DARLING INGREDIENTS INC.
Form 10-Q
August 08, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)
/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR

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

Commission File Number 001-13323

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

Delaware	36-2495346
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

251 O'Connor Ridge Blvd., Suite 300	
Irving, Texas	75038
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Large accelerated filer	X	Accelerated filer
Non-accelerated filer		Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of Exchange Act.

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

There were 164,655,391 shares of common stock, $0.01 par value, outstanding at August 2, 2018.

DARLING INGREDIENTS INC. AND SUBSIDIARIES
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018

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DARLING INGREDIENTS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
June 30, 2018 and December 30, 2017
(in thousands, except share data)

	June 30, 2018 (unaudited)	December 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$104,120	$106,774
Restricted cash	142	142
Accounts receivable, net	371,291	391,847
Inventories	370,555	358,183
Prepaid expenses	43,965	38,326
Income taxes refundable	6,977	4,509
Other current assets	21,148	56,664
Total current assets	918,198	956,445
Property, plant and equipment, less accumulated depreciation of $1,147,349 at June 30, 2018 and $1,075,448 at December 30, 2017	1,624,354	1,645,822
Intangible assets, less accumulated amortization of $390,866 at June 30, 2018 and $383,836 at December 30, 2017	610,878	676,500
Goodwill	1,232,964	1,301,093
Investment in unconsolidated subsidiaries	399,097	302,038
Other assets	56,802	62,284
Deferred income taxes	14,623	14,043
	$4,856,916	$4,958,225
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$7,466	$16,143
Accounts payable, principally trade	185,150	217,417
Income taxes payable	8,975	12,300
Accrued expenses	281,139	313,623
Total current liabilities	482,730	559,483
Long-term debt, net of current portion	1,687,823	1,698,050
Other non-current liabilities	105,649	106,287
Deferred income taxes	242,683	266,708
Total liabilities	2,518,885	2,630,528
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value; 250,000,000 shares authorized; 168,074,119 and 167,892,500 shares issued at June 30, 2018 and at December 30, 2017, respectively	1,681	1,679
Additional paid-in capital	1,530,349	1,515,614
Treasury stock, at cost; 3,420,210 and 3,239,063 shares at June 30, 2018 and at December 30, 2017, respectively	(47,403)	(44,063)

Accumulated other comprehensive loss	(274,118)	(209,524)
Retained earnings	1,052,894	981,227
Total Darling's stockholders’ equity	2,263,403	2,244,933
Noncontrolling interests	74,628	82,764
Total stockholders' equity	$2,338,031	$2,327,697
	$4,856,916	$4,958,225

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

DARLING INGREDIENTS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
Three and six months ended June 30, 2018 and July 1, 2017
(in thousands, except per share data)
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Net sales	$846,646	$894,930	$1,722,020	$1,773,440
Costs and expenses:				
Cost of sales and operating expenses	653,001	699,244	1,331,100	1,387,210
Selling, general and administrative expenses	78,558	84,532	165,460	171,455
Restructuring and impairment charges	14,965	—	14,965	—
Depreciation and amortization	78,454	72,990	157,073	144,104
Total costs and expenses	824,978	856,766	1,668,598	1,702,769
Operating income	21,668	38,164	53,422	70,671
Other expense:				
Interest expense	(23,016)	(22,446)	(46,140)	(44,126)
Debt extinguishment costs	(23,509)	—	(23,509)	—
Foreign currency loss	(3,495)	(2,111)	(4,976)	(2,375)
Loss on sale of subsidiary	(15,538)	—	(15,538)	—
Other income/(expense), net	1,199	(3,797)	(1,317)	(5,850)
Total other expense	(64,359)	(28,354)	(91,480)	(52,351)
Equity in net income of unconsolidated subsidiaries	15,236	8,260	112,390	8,966
Income/(loss) before income taxes	(27,455)	18,070	74,332	27,286
Income tax expense	1,683	7,742	5,395	9,560
Net income/(loss)	(29,138)	10,328	68,937	17,726
Net income attributable to noncontrolling interests	(1,282)	(1,179)	(2,052)	(2,748)
Net income/(loss) attributable to Darling	$(30,420)	$9,149	$66,885	$14,978
Basic income/(loss) per share	$(0.18)	$0.06	$0.41	$0.09
Diluted income/(loss) per share	$(0.18)	$0.05	$0.40	$0.09

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

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DARLING INGREDIENTS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
Three and six months ended June 30, 2018 and July 1, 2017
(in thousands)
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Net income/(loss)	$(29,138)	$10,328	$68,937	$17,726
Other comprehensive income/(loss), net of tax:				
Foreign currency translation	(76,837)	49,112	(59,542)	64,791
Pension adjustments	666	760	1,333	1,519
Natural gas swap derivative adjustments	—	—	22	—
Corn option derivative adjustments	447	(869)	(1,158)	(1,971)
Total other comprehensive income/(loss), net of tax	(75,724)	49,003	(59,345)	64,339
Total comprehensive income/(loss)	$(104,862)	$59,331	$9,592	$82,065
Comprehensive income/(loss) attributable to noncontrolling interests	1,232	(1,418)	2,519	(171)
Comprehensive income/(loss) attributable to Darling	$(106,094)	$60,749	$7,073	$82,236

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

DARLING INGREDIENTS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Six months ended June 30, 2018 and July 1, 2017
(in thousands)
(unaudited)

	June 30, 2018	July 1, 2017
Cash flows from operating activities:		
Net Income	$68,937	$17,726
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	157,073	144,104
Loss/ (gain) on disposal of property, plant, equipment and other assets	300	(358)
Loss on sale of subsidiary	15,538	—
Asset impairment	2,907	—
Gain on insurance proceeds from insurance settlements	(1,253)	—
Deferred taxes	(7,512)	(11,205)
Increase in long-term pension liability	123	1,362
Stock-based compensation expense	13,232	11,003
Write-off deferred loan costs	8,105	340
Deferred loan cost amortization	4,664	4,366
Equity in net income of unconsolidated subsidiaries	(112,390)	(8,966)
Distributions of earnings from unconsolidated subsidiaries	26,567	25,806
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	5,217	17,705
Income taxes refundable/payable	(5,438)	12,857
Inventories and prepaid expenses	(30,561)	(21,952)
Accounts payable and accrued expenses	(25,705)	16,594
Other	8,243	(11,845)
Net cash provided by operating activities	128,047	197,537
Cash flows from investing activities:		
Capital expenditures	(139,130)	(127,824)
Acquisitions, net of cash acquired	(51,089)	(12,369)
Investment in unconsolidated subsidiary	(6,500)	(2,250)
Proceeds from sale of investment in subsidiaries	82,805	—
Gross proceeds from disposal of property, plant and equipment and other assets	2,244	3,603
Proceeds from insurance settlement	1,253	3,301
Payments related to routes and other intangibles	(294)	(4,635)
Net cash used by investing activities	(110,711)	(140,174)
Cash flows from financing activities:		
Proceeds from long-term debt	623,695	16,405
Payments on long-term debt	(650,976)	(67,974)
Borrowings from revolving credit facility	247,975	80,000
Payments on revolving credit facility	(221,632)	(80,327)
Net cash overdraft financing	4,517	(1,077)
Deferred loan costs	(9,324)	(1,177)
Issuance of common stock	182	22
Minimum withholding taxes paid on stock awards	(2,123)	(2,091)
Distributions to noncontrolling interests	(983)	(2,135)

Net cash used by financing activities	(8,669)	(58,354)
Effect of exchange rate changes on cash	(11,321)	11,233
Net increase/(decrease) in cash, cash equivalents and restricted cash	(2,654)	10,242
Cash, cash equivalents and restricted cash at beginning of period	106,916	114,857
Cash, cash equivalents and restricted cash at end of period	$104,262	$125,099
Supplemental disclosure of cash flow information:		
Accrued capital expenditures	$(6,336)	$(5,445)
Cash paid during the period for:		
Interest, net of capitalized interest	$39,614	$38,688
Income taxes, net of refunds	$17,154	$7,986
Non-cash financing activities		
Debt issued for assets	$17	$—

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

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DARLING INGREDIENTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
June 30, 2018
(unaudited)

(1) General

The accompanying consolidated financial statements for the three and six month periods ended June 30, 2018 and July 1, 2017, have been prepared by Darling Ingredients Inc., a Delaware corporation ("Darling", and together with its subsidiaries, the "Company") in accordance with generally accepted accounting principles in the United States ("GAAP") without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The information furnished herein reflects all adjustments (consisting only of normal recurring accruals) that are, in the opinion of management, necessary to present a fair statement of the financial position and operating results of the Company as of and for the respective periods. However, these operating results are not necessarily indicative of the results expected for a full fiscal year. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted pursuant to such rules and regulations. However, management of the Company believes, to the best of their knowledge, that the disclosures herein are adequate to make the information presented not misleading. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements contained in the Company's Form 10-K for the fiscal year ended December 30, 2017.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements include the accounts of Darling and its consolidated subsidiaries. Noncontrolling interests represent the outstanding ownership interest in the Company's consolidated subsidiaries that are not owned by the Company. In the accompanying Consolidated Statements of Operations, the noncontrolling interest in net income of the consolidated subsidiaries is shown as an allocation of the Company's net income and is presented separately as "Net income attributable to noncontrolling interests." In the Company's Consolidated Balance Sheets, noncontrolling interests represent the ownership interests in the Company consolidated subsidiaries' net assets held by parties other than the Company. These ownership interests are presented separately as "Noncontrolling interests" within "Stockholders' Equity." All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Fiscal Periods

The Company has a 52/53 week fiscal year ending on the Saturday nearest December 31. Fiscal periods for the consolidated financial statements included herein are as of June 30, 2018, and include the 13 and 26 weeks ended June 30, 2018, and the 13 and 26 weeks ended July 1, 2017.

(c) Cash, Cash Equivalents and Restricted Cash

The Company considers all short-term highly liquid instruments, with an original maturity of three months or less, to be cash equivalents. Cash balances are recorded net of book overdrafts when a bank right-of-offset exists. All other book overdrafts are recorded in accounts payable and the change in the related balance is reflected in operating activities on the Consolidated Statement of Cash Flows. In addition, the Company has bank overdrafts, which are considered a form of short-term financing with changes in the related balance reflected in financing activities in the

Consolidated Statement of Cash Flows. In November 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-18, Restricted Cash. This ASU amends Topic 230, Statement of Cash Flows, which includes new guidance on the classification and presentation of restricted cash in the statement of cash flows in order to eliminate the discrepancies that currently exist in how companies present these changes. This ASU requires restricted cash to be included with cash and cash equivalents when explaining the changes in cash in the statement of cash flows. The Company adopted this on December 31, 2017 and it did not have a material impact on the Company's consolidated financial statements.

Restricted cash represents amounts required to be set aside to cover self-insurance claims and collateral for environmental claims. The following table provides a reconciliation of cash, cash equivalents and restricted cash on the consolidated balance sheet that sum to the total of the same amounts shown in the consolidated statement of cash flows (in thousands):

	June 30, 2018	December 30, 2017
Cash and cash equivalents	$104,120	$106,774
Restricted cash	142	142
Total cash, cash equivalents and restricted cash shown in the consolidated statements of cash flow	$104,262	$106,916

(d) Accounts Receivable and Allowance for Doubtful Accounts

The Company maintains allowances for doubtful accounts for estimated losses resulting from customers' non-payment of trade accounts receivable owed to the Company. These trade receivables arise in the ordinary course of business from sales of raw material, finished product or services to the Company's customers. The estimate of allowance for doubtful accounts is based upon the Company's bad debt experience, prevailing market conditions, and aging of trade accounts receivable, among other factors. If the financial condition of the Company's customers deteriorates, resulting in the customers' inability to pay the Company's receivables as they come due, additional allowances for doubtful accounts may be required. The Company has entered into agreements with third party banks to factor certain of the Company's trade receivables in order to enhance working capital by turning trade receivables into cash faster. Under these agreements, the Company will sell certain selected customers trade receivables to the third party banks without recourse for cash less a nominal fee. For the three and six months ended June 30, 2018, the Company sold approximately $31.8 million and $50.6 million of its trade receivables and incurred approximately $0.1 million and $0.2 million in fees, which are recorded as interest expense, respectively. For the three and six months ended July 1, 2017, no receivables were factored.

(e) Revenue Recognition

The Company recognizes revenue on sales when control of the promised finished product is transferred to the Company's customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for the finished product. Service revenues are recognized when the service occurs. Certain customers may be required to prepay prior to shipment in order to maintain payment protection related to certain foreign and domestic sales. These amounts are recorded as unearned revenue and recognized when control of the promised finished product is transferred to the Company's customer. See Note 19 to the consolidated financial statements.

(f) Foreign Currency Translation and Remeasurement

Foreign currency translation is included as a component of accumulated other comprehensive loss and reflects the adjustments resulting from translating the foreign currency denominated financial statements of foreign subsidiaries into U.S. dollars. The functional currency of the Company's foreign subsidiaries is the currency of the primary economic environment in which the entity operates, which is generally the local currency of the country. Accordingly, assets and liabilities of the foreign subsidiaries are translated into U.S. dollars at fiscal period end exchange rates, including intercompany foreign currency transactions that are of long-term investment nature. Income and expense items are translated at average exchange rates occurring during the period. Changes in exchange rates that affect cash flows and the related receivables or payables are recognized as transaction gains and losses in determining net income. The Company incurred net foreign currency translation losses of approximately $60.0 million for the six months ended June 30, 2018 and net foreign currency translation gains of approximately $67.7 million for the six months ended July 1, 2017, respectively.

(g) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. In the consolidated statements of operations, previously reported amounts have been adjusted to reflect the correction of an immaterial classification error in net sales and cost of sales as disclosed in Company’s Form 10-K for the fiscal year ended December 30, 2017. In addition, previous reported net periodic pension costs have been reclassified in the consolidated statements of operations to conform to current year presentation, as described in Note 13 and previously reported amounts in the consolidated statements of cash flows have been adjusted to reflect the adoption of the presentation of restricted cash.

(h) Earnings/(loss) Per Share

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

	Net Income/(loss) per Common Share (in thousands, except per share data)					
	Three Months Ended					
		June 30, 2018			July 1, 2017	
	Loss	Shares	Per Share	Income	Shares	Per Share
Basic:						
Net Income/(loss) attributable to Darling	$(30,420)	164,651	$(0.18)	$9,149	164,718	$0.06
Diluted:						
Effect of dilutive securities:						
Add: Option shares in the money and dilutive effect of non-vested stock awards		—			4,166	
Less: Pro forma treasury shares		—			(2,053)	
Diluted:						
Net income/(loss) attributable to Darling	$(30,420)	164,651	$(0.18)	$9,149	166,831	$0.05

	Net Income per Common Share (in thousands, except per share data)					
	Six Months Ended					
		June 30, 2018			July 1, 2017	
	Income	Shares	Per Share	Income	Shares	Per Share
Basic:						
Net Income attributable to Darling	$66,885	164,774	$0.41	$14,978	164,728	$0.09
Diluted:						
Effect of dilutive securities:						
Add: Option shares in the money and dilutive effect of non-vested stock awards		2,536			3,089	
Less: Pro forma treasury shares		(1,051)			(1,469)	
Diluted:						
Net income attributable to Darling	$66,885	166,259	$0.40	$14,978	166,348	$0.09

For the three months ended June 30, 2018 and July 1, 2017, respectively, 3,801,665 and 772,402 outstanding stock options were excluded from diluted income per common share as the effect was antidilutive. For the three months ended June 30, 2018 and July 1, 2017, respectively, 2,634,828 and 680,100 shares of non-vested stock and stock equivalents were excluded from diluted income per common share as the effect was antidilutive.

For the six months ended June 30, 2018 and July 1, 2017, respectively, 2,275,607 and 791,116 outstanding stock options were excluded from diluted income per common share as the effect was antidilutive. For the three months ended June 30, 2018 and July 1, 2017, respectively, 1,475,394 and 853,313 shares of non-vested stock and stock equivalents were excluded from diluted income per common share as the effect was antidilutive.

(3) Acquisitions and Dispositions

In May 2018, the Company acquired substantially all of the assets of Kruger Commodities, Inc. (the “Kruger Acquisition”) including protein conversion facilities in Hamilton, MI and Tama, IA, along with a protein blending operation and used cooking oil collection business in Omaha, NE. The Company paid approximately $51.1 million in cash for assets and assumed liabilities consisting of property, plant and equipment of approximately $15.2 million, intangible assets of approximately $15.9 million, consisting of routes, permits and non-compete agreements, goodwill of approximately $19.6

million, and other of approximately $0.4 million. The amounts have been recorded on a preliminary basis pending working capital finalization that is expected to occur within the next 6 months. The Company does not expect a material change from the working capital finalization. The identifiable intangible assets have a weighted average life of 15 years.

In May 2018, the Company sold its Terra Renewal Services ("TRS") industrial residuals business to American Residuals Group, LLC. TRS is a provider of environmental services focused on the collection, hauling, and disposal of non-hazardous, liquid and semi-solid waste streams from the food processing industry. All of the used cooking oil business originally acquired as part of TRS was retained by the Company. The transaction price for the industrial residuals business sold was $80.0 million in cash and resulted in the Company recording a loss on the TRS sale of approximately $15.5 million, due to a substantial portion of the original purchase price of TRS being allocated to the industrial residuals business.

In January 2018, the Company through a wholly-owned international subsidiary, sold a portion of its interest in a majority owned consolidated subsidiary for approximately $2.8 million. This transaction resulted in the foreign subsidiary being deconsolidated and accounted for using the equity method of accounting, effective January 2018.

(4) Inventories

A summary of inventories follows (in thousands):

	June 30, 2018	December 30, 2017
Finished product	$186,828	$171,277
Work in process	97,172	101,540
Raw material	34,520	33,173
Supplies and other	52,035	52,193
	$370,555	$358,183

(5) Intangible Assets

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

	June 30, 2018	December 30, 2017
Indefinite Lived Intangible Assets		
Trade names	$53,900	$54,682
	53,900	54,682
Finite Lived Intangible Assets:		
Routes	366,496	397,808
Permits	490,492	512,659
Non-compete agreements	3,750	3,963
Trade names	72,753	76,558
Royalty, consulting, land use rights and leasehold	14,353	14,666
	947,844	1,005,654
Accumulated Amortization:		
Routes	(132,786)	(136,592)

Permits	(221,995)	(211,264)
Non-compete agreements	(2,252)	(2,387)
Trade names	(30,149)	(30,235)
Royalty, consulting, land use rights and leasehold	(3,684)	(3,358)
	(390,866)	(383,836)
Total Intangible assets, less accumulated amortization	$610,878	$676,500

Gross intangible routes, permits, trade names, non-compete agreements and other intangibles partially decreased in fiscal 2018 as a result of approximately $5.5 million of asset retirements, $44.6 million from the TRS Sale and increased approximately $15.9 million from the Kruger Acquisition. Amortization expense for the three and six months ended

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June 30, 2018 and July 1, 2017, was approximately $18.9 million, $19.3 million and $38.4 million and $38.4 million, respectively.

(6) Goodwill

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

	Feed Ingredients	Food Ingredients	Fuel Ingredients	Total
Balance at December 30, 2017				
Goodwill	$ 848,167	$ 344,471	$ 124,369	$ 1,317,007
Accumulated impairment losses	(15,914)	—	—	(15,914)
	832,253	344,471	124,369	1,301,093
Goodwill acquired during year	19,554	—	—	19,554
Goodwill disposed of during year	(61,088)	—	—	(61,088)
Goodwill impaired during year	—	(461)	—	(461)
Foreign currency translation	(15,342)	(6,483)	(4,309)	(26,134)
Balance at June 30, 2018				
Goodwill	791,291	337,988	120,060	1,249,339
Accumulated impairment losses	(15,914)	(461)	—	(16,375)
	$ 775,377	$ 337,527	$ 120,060	$ 1,232,964

(7) Investment in Unconsolidated Subsidiaries

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

Selected financial information for the Company's DGD Joint Venture is as follows (in thousands):

(in thousands)	June 30, 2018	December 31, 2017
Assets:		
Total current assets	$ 218,189	$ 202,778
Property, plant and equipment, net	529,312	435,328
Other assets	18,861	4,655
Total assets	$ 766,362	$ 642,761
Liabilities and members' equity:		
Total current portion of long term debt	$ 176	$ 17,023
Total other current liabilities	34,714	40,705
Total long term debt	8,583	36,730
Total other long term liabilities	465	450
Total members' equity	722,424	547,853
Total liabilities and members' equity	$ 766,362	$ 642,761

(in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenues:				
Operating revenues	$151,989	$150,786	$302,310	$276,183
Expenses:				
Total costs and expenses less depreciation, amortization and accretion expense	115,659	125,975	65,838	241,297
Depreciation, amortization and accretion expense	6,254	8,021	12,374	16,134
Total costs and expenses	121,913	133,996	78,212	257,431
Operating income	30,076	16,790	224,098	18,752
Other income	415	328	792	551
Interest and debt expense, net	(319)	(861)	(319)	(1,851)
Net income	$30,172	$16,257	$224,571	$17,452

As of June 30, 2018 under the equity method of accounting, the Company has an investment in the DGD Joint Venture of approximately $361.2 million on the consolidated balance sheet. The Company has recorded an equity net gain of approximately $15.1 million and $8.1 million for the three months ended June 30, 2018 and July 1, 2017, respectively. The Company has recorded an equity net gain of approximately $112.3 million and $8.7 million for the six months ended June 30, 2018 and July 1, 2017, respectively. In February 2018, the blender tax credits for calendar year 2017 were retroactively reinstated by the U.S. Congress. Fiscal 2017 results do not include any blenders tax credits, while in the first six months of fiscal 2018, the DGD Joint Venture recorded approximately $160.4 million for the 2017 reinstated blenders tax credits. The DGD Joint Venture recorded the blenders tax credits in the first quarter of fiscal 2018 as a reduction of total costs and expenses in the above table. The biodiesel blenders tax credit have not been reinstated for fiscal 2018. In the second quarter of fiscal 2018, the Company received a dividend distribution of $25.0 million from the DGD Joint Venture.

In addition to the DGD Joint Venture, the Company has investments in other unconsolidated subsidiaries that are insignificant to the Company.

(8) Accrued Expenses

Accrued expenses consist of the following (in thousands):

	June 30, 2018	December 30, 2017
Compensation and benefits	$82,441	$102,474
Accrued income, ad valorem, and franchise taxes	27,798	30,546
Accrued operating expenses	63,147	61,230
Other accrued expense	107,753	119,373
	$281,139	$313,623

(9) Debt

Debt consists of the following (in thousands):

	June 30, 2018	December 30, 2017
Amended Credit Agreement:		
Revolving Credit Facility ($25.6 million denominated in euro at June 30, 2018)	$25,631	$—
Term Loan A ($45.0 million and $53.1 million denominated in CAD at June 30, 2018 and December 30, 2017, respectively)	88,210	96,365
Less unamortized deferred loan costs	(540)	(671)
Carrying value Term Loan A	87,670	95,694
Term Loan B	495,000	505,000
Less unamortized deferred loan costs	(9,700)	(10,578)
Carrying value Term Loan B	485,300	494,422
5.375% Senior Notes due 2022 with effective interest of 5.72%	500,000	500,000
Less unamortized deferred loan costs	(5,603)	(6,638)
Carrying value 5.375% Senior Notes due 2022	494,397	493,362
4.75% Senior Notes due 2022 - Denominated in euro with effective interest of 5.10%	—	617,356
Less unamortized deferred loan costs - Denominated in euro	—	(8,675)
Carrying value 4.75% Senior Notes due 2022	—	608,681
3.625% Senior Notes due 2026 - Denominated in euro with effective interest of 3.83%	600,001	—
Less unamortized deferred loan costs - Denominated in euro	(8,420)	—
Carrying value 3.625% Senior Notes due 2026	591,581	—
Other Notes and Obligations	10,710	22,034
	1,695,289	1,714,193
Less Current Maturities	7,466	16,143
	$1,687,823	$1,698,050

As of June 30, 2018, the Company had outstanding debt under a term loan facility denominated in Canadian dollars of CAD$59.6 million. See below for discussion relating to the Company's debt agreements. In addition, as of June 30, 2018, the Company had capital lease obligations denominated in Canadian dollars included in debt. The current and long-term capital lease obligation was approximately CAD$0.5 million and CAD$0.3 million, respectively.

As of June 30, 2018, the Company had outstanding debt under a revolving credit facility and the Company's 3.625% Senior Notes due 2026 denominated in euros of €22.0 million and €515.0 million, respectively. See below for discussion relating to the Company's debt agreements. In addition, at June 30, 2018, the Company had capital lease obligations denominated in euros included in debt. The current and long-term capital lease obligation was approximately €0.1 million and less than €0.1 million, respectively.

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

Effective December 18, 2017, the Company, and certain of its subsidiaries entered into an amendment (the "Fifth Amendment") with its lenders to the Amended Credit Agreement. Among other things, the Fifth Amendment (i) refinanced the term B loans under the Amended Credit Agreement with new term B loans in an aggregate principal amount of $525.0 million with a maturity date of December 18, 2024; (ii) adjusted the applicable margin pricing on borrowings under the term B loan; (iii) modified certain of the negative covenants to increase the allowances for certain actions, including debt and investments; and (iv) made other updates and changes.

Effective December 16, 2016, the Company, and certain of its subsidiaries entered into an amendment (the “Fourth Amendment”) with its lenders to the Amended Credit Agreement. Among other things, the Fourth Amendment (i) extended the maturity date of the term A loans and revolving credit facility loans under the Amended Credit Agreement from September 27, 2018 to December 16, 2021, subject to a 91-day “springing” adjustment if the term B loans are outstanding 91 days prior to the maturity date of the term B loans; (ii) reset the amortization schedule of the term A loans to their original schedule; (iii) adjusted the applicable margin pricing grid on borrowings under the term A Loan and revolving credit facility which adjusts based on the Company's total leverage ratio as set forth in the Amended Credit Agreement; (iv) eliminated the secured leverage ratio financial maintenance covenant so that from and after the effective date of the Fourth Amendment the Company’s financial covenants consist of maintaining of total leverage ratio not to exceed 5.50 to 1.00 and maintaining an interest coverage ratio of not less than 3.00 to 1.00; (v) modified certain of the negative covenants to include a senior leverage ratio incurrence-based test and to increase the allowances for certain actions, including debt, investments and restricted payments; and (vi) made other updates and changes.

The Company's Amended Credit Agreement provides for senior secured credit facilities in the aggregate principal amount of $1.88 billion comprised of (i) the Company's $350.0 million term loan A facility, (ii) the Company's $525.0 million term loan B facility and (iii) the Company's $1.0 billion five-year revolving loan facility (approximately $150.0 million of which is available for a letter of credit sub-facility and $50.0 million of which is available for a swingline sub-facility) (collectively, the “Senior Secured Credit Facilities”). The Amended Credit Agreement also permits Darling and the other borrowers thereunder to incur ancillary facilities provided by any revolving lender party to the Senior Secured Credit Facilities (with certain restrictions). Up to $948.3 million of the revolving loan facility is available to be borrowed by (x) Darling in U.S. dollars, Canadian dollars, euros and other currencies to be agreed and available to each applicable lender, (y) Darling Canada in Canadian dollars and (z) Darling NL, Darling Ingredients International Holding B.V. (“Darling BV”) and CTH Germany GmbH (“CTH”) in U.S. dollars, Canadian dollars, euros and other currencies to be agreed and available to each applicable lender. The revolving loan facility and term loan A facility will mature on December 16, 2021. The revolving loan facility will be used for working capital needs, general corporate purposes and other purposes not prohibited by the Amended Credit Agreement.

The interest rate applicable to any borrowings under the term loan A facility and the revolving loan facility will equal either LIBOR/euro interbank offered rate/CDOR plus 2.00% per annum or base rate/Canadian prime rate plus 1.00% per annum, subject to certain step-ups or step-downs based on the Company's total leverage ratio. The interest rate applicable to any borrowings under the term loan B facility will equal the base rate plus 1.00% or LIBOR plus 2.00%.

As of June 30, 2018, the Company had $43.3 million outstanding under the term loan A facility at LIBOR plus a margin of 2.00% per annum for a total of 4.10% per annum. The Company had $485.0 million outstanding under the term loan B facility at LIBOR plus a margin of 2.00% per annum for a total of 4.10% per annum and $10.0 million outstanding under the term loan B facility at base rate plus a margin of 1.00% per annum for a total of 6.00% per annum. The Company had CAD$59.6 million outstanding under the term loan A facility at CDOR plus a margin of 2.00% per annum for a total of 3.7497%. The Company had €22.0 million outstanding under the revolver at LIBOR plus a margin of 2.00% per annum for a total of 2.00% per annum. As of June 30, 2018, the Company had unused capacity of $950.4 million under the Amended Credit Agreement taking into account amounts borrowed and letters of credit issued of $24.0 million. The Company also has foreign bank guarantees that are not part of the Company's Amended Credit Agreement in the amount of approximately $18.7 million at June 30, 2018.

5.375 % Senior Notes due 2022. On January 2, 2014, Darling Escrow Corporation, a wholly-owned subsidiary of Darling, issued and sold $500.0 million aggregate principal amount of its 5.375% Notes due 2022 (the “5.375% Notes”). The 5.375% Notes, which were offered in a private offering in connection with the Company's acquisition in January 2014 of its Darling Ingredients International business from VION Holding, N.V. (the “VION Acquisition”), were issued pursuant to a 5.375% Notes Indenture, dated as of January 2, 2014 (the “Original 5.375% Indenture”) (as supplemented, the “5.375% Indenture”), among Darling Escrow Corporation, the subsidiary guarantors party thereto from time to time, and U.S. Bank National Association, as trustee (the “5.375% Trustee”).

3.625% Senior Notes due 2026. On May 2, 2018, Darling Global Finance B.V. issued and sold €515.0 million aggregate principal amount of 3.625% Senior Notes due 2026 (the “3.625% Notes”). The 3.625% Notes, which were offered in a private offering, were issued pursuant to a Senior Notes Indenture, dated as of May 2, 2018, among Darling Global Finance B.V., Darling, the subsidiary guarantors party thereto from time to time, Citibank, N.A., London Branch, as trustee and principal paying agent, and Citigroup Global Markets Deutschland AG, as principal registrar. The gross proceeds of the offering, together with borrowings under the Company’s revolving credit facility, were used to refinance all of the 4.75% Notes by cash tender offer and redemption of those notes and to pay any applicable premiums for the refinancing, to pay the commission of the initial purchasers of the 3.625% Notes and to pay the other fees and expenses related to the offering. The refinancing of the 4.75% Notes was completed during the second quarter of 2018.

The 3.625% Notes will mature on May 15, 2026. The issuer will pay interest on the 3.625% Notes on May 15 and November 15 of each year, commencing on November 15, 2018. Interest on the 3.625% Notes accrues from May 2, 2018 at a rate of 3.625% per annum and is payable in cash. The 3.625% Notes are guaranteed on a senior unsecured basis by Darling and all of Darling's restricted subsidiaries (other than any foreign subsidiary or any receivable entity) that guarantee the Senior Secured Credit Facilities. In addition, the Company capitalized $8.5 million of deferred loan costs for the issuance of the 3.625% Notes in the second quarter of 2018.

4.75 % Senior Notes due 2022. On June 3, 2015, Darling Global Finance B.V. (the “4.75% Issuer”), a wholly-owned subsidiary of Darling, issued and sold €515.0 million aggregate principal amount of the 4.75% Senior Notes due 2022 (the “4.75% Notes”). The 4.75% Notes, which were offered in a private offering, were issued pursuant to a Senior Notes Indenture, dated as of June 3, 2015 (the “4.75% Indenture”), among the 4.75% Issuer, Darling, the subsidiary guarantors party thereto from time to time, Citibank, N.A., London Branch, as trustee (the “4.75% Trustee”) and principal paying agent, and Citigroup Global Markets Deutschland AG, as principal registrar. The Company retired the 4.75% Notes in the second quarter of 2018 using the proceeds from the issuance of the 3.625% Notes and incurred charges of approximately $23.5 million in debt extinguishment charges including the write-off of deferred loan costs.

As of June 30, 2018, the Company believes it is in compliance with all of the financial covenants under the Amended Credit Agreement, as well as all of the other covenants contained in the Amended Credit Agreement, the 5.375% Indenture and the 3.625% Indenture.

(10) Income Taxes

The Company has provided income taxes for the three and six month periods ended June 30, 2018 and July 1, 2017, based on its estimate of the effective tax rate for the entire 2018 and 2017 fiscal years. The Company’s estimated annual effective tax rate is based on forecasts of income by jurisdiction, permanent differences between book and tax income, the relative proportion of income and losses by jurisdiction, and statutory income tax rates. Discrete events such as the assessment of the ultimate outcome of tax audits, audit settlements, recognizing previously unrecognized tax benefits due to the lapsing of statutes of limitation, recognizing or derecognizing deferred tax assets due to projections of income or loss and changes in tax laws are recognized in the period in which they occur.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company expects to have access to its offshore earnings with no material U.S. tax impact. Therefore, the Company does not consider earnings from its foreign subsidiaries to be permanently reinvested offshore.

The Company periodically assesses whether it is more likely than not that it will generate sufficient taxable income to realize its deferred income tax assets. In making this determination, the Company considers all available positive and negative evidence and makes certain assumptions. The Company considers, among other things, its deferred tax liabilities, the overall business environment, its historical earnings and losses, current industry trends and its outlook for future years.

Unrecognized tax benefits represent the difference between tax positions taken or expected to be taken in a tax return and the benefits recognized for financial statement purposes. As of June 30, 2018, the Company had $2.2 million of gross unrecognized tax benefits and $1.2 million of related accrued interest and penalties. It is reasonably possible within the next twelve months that the Company’s gross unrecognized tax benefits may decrease by up to $1.9 million, excluding interest and penalties, primarily due to potential settlements and expiration of certain statutes of limitations.

On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Act” or “U.S. tax reform”) was signed into law, effective January 1, 2018, that, among other things, lowered the corporate income tax rate from 35% to 21%, moved the country towards a territorial tax system with a one-time mandatory tax on previously deferred earnings of foreign subsidiaries, and introduced new provisions regarding the taxation of Global Intangible Low-Taxed Income (“GILTI”) of foreign subsidiaries. The Company is subject to the GILTI provisions beginning January 1, 2018. The FASB allows companies to adopt an accounting policy to either recognize deferred taxes for GILTI or treat such as a tax cost in the year incurred. The Company’s accounting policy election is to account for GILTI as incurred. The Company has reasonably estimated GILTI with no material impact to the estimated annual effective tax rate.

Accounting Standards Codification 740, Accounting for Income Taxes, requires companies to recognize the effects of changes in tax laws and tax rates on deferred tax assets and liabilities in the period in which the new legislation is enacted. Due to the timing of the Tax Act and the substantial changes it brings, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118), which provides registrants a measurement period to report the impact of the new U.S. tax law. During the measurement period, provisional amounts for the effects of the tax law are recorded to the extent a reasonable estimate can be made. To the extent that all information necessary is not available, prepared or analyzed, companies may recognize provisional estimated amounts for a period of up to one year following enactment of the Tax Act.

As a result of U.S. Tax Reform, the Company recorded a provisional tax benefit at December 30, 2017 of $12.1 million related to the mandatory deemed repatriation including an adjustment to the U.S. deferred tax liability associated with foreign earnings that were not permanently reinvested outside the U.S. and $62.9 million for the re-measurement of deferred taxes at the reduced 21% federal tax rate. The Company recorded provisional amounts for the mandatory repatriation including its impact on the Company’s deferred taxes because certain information related to the computation of earnings and profits is not readily available and there is limited information from federal and state taxing authorities regarding the application and interpretation of the recently enacted legislation.

The Company revised its 2017 provisional estimates under SAB No. 118 and recorded a provisional tax benefit of $1.6 million during the three months ended June 30, 2018 due to additional guidance by the Internal Revenue Service (IRS) and the continued refinement of the Company's mandatory repatriation including refinements of earnings and profits calculations and the impact of the Company's deferred taxes. The amounts recorded through June 30, 2018 are provisional and the Company is continuing to gather information and is waiting on further guidance from the IRS and other standard-setting bodies on the Tax Act.

The Company’s major taxing jurisdictions include the United States (federal and state), Canada, the Netherlands, Belgium, Brazil, Germany, France and China. The Company is subject to regular examination by various tax authorities and although the final outcome of these examinations is not yet determinable, the Company does not anticipate that any of the examinations will have a significant impact on the Company's results of operations or financial position. The statute of limitations for the Company’s major tax jurisdictions is open for varying periods, but is generally closed through the 2010 tax year.

(11) Other Comprehensive Income/(Loss)

The Company follows FASB authoritative guidance for reporting and presentation of comprehensive income and its components. Other comprehensive income (loss) is derived from adjustments that reflect pension adjustments, natural gas swap adjustments, corn option adjustments and foreign currency translation adjustments. In February 2018, the FASB issued ASU No. 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This ASU amends Topic 220, Income Statement - Reporting Comprehensive Income, which will allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The ASU is effective for fiscal years beginning after December 15, 2018; however, the Company elected to early adopt ASU No. 2018-02 during the quarter ended March 31, 2018. The adoption resulted in a $4.8 million reclassification from accumulated other comprehensive income (loss) to retained earnings resulting from the Tax Cuts and Jobs Act.

The components of other comprehensive income (loss) and the related tax impacts for the three and six months ended June 30, 2018 and July 1, 2017 are as follows (in thousands):

	Three Months Ended					
	Before-Tax Amount		Tax (Expense) or Benefit		Net-of-Tax Amount	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Defined benefit pension plans						
Amortization of prior service cost/(benefit)	$8	$9	$(1)	$(2)	$7	$7
Amortization of actuarial loss	888	1,203	(229)	(450)	659	753
Total defined benefit pension plans	896	1,212	(230)	(452)	666	760
Natural gas swap derivatives						
Loss/(gain) reclassified to net income	—	—	1	—	1	—
Gain/(loss) activity recognized in other comprehensive income (loss)	(1)	—	—	—	(1)	—
Total natural gas swap derivatives	(1)	—	1	—	—	—
Corn option derivatives						
Loss/(gain) reclassified to net income	(323)	(1,213)	84	470	(239)	(743)
Gain/(loss) activity recognized in other comprehensive income (loss)	925	(207)	(239)	81	686	(126)
Total corn option derivatives	602	(1,420)	(155)	551	447	(869)
Foreign currency translation	(77,953)	49,112	1,116	—	(76,837)	49,112
Other comprehensive income (loss)	$(76,456)	$48,904	$732	$99	$(75,724)	$49,003

	Six Months Ended					
	Before-Tax Amount		Tax (Expense) or Benefit		Net-of-Tax Amount	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Defined benefit pension plans						
Amortization of prior service cost/(benefit)	$17	$18	$(4)	$(5)	$13	$13
Amortization of actuarial loss	1,776	2,406	(456)	(900)	1,320	1,506
Total defined benefit pension plans	1,793	2,424	(460)	(905)	1,333	1,519
Natural gas swap derivatives						
Loss/(gain) reclassified to net income	14	—	(3)	—	11	—
Gain/(loss) activity recognized in other comprehensive income (loss)	15	—	(4)	—	11	—
Total natural gas swap derivatives	29	—	(7)	—	22	—
Corn option derivatives						
Loss/(gain) reclassified to net income	(991)	(2,398)	257	930	(734)	(1,468)
Gain/(loss) activity recognized in other comprehensive income (loss)	(572)	(822)	148	319	(424)	(503)
Total corn option derivatives	(1,563)	(3,220)	405	1,249	(1,158)	(1,971)
Foreign currency translation	(60,658)	64,791	1,116	—	(59,542)	64,791
Other comprehensive income (loss)	$(60,399)	$63,995	$1,054	$344	$(59,345)	$64,339

The following table presents the amounts reclassified out of each component of other comprehensive income (loss), net of tax for the three and six months ended June 30, 2018 and July 1, 2017 as follows (in thousands):

	Three Months Ended		Six Months Ended		
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017	Statement of Operations Classification
Derivative instruments					
Natural gas swap derivatives	$—	$—	$(14)	$—	Cost of sales and operating expenses
Corn option derivatives	323	1,213	991	2,398	Cost of sales and operating expenses
	323	1,213	977	2,398	Total before tax
	(84)	(470)	(254)	(930)	Income taxes
	239	743	723	1,468	Net of tax
Defined benefit pension plans					
Amortization of prior service cost	$(8)	$(9)	$(17)	$(18)	(a)
Amortization of actuarial loss	(888)	(1,203)	(1,776)	(2,406)	(a)
	(896)	(1,212)	(1,793)	(2,424)	Total before tax
	230	452	460	905	Income taxes
	(666)	(760)	(1,333)	(1,519)	Net of tax
Total reclassifications	$(427)	$(17)	$(610)	$(51)	Net of tax

(a) These items are included in the computation of net periodic pension cost. See Note 13 Employee Benefit Plans for additional information.

The following table presents changes in each component of accumulated comprehensive income (loss) as of June 30, 2018 as follows (in thousands):

	Six Months Ended June 30, 2018			
	Foreign Currency Translation	Derivative Instruments	Defined Benefit Pension Plans	Total
Accumulated Other Comprehensive Income (loss) December 30, 2017, attributable to Darling, net of tax	$(183,161)	$ 1,372	$(27,735)	$(209,524)
Other comprehensive gain (loss) before reclassifications	(59,542)	(413)	—	(59,955)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(723)	1,333	610
Reclassification of tax effect (a)	—	291	(5,073)	(4,782)
Net current-period other comprehensive income/(loss)	(59,542)	(845)	(3,740)	(64,127)
Noncontrolling interest	467	—	—	467
Accumulated Other Comprehensive Income (loss) June 30, 2018, attributable to Darling, net of tax	(243,170)	$ 527	$(31,475)	$(274,118)

(a) Stranded tax effects reclassified from accumulated other comprehensive income (loss) to retained earnings from the adoption of ASU 2018-02.

(12) Stockholders' Equity

Fiscal 2018 Long-Term Incentive Opportunity Awards (2018 LTIP). On January 29, 2018, the Compensation Committee (the “Committee”) of the Company's Board of Directors adopted the 2018 LTIP pursuant to which they awarded certain of the Company's key employees, 637,115 stock options and 295,514 performance share units (the “PSUs”) under the Company's 2017 Omnibus Incentive Plan. The stock options vest 33.33% on the first, second and third anniversaries of the grant date. The PSUs are tied to a three-year forward-looking performance period and will be earned based on the Company's average return on capital employed (ROCE), as calculated in accordance with the terms of the award agreement, relative to the average ROCE of the Company's performance peer group companies, with the earned award to be determined in the first quarter of fiscal 2021, after the final results for the relevant performance period are determined. The PSUs were granted at a target of 100%, but each PSU will reduce or increase depending on the Company's ROCE relative to that of the performance peer group companies and is also subject to the application of a total shareholder return (TSR) cap/collar modifier depending on the Company's TSR during the performance period relative to that of the performance peer group companies.

On August 7, 2017, the Company's Board of Directors, approved the extension for an additional two years of its previously announced share repurchase program of up to an aggregate of $100.0 million of the Company's common stock depending on market conditions. As of June 30, 2018, the Company has approximately $100.0 million remaining under the share repurchase program approved in August 2017.

(13) Employee Benefit Plans

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

In March 2017, the FASB issued ASU No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This ASU amends Topic 715, Compensation - Retirement Benefits, which requires that an employer report the service cost component of net benefit costs to be disaggregated from all other components and reported in the same line item or items as other compensation costs. The other components of net benefit cost are required to be presented in the income statement separately from the service cost. The Company adopted this ASU effective December 31, 2017. The Company used the practical expedient to retrospectively present the prior year amounts. The components of net period pension cost other than the service cost component are included in the line item “Other expense, net” in the Company's Consolidated Statements of Operations.

Net pension cost for the three and six months ended June 30, 2018 and July 1, 2017 includes the following components (in thousands):

	Pension Benefits Three Months Ended		Pension Benefits Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Service cost	$779	$750	$1,578	$1,485
Interest cost	1,616	1,679	3,241	3,348
Expected return on plan assets	(2,059)	(1,790)	(4,123)	(3,578)
Amortization of prior service cost	8	9	17	18
Amortization of net loss	888	1,203	1,776	2,406
Net pension cost	$1,232	$1,851	$2,489	$3,679

The Company's funding policy for employee benefit pension plans is to contribute annually not less than the minimum amount required nor more than the maximum amount that can be deducted for federal and foreign income tax purposes. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. Based on actuarial estimates at June 30, 2018, the Company expects to contribute approximately $4.8 million to its pension plans to meet funding requirements during the next twelve months. Additionally, the Company has made tax deductible discretionary and required contributions to its pension plans for the six months ended June 30, 2018 and July 1, 2017 of approximately $1.5 million and $1.6 million, respectively.

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

The Company has received notices of withdrawal liability from two U.S. multiemployer plans in which it participated. As of June 30, 2018, the Company has an aggregate accrued liability of approximately $1.7 million representing the present value of scheduled withdrawal liability payments under these multiemployer plans. While the Company has no ability to calculate a possible current liability for under-funded multiemployer plans that could terminate or could require additional funding under the Pension Protection Act of 2006, the amounts could be material.

(14) Derivatives

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

The Company makes limited use of derivative instruments to manage cash flow risks related to natural gas usage, diesel fuel usage, inventory, forecasted sales and foreign currency exchange rates. The Company does not use derivative instruments for trading purposes. Natural gas swaps and options are entered into with the intent of managing the overall cost of natural gas usage by reducing the potential impact of seasonal weather demands on natural gas that increases natural gas prices. Heating oil swaps and options are entered into with the intent of managing the overall cost of diesel fuel usage by reducing the potential impact of seasonal weather demands on diesel fuel that increases diesel fuel prices. Soybean meal options are entered into with the intent of managing the impact of changing prices for poultry meal sales. Corn options and future contracts are entered into with the intent of managing U.S. forecasted sales of bakery by-products ("BBP") by reducing the impact of changing prices. Foreign currency forward contracts are entered into to mitigate the foreign exchange rate risk for transactions designated in a currency other than the local functional currency. At June 30, 2018, the Company had corn option contracts and soybean meal option contracts outstanding that qualified and were designated for hedge accounting as well as corn option and forward contracts, foreign currency forward contracts that did not qualify and were not designated for hedge accounting.

Entities are required to report all derivative instruments in the statement of financial position at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding the instrument. If certain conditions are met, entities may elect to designate a derivative instrument as a hedge of exposures to changes in fair value, cash flows or foreign currencies. If the hedged exposure is a cash flow exposure, the effective portion of the gain or loss on the derivative instrument is reported initially as a component of other comprehensive income (outside of earnings) and is subsequently reclassified into earnings when the forecasted transaction affects earnings. Any amounts excluded from the assessment of hedge effectiveness, as well as the ineffective portion of the gain or loss, are reported in earnings immediately. If the derivative instrument is not designated as a hedge, the gain or loss is recognized in earnings in the period of change.

Cash Flow Hedges

In the first six months of fiscal 2018, the Company entered into soybean meal option contracts that are considered cash flow hedges. Under the terms of the soybean meal option contracts, the Company hedged a portion of its forecasted poultry meal sales into the fourth quarter of fiscal 2018. As of June 30, 2018, some of the contracts have been settled while the remaining contract positions and activity are not significant to the Company. At June 30, 2018 and December 30, 2017, the aggregate fair value of these soybean meal option contracts was approximately $0.7 million and zero, respectively. The June 30, 2018 amounts are included in other current assets on the balance sheet, with an offset recorded in accumulated other comprehensive income for the effective portion.

In fiscal 2017 and the first six months of fiscal 2018, the Company entered into corn option contracts on the Chicago Board of Trade that are designated as cash flow hedges. Under the terms of the corn option contracts, the Company hedged a portion of its U.S. forecasted sales of BBP into the fourth quarter of fiscal 2018. As of June 30, 2018, some of the contracts have been settled while the remaining contract positions and activity are not significant to the Company. At June 30, 2018 and December 30, 2017, the aggregate fair value of these corn option contracts was approximately $1.4 million and $3.4 million, respectively. These amounts are included in other current assets on the balance sheet, with an offset recorded in accumulated other comprehensive income for the effective portion. From time to time, the Company may enter into corn option contracts in the future.

As of June 30, 2018, the Company had the following outstanding forward contract amounts that were entered into to hedge the future payments of intercompany note transactions, foreign currency transactions in currencies other than the functional currency and forecasted transactions in currencies other than the functional currency. All of these transactions are currently not designated for hedge accounting (in thousands):

Functional Currency		Contract Currency	
Type	Amount	Type	Amount
Brazilian real	32,387	Euro	7,490
Brazilian real	80,599	U.S. dollar	22,460
Euro	90,399	U.S. dollar	107,009
Euro	14,184	Polish zloty	61,280
Euro	7,153	Japanese yen	926,570
Euro	85,702	Chinese renminbi	650,727
Euro	12,592	Australian dollar	19,350
Euro	4,827	British pound	4,262
Polish zloty	24,712	Euro	5,685
British pound	88	Euro	100
British pound	139	U.S. dollar	105
Japanese yen	254,613	U.S. dollar	2,322

The Company estimates the amount that will be reclassified from accumulated other comprehensive gain at June 30, 2018 into earnings over the next 12 months will be approximately $0.7 million. As of June 30, 2018, no amounts have been reclassified into earnings as a result of the discontinuance of cash flow hedges.

The table below summarizes the effect of derivatives not designated as hedges on the Company's consolidated statements of operations for the three and six months ended June 30, 2018 and July 1, 2017 (in thousands):

		Loss or (Gain) Recognized in Income on Derivatives Not Designated as Hedges			
		Three Months Ended		Six Months Ended	
Derivatives not designated as hedging instruments	Location	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Foreign Exchange	Foreign currency loss/(gain)	$(3,481)	$6,130	$(1,827)	$9,276
Foreign Exchange	Selling, general and administrative expense	2,506	492	2,995	(989)
Corn options and futures	Net sales	763	(18)	454	(40)
Corn options and futures	Cost of sales and operating expenses	(818)	46	(306)	316
Soybean Meal	Net sales	—	(9)	—	(281)
Soybean Oil	Net sales	—	—	—	45
Total		$(1,030)	$6,641	$1,316	$8,327

At June 30, 2018, the Company had forward purchase agreements in place for purchases of approximately $14.2 million of natural gas and diesel fuel. These forward purchase agreements have no net settlement provisions and the Company intends to take physical delivery of the underlying product. Accordingly, the forward purchase agreements are not subject to the requirements of fair value accounting because they qualify and the Company has elected to account for these as normal purchases as defined in the FASB authoritative guidance.

(15) Fair Value Measurements

FASB authoritative guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The following table presents the Company’s financial instruments that are measured at fair value on a recurring and nonrecurring basis as of June 30, 2018 and are categorized using the fair value hierarchy under FASB authoritative guidance. The fair value hierarchy has three levels based on the reliability of the inputs used to determine the fair value.

		Fair Value Measurements at June 30, 2018 Using		
(In thousands of dollars)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Derivative instruments	$5,662	$ —	$5,662	$ —
Total Assets	$5,662	$ —	$5,662	$ —
Liabilities:				
Derivative instruments	$3,584	$ —	$3,584	$ —
5.375% Senior notes	506,250	—	506,250	—
3.625% Senior notes	603,721	—	603,721	—
Term loan A	88,541	—	88,541	—
Term loan B	497,784	—	497,784	—
Revolver debt	25,247	—	25,247	—
Total Liabilities	$1,725,127	$ —	$1,725,127	$ —

		Fair Value Measurements at December 30, 2017 Using		
(In thousands of dollars)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Derivative instruments	$4,346	$ —	$4,346	$ —
Total Assets	$4,346	$ —	$4,346	$ —
Liabilities:				
Derivative instruments	$2,326	$ —	$2,326	$ —
5.375% Senior notes	513,100	—	513,100	—
4.75% Senior notes	646,681	—	646,681	—

Term loan A	95,883	—	95,883	—
Term loan B	511,616	—	511,616	—
Total Liabilities	$ 1,769,606	$ —	$ 1,769,606	$ —

Derivative assets and liabilities consist of the Company’s soybean meal contracts, natural gas contracts, corn option and future contracts and foreign currency contracts, which represents the difference between observable market rates of commonly quoted intervals for similar assets and liabilities in active markets and the fixed swap rate considering the instruments term, notional amount and credit risk. See Note 14 (Derivatives) for discussion on the Company's derivatives.

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximates fair value due to the short maturity of these instruments and as such have been excluded from the table above. The carrying amount of the Company's other debt is not deemed to be significantly different from the fair value and all other instruments have been recorded at fair value.

The fair value of the senior notes, term loan A, term loan B and revolver debt is based on market quotation from third-party banks.

(16) Asset Impairment, Exit and Restructuring Costs

In the second quarter of fiscal 2018, management decided to permanently shut down the Company's Hurlingham, Argentina gelatin plant. As of June 30, 2018, the Company has incurred restructuring and asset impairment charges of approximately

$15.0 million, which includes employee termination charges of approximately $8.4 million, asset impairment charges of approximately $2.9 million and other factory and operational restructuring charges of approximately $3.7 million.

(17) Contingencies

The Company is a party to various lawsuits, claims and loss contingencies arising in the ordinary course of its business, including insured worker's compensation, auto, and general liability claims, assertions by certain regulatory and governmental agencies related to permitting requirements and/or air, wastewater and storm water discharges from the Company’s processing facilities, litigation involving tort, contract, statutory, labor, employment, and other claims, and tax matters.

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 under these insurance policies 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 contingencies. At June 30, 2018 and December 30, 2017, the reserves for insurance, environmental, litigation and tax contingencies reflected on the balance sheet in accrued expenses and other non-current liabilities were approximately $62.6 million and $61.4 million, respectively. The Company has insurance recovery receivables of approximately $25.0 million as of June 30, 2018 and December 30, 2017, related to the insurance contingencies. 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 contingencies will not exceed current estimates. The Company believes that the likelihood is remote that any additional liability from the 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 alleged successor-in-interest to The Standard Tallow Corporation) is considered a potentially responsible party (a “PRP”) with respect to alleged contamination in the lower 17-mile area of the Passaic River which is part of the Diamond Alkali Superfund Site located in Newark, New Jersey. The Company’s designation as a PRP is based upon the operation of former plant sites located in Newark and Kearny, New Jersey by The Standard Tallow Corporation, 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. In March 2016, the Company received another letter from EPA notifying the Company that it had issued a Record of Decision selecting a remedy for the lower 8.3 miles of the lower Passaic River area at an estimated cost of $1.38 billion. The EPA letter makes no demand on the Company and lays out a framework for remedial design/remedial action implementation in which the EPA will first seek funding from major PRPs. The letter indicates that the EPA has sent the letter to over 100 parties, which include large chemical and refining companies, manufacturing companies, foundries, plastic companies, pharmaceutical companies and food and consumer product companies. The EPA has already offered early cash out settlements to 20 of the other PRPs and has stated that other parties who did not discharge dioxins, furans or polychlorinated biphenyls (which are considered the contaminants of primary concern) may also be eligible for cash out settlements and has begun a settlement analysis using a third-party allocator. The Company is participating in this allocation process as it asserts that it is not responsible for any liabilities of its former subsidiary The Standard Tallow Corporation, which was legally dissolved in 2000, and that, in any event, The Standard Tallow Corporation did not discharge dioxins, furans or polychlorinated biphenyls and is therefore not a major PRP. On September 30, 2016, Occidental Chemical Corporation (“OCC”) entered into an agreement with the EPA to perform the remedial design for the cleanup plan for the lower 8.3 miles of the Passaic

River. On June 30, 2018, OCC filed a complaint in the United States District Court for the District of New Jersey against over 100 companies, including the Company, seeking cost recovery or contribution for costs under the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”) relating to various investigations and cleanups OCC has conducted or is conducting in connection with the Passaic River. According to the complaint, OCC has incurred or is incurring costs which include the estimated cost to complete the remedial design for the cleanup plan for the lower 8.3 miles of the Passaic River. OCC is also seeking a declaratory judgment to hold the defendants liable for their proper shares of future response costs, including the remedial action for the lower 8.3 miles of the Passaic River. The Company, along with 40 of the other defendants, had previously received a release from OCC of its CERCLA contribution claim of $165 million associated with the costs to design the remedy for the lower 8.3 miles of the Passaic River. The Company's ultimate liability, if any, 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, the Company has found no evidence that the former Standard Tallow Corporation plant sites contributed any of the primary contaminants of concern to the Passaic River and, therefore, 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, which remains ongoing. In January 2017, the Company entered into a non-binding letter of intent with the City of Fresno pursuant to which the City and the Company will work toward the execution of a definitive agreement to relocate the facility to a different location in Fresno. Whether an agreement to relocate the facility ultimately gets executed is subject to the Company’s receipt of certain incentives and an agreement by the Concerned Citizens of West Fresno to settle and dismiss the aforementioned litigation. 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.

(18) Business Segments

The Company sells its products domestically and internationally, operating within three industry segments: Feed Ingredients, Food Ingredients and Fuel Ingredients. The measure of segment income (loss) includes all revenues, operating expenses (excluding certain amortization of intangibles), and selling, general and administrative expenses incurred at all operating locations and excludes corporate activities.

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

Feed Ingredients
Feed Ingredients consists principally of (i) the Company's U.S. ingredients business, including the Company's fats and proteins, used cooking oil, trap grease and food residuals collection businesses, the Rothsay ingredients business, the ingredients and specialty products businesses conducted by Darling Ingredients International under the Sonac name (proteins, fats, and plasma products) and (ii) the Company's bakery residuals business. Feed Ingredients operations process animal by-products and used cooking oil into fats, proteins and hides.

Food Ingredients
Food Ingredients consists principally of (i) the gelatin and collagen hydrolysates business conducted by Darling Ingredients International under the Rousselot name, (ii) the natural casings and meat-by-products business conducted by Darling Ingredients International under the CTH name and (iii) certain specialty products businesses conducted by

Darling Ingredients International under the Sonac name.

Fuel Ingredients
The Company's Fuel Ingredients segment consists of (i) the Company's biofuel business conducted under the Dar Pro® and Rothsay names (ii) the bioenergy business conducted by Darling Ingredients International under the Ecoson and Rendac names and (iii) the Company's investment in the DGD Joint Venture.

Business Segments (in thousands):

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	Feed Ingredients	Food Ingredients	Fuel Ingredients	Corporate	Total
Three Months Ended June 30, 2018					
Net Sales	$ 498,823	$ 276,729	$ 71,094	$ —	$ 846,646
Cost of sales and operating expenses	370,788	224,836	57,377	—	653,001
Gross Margin	128,035	51,893	13,717	—	193,645
Selling, general and administrative expense	43,947	22,190	164	12,257	78,558
Restructuring and impairment charges	—	14,965	—	—	14,965
Depreciation and amortization	46,823	20,388	8,537	2,706	78,454
Segment operating income/(loss)	37,265	(5,650)	5,016	(14,963)	21,668
Equity in net income of unconsolidated subsidiaries	150	—	15,086	—	15,236
Segment income/(loss)	37,415	(5,650)	20,102	(14,963)	36,904
Total other expense					(64,359)
Loss before income taxes					$ (27,455)

	Feed Ingredients	Food Ingredients	Fuel Ingredients	Corporate	Total
Three Months Ended July 1, 2017					
Net Sales	$ 549,119	$ 278,409	$ 67,402	$ —	$ 894,930
Cost of sales and operating expenses	422,202	222,362	54,680	—	699,244
Gross Margin	126,917	56,047	12,722	—	195,686
Selling, general and administrative expense	42,875	26,703	2,873	12,081	84,532
Depreciation and amortization	44,354	18,184	7,715	2,737	72,990
Segment operating income/(loss)	39,688	11,160	2,134	(14,818)	38,164
Equity in net income of unconsolidated subsidiaries	131	—	8,129	—	8,260
Segment income/(loss)	39,819	11,160	10,263	(14,818)	46,424
Total other expense					(28,354)
Income before income taxes					$ 18,070

	Feed Ingredients	Food Ingredients	Fuel Ingredients	Corporate	Total
Six Months Ended June 30, 2018					
Net Sales	$ 984,621	$ 582,249	$ 155,150	$ —	$ 1,722,020
Cost of sales and operating expenses	739,876	474,021	117,203	—	1,331,100
Gross Margin	244,745	108,228	37,947	—	390,920
Selling, general and administrative expense	92,212	46,051	(1,234)	28,431	165,460
Restructuring and impairment charges	—	14,965	—	—	14,965
Depreciation and amortization	93,612	41,028	17,008	5,425	157,073
Segment operating income/(loss)	58,921	6,184	22,173	(33,856)	53,422
Equity in net income of unconsolidated subsidiaries	105	—	112,285	—	112,390
Segment income/(loss)	59,026	6,184	134,458	(33,856)	165,812

Total other expense					(91,480)
Income before income taxes					$74,332
Segment assets at June 30, 2018	$2,498,165	$1,441,030	$767,659	$150,062	$4,856,916

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	Feed Ingredients	Food Ingredients	Fuel Ingredients	Corporate	Total
Six Months Ended July 1, 2017					
Net Sales	$1,101,743	$544,635	$ 127,062	$—	$1,773,440
Cost of sales and operating expenses	854,778	431,754	100,678	—	1,387,210
Gross Margin	246,965	112,881	26,384	—	386,230
Selling, general and administrative expense	87,712	51,680	6,136	25,927	171,455
Depreciation and amortization	88,073	35,785	14,560	5,686	144,104
Segment operating income/(loss)	71,180	25,416	5,688	(31,613)	70,671
Equity in net income of unconsolidated subsidiaries	240	—	8,726	—	8,966
Segment income/(loss)	71,420	25,416	14,414	(31,613)	79,637
Total other expense					(52,351)
Income before income taxes					$27,286
Segment assets at December 30, 2017	$2,614,545	$1,499,027	$ 688,890	$155,763	$4,958,225

(19) Revenue

On December 31, 2017, the Company adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), using the modified retrospective basis. Results for reporting periods beginning December 31, 2017 are presented under Topic 606, while prior periods are not adjusted and continue to be reported in accordance with the Company's historic accounting under Topic 605. The adoption did not change the timing of revenue recognition as the Company's revenues have been determined to be recognized at a point in time and not over time. The Company elected not to capitalize contract fulfillment costs as the recovery of such costs are for a period of less than one year's time and are not material to the Company. At June 30, 2018, there were no contract assets recorded on the Consolidated Balance sheets. Also, the Company elected to treat shipping and handling as fulfillment costs under Topic 606, which will result in billed freight recorded in cost of sales and netted against freight costs. Sales, value-add, and other taxes collected concurrently with revenue-producing activities are excluded from revenue and booked on a net basis.

The Company extends payment terms to its customers based on commercially acceptable practices. The term between invoicing and payment due date is not significant. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring finished products or performing services, which is generally based on executed agreement or purchase order.

Most of the Company's products are shipped based on the customer specifications. Customer returns are infrequent and not material to the Company. Adjustments to net sales for sales deductions are generally recognized in the same period as the sale or when known. Customers in certain industries or countries may be required to prepay prior to shipment in order to maintain payment protection. These represent short-term prepayment from customers and are not material to the Company.

The following table summarizes the impact of adopting Topic 606 on the Company's consolidated financial statements for the three and six months ended June 30, 2018 (in thousands):

	Impact of changes in accounting policies		
	As reported	Adjustments	Balances without adoption of Topic 606
Three Months Ended June 30, 2018			
Net sales	$846,646	45,449	$892,095
Cost of sales and operating expenses	$653,001	45,449	$698,450
Six Months Ended June 30, 2018			
Net sales	$1,722,020	91,636	$