exchange on operating cash flow, which is defined as segment operating income (loss) plus depreciation and amortization.

In addition, the Company's management used adjusted diluted earning per share as a measure of earnings due to the significant merger and acquisition activity of the Company. However, adjusted earnings per share is not a recognized measurement under GAAP and should not be considered as an alternative to diluted earnings per share presented in accordance with GAAP. Adjusted diluted earnings per share, is defined as adjusted net income attributable to Darling divided by the weighted average shares of diluted common stock. Adjusted net income attributable to Darling is defined as a reconciliation of net income attributable to Darling, net of tax (i) adjusted for net of tax acquisition and integration costs related to mergers and acquisitions, (ii) net of tax amortization of acquisition related intangibles and (iii) net of tax certain non-recurring items that are not part of normal operations. This measure is solely for the purpose of calculating adjusted diluted earnings per share and is not intended to be a substitute or presentation in accordance with GAAP.

Reconciliation of Net Income to (Non-GAAP) Adjusted EBITDA and (Non-GAAP) Pro Forma Adjusted EBITDA

(dollars in thousands)	Fiscal Year Ended January 2, 2016	January 3, 2015
Net income attributable to Darling	$78,531	$64,215
Depreciation and amortization	269,904	269,517
Interest expense	105,530	135,416
Income tax expense/(benefit)	13,501	13,141
Foreign currency loss/(gain)	4,911	13,548
Other expense/(income), net	6,839	(299)
Equity in net (income)/loss of unconsolidated subsidiaries	(73,416)	(65,609)
Net (loss)/income attributable to noncontrolling interests	6,748	4,096
Adjusted EBITDA (Non-GAAP)	$412,548	$434,025
Non-cash inventory step-up associated with VION Acquisition	—	49,803
Acquisition and integration-related expenses	8,299	24,667
Darling Ingredients International - 13th week (1)	—	4,100
Pro forma Adjusted EBITDA (Non-GAAP)	$420,847	$512,595
Foreign currency exchange impact (3)	48,961	—
Pro forma Adjusted EBITDA to Foreign Currency (Non-GAAP)	$469,808	$512,595
DGD Joint Venture Adjusted EBITDA (Darling's Share) (2)	$88,494	$81,639

(1) January 7, 2014 closed on VION Ingredients, thus the 13th week would be EBITDA adjusted for January 1, 2014 through January 7, 2014.
(2) Darling's pro forma adjusted EBITDA (Non-GAAP) in the above table does not include the DGD Joint Venture adjusted EBITDA (Darling's share) if we had consolidated the DGD Joint Venture.
(3) Impact between fiscal 2015 and fiscal 2014.

For the year ended January 2, 2016, the Company generated Adjusted EBITDA of $412.5 million, as compared to $434.0 million in the same period in fiscal 2014. On a Pro forma Adjusted EBITDA basis, the Company would have generated $420.8 million for the year ended January 2, 2016, as compared to a Pro forma Adjusted EBITDA of $512.6 million in the same period in fiscal 2014. The decrease in the Pro forma Adjusted EBITDA is attributable to lower finished product prices and the impact of foreign exchange rates as a function of the strengthening U.S. dollar as compared mainly to the euro and Canadian dollar, which were partially offset by an increase in raw material volumes.

As a result of the strengthened U.S. dollar, the above Pro forma Adjusted EBITDA results for the year ended Janaury 2, 2016 would have been $469.8 million when taking into consideration the change in average foreign currency fluctuations of $49.0 million, as compared to $512.6 million for the year ended January 3, 2015, a reduction of $42.8 million.

Finished Product Commodity Prices. Prices for finished product commodities that the Company produces in the Feed Ingredients segment are reported each business day on the Jacobsen index (the "Jacobsen"), an established trading exchange price publisher. The Jacobsen reports industry sales from the prior day's activity by product. The Jacobsen includes reported prices for finished products such as protein (primarily meat and bone meal (“MBM”), poultry meal (“PM”) and feathermeal (“FM”)), hides, fats (primarily bleachable fancy tallow (“BFT”) and yellow grease (“YG”)) and corn, which is a substitute commodity for the Company's bakery by-product (“BBP”) as well as a range of branded and value-added products, which are end products of the Company's Feed Ingredients segment. In the U.S. the Company regularly monitors the Jacobsen for MBM, PM, FM, BFT, YG and corn because they provide a daily indication of the Company's U.S. revenue performance against business plan benchmarks, while in Europe, the Company regularly monitors Thomson Reuters to track the competing commodities palm oil and soy meal. Although the Jacobsen and Thomson Reuters provide useful metrics of performance, the Company's finished products are commodities that compete with other commodities such as corn, soybean oil, palm oil complex, soybean meal and heating oil on nutritional and functional values and therefore actual pricing for the Company's finished products, as well as competing products, can be quite volatile. In addition, neither the Jacobsen or Thomson Reuters provides forward or future period pricing for the

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Company's commodities. The Jacobsen and Thompson Reuters prices quoted below are for delivery of the finished product at a specified location. Although the Company's prices generally move in concert with reported Jacobsen and Thomson Reuters prices, the Company's actual sales prices for its finished products may vary significantly from the Jacobsen and Thomson Reuters because of delivery timing differences and because the Company's finished products are delivered to multiple locations in different geographic regions which utilize different price indexes. In addition, certain of the Company's premium branded finished products may also sell at prices that may be higher than the closest product on the related Jacobsen index or by Thomson Reuters. During fiscal 2015, the Company's actual sales prices by product trended with the disclosed Jacobsen and Thomson Reuters prices. Average Jacobsen and Thomson Reuters prices (at the specified delivery point) for fiscal 2015, compared to average Jacobsen and Thomson Reuters prices for fiscal 2014 follow:

-	Avg. Price Fiscal 2015	Avg. Price Fiscal 2014	- Increase/(Decrease)	% Increase/(Decrease)
Jacobsen Index:	-	-	-	-
MBM (Illinois)	$ 334.55/ton	$ 467.81/ton	$ (133.26)/ton	(28.5)%
Feed Grade PM (Mid-South)	$ 404.54/ton	$ 555.42/ton	$ (150.88)/ton	(27.2)%
Pet Food PM (Mid-South)	$ 544.64/ton	$ 790.75/ton	$ (246.11)/ton	(31.1)%
Feathermeal (Mid-South)	$ 472.27/ton	$ 700.69/ton	$ (228.42)/ton	(32.6)%
BFT (Chicago)	$ 27.36/cwt	$ 36.77/cwt	$ (9.41)/cwt	(25.6)%
YG (Illinois)	$ 21.79/cwt	$ 28.95/cwt	$ (7.16)/cwt	(24.7)%
Corn (Illinois)	$ 3.89/bushel	$ 4.23/bushel	$ (0.34)/bushel	(8.0)%
Thomson Reuters:	-	-	-	-
Palm Oil (CIF Rotterdam)	$ 607.00/ton	$ 809.00/ton	$ (202.00)/ton	(25.0)%
Soy meal (CIF Rotterdam)	$ 391.00/ton	$ 526.00/ton	$ (135.00)/ton	(25.7)%

The following table shows the average Jacobsen and Thomson Reuters prices for the fourth quarter of fiscal 2015, compared to the average Jacobsen and Thomson Reuters prices for the third quarter of fiscal 2015.

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-	Avg. Price 4th Quarter 2015	Avg. Price 3rd Quarter 2015	- Increase/(Decrease)	% Increase/(Decrease)
Jacobsen Index:	-	-	-	-
MBM (Illinois)	$ 249.29/ton	$ 354.91/ton	$ (105.62)/ton	(29.8)%
Feed Grade PM (Mid-South)	$ 334.67/ton	$ 391.55/ton	$ (56.88)/ton	(14.5)%
Pet Food PM (Mid-South)	$ 469.49/ton	$ 532.45/ton	$ (62.96)/ton	(11.8)%
Feathermeal (Mid-South)	$ 367.06/ton	$ 499.12/ton	$ (132.06)/ton	(26.5)%
BFT (Chicago)	$ 21.18/cwt	$ 29.42/cwt	$ (8.24)/cwt	(28.0)%
YG (Illinois)	$ 17.86/cwt	$ 21.48/cwt	$ (3.62)/cwt	(16.9)%
Corn (Illinois)	$ 3.95/bushel	$ 3.91/bushel	$ 0.04/bushel	1.0 %
Thomson Reuters:	-	-	-	-
Palm Oil (CIF Rotterdam)	$ 563.00/ton	$ 558.00/ton	$ 5.00/ton	0.9 %
Soy meal (CIF Rotterdam)	$ 352.00/ton	$ 380.00/ton	$ (28.00)/ton	(7.4)%

During the year ended January 2, 2016 net sales for the Feed Ingredients segment were $2,074.3 million as compared to $2,421.5 million for the year ended January 3, 2015, a decrease of approximately $347.2 million. Fat net sales were approximately $539.8 million and $659.0 million of net sales for the year ended January 2, 2016 and January 3, 2015, respectively, used cooking oil net sales were approximately $154.0 million and $190.3 million of net sales for the year ended January 2, 2016 and January 3, 2015, respectively, protein net sales were approximately $828.5 million and $979.8 million of net sales for the year ended January 2, 2016 and January 3, 2015, respectively, bakery net sales were approximately $217.9 million and $221.7 million of net sales for the year ended January 2, 2016 and January 3, 2015, respectively, and other sales were approximately $334.1 million and $370.7 million for the year ended January 2, 2016 and January 3, 2015, respectively. The decrease in net sales for the Feed Ingredients segment was primarily due to the following (in millions of dollars):

	Fats	Used Cooking Oil	Proteins	Bakery	Other	Total
Net sales year ended January 3, 2015	$659.0	$190.3	$979.8	$221.7	$370.7	$2,421.5
Increase in sales volumes	28.4	3.1	34.1	28.3	—	93.9
Decrease in finished good prices	(124.1)	(37.6)	(118.6)	(32.1)	—	(312.4)
Decrease due to currency exchange rates	(23.5)	(1.8)	(66.8)	—	(34.4)	(126.5)
Other change	—	—	—	—	(2.2)	(2.2)
Total change	(119.2)	(36.3)	(151.3)	(3.8)	(36.6)	(347.2)
Net sales year ended January 2, 2016	$539.8	$154.0	$828.5	$217.9	$334.1	$2,074.3

In the above table, the increase in sales volumes for bakery is primarily due to the Custom Blenders acquisition that occurred in the fourth quarter of fiscal 2014.

Reconciliation (Non-GAAP) Adjusted Diluted Earnings Per Share and (Non-GAAP) Adjusted Net Income Attributable to Darling

(dollars in millions, except earnings per share)	Fiscal Year Ended January 2, 2016	January 3, 2015
Net income attributable to Darling	$78.5	$64.2
Adjusted for acquisition related items (a)		
Non-cash inventory step-up associated with the VION Acquisition	—	31.3
Acquisition and integration costs	4.8	21.0
Amortization of intangibles	48.2	52.6
Non-operating casualty losses and legal settlement	2.8	—
Redemption premium on 8.5% Senior Notes and write-off deferred loan costs	—	19.9
Write-off deferred loan costs euro term loan B	6.2	—
Foreign currency hedge of VION purchase price	—	7.9
Adjusted income attributable to Darling (Non-GAAP)	$140.5	$196.9
Weighted average shares of common stock outstanding	165,119	165,059
Diluted earnings per share, as reported	$0.48	$0.39
Non-cash inventory step-up associated with the VION Acquisition	—	0.19
Acquisition and integration costs	0.03	0.13
Amortization of intangibles	0.29	0.32
Non-operating casualty losses and legal settlement	0.02	—
Redemption premium on 8.5% Senior Notes and write-off deferred loan costs	—	0.12
Write-off deferred loan costs euro term loan B	0.03	—
Foreign currency hedge of VION purchase price	—	0.05
Adjusted diluted earnings per share attributable to Darling (Non-GAAP)	$0.85	$1.20

(a) Adjustments to net income attributable to Darling and diluted earnings per share of acquisition related items are net of tax. Calculations of all adjustment tax amounts were at the applicable effective tax rate for the period, except for the impacted by biofuel tax incentives and nonrecurring acquisition and integration costs. The effective tax rate used for calculating Non-GAAP Adjusted EPS in the above table for the years ended January 2, 2016 and January

3, 2015 was 42.2%, and 37.1%, respectively.

Other principal indicators which management routinely monitors as an indicator of operating performance include:

- Segment operating income
- Raw material processed
- Gross margin percentage
- Foreign currency

These indicators and their importance are discussed below in greater detail.

Operating Income by Segment

-	Feed Ingredients	Food Ingredients	Fuel Ingredients	Corporate	Total
Fiscal Year Ended January 2, 2016	-	-	-	-	-
Net Sales	$2,074,333	$1,094,918	$228,195	$—	$3,397,446
Cost of sales and operating expenses	1,613,402	863,562	177,061	—	2,654,025
Gross Margin	460,931	231,356	51,134	—	743,421
-	-	-	-	-	-
Gross Margin %	22.2 %	21.1 %	22.4 %	— %	21.9 %
-	-	-	-	-	-
Selling, general and administrative expense	178,624	103,301	7,264	33,385	322,574
Acquisition costs	—	—	—	8,299	8,299
Depreciation and amortization	165,854	66,817	26,711	10,522	269,904
Segment operating income/ (loss)	116,453	61,238	17,159	(52,206)	142,644
-	-	-	-	-	-
Equity in net income of unconsolidated subsidiaries	1,521	—	71,895	—	73,416
Segment income	117,974	61,238	89,054	(52,206)	216,060
-	-	-	-	-	-
Total other expense	-	-	-	-	(117,280)
Income/ (loss) before income taxes	-	-	-	-	$98,780

-	Feed Ingredients	Food Ingredients	Fuel Ingredients	Corporate	Total
Fiscal Year Ended January 3, 2015	-	-	-	-	-
Net Sales	$2,421,462	$1,248,352	$286,629	$—	$3,956,443
Cost of sales and operating expenses	1,864,835	1,029,488	228,848	—	3,123,171
Gross Margin	556,627	218,864	57,781	—	833,272
-	-	-	-	-	-
Gross Margin %	23.0 %	17.5 %	20.2 %	— %	21.1 %
-	-	-	-	-	-
Selling, general and administrative expense	205,484	118,716	8,596	41,784	374,580
Acquisition costs	—	—	—	24,667	24,667
Depreciation and amortization	158,871	73,274	27,898	9,474	269,517
Segment operating income/(loss)	192,272	26,874	21,287	(75,925)	164,508
-	-	-	-	-	-
Equity in net income of unconsolidated subsidiaries	1,842	—	63,767	—	65,609

Segment income	194,114	26,874	85,054	(75,925)	230,117
-	-	-	-	-	-
Total other expense	-	-	-	-	(148,665)
Income before income taxes	-	-	-	-	$81,452

Feed Ingredients operating income for fiscal year 2015 was $116.5 million, a decrease of $75.8 million as compared to fiscal year 2014. Adjusting the results for fiscal year 2014 for the non-cash inventory step-up adjustment of approximately $14.2 million and comparing this to fiscal year 2015, the Feed Ingredients operating income for fiscal year 2015 is lower by $90.0 million. Lower earnings in the Feed Ingredients segment were due to significant decline in proteins, fats, used cooking oil and bakery finished product prices attributable to overall lower feed ingredient prices as a result of the global record-setting grain production and increased volumes from the slaughter industry, which increased supply above demand levels. In the United States operations, lower earnings related primarily to lower prices for protein, fat and used cooking oil, particularly in the Company's non-formula business. The international operations were down only slightly due to strong volumes and raw material cost reductions, which offset lower finished product prices. In addition, the Company's Feed Ingredients segment operating cash flow was negatively impacted by foreign exchange translation by approximately $16.6 million when using prior year average exchange rates.

Food Ingredients operating income for fiscal year 2015 was $61.2 million, an increase of $34.3 million as compared to fiscal 2014. Adjusting the results for fiscal year 2014 for the non-cash inventory step-up adjustment of approximately $35.3 million and comparing this to fiscal year 2015, the Food Ingredients operating income for fiscal year 2015 is lower by $1.0 million. The gelatin business performance improved as compared to the prior year as a result of increased demand in China and lower raw material prices in Europe. The European edible fats earnings also improved over the prior year due to normalized margins. The Company's casing business was down as compared to the prior year, due primarily to lower margins on exports into Asian markets for meat by-products. In addition, the Company's Food Ingredients segment operating cash flow was negatively impacted by foreign exchange translation by approximately $24.4 million when using prior year average exchange rates.

Exclusive of the DGD Joint Venture, Fuel Ingredients operating income for fiscal year 2015 was $17.2 million, a decrease of $4.1 million as compared to fiscal year 2014. Adjusting fiscal year 2014 for the non-cash inventory step-up adjustment of approximately $0.3 million and comparing this to fiscal year 2015, the Fuel Ingredients operating income for fiscal year 2015 is $4.4 million lower than fiscal 2014 due primarily from lower earnings from the Canadian biodiesel operations in fiscal 2015. Including the DGD Joint Venture, the Fuel Ingredients segment income for fiscal 2015 was $89.1 million, as compared to segment income of $85.4 million in fiscal 2014. The increase of $3.7 million is primarily related to a $15.3 million increase in Darling's portion of blenders tax credits as compared to fiscal year 2014. This increase was partially offset by a decrease in petroleum prices, which was not offset by an increase in Renewable Identification Number (“RIN”) values as a result of the uncertain regulatory environment with respect to the U.S. mandated renewable volume obligation (“RVO”) requirement. In addition, the passing of the blenders tax credit in December 2015 and December 2014 increased results in the fourth quarter of fiscal year 2014 and fiscal year 2015. Overall, the blenders tax credits increased the results of fiscal year 2015 as compared to fiscal year 2014 by approximately $1.6 million at Darling's U.S. and Canada plants and by approximately $15.3 million at the DGD Joint Venture. The Company's Fuel Ingredients segment operating cash flow was also negatively impacted by foreign exchange translation of approximately $8.0 million when using prior year average exchange rates, lower production and earnings at the Canadian biodiesel plant due to operational breakdown issues and a fire at the Company's Bio Phosphate plant in the Netherlands at the end of the fourth quarter of fiscal 2015. In Canada, the Fuel Ingredients segment recorded business interruption insurance income from a settled claim on the Canadian biodiesel plant as a credit to selling, general and administrative expense and the European Fuel Ingredients segment (Ecoson) received a subsidy from the Netherlands government that was recorded as a credit to selling, general and administrative expense.

Raw Material Processed

Raw material processed represents the quantity in metric tons of raw material collected from the Company’s various raw material suppliers. The volume of raw material processed bears a direct relationship to the volume of finished product produced and available for sale.

Overall, in fiscal year 2015, the raw material processed by the Company totaled 9.69 million metric tons. Of this amount, 7.45 million metric tons was in the Feed Ingredients segment, 1.07 million metric tons was in the Food Ingredients segment, and 1.17 million metric tons was in the Fuel Ingredients segment. As compared to fiscal year 2014, overall volumes were up approximately 4.8%, which consisted of a 4.6% increase in the Feed Ingredients segment, a 1.6% increase in the Food Ingredients segment and a 9.3% increase in the Fuel Ingredients segment. The total raw materials processed and that for the Fuel Ingredients segment excludes raw material processed at the DGD Joint Venture.

In fiscal year 2014, the raw material processed by the Company totaled 9.24 million metric tons. Of this amount, 7.12 million metric tons was in the Feed Ingredients segment, 1.05 million metric tons was in the Food Ingredients segment, and 1.07 million metric tons was in the Fuel Ingredients segment.

Gross Margin Percentages

-	Feed Ingredients		Food Ingredients	Fuel Ingredients	Corporate	Total
Fiscal Year Ended January 2, 2016	-		-	-	-	-
Gross Margin %	22.2	%				