CORNING INC /NY
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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
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Check the appropriate box:
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CORNING INCORPORATED

(Name of Registrant as Specified In Its Charter)

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Notice of 2002 Annual Meeting of Shareholders and Proxy Statement

Notice of 2002
Annual Meeting of Shareholders
and Proxy Statement

Please Note the Accompanying Proxy Statement and Proxy Card

It is important that your shares be represented and voted at the meeting regardless of the number you may hold. If you cannot attend the meeting in person, we ask that you sign, date and return the enclosed proxy card in favor of the proxy committee designated by the Board of Directors.

Instead of submitting your proxy card by mail, you may vote electronically via the Internet or by telephone. Shareholders of record may vote telephonically (from the United States or Canada only) by calling 1(877) 587-0755 or over the Internet at www.computershare.com/us/proxy

The Internet and telephone arrangements are described in greater detail at the bottom of Corning's proxy card.

Please note that there are separate Internet and telephone voting arrangements for shareholders who hold their shares through a bank, broker or another. If you hold your shares through another, you should check the proxy card or other information provided by the bank, broker or other holder to determine the voting options available.

Notice of Annual Meeting

To Shareholders of Corning Incorporated:

You are cordially invited to attend the Annual Meeting of Corning Incorporated which will be held in the Corning Glass Center, Corning, New York, on Thursday, April 25, 2002 at 11:00 o'clock A.M. The principal business of the meeting will be:

(a) To elect five Directors for three-year terms;

(b) To approve the adoption of the 2002 Worldwide Employee Share Purchase Plan; and

(c) To transact such other business as may properly come before the meeting.

Denise A. Hauselt
Assistant General Counsel and Secretary

Corning Incorporated
One Riverfront Plaza
Corning, New York 14831
March 4, 2002

Proxy Statement

Annual Meeting of Shareholders, April 25, 2002. The enclosed proxy is solicited by the Board of Directors of Corning Incorporated, Corning, New York 14831. Corning started mailing this Notice of Annual Meeting and Proxy Statement and the enclosed proxy to holders of its Common Stock and Series B 8% Convertible Preferred Stock on or about March 14, 2002.
This Notice of Annual Meeting and Proxy Statement, the proxy and the 2001 Annual Report are also available on Corning's Internet site at **http://www.corning.com/invest or relations/secdocuments.asp.**

If you own beneficially Preferred Stock through Corning's Investment Plans or were listed as a holder of Common Stock on Corning's books at the close of business on March 4, 2002, you are entitled to vote at the meeting. On February 7, 2002, Corning had outstanding 944,919,754 shares of Common Stock, each entitled to one vote, and 71,745 shares of Preferred Stock, each entitled to fourteen votes.

Voting by Proxy

If you properly fill in and sign your proxy card and mail it in the enclosed, prepaid and addressed envelope, or if you submit your proxy instructions by telephone or over the Internet, your "proxy" (the individuals serving on the proxy committee named on your proxy card) will vote your shares as you have directed. If you do not make specific choices, your proxy will vote your shares as recommended by the Board as follows:

FOR the election of the director nominees.

FOR the adoption of the 2002 Worldwide Employee Share Purchase Plan.

If any other matter is properly presented at the Annual Meeting, your proxy will vote on that matter in his discretion. If anyone nominated to serve as a director is not able to accept nomination or election, your proxy may vote for the election of other persons recommended by the Board of Directors to serve as directors.

If you wish to revoke a proxy you have given, you may furnish written notice to Corning's Secretary, by mail before the meeting or by delivery at the meeting before the vote is taken, or you may mail or deliver to the Secretary a later-dated proxy (by mail, or Internet or telephone vote) at any time before the vote. Each valid and timely proxy not revoked will be voted at the meeting in accordance with your written or electronic instructions.

Voting Procedures

The presence, in person or by proxy, of the holders of a majority of the shares entitled to vote generally for the election of directors is necessary to constitute a quorum at the annual meeting. Abstentions and broker "non-votes" are counted as present for purposes of determining a quorum. A broker "non-vote" occurs when one holding shares for a beneficial owner does not vote on a particular proposal because the holder does not have discretionary voting power to vote with respect to that item and has not received instructions from the beneficial owner.

A plurality of the votes cast at a meeting is required for the election of a director. The affirmative vote of the

holders of a majority of the shares present in person or represented by proxy and entitled to vote at the meeting is required to approve the 2002 Worldwide Employee Share Purchase Plan. Abstentions and broker "non-votes" are not counted for purposes of the election of a director or approval of the 2002 Worldwide Employee Share Purchase Plan.

Nominees for Election as Directors

Corning's Board of Directors is divided into three classes. Each of the nominees for the office of director is a member of the present Board of Directors. Messrs. Brown, Gund, Hennessy, Loose and Ruding were elected by Corning's security holders on April 29, 1999. The terms of Messrs. Brown, Gund, Hennessy, Loose and Ruding expire this year. Roger Ackerman whose term expires this year is not standing for re-election. In addition, John H. Foster resigned from the Board effective December 31, 2001. No nominee now owns beneficially any of the securities (other than directors' qualifying shares) of any of Corning's subsidiary companies. We have included below certain information about the nominees for election as directors and the directors who will continue in office after the Annual Meeting.

Nominees for Election for Terms Expiring in 2005

John Seely Brown
Chief Scientist
Xerox Corporation

Dr. Brown has served Xerox Corporation since 1978 in various scientific research positions, in 1986 being elected vice president in charge of advanced research and being director of the Palo Alto Research Center from 1990 to 2000. Dr. Brown was named chief scientist of Xerox in 1992. Dr. Brown is a director of Polycom, Inc. and Varian Medical Inc. Director since 1996. Age 61.

Gordon Gund
Chairman and Chief Executive Officer
Gund Investment Corporation

Mr. Gund is, and since his election as a director of Corning has been, the principal owner of the Cleveland Cavaliers National Basketball Association team and a member of the Board of Governors of the National Basketball Association. He is a director of the Kellogg Company. Director since 1990. Age 62.

John M. Hennessy
Senior Advisor
Credit Suisse First Boston

Mr. Hennessy became managing director of First Boston Corporation in 1974 since serving as Assistant Secretary of the U.S. Treasury (Presidential appointment). In 1989 he was elected chairman of the executive board and group chief executive officer of CS First Boston Inc. He retired from the latter position on December 31, 1996. Since then Mr. Hennessy served as chairman of Credit Suisse Private Equity Company until recently when he became Senior Advisor to the firm. He retired from active employment, but retains the role of Senior Advisor. He is on seven non-profit boards of directors. Director since 1989. Age 65.

John W. Loose*
President and Chief Executive Officer
Corning Incorporated

Mr. Loose has served Corning in various commercial and management positions since 1964, being elected executive vice president, Information Display Group, in 1990, president of Corning Vitro Corporation (later named Corning Consumer Products Company) in 1993, president of Corning Communications in 1996, president and chief operating officer in 2000 and to his present position in 2001. Mr. Loose is a director of Dow Corning Corporation and Polaroid Corporation, a trustee of Corning Incorporated Foundation and the Corning Museum of Glass and a member of The Business Council, the Business Roundtable and the Business Council of New York State. Director since 1996. Age 60.

H. Onno Ruding
Vice Chairman
Citibank, N.A.

Dr. Ruding has served private firms and the public (serving as Minister of Finance of The Netherlands from 1982-1989) in various financial positions, serving as a director of Citicorp and Citibank, N.A. from 1990 and 1998, respectively, to the present and vice chairman of Citibank, N.A. from 1992 to the present. Dr. Ruding is also a director of Pechiney and RTL Group, an advisory director of Unilever N.V. and Unilever PLC, a member of the international advisory committee of Robeco, the Federation of Korean Industries and the Federal Reserve Bank of New York, a member of the Committee for European Monetary Union and the Trilateral Commission and the Chairman of the Center for European Policy Studies. Director since 1995. Age 62.

Directors Whose Terms Will Expire in 2004

Catherine A. Rein
President and Chief Executive Officer
Metropolitan Property and
Casualty Insurance Company

Ms. Rein joined Metropolitan Life Insurance Company in 1985, being named senior vice president in 1988, executive vice president in charge of corporate services in 1989 and senior executive vice president in charge of the business services group in 1998. She was elected to her present position in 1999. Ms. Rein is a director of the Bank of New York, Inc., New England Financial Services, Inc., First Energy Corp., National Association of Independent Insurers and trustee of the New York University Law Center Foundation. Director since 1990. Age 59.

William D. Smithburg
Retired Chairman, President and
Chief Executive Officer
The Quaker Oats Company

Mr. Smithburg joined Quaker Oats in 1966, being elected president in 1979, chief executive officer in 1981 and chairman in 1983. He also served as president from November 1990 to January 1993 and from November 1995 to November 1997 when he retired. Mr. Smithburg is a director of Abbott Laboratories and Northern Trust Corporation. Director since 1987. Age 63.

Hansel E. Tookes II
President
Raytheon International

In 1999 Mr. Tookes joined Raytheon Company as president and chief operating officer of Raytheon Aircraft Company. He served as chief executive officer and chairman of Ratheon Aircraft Company and executive vice president of Raytheon Company in 2000. He was appointed to his present position in 2001. From 1996 to 1999, he served as president of Pratt & Whitney's Large Military Engines Group. From 1980 to 1996 he held a variety of positions at United Technologies Corp. including executive vice president of aircraft products. Director since 2001. Age 54.

Wendell P. Weeks*
President
Corning Optical Communications
Corning Incorporated

Mr. Weeks joined Corning in 1983 and was named a vice president and deputy general manager of the Opto-Electronics Components Business in 1995, vice president and general manager Telecommunications Products in 1996, senior vice president in 1997, senior vice president of Opto-Electronics in 1998, executive vice president of Optical Communications in 1999, and to his present position in 2001. Director since 2000. Age 42.

Directors Whose Terms Will Expire in 2003

James B. Flaws*
Executive Vice President and
Chief Financial Officer
Corning Incorporated

Mr. Flaws joined Corning in 1973 and was named assistant treasurer in 1993, vice president and controller in 1997, vice president Finance and treasurer later in 1997, senior vice president and chief financial officer in December 1997 and to his present position in 1999. Mr. Flaws is a director of Dow Corning Corporation. Director since 2000. Age 53.

Peter F. Volanakis*
President
Corning Technologies
Corning Incorporated

Mr. Volanakis joined Corning in 1982 and was named executive vice president CCS Holding, Inc., formerly known as Siecor Corporation, in 1995, senior vice president Advanced Display Products in 1997, executive vice president of Display Technologies and Life Sciences in 1999 and to his present position in 2001. Mr. Volanakis is a director of Dow Corning Corporation. Director since 2000. Age 46.

James R. Houghton
Chairman of the Board
Corning Incorporated

Mr. Houghton joined Corning in 1962. He was elected a vice president of Corning and general manager of the Consumer Products Division in 1968, vice chairman in 1971, chairman of the executive committee and chief strategic officer in 1980 and chairman and chief executive officer in April 1983, retiring in April 1996. Mr. Houghton was named non-executive Chairman of the Board of Corning in June 2001. Mr. Houghton is a director of Metropolitan Life Insurance Company and Exxon Mobil Corporation. He is a trustee of the Metropolitan Museum of Art, the Pierpont Morgan Library and the Corning Museum of Glass and a member of the Harvard Corporation. Director since 1969. Age 66.

James J. O'Connor
Retired Chairman of the Board and
Chief Executive Officer
Unicom Corporation

Mr. O'Connor joined Commonwealth Edison Company in 1963. He became president in 1977, a director in 1978 and chairman and chief executive officer in 1980. In 1994 he was also named chairman and chief executive officer of Unicom Corporation, which then became the parent company of Commonwealth Edison Company, retiring in 1998. Mr. O'Connor is a director of Tribune Company, Smurfit-Stone Container Corporation and United Airlines. Director since 1984. Age 64.

Deborah D. Rieman
Retired President and Chief Executive Officer
Check Point Software Technologies, Incorporated

Dr. Rieman has more than twenty-five years of experience in the software industry. She currently manages a private investment fund. From 1995 to 1999, she served as president and chief executive officer of Check Point Software Technologies, Incorporated. Dr. Rieman is a director of Altera Corporation, Alchemedia Corporation, Counterpane Internet Security, Inc., Switch and Data Facilities, Corp. and Tumbleweed Communications, Inc. Director since 1999. Age 52.

* Member of the Executive Committee

Alternate member of the Executive Committee

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Security Ownership of Certain Beneficial Owners

Paragraphs (a) and (b) below set forth information about the beneficial ownership of Corning's Common Stock as of December 31, 2001. Unless otherwise indicated, the persons named have sole voting and investment power with respect to the shares listed.

(a) To the knowledge of management, the following owned more than 5% of Corning's outstanding shares of Common Stock:

Name and Address of Beneficial Owner	Shares Owned and Nature Of Beneficial Ownership	Percent of Class
Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071	67,918,020 Common(1)	7.13%

(1) Capital Research and Management Company has sole investment power and no voting power with respect to such shares.

(b) The number of shares of Corning Common Stock (and the voting equivalent represented by shares of Preferred Stock) owned by the directors and nominees for directors, by the chief executive officer and the four other most highly compensated executive officers (the "named executive officers") and the former chairman and by all directors and executive officers as a group, as of December 31, 2001, is as follows:

Name	Shares Owned and Nature of Beneficial Ownership(1)(2)(3)	Percent of Class(8)
Directors		

Name	Shares Owned and Nature of Beneficial Ownership(1)(2)(3)	Percent of Class(8)
John S. Brown	25,287(4)	
John H. Foster (5)	26,487	
Gordon Gund	913,400	
John M. Hennessy	36,103(4)	
James R. Houghton	1,631,221(6)	
James J. O'Connor	36,244(4)	
Catherine A. Rein	34,507(4)	
Deborah D. Rieman	16,200	
H. Onno Ruding	28,090(4)	
William D. Smithburg	39,287(4)	
Hansel E. Tookes II	2,250(4)	

Named Executive Officers		
(*also serve as directors)		
Roger G. Ackerman*	1,751,356	
James B. Flaws*	661,378	
John W. Loose*	2,025,459	
Dr. Joseph A. Miller	9,870	
Peter F. Volanakis*	578,494	
Wendell P. Weeks*	1,495,709	
All Directors and Executive Officers as a Group	12,525,592(7)	1.32%

(1) Includes shares of Common Stock, subject to forfeiture and restrictions on transfer, granted under Corning's Incentive Stock Plans as well as options to purchase shares of Common Stock exercisable within 60 days under Corning's Stock Option Plans. Messrs. Ackerman, Flaws, Houghton, Loose, Miller, Volanakis and Weeks have the right to purchase 1,240,683; 438,485; 524,622; 1,361,176; 0; 370,473; and 1,021,655 shares, respectively, pursuant to such options. All directors and executive officers as a group hold options to purchase 7,244,994 such shares.

(2) Includes shares of Common Stock, subject to forfeiture and restrictions on transfer, issued under Corning's Restricted Stock Plans for Non-Employee Directors.

(3) Includes shares of Common Stock and the voting equivalent in Preferred Stock, on the basis of fourteen shares of Common Stock for each share of Preferred Stock, held by J. P. Morgan Chase & Co. as the trustee of Corning's Investment Plans for the benefit of the members of the group, who may instruct the trustee as to the voting of such shares. If no instructions are received, the trustee votes the shares in the same proportion as it votes the shares for which instructions were received. Shares of Preferred Stock may be held only by the trustee. The power to dispose of shares of Common and Preferred Stock is also restricted by the provisions of the Plans. The trustee holds for the benefit of Messrs. Ackerman, Flaws, Loose, Miller, Volanakis and Weeks, and all directors and executive officers as a group the equivalent of 0; 27,635; 45,126; 315; 11,905; 7,789 and 247,000 shares of Common Stock, respectively. It also holds for the benefit of all employees who participate in the Plans the equivalent of 28,317,634 shares of Common Stock (being 2.85% of the Class), being 27,306,554 shares of Common Stock and the voting equivalent of 72,220 shares of Preferred Stock (being 100% of the Class).

(4) In addition, Messrs. Brown, Gund, Hennessy, O'Connor, Ruding, Smithburg and Tookes and Ms. Rein have credited to their accounts the equivalent of 15,142; 39,122; 44,826; 35,289;

9,261; 60,965; 2,095 and 12,770 shares, respectively, of Common Stock in phantom form under Corning's Deferred Compensation Plan for Directors. Deferred fees will be paid solely in cash at or following termination of service as a director.

(5) Mr. Foster resigned effective December 31, 2001.

(6) Includes 489,528 shares held in trusts by Market Street Trust Company as a co-trustee for the benefit of Mr. Houghton, as income beneficiary. Does not include 7,598,714 shares held in trusts by Market Street Trust Company, as to which Mr. Houghton disclaims beneficial ownership. Market Street Trust Company is a limited purpose trust company controlled by the Houghton family, the directors of which include James R. Houghton and other Houghton family members.

(7) Does not include 215,600 shares owned by the spouses and minor children of certain executive officers and directors as to which such officers and directors disclaim beneficial ownership.

(8) Unless otherwise indicated, does not exceed 1% of the Class of Common Stock.

Report of the Compensation Committee of The Board of Directors on Executive Compensation

The Compensation Committee of the Board of Directors, composed entirely of non-employee directors, is responsible to the Board of Directors, and indirectly to our shareholders, for executive compensation at Corning. The Compensation Committee reviews and recommends executive compensation levels, cash and equity incentives for executive officers and reports such recommendations to the Board for its consideration and action. The following is the Committee's report for 2001.

Compensation Philosophy

The Committee believes that executive compensation should be based on objective measures of performance at the individual, corporate and applicable business unit level, should be driven primarily by the long term interests of Corning and its shareholders and should be directly linked to corporate performance.

The Committee further believes that motivational and competitive compensation offerings (within the many businesses that Corning operates in) are critical elements of Corning's success in attracting, developing and retaining its key executive, managerial, scientific and technical talent.

Compensation Strategy

The Committee's basic strategic compensation principles are as follows:

Compensation Should Relate to Performance Executive compensation will reward performance and contribution to shareholder value and be competitive with pay for positions of similar responsibility at other companies of comparable complexity and size, or comparable companies within the various industries in which Corning competes.

Incentive Compensation Should Be a Greater Part of Total Compensation For More Senior Positions As employees assume greater responsibilities and have the opportunity to create more shareholder value, an increasing share of their total compensation package will be

derived from variable incentive compensation (both of a long and short-term nature) generated by achievement of objectives producing long-term improvement in corporate performance.

Employee Interests Should Be Aligned with Shareholders Stock option grants will be used to align the long-term interests of employees with those of shareholders.

Corning Employees Should Own Stock Stock ownership fosters commitment to long-term shareholder value. Employees are encouraged to become shareholders through the design of Corning's financial-based employee benefit programs, long-term equity plans and in communications which stress the importance of ownership to long-term value creation.

The executive compensation program consists of three elements: base salary; annual cash incentives; and long-term incentives, including restricted stock and stock options. Our goal is to provide above-market compensation opportunities tied to achievement of high standards and above-market goals for growth and performance.

The Committee tests annually each element of the compensation program and total compensation opportunities against market surveys provided by several independent compensation consultants. These surveys currently include companies engaged in a variety of manufacturing and service industries that are competitive with the various businesses that Corning operates. These companies are different from the companies that comprise the indices shown on the stock performance graph of this proxy because Corning competes with a wide spectrum of companies across many businesses for key talent.

The Year in Review

The year 2001 was an extremely disappointing year as Corning faced significant downturns in all of its telecommunications businesses as well as a general softening in many of its other businesses. The widespread downturn in the telecommunications industry severely impacted the financial performance of Corning in 2001. As a result, all of Corning's compensation programs reflect this very weak performance in 2001.

Compensation Program

The annual cash compensation of the named executives is shown in the "Salary" and "Bonus" columns of the Summary Compensation Table on page 15. In general, the Committee's recommendations to adjust salary levels and bonus targets, is based on an individual's responsibilities, overall corporate performance, external comparative compensation information and performance against established financial goals, such as return on equity, net income and earnings per share. Annual variable incentives are paid in cash through the Variable Compensation Plans through which the Committee sets minimum, target and maximum awards based on position level. Awards are earned based on achievement of annual predetermined net earnings goals set by the Committee.

In 2001, actual performance under the Company's annual variable compensation programs did not meet the minimum financial goals established by the Committee. As a result, no bonuses were earned by Messrs. Ackerman, Loose, Flaws, Volanakis and Weeks for 2001. Mr. Miller joined Corning in July 2001 and received sign-on bonuses of $155,000 as part of his agreement to join Corning. Mr. Miller received no

bonuses under Corning's 2001 performance-based bonus plans.

In addition, although not reflected in this year's Summary Compensation Table, Corning has decided to delay annual salary reviews for 2002 (normally scheduled for January 1 for the named executive officers).

Also in 2002, all of Corning's corporate officers (including all of the named executive officers) will forego one-half of their annual cash Variable Compensation targets in exchange for a one-time special grant of stock options as determined by the Committee in February 2002. Other eligible employees will also receive a portion of their earned 2002 Variable Compensation opportunity in stock options. All of these officers and employees will remain eligible for Corning's 2002 GoalSharing Program, under which a majority of Corning's employees are eligible for cash bonuses ranging from 0% to 10% of base salary based on actual business performance. The exchange of stock options for cash under the Variable Compensation Plans in 2002 is consistent with Corning's goals to preserve cash and focus all attention on the actions necessary to ensure a successful turnaround and a return to profitable growth and long-term success through innovation.

Beginning in 2001, Corning's long-term incentive plans have been redesigned. The new plans utilize grants of stock options as the primary vehicle for incenting and rewarding long-term performance. The weighted average exercise price of stock options granted to all employees in 2001 was $21.67 (compared to $65.69 in 2000). In prior years, the long-term incentive plans had multi-year cash components included as part of the plan design. The cash targets for 1999 were based on actual financial performance over the 3-year period 1999-2001 (and were scheduled to be paid in February 2002). The cash targets for 2000 were based on actual financial performance over the 3-year period 2000-2002 (scheduled to be paid in February 2003).

While performance was strong in 1999 and 2000 (i.e. the plan was tracking at a maximum cash payout), the precipitous drop in performance in 2001 as a result of the slump in the telecommunications industry and softening business conditions later in the year as a result of general macroeconomic trends, has had a dramatic impact on these long-term cash plans as well. As a result, no payments were earned by any participants under the 1999-2001 plan and no payments are anticipated to be earned by any participants under the 2000-2002 plan. In total, over $20 million of cash incentives have been forfeited by all plan participants as a result of the weak financial performance in 2001.

Compensation Deductibility

As a matter of practice, the Committee intends to set performance-based goals annually under the Variable Compensation Plans and to deduct compensation paid under these Plans and gains realized from stock options to the extent consistent with the provisions of Section 162(m) of the Internal Revenue Code of 1986, as amended. However, if complying with Section 162(m) conflicts with what the Committee believes to be in the best interests of Corning and its shareholders, the Committee may conclude that paying non-deductible compensation is more consistent with the shareholder's best interests.

CEO Compensation Actions 2001

The year 2001 was a year of dramatic reversal following the enormous success of 1999 and 2000. All of the executive compensation programs reflect significantly reduced performance as compared to 2000.

Roger G. Ackerman stepped down as Chief Executive Officer of Corning as of January 1, 2001, retaining the role of Chairman of the Board of Directors. He subsequently retired as Chairman of the Board of Directors effective June 21, 2001 (with over 39 years of distinguished service to Corning). James R. Houghton, a non-employee member of the Board of Directors, was named Chairman of the Board of Directors upon Mr. Ackerman's retirement on June 21, 2001.

John W. Loose was named President and Chief Executive Officer of Corning as of January 1, 2001. Compensation actions for both named executive officers are described below.

Base Salary: Mr. Ackerman's base salary for 2001 remained unchanged at $850,000 per annum. Likewise, his annual cash incentive target for 2001 remained unchanged at 90% of base salary.

In anticipation of Mr. Ackerman's pending retirement, the Committee established Mr. Loose's base salary for 2001 at $850,000 per annum (an increase from his 2000 Base Salary of $650,000 per annum when he served as President and Chief Operating Officer) and increased his annual cash incentive target for 2001 from 75% to 90% of base salary.

Annual Incentives: Mr. Ackerman's bonus for 2001 was composed of two parts: First, Mr. Ackerman received 0% of his prorated 2001 base salary under the Variable Compensation Plan. This award was based on Corning's failure to achieve the minimum net profit after tax equivalent of the target opportunity the Committee established in February 2001. Second, Mr. Ackerman received 0% (2001 minimum = 0%; maximum = 10%) of his prorated base salary under Corning's GoalSharing Program, a variable compensation plan available to almost all employees.

Mr. Loose's bonus for 2001 was also composed of two parts. However, since Corning's performance for the full year did not meet the goals established by the Committee, Mr. Loose did not receive any bonus under either the Variable Compensation Plan or the GoalSharing Program as a result of 2001 performance.

Long-Term Incentives: Mr. Ackerman was not a participant in the Stock Option Plans for 2001. In recognition of the outstanding performance of Corning in 1999 and 2000, the Committee awarded Mr. Ackerman 175,000 shares of restricted stock in June 2001.

Mr. Loose received a stock option grant of 600,000 stock options at an exercise price of $50.34 and a grant of 75,000 shares of restricted stock on January 2, 2001 in recognition of his new role as Chief Executive Officer of Corning. He subsequently received two special supplemental stock option grants of 747,895 stock options on May 15, 2001, and 747,895 stock options on August 15, 2001. One-half of his stock option grant for 2002 covering 550,000 shares of Corning Common Stock was awarded on December 5, 2001. The remaining options covering 550,000 shares of Corning Common Stock were granted on February 1, 2002. The weighted average exercise price of all of the stock option grants to Mr. Loose in 2001 was $23.78. All of

the stock option grants made during the calendar year 2001 are more fully described in the "Option/SAR Grants in Last Fiscal Year" table on page 17.

Other Significant Actions in 2001

Over the past fifteen years, Corning also has had a periodic practice of awarding shares of restricted stock to several hundred key executives, as well as, other key managerial, scientific and technical employees for purposes of recognition and retention. As of December 5, 2001, the Committee approved the lifting of restrictions on approximately 4.8 million of these shares, valued at approximately $48 million. The Committee took these actions for the following reasons:

Restrictions on a significant majority of these shares were scheduled to be lifted over the next two to three years. The sharp reduction in share price from when the grants were first made severely reduced their incentive and retention effectiveness.

Given the significant restructuring efforts taken in the past year, and the resulting organizational changes, the Committee believes that its management is committed to achieving a successful turnaround and return to profitable growth. The Committee believes that both short and longer-term retention can be better addressed by utilizing past and ongoing stock option grants under Corning's annual compensation programs.

The amounts that Corning would have been required to charge its future earnings during the remaining vesting periods was significantly in excess of the fair market value of the shares at the time of the release.

There are restrictions on the ability of corporate officers and other key employees to sell a substantial portion of the vested shares remaining after required tax withholdings and other dispositions necessary to settle the remaining taxes owed on these shares.

Conclusion

The year 2001 was clearly a very disappointing year for Corning, its employees and its shareholders. The Committee believes that the quality of executive leadership significantly affects long-term performance and that it is in the best interest of the shareholders to compensate fairly executive leadership for achievements that meet or exceed the high standards set by the Committee, so long as there is corresponding risk when performance falls short of such standards (as they did in 2001).

The Compensation Committee:

James J. O'Connor, Chairman

Gordon Gund

Catherine A. Rein

William D. Smithburg

Performance Graph

The following graph illustrates the cumulative total shareholder return over the last five years of Corning's Common Stock, the S&P 500 and the S&P Communications Equipment Companies (in which Corning is currently included) and the S&P Diversified Manufacturing Companies (in which Corning was previously included). Corning changed its line of business index in fiscal 2001 to more accurately reflect the change in Corning's business focus. The graph includes the capital weighted performance results of those companies both in the diversified manufacturing companies classification and in the communications equipment companies classification that are also included in the S&P 500. Prior to 1997, Corning compared its shareholder return to the S&P Miscellaneous Industrial Companies classification. This classification is no longer published.

Comparison of Five-Year Cumulative Total Return

Among Corning Incorporated,
S&P 500, S&P Communications Equipment, and
S&P Manufacturing (Diversified) Companies
(Fiscal Years Ending December 31)

Executive Compensation

The following tables and charts show for the last three years the compensation paid by Corning to its chief executive officer, its former chairman and the four other most highly compensated executive officers whose aggregate salary and bonus exceeded $100,000.

Summary Compensation Table

					Long Term Compensation			
	Annual Compensation				Awards		Payouts	
Name and Principal Position	Year	Salary	Bonus	Other Annual Compen-sation(1)	Restricted Stock Awards(2)	Securities Underlying Options(3)	Incentive Plan Payouts	All Other Compen-sation(4)
Roger G. Ackerman,	2001	$ 425,000	$	$ 110,790	$ 5,449,400	37,227	$ 0	$ 106,958
Chairman of the	2000	850,000	1,598,255	106,467	4,326,600	147,997	0	142,340
Board(5)	1999	815,000	1,455,101	81,839		339,678	0	72,995
John W. Loose,	2001	850,000(8)		108,462	3,775,500	2,645,790	0	110,189
President, and Chief	2000	650,000	1,027,195	106,067	5,463,000	2,224,002	0	91,044
Executive Officer	1999	555,000	824,397	36,086	2,865,000	199,998	0	47,195
James B. Flaws,	2001	450,000(8)		48,405		952,746	0	53,877
Executive Vice	2000	330,000	422,499	42,904	4,097,250	1,230,000	0	40,873
President, and Chief Financial Officer	1999	280,000	331,912	42,904		60,000	0	24,501
Dr. Joseph A. Miller,	2001	200,000	155,000(6)		238,050	210,000	0	2,800
Senior Vice President,						0	0	
Chief Technology						0	0	
Officer, Science & Technology								
Peter F. Volanakis,	2001	500,000(8)		41,530		1,058,248	0	31,112
President,	2000	315,000	346,595	32,968	5,463,000	1,350,000	0	22,383
Corning Technologies	1999	270,000	294,071	12,579	892,350	60,000	0	13,887
Wendell P. Weeks,	2001	575,000(8)		52,989	10,068,000(7)	1,758,500	0	23,658
President	2000	400,000	512,120	45,000	14,150,000(7)	2,702,015	0	30,052
Corning Optical	1999	325,000	417,755	31,752	58,176	126,150	0	15,257
Communications								

(1) Includes tax gross-up payments.

(2) At year end 2001, Messrs. Ackerman, Loose, Flaws, Miller, Volanakis and Weeks held an aggregate of 0; 75,000; 0; 0; 0 and 0 shares of restricted stock, respectively, having an aggregate value on December 31, 2001 of $0; $675,750; $0; $0; $0 and $0, respectively. Such shares are subject to restrictions on transfer until the executive officer retires and are subject to forfeiture prior to that time in whole if such officer voluntarily terminates employment with Corning and in part if such officer's employment is terminated by Corning. Values indicated in the Summary Compensation Table utilize historical Corning stock prices on the respective dates of grant that are significantly greater than the actual value of such shares when most of these shares were earned (less than $10).

(3) The 2000 Employee Equity Participation Plan, approved in November 2000, provided that if options were exercised using already owned Corning Common Stock, the opportunity for registration of future market price fluctuations would be

restored through an automatic grant of options equal to the number of shares tendered and at the same current market price as was recognized for purposes of exercising such options. Included in these totals are such "reload" options granted during 2001.

(4)

Represents amounts contributed by Corning to the Investment Plan, the Supplemental Investment Plan (a non-qualified investment Plan maintained by Corning to provide salaried employees the benefits which would have been available to them pursuant to the terms of Corning's Investment Plan but for limitations on contributions to tax-qualified plans imposed pursuant to the Internal Revenue Code of 1986, as amended) and the Management Deferral Plan (if applicable). Each salaried and non-unionized hourly employee of Corning who participates in Corning's Investment Plan receives matching contributions to his/her account based on his/her level of contribution and/or service.

(5) Mr. Ackerman resigned as Chairman of the Board of Directors in June 2001.

(6) Represents sign-on bonuses. Mr. Miller joined Corning as an executive officer effective July 1, 2001.

(7) Represents shares of restricted stock granted to Mr. Weeks under the terms of that certain Employment Agreement effective December 6, 2000. Shares granted in 2000 and 2001 are valued at $70.75 and $50.34, respectively, which represents the prices in effect on the respective grant dates. The actual total value realized when such shares were earned/released in December 2001 was $3,980,000.

(8) Base salary increases in 2001 reflects promotional increases for assuming new roles.

Arrangements with Named Executive Officers

Severance Arrangements

Under an existing severance policy Corning may provide to certain employees in certain events compensation in amounts up to eight weeks (for employees with less than four years of service) and fifty-two weeks (for employees with twenty or more years of service). In addition, Corning will provide to certain of its officers and senior employees, including the named executive officers, in certain events up to three years of cash compensation in light of the length of time anticipated in securing comparable employment. These events include a constructive termination of employment as a result of a substantial change in the employee's responsibilities, compensation levels and similar matters following a change in Corning's ownership and management.

Option/SAR Grants in Last Fiscal Year(1)

	Individual Grants				Potential Realizable Value At Assumed Annual Rates of Stock Price Appreciation for Option Term(2)		
Name	**Number of Securities Underlying Options Granted**	**% of Total Options Granted to Employees in Fiscal Year**	**Exercise Price**	**Expiration Date**	**Gain at 0%**	**Gain at 5%**	**Gain at 10%**
Roger G. Ackerman							
Additional Options:	7,311	0.02%	$ 59.50	12/05/05	$ 0	$ 273,572	$ 693,285
	14,517	0.05%	53.94	12/05/05	0	492,454	1,247,975
	15,399	0.05%	56.50	12/05/05	0	547,1266	1,386,625
John W. Loose	600,000	2.02%	$ 50.34	01/02/11	$ 0	$ 18,995,133	$ 48,137,397
	747,895	2.52%	21.15	05/15/06	0	4,370,216	9,657,035
	747,895	2.52%	15.28	08/15/06	0	3,157,300	6,976,808
	550,000	1.85%	9.95	12/05/11	0	3,441,626	8,721,756

	Individual Grants				Potential Realizable Value At Assumed Annual Rates of Stock Price Appreciation for Option Term(2)		
James B. Flaws	322,500	1.09%	$ 21.15	05/15/06	$ 0	$ 1,884,482	$ 4,164,212
	322,500	1.09%	15.28	08/15/06	0	1,361,460	3,008,471
	300,000	1.01%	9.95	12/05/11	0	1,877,250	4,757,321
Additional Options:	774	0.00%	28.70	06/06/05	0	13,970	35,403
	6,972	0.02%	28.70	12/05/05	0	125,840	318,902
Joseph A. Miller	100,000	0.34%	$ 15.87	07/31/11	$ 0	$ 998,056	$ 2,529,269
	110,000	0.37%	9.95	12/05/11	0	688,325	1,744,351
Peter F. Volanakis	352,500	1.19%	$ 21.15	05/15/06	$ 0	$ 2,059,783	$ 4,551,581
	352,500	1.19%	15.28	08/15/06	0	1,488,108	3,288,329
	350,000	1.18%	9.95	12/05/11	0	2,190,126	5,550,208
Additional Options:	3,248	0.01%	30.80	10/05/08	0	62,914	159,435
Wendell P. Weeks	704,250	2.37%	$ 21.15	05/15/06	$ 0	$ 4,115,183	$ 9,093,478
	704,250	2.37%	15.28	08/15/06	0	2,973,049	6,569,661
	350,000	1.18%	9.95	12/05/11	0	2,190,126	5,550,208
All Shareholders as a group	944,876,880	N/A	N/A	N/A	$ 0	$ 12,879,776,918	$ 32,639,883,499
All Optionees as a group(3)	29,655,814	100.0%	$ 21.67	Various	$ 0	$ 404,243,428	$ 1,024,432,214
Optionee Gain As % Of All Shareholders Gain						3.14%	3.14%

(1)

No SARs were granted.

(2)

The dollar amounts set forth under these columns are the result of calculations at 0%, 5% and at 10% rates established by the Securities and Exchange Commission and therefore are not intended to forecast future appreciation of Corning's stock price. Corning did not use any alternative formula for grant date valuation as it is unaware of any formula which would determine with reasonable accuracy a present value based upon future unknown factors.

(3)

The exercise price shown to the right is a weighted average of option prices relating to grants of options, made on various occasions in 2001. No gain to the optionees is possible without an appreciation in the stock price, an event which will also benefit all shareholders. If the stock price does not appreciate, the optionees will realize no benefit. The 2000 Employee Equity Participation Plan provides that if options are exercised using already owned Corning Common Stock, the opportunity for recognition of future market price fluctuations would be restored through an automatic grant of options equal to the number of shares tendered and at the

same current market price as was recognized for purposes of exercising such options. Included in this total are such "reload" options granted to employees during 2001. Some of the options granted were at a five year term and others were at the standard ten year term.

Aggregated Option/SAR Exercises in Last Fiscal Year and Fiscal Year-End Option/SAR Values(1)

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-the-Money Options at Fiscal Year End	
			Exercisable	Unexercisable	Exercisable	Unexercisable

			Number of Securities Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-the-Money Options at Fiscal Year End	
Roger G. Ackerman	250,662	$ 11,454,932		264,394	40,334	0
John W. Loose	0	0	1,263,676 1,042,956	4,409,957	$ 0	0
James B. Flaws	25,509	509,954	408,485	1,982,746	18,297	0
Joseph A. Miller	0	0	0	210,000	0	0
Peter F. Volanakis	10,662	228,380	340,473	2,188,248	0	0
Wendell P. Weeks	0	0	963,155	3,817,001	0	0

(1)

There are no SARs outstanding.

Pension Plan

Corning has a defined benefit Pension Plan under which it pays benefits based upon career average earnings (regular salary and cash awards such as those paid under its Variable Compensation Plans) and years of credited service. Employees are required to contribute 2% of compensation in excess of the Social Security Wage Base up to the compensation limits imposed by the Internal Revenue Code of 1986, as amended. Salaried employees may contribute 2% of earnings up to the Social Security Wage Base to increase pension benefits.

Corning amended its pension plan effective July 1, 2000, to include a cash balance component. All salaried and non-union hourly employees were given the choice of continuing to accrue future benefits under the career average earnings formula or, if the cash balance plan was elected, the cash balance formula. All salaried and non-union hourly employees hired after July 1, 2000, automatically participate in the cash balance plan.

The cash balance plan is expressed in the form of a hypothetical account balance. Each month a participant's cash balance account is increased by (1) pay credits based on the participant's eligible pay for that month, and (2) interest credits based on the participant's account balance as of the end of the prior month. Pay credits accrue annually at a rate between 3% and 8%. Pension benefits under this plan may be distributed as a lump sum or as an annuity.

Corning's contributions to the Plan are determined by the Plan's actuaries and are not determined on an individual basis. The amount of benefits payable under the Plan and attributable to Corning's contributions is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1986, as amended.

Corning maintains non-qualified supplemental pension plans pursuant to

which it will pay amounts approximately equal to the difference between the benefits provided under the Pension Plan and benefits which would have been paid thereunder but for the limitations of the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1986, as amended. Certain employees, including the named executive officers, participate in the Executive Supplemental Pension Plan which pays benefits based upon final average compensation (the highest five consecutive calendar years in the ten calendar years immediately preceding retirement) and years of credited service. Certain of the benefits payable under the Executive Supplemental Pension Plan are presently funded and vested on an individual basis.

The table below sets forth the estimated annual amounts payable under the Pension Plan and the Executive Supplemental Pension Plan assuming retirement during 2002 of participants who have met eligibility requirements for unreduced benefits. These amounts are based upon the straight life annuity option and are not subject to reduction for Social Security benefits or other payments or offsets. Additional benefits may be payable to persons who contribute voluntarily to the Pension Plan. The Plan's normal retirement age is 65 with 5 years of credited service.

	Years of Service					
	15	20	25	30	35	40

Final Average Pay

$ 500,000	$ 109,600	$ 146,100	$ 182,600	$ 219,200	$ 255,700	$ 293,200
600,000	132,100	176,100	220,100	264,200	308,200	353,200
700,000	154,600	206,100	257,600	309,200	360,700	413,200
800,000	177,100	236,100	295,100	354,200	413,200	473,200
900,000	199,600	266,100	332,00	399,200	465,700	533,200
1,000,000	222,100	296,100	370,100	444,200	518,200	593,200
1,100,000	244,600	326,100	407,600	489,200	570,700	653,200
1,200,000	267,100	356,100	445,100	534,200	623,200	713,200
1,300,000	289,600	386,100	482,600	579,200	675,700	773,200
1,400,000	312,100	416,100	520,100	624,200	728,200	833,200
1,500,000	334,600	446,100	557,600	669,200	780,700	893,200
1,600,000	357,100	476,100	595,100	714,200	833,200	953,200
1,700,000	379,600	506,100	632,600	759,200	885,700	1,013,200
1,800,000	402,100	536,100	670,100	804,200	938,200	1,073,200
1,900,000	424,600	566,100	707,600	849,200	990,700	1,133,200
2,000,000	447,100	596,100	745,100	894,200	1,043,200	1,193,200
2,100,000	469,600	626,100	782,600	939,200	1,095,700	1,253,200
2,200,000	492,100	656,100	822,600	984,200	1,148,200	1,313,200
2,300,000	514,600	686,100	857,600	1,029,200	1,200,700	1,373,200
2,400,000	537,100	716,100	895,100	1,074,200	1,253,200	1,433,200
2,500,000	559,600	746,100	932,600	1,119,200	1,305,700	1,493,200

The compensation covered by the Pension Plan and the Executive Supplemental Pension Plan for the named executive officers is the salary and bonus set forth in the Summary Compensation Table on page 15. The bonus is included as compensation in the calendar year paid. Messrs. Ackerman, Flaws, Loose, Miller, Volanakis and Weeks have 39, 29, 37, 1, 20, and 18 years of credited service, respectively.

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Approval of 2002 Worldwide Employee Share Purchase Plan

Proposed 2002 Worldwide Employee Share Purchase Plan

Overview

In 1998, Corning adopted the 1998 Worldwide Employee Share Purchase Plan (the "1998 Plan"). The 1998 Plan, which was a continuation of similar plans first adopted in 1990, expires by its terms in June 2003. The 1998 Plan was designed to provide a flexible mechanism to permit employees to obtain equity ownership in Corning, thereby increasing their proprietary interest in Corning's growth and success. The Board of Directors (the "Board") believes the 1998 Plan has been successful and should be continued. In February 2002, the Board approved the 2002 Worldwide Employee Share Purchase Plan (the "2002 Plan") and directed that it be submitted to shareholders for approval at this time. An affirmative vote of a majority of the shares of Corning Common Stock, which we shall refer to in this section as shares, cast at the meeting is necessary to approve the 2002 Plan. In the event shareholders do not approve the 2002 Plan, the 1998 Plan will continue until its scheduled expiration in June 2003 or when shares are no longer available, whichever is earlier.

The Board recommends that you vote in favor of the 2002 Plan. The Board, as well as our senior management, believes that it is important to align the interests of our employees with the interests of our shareholders, and we believe that encouraging share ownership by our employees through the 2002 Plan is a key means to achieve this goal. Furthermore, we believe that the 2002 Plan enhances our ability to attract and retain employees, enhances employee loyalty and increases the focus of our employees on the creation of shareholder value.

The 1998 Plan permits a total of 6,000,000 shares (post-split) to be sold to participating employees. As of January 2002, approximately 1,500,000 shares were available for sale under the 1998 Plan. Under the 1998 Plan, shares are sold to U.S. employees at a price not less than 85% of the fair market value of the shares on either the first trading day or the last trading day of a calendar quarter, whichever results in a lower purchase price. For employees whose principal place of employment is outside the United States ("International Employees"), shares are sold at a price equal to 85% of Corning's share price on the last trading day of the calendar quarter.

A summary of the principal features of the 2002 Plan follows. The principal differences between the 1998 Plan and the 2002 Plan are discussed at the end of the summary. Corning will send without charge the 2002 Plan to any shareholder who requests a copy.

Summary of the 2002 Worldwide Employee Share Purchase Plan

Committee. The 2002 Plan shall be administered by the Compensation Committee (the "Committee") of the Board. Subject to the provisions of the 2002 Plan, the Committee shall interpret the 2002 Plan and all rights to purchase shares granted under the 2002 Plan, make such rules as it deems necessary for the proper administration of the 2002 Plan and make all other determinations necessary or advisable for the administration of the 2002 Plan. In addition, the Committee shall correct any defect, supply any omission or reconcile any inconsistency in the 2002 Plan, or in any right to purchase shares

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granted under the 2002 Plan, in the manner and to the extent that the Committee deems desirable to carry the 2002 Plan or any option into effect. The Committee shall, in its sole discretion, make such decisions or determinations and take such actions, and all such decisions, determinations and actions taken or made by the Committee shall be conclusive on all parties. The Committee shall not be liable for any decision, determination or action taken in good faith in connection with the administration of the 2002 Plan. The Committee shall have the authority to delegate plan administration and interpretation of the 2002 Plan to such officers and employees of Corning as the Committee deems appropriate.

Effective Date of the 2002 Plan. The 2002 Plan will take effect for shares issued under the 2002 Plan after May 1, 2002, at which time, the 1998 Plan will terminate.

Eligibility. Any employee of Corning designated as eligible by the Committee will be eligible to participate in the 2002 Plan provided, however, that no option shall be granted to an employee if such employee, immediately after the option is granted, owns shares of Corning possessing five percent or more of the total combined voting power or value of all classes of shares of Corning or of its subsidiary corporations (within the meaning of Sections 423(b)(3) and 424(f) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder ("Code")). The Committee may also limit eligibility to designated payroll groups such as salaried or non-unionized hourly employees or to designated locations. The Committee may also in its discretion allow the employees of Corning subsidiaries to participate in the 2002 Plan. The Committee may also limit any employee's rights to purchase shares pursuant to the 2002 Plan to a rate that does not exceed $25,000 per calendar year or such other amount as may be specified under Section 423 of the Code. Substantially all employees of Corning were eligible to participate in the 1998 Plan and it is expected that substantially all employees will be eligible to participate in the 2002 Plan.

Authorized Shares. Under the 2002 Plan no more than 30,000,000 shares may be offered or sold to eligible employees. The 30,000,000 shares represent approximately 3% of the shares of Corning outstanding on December 31, 2001. Shares available for sale under the 2002 Plan may be either treasury shares or authorized but unissued shares or may be purchased from time to time on the open market. Any shares that remain available under the 1998 Plan when the 2002 Plan becomes effective will not be added to the 30,000,000 shares authorized under the

2002 Plan.

Offering Period. The 2002 Plan provides for offering periods of three months each. The Board may make a particular offering period shorter or longer but not longer than 27 months. Participating employees would purchase shares at quarterly intervals unless the Board exercises its right to change the offering period. The first business day of each offering period is referred to as the entry date, except that for employees who elect to participate after that date, the entry date, unless otherwise provided by the Committee, in its discretion, is the first business day of the first offering period beginning after their election.

Each eligible employee is automatically granted the right to purchase shares on his or her entry date. The right to purchase shares generally

expires at the end of the offering period or upon termination of employment, whichever is earlier, but is exercised at the end of each offering period to the extent of the payroll deductions accumulated during that offering period. In addition to the limitation described above, the Committee may impose additional limits on the number of shares eligible employees may purchase during any offering period.

Purchases. Shares will be purchased under the 2002 Plan at a price equal to 85% of the fair market value of a share on (i) the relevant entry date or (ii) the last trading day of the offering period, whichever is less for U.S. employees. For International Employees, unless otherwise provided, shares are sold at a price equal to 85% of Corning's share price on the last trading day of the offering period.

Under the 1998 Plan, shares are purchased quarterly at a price equal to 85% of the fair market value of a share on the first trading day of the quarter or the last trading day of the quarter (whichever is less) for U.S. employees. For International Employees, shares are sold at a price equal to 85% of Corning's share price on the last trading day of the calendar quarter.

Payments received by Corning for the sale of shares of treasury stock or authorized and unissued shares shall be used for general corporate purposes.

Participation. Under the 2002 Plan an eligible employee must authorize payroll deductions, which may not exceed 10% of eligible compensation or such other higher percentage of non-fixed compensation (such as the amount paid annually as a performance or GoalSharing bonus) as may be permitted by the Committee. An eligible employee may terminate his or her payroll deduction at any time. The employee may increase or reduce prospectively the amount of his or her deduction as of the beginning of any calendar quarter subject to the Committee's authority to impose limits on employees who increase, reduce or stop payroll deductions during an offering period. An employee will have no interest in any shares until such shares are actually purchased by him or her.

Termination of Employment. In the event of death, retirement, or termination of employment, any accumulated payroll deductions will be used to purchase shares on the applicable purchase date.

International Employees. Under the 2002 Plan, the Committee has the authority to amend the 2002 Plan with respect to International Employees. The amendments may include, but are not limited to, the right to participate; procedures for elections to participate; the payment of any interest with respect to amounts received from or credited to accounts held for the benefit of International Employees; the purchase price of any shares to be acquired; the length of any offering period; the maximum amount of contributions; credits or shares which may be acquired by International Employees; and the rights of International Employees in the event of his or her death, disability, withdrawal from the 2002 Plan, termination of employment, and all matters related thereto.

The Committee, in its discretion, can also create one or more separate plans involving the purchase of shares by International Employees. The Committee shall have the flexibility to structure international arrangements that adhere to local regulations that may allow Corning or one of its subsidiaries or

affiliates to take advantage of corporate tax benefits. As such, special terms and conditions or plans which may be established with respect to one group of International Employees may not be the same for all International Employees. Notwithstanding the foregoing, the total number of shares offered under the 2002 Plan and any other employee stock purchase plan for International Employees created by the Committee shall not exceed the number of shares authorized under the 2002 Plan.

Adjustments upon Changes in Capitalization, Merger or Sale of Assets. In the event of any stock split, stock dividend, spin-off, reclassification, recapitalization or other similar event affecting the shares, adjustments may be made in the number of shares subject to the 2002 Plan, the number and kind of shares to be purchased and the price per share to be purchased. Any such adjustment will be made by the Committee, whose determination shall be final. In the event of a proposed sale of all or substantially all of the assets of Corning or the merger or consolidation of Corning with another company, the Committee may determine that each right to purchase shares will be assumed by, or an equivalent right substituted by the successor company or an affiliate, that the purchase date will be accelerated, or that all outstanding rights to purchase shares will terminate and accumulated payroll deductions will be refunded.

Amendment and Termination. The Board may terminate or amend the 2002 Plan at any time, except that it may not, without shareholder approval, increase the number of shares subject to the 2002 Plan other than as described in the above paragraph. The Board is expressly authorized to amend the 2002 Plan in any respect the Board deems necessary or advisable to provide employees with the maximum benefits provided or to be provided under provisions of the Code relating to employee stock purchase plans and/or to bring the 2002 Plan and/or rights to purchase shares granted under it into compliance therewith. Rights and obligations under a right to purchase shares granted before amendment of the 2002 Plan shall not be impaired by any amendment of the 2002 Plan, except with the consent of the person to whom such rights were granted, or except as necessary to comply with any laws or governmental regulations, or except as necessary to ensure that the 2002 Plan and/or rights granted under the 2002 Plan comply with the requirements of Section 423 of the Code.

The 2002 Plan will continue until the earlier of: (i) April 30, 2007; (ii) all shares authorized under the 2002 Plan are sold; (iii) or the Board terminates the 2002 Plan.

Compliance with Rule 16b-3. Any transactions under the 2002 Plan with respect to officers (as defined in Rule 16a-1 promulgated under the Securities Exchange Act of 1934, as amended, (the "1934 Act")) are intended to comply with all applicable conditions of Rule 16b-3 of the 1934 Act. To the extent any provision of the 2002 Plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

Taxation. Corning believes that the U.S. federal income tax consequences of the 2002 Plan, under its current terms, are as follows:

An employee who purchases shares under the 2002 Plan will recognize compensation taxable as ordinary

income (subject to withholding) in the year such purchase occurs in an amount equal to the difference between the fair market value of the shares on the date of purchase and the price actually paid for such shares, and Corning or the subsidiary employer will be entitled to a deduction in the same amount. The employee's basis in such shares will be increased by the amount taxable as compensation, and his or her capital gain or loss when he/she disposes of the shares will be calculated using such increased basis. The capital gain or loss on disposition of the shares will be either long-term or short-term, depending on the holding period of the shares.

U.S. Federal Income Tax Consequences if the Board amends the 2002 Plan to qualify under the Internal Revenue Code of 1986. The Board, in its discretion, may amend the 2002 Plan to satisfy the requirements of Section 423(b) of the Code. If the Board exercised its discretion to qualify the 2002 Plan under Section 423(b) of the Code, Corning believes that the U.S. federal tax consequences will be as described below. First the income realized from shares purchased after the effective date of such qualification would not be taxable to the employee until the shares purchased under the 2002 Plan are sold or otherwise disposed of.

Upon sale or other disposition of the shares, the employee will generally be subject to tax and the amount of the tax will depend upon whether the employee has complied with the "holding period" imposed under Section 423 of the Code. If the shares are sold or otherwise disposed of more than two years from the applicable entry date and more than one year from the date of transfer of the shares to the employee, then the employee generally will recognize ordinary income measured as the lesser of:

- the excess of the fair market value of the shares at the time of such sale or disposition over the purchase price, or
- an amount equal to 15% of the fair market value of the shares as of the applicable entry date.

Any additional gain should be treated as long-term capital gain.

If the shares are sold or otherwise disposed of before the expiration of this holding period, the employee will recognize ordinary income generally measured as the excess of the fair market value of the shares on the date the shares are purchased over the purchase price. Any additional gain or loss on such sale or disposition will be long-term or short-term capital gain or loss, depending on the holding period. If an employee sells the shares and the sale price is less than the purchase price, the employee will not recognize any ordinary income, and will have a long-term capital loss for the difference between the sale price and the purchase price.

Neither Corning nor the subsidiary employer is entitled to a deduction for amounts taxed as ordinary income or capital gain to an employee except to the extent ordinary income is recognized by eligible employees upon a sale or disposition of shares prior to the expiration of the holding period(s) described above. In all other cases, no deduction is allowed to Corning or the subsidiary employer.

The foregoing discussion is not intended to cover all tax consequences of participation in the 2002 Plan. The tax consequences outlined above apply only with respect to an employee whose

income is subject to United States federal income tax during the period beginning with the grant of the right to purchase shares and ending with the disposition of the shares acquired through the exercise of such right. Different or additional rules may apply to individuals who are subject to income tax in a foreign jurisdiction and/or are subject to state or local income tax in the United States.

Principal Differences. The 2002 Plan covers 30,000,000 shares. The 1998 Plan covered 6,000,000 shares (post-split). The 2002 Plan gives the Board the authority to make special rules and to create separate arrangements and plans for International Employees, provided that the total number of shares offered under all plans does not exceed the number of shares authorized under the 2002 Plan. The 2002 Plan allows the Board to amend the 2002 Plan for any reason other than to increase the number of shares authorized under the 2002 Plan. The 2002 Plan authorizes the Board to amend the 2002 Plan to comply with the qualification provisions of Section 423(b) of the Code and to comply with Rule 16b-3 of the 1934 Act. The 2000 Plan gives the Board the authority to expand the offering periods up to 27 months. The 2002 Plan also specifically permits the Committee to establish rules limiting the frequency with which participating employees may withdraw or reduce the level of contributions and may establish a waiting period for participating employees requesting to re-authorize or increase payroll deductions.

The 1998 Plan required shareholder approval for the following amendments: (i) to decrease the purchase price of shares offered under the 1998 Plan; (ii) to change the designation of Corning subsidiaries that can participate in the 1998 Plan; and (iii) to increase the number of shares authorized under the 1998 Plan.

The Board of Directors recommends a vote FOR approval of the 2002 Worldwide Employee Share Purchase Plan.

Matters Relating to Directors

Compensation

During 2001, Corning paid to non-employee directors an annual retainer of $30,000 and $1,200 for each meeting attended. Chairmen of committees received an additional retainer ranging from $5,000 to $8,500, depending upon the committee chaired. In addition, during 2001, Ms. Rieman and Mr. Brown attended five and three meetings, respectively, of an ad hoc committee of non-employees who reviewed developments and offered advice on a broad range of matters in the telecommunications area. Corning paid $1,200 for each meeting attended.

Directors may defer any portion of their compensation. Amounts deferred shall be paid only in cash and while deferred may be allocated to (i) an account earning interest, compounded quarterly, at the rate equal to the greater of the prime rate of Citibank, N.A. in effect on specified dates or the rate paid on the stable value fund under Corning's Investment Plans, (ii) an account based upon the market value of Corning's Common Stock from time to time, or (iii) a combination of such accounts. At December 31, 2001, eight directors had elected to defer compensation.

During 2001, Corning issued to each non-employee director 2,250 shares of Common Stock under the 2000 Equity Plan for Non-Employee Directors. These shares are subject to forfeiture and certain restrictions on transfer. In addition, Corning granted to each non-employee director options covering 6,750 shares of Common Stock under the 2000 Equity Plan for Non-Employee Directors. These options vest ratably over a three-year period and expire on May 14, 2011. In addition, each of Messrs. Brown, Gund, Hennessy, Houghton, O'Connor, Ruding, Smithburg and Tookes and Ms. Rein and Rieman received an option grant under the 2000 Equity Plan for Non-Employee Directors covering 9,050 shares of Corning Common Stock representing the 2002 board retainer. Moreover, each of the following non-employee directors received an option grant under the 2000 Equity Plan for Non-Employee Directors covering the following shares of Corning Common Stock representing the 2002 committee chairman retainers: 2,570 to Mr. O'Connor; 2,100 to each of Messrs. Brown, Gund, Hennessy and Smithburg; and 1,510 to Mr. Houghton. These options vest on December 5, 2002 and expire on December 4, 2011.

Corning has a Directors' Charitable Giving Program funded by insurance policies on the lives of the directors. In 2001, Corning paid a total of $440,516 in premiums on such policies. Upon the death of a director, Corning will donate $1,250,000 (on behalf of a non-employee director) and $1,000,000 (on behalf of an employee director) to one or more qualified charitable organizations recommended by such director and approved by Corning. The directors derive no financial benefit from the Program as all charitable deductions and cash surrender value of life insurance policies accrue solely to Corning. Generally, one must be a director for five years to participate in the Program. Messrs. Ackerman, Brown, Foster, Garrity, Gund, Hennessy, Houghton, Loose, O'Connor, Ruding and Smithburg and Ms. Rein are eligible to participate in the program.

Board Meetings

The Board of Directors held during 2001 five regularly scheduled and 15 special meetings. All directors attended at least 75% of all regularly scheduled and special meetings of the Board of Directors, except Messrs. Brown, Foster and Ruding. All directors attended at least 75% of all regularly scheduled meetings of the Board of Directors and all meetings of the committees of which each was a member.

Board Committees

Corning has, including, but not limited to, the following committees: Audit, Compensation, Finance, Pension Investment Review and Nominating and Corporate Governance Committees of the Board of Directors.

The Audit Committee (Messrs. Brown, Ruding, Tookes and Smithburg and Ms. Rein) met six times during 2001. It recommends the firm of independent accountants to conduct the annual examination of the consolidated financial statements, confers with such accountants and reviews the scope of the examination and brings to the entire Board of Directors for review those items relating to such examination or to accounting practices which the Audit Committee believes merit such review. In addition, Mr. Smithburg, Chairman, met with management and the independent auditors to review quarterly results prior to Corning's earnings announcements in quarters when full Audit Committee meetings were not scheduled prior to the announcements.

The Compensation Committee (Messrs. Gund O'Connor and

Smithburg and Ms. Rein) met seven times during 2001. It makes recommendations to the Board of Directors with respect to the compensation of officers and executive employees and administers the following plans, including, but not limited to, the Variable Compensation Plan, Employee Equity Participation Program and the Executive Supplemental Pension Plan.

The Finance Committee (Messrs. Flaws, Hennessy, Ruding, Tookes, Weeks and Ms. Reiman) met twelve times during 2001. It makes recommendations to the Board of Directors with respect to the financial affairs of Corning, including, without limitation, reviewing Corning's operating plan, acquisitions and divestitures, capital expenditures, and financing activities.

The Pension Investment Review Committee (Messrs. Ackerman, Flaws, Foster, Gund, Volanakis and Ms. Reiman) met four times during 2001. It makes recommendations to the Board of Directors with respect to asset allocations of the pension plans and reviews and assesses the performance of the trustees and investment managers for the pension plans and the investment plans, and establishes benchmarks and processes for evaluating current and potential trustees and investment managers.

The Nominating and Corporate Governance Committee (Messrs. Houghton, Hennessy and O'Connor) met three times during 2001. It proposed the nominees for election as directors at the Annual Meeting of Shareholders to be held on April 25, 2002. It reviews, considers and proposes nominees for election as directors of Corning and makes such other proposals with respect to the organization, size, composition and operation of the Board of Directors as it deems advisable. The Nominating and Corporate Govenance Committee will consider suggestions from shareholders regarding possible director candidates. Such suggestions must be submitted to the Secretary of Corning in writing not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting. If the meeting is advanced by more than

30 days or delayed by more than 60 days from such anniversary date, then the notice shall be received no earlier than 120 days or later than 90 days prior to such annual meeting or the tenth day after public announcement is made with respect to the meeting.

Matters Relating to the Audit Committee

Report of Audit Committee of the Board of Directors

The Audit Committee operates under a written charter adopted by the Board of Directors. In February 2002, the Audit Committee re-examined and revised the charter, a copy of which is attached to this proxy statement as Appendix A. The directors who serve on the Committee are all "independent" for purposes of the New York Stock Exchange listing standards. That is, the Board of Directors has determined that none of the Audit Committee members have a relationship with Corning that may interfere with the member's independence from Corning and its management.

Among its functions, the Audit Committee reviews Corning's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process. The independent auditors are responsible for expressing an opinion

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on the conformity of Corning's audited financial statements to generally accepted accounting principles.

The Audit Committee has reviewed and discussed with management and the independent auditors the audited financial statements. The Audit Committee has discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standard No. 61 (Communication with Audit Committees). In addition, the Audit Committee has received from the independent auditors the written disclosure required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and discussed with them their independence from Corning and its management. The Audit Committee has considered whether the provision of nonaudit services by the independent auditor to Corning is compatible with the auditor's independence.

Based on these reviews and discussions, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in Corning's Annual Report on Form 10-K for the year ended December 31, 2001.

The Audit Committee:

William D. Smithburg, Chairman

John Seely Brown

Catherine A. Rein

H. Onno Ruding

Hansel E. Tookes, II

Audit Fees

PricewaterhouseCoopers LLP has audited the consolidated financial statements of Corning for the year ended December 31, 2001. Direct fees related to the issuance of the audit opinion and the timely review of quarterly reports on Form 10-Q were $3,400,000.

Nonaudit Fees

PricewaterhouseCoopers LLP performed certain nonaudit services for the year ended December 31, 2001. The aggregate fees billed for nonaudit services were $10,800,000 and included the following items:

$3,200,000 for employee benefits advisory and administrative services. On January 4, 2002, PricewaterhouseCoopers sold the business providing these services.

$2,400,000 for tax services.

$1,900,000 for non financial information systems consulting.

$1,500,000 for assistance with merger and acquisition transactions.

$1,300,000 for internal audit services. Another accounting firm has been selected to provide these services in 2002.

$500,000 for audit related services including registration statements and subsidiary audits.

Appointment of Independent Accountants

At the meeting of Corning's Board of Directors held on February 7, 2002, the Board upon the recommendation of the Audit Committee appointed PricewaterhouseCoopers LLP as the independent accountants for the 2002 fiscal year.

Representation of Independent Accountants at Annual Meeting

Corning expects representatives of PricewaterhouseCoopers LLP to be present at the Annual Meeting and available to respond to questions which may be raised there. These representatives may comment on the financial statements if they so desire.

Shareholder Proposals

Any shareholder who wishes to present a proposal at the 2003 Annual Meeting and to have the proposal included in the proxy statement and proxy relating to that meeting must submit the proposal to Corning's Secretary at One Riverfront Plaza, Corning, New York 14831, for receipt not later than November 15, 2002.

The proxy committee designated by Corning's Board of Directors may vote on a discretionary basis on any other shareholder proposal presented at the 2003 Annual Meeting if that proposal is not brought to Corning's notice between December 30, 2002 and January 27, 2002.

Section 16(a) Beneficial
Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires Corning's directors and certain of its officers to file reports of their ownership of Corning Common Stock and of changes in such ownership with the Securities and Exchange Commission and the New York Stock Exchange. Regulations also require Corning to identify in this proxy statement any person subject to this requirement who failed to file any such report on a timely basis.

To Corning's knowledge, based solely on its review of the copies of such reports furnished to Corning and written representations that no other reports were required, during the fiscal year ended December 31, 2001, all Section 16(a) filing requirements applicable to its officers, directors and greater than ten-percent beneficial owners were met, except as follows: Mr. Houghton, non-executive Chairman of the Board of Directors, filed a late form 4 with respect to the purchase of 6,188 shares of Common Stock purchased by his spouse in October 2001; Ms. Asbeck and Schneider and Messrs. Ecklin, Eggers, Eusden, Fine, Flaws, Gregg, Loose, McConnell, Volanakis and Weeks, each an officer of Corning, each filed a late form 4 with respect to stock option grants of 54,250, 179,500, 65,000, 92,815, 39,000, 235,740, 322,500, 222,250, 747,895, 28,375, 352,500 and 704,250, respectively, which grants were effective in August 2001.

Other Matters

Certain Business Relationships

Corning has for the last ten years used Nixon Peabody LLP, as one of its principal outside firms. In March 2001, an executive officer of Corning, William D. Eggers, married Jill K. Schultz, one of 250 partners at Nixon Peabody LLP. Corning continues to use Nixon Peabody LLP for a variety of legal services and in 2001 paid that firm approximately $2.5 million in legal fees under a fee structure that Corning believes reflects current market rates.

During 2001, Corning leased certain properties in Corning, New York, owned by Mr. Robert L. Ecklin, an executive officer. Corning paid $134,152 under such leases. The leases expired on July 20, 2001.

Multiple Shareholders Having the Same Address

You and other residents sharing the same address and last name may receive only one copy of Corning's annual report and proxy statement, unless Corning has received contrary instructions from any shareholder at that address. This procedure is referred to as "householding." In addition, Corning has been notified that certain intermediaries, i.e. brokers or banks or other record holders, will household proxy materials. Corning will deliver promptly an additional copy of the annual report and proxy statement to you if you write to Corning Incorporated, One Riverfront Plaza, MP-HQ-E2-10, Corning New York 14831, Attention: Secretary or call (607) 974-9000. You can contact your broker or bank to make a similar request. Shareholders sharing an address now receiving multiple copies of Corning's annual report and proxy statement may request delivery of a single copy by writing or calling Corning at the above address or by contacting their broker or bank, provided they have determined to household proxy materials.

Other

Corning has purchased insurance from Zurich Insurance Company, Royal Insurance Company of America, Gulf Insurance Company, Federal Insurance Company, Columbia Casulty Company and Twin City Fire providing for reimbursement of its directors and officers for costs and expenses incurred by them in actions brought against them in connection with their actions as directors or officers, including actions as fiduciaries under the Employee Retirement Income Security Act of 1974, as amended. The insurance coverage, which expires in August 2002, costs $2,416,596 on an annual basis, which will be paid by Corning.

Corning will pay the cost and expenses of soliciting proxies. In addition to soliciting proxies by mail, some of Corning's directors, officers and regular employees, without extra remuneration, may solicit proxies personally or by telephone, telegraph or other electronic means. Corning has retained Georgeson Shareholder Communications Inc., at a cost of $12,000, to help solicit proxies and may also request brokerage houses, nominees, custodians and fiduciaries to forward soliciting material to beneficial owners of shares held of record.

By order of the Board of Directors

Denise A. Hauselt

Assistant General Counsel and Secretary

March 4, 2002

APPENDIX A

Corning Incorporated
Audit Committee of the Board of Directors
Audit Committee Charter

PURPOSE AND ROLE

The Audit Committee is a committee of Corning's Board of Directors. Its primary function is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing the financial information which will be provided to the shareholders and others, the systems of internal controls which management and the Board of Directors have established, and the audit process. In addition, the Committee provides an open avenue of communication between the internal auditors, the independent accountants, financial and senior management, and the Board of Directors.

The Audit Committee recognizes that it is the duty of management and the independent auditor to plan and conduct audits and to determine that Corning's financial statements are complete, accurate and in accordance with generally accepted accounting principles. The Audit Committee further recognizes that the conduct of investigations, the resolutions of disagreements, if any, with the independent auditor and compliance with laws, regulations and Corning's Code of Conduct is a management function.

COMPOSITION

The membership of the Audit Committee shall consist of at least three or more directors as determined by the Board, each of whom shall be an independent director, and free from any relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment as a member of the Committee. Further, no member of the Audit Committee shall be an active or retired employee of Corning. At least one member shall have accounting or related financial management expertise. Members of the Audit Committee shall serve at the pleasure of the Board of Directors.

The Audit Committee is appointed by the full Board of Directors at its annual organizational meeting.

MEETINGS

The Audit Committee shall meet at least four times per year or more frequently as circumstances require. The Committee may ask members of management or others to attend the meeting and provide pertinent information as necessary.

RESPONSIBILITIES AND DUTIES

To fulfill its responsibilities and duties the Audit Committee shall:

Financial Reporting

1. Perform a timely review of quarterly and annual financial statements and other financial information provided to shareholders.
2. Confirm that financial management and the independent auditor perform a timely analysis of significant reporting issues and practices and report key issues to the Committee.

3. Inquire of management, the internal audit partner, and independent accountants about significant risks or exposures, assess the steps management has taken to minimize such risk to Corning and evaluate the need for disclosure thereof.
4. Discuss with financial management and the independent auditor their qualitative judgments about the appropriateness, not just the acceptability, of accounting principles and financial reporting practices used or proposed to be used.
5. Issue a letter for inclusion in Corning's annual report and Form 10-K that includes disclosures as required by SEC regulations.

Internal Controls

6. Review with the independent accountant and the internal audit partner the adequacy of Corning's internal controls (including information systems and security); and related significant findings and recommendations of the independent accountant and internal audit, together with management's responses.

Audit Process

Appointment of auditors

7. Recommend to the Board of Directors the independent accountants to be appointed, approve the compensation of the independent accountants, and review and approve the discharge of the independent accountants. Instruct the independent accountants (a) that they are ultimately accountable to the Board of Directors and Audit Committee; and (b) that the Audit Committee has the authority and responsibility to evaluate and recommend the appointment, retention and replacement of the independent auditor; and (c) that the Board of Directors, as the shareholders' representative, is the auditor's client.
8. Recommend to the Board of Directors the internal auditors to be nominated, approve the compensation of the internal auditors and review and approve the discharge of the internal auditors.
9. Review and concur in the appointment or replacement of the management individual charged with the role of overseeing internal audit processes.

Independence and qualification of auditors

10. Annually, review and assess the following concerning the competence of the independent auditor and engagement team:

    Resumes of key engagement audit personnel.

    The quality control procedures of the firm serving as independent auditor.

    The results of the most recent peer review or other assessments of the firm serving as independent auditor.

11. Discuss with the auditors and management the independence of the internal auditor and the independent accountant, including a review of services and related fees provided by the independent accountant and the internal auditors. Review disclosures from the independent auditors required by Independent Standards Board Standard No. 1.
12. Review with management and the internal audit partner, annually, the internal audit department's charter, staffing, and significant objectives.

Review of audit plans and results

13. Review with the internal audit partner and the independent accountant the coordination of audit effort to assure completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.

Review of audit results

14. Review with management, the internal audit partner and the independent accountant at the completion of the annual examination the following:
    a) Annual report of Corning, including the financial statements and related footnotes.
    b) Results of the audit of the financial statements and the related report thereon.
    c) Significant changes in the audit plan and any serious disputes or difficulties with management encountered during the audit.
    d) Other communications as required by generally accepted auditing standards.

Other Items

15. Review policies and procedures with respect to officers' expense accounts and perquisites, including their use of corporate assets, and the results of the annual review of these areas conducted by internal audit.
16. Review legal and regulatory matters that may have a material impact on the financial statements and related corporate compliance policies, and programs and reports from regulators.

General

17. At least semi-annually, meet with the internal audit partner, the independent accountant, and management in separate executive sessions to discuss any matters that the Committee or these groups believe should be discussed privately with the Committee.
18. Report Committee actions to the Board of Directors with such recommendations, as the Committee may deem appropriate. At the Chairman's option, the independent accountants should be made available to meet with the Board of Directors annually or when otherwise appropriate.
19. Review and update the Committee's charter annually.
20. The Audit Committee shall have the power to authorize investigations into any matters within the Committee's scope of responsibilities **and hire outside resources and professionals in conjunction therewith.**
21. The Committee will perform such others functions as assigned by law, Corning's bylaws, or the Board of Directors.

CORNING INCORPORATED
2002 WORLDWIDE EMPLOYEE SHARE PURCHASE PLAN

The 2002 Worldwide Employee Share Purchase Plan (the "Plan") of Corning Incorporated ("Corning" or the "Corporation") is designed to provide a flexible mechanism to permit eligible employees to obtain an equity interest in Corning, thereby increasing their proprietary interest in the Corporation's growth and success.

1. Administration. The Compensation Committee of the Corning Board of Directors (the "Committee") shall administer the Plan. Subject to the provisions of the Plan, the Committee shall interpret the Plan and all rights granted to purchase shares under the Plan, make such rules as it deems necessary for the proper administration of the Plan and make all other determinations necessary or advisable for the administration of the Plan. In addition, the Committee shall correct any defect, supply any omission or reconcile any inconsistency in the Plan, or in any right granted to purchase shares under the Plan, in the manner and to the extent that the Committee deems desirable. The Committee shall, in its sole discretion, make such decisions or determinations and take such actions, and all such decisions, determinations and actions taken or made by the Committee pursuant to this and all other sections of the Plan shall be conclusive on all parties.

The Committee shall not be liable for any decision, determination or action taken in good faith in connection with the administration of the Plan. The Committee shall have the authority to delegate plan administration and interpretation of the Plan to an administrative committee consisting of at least three employees (the "Administrative Committee"). Members of the Administrative Committee shall be eligible to participate in the Plan on the same terms as other employees. The Administrative Committee shall have power to interpret the Plan and to make rules and regulations for the administration of the Plan which are not inconsistent with the terms of the Plan, and its decisions shall be binding on both the Corporation and employees. To the extent permitted by law, the Corporation shall indemnify and hold harmless the members of the Administrative Committee from and against any and all liabilities arising out of the exercise in good faith of any power or discretion vested in any member of the Administrative Committee by the Committee, except where due to malfeasance, misfeasance or willful negligence.

2. Eligibility. All employees of Corning designated as eligible by the Committee can participate in the Plan and, except as otherwise provided, shall have the same rights and privileges hereunder, provided, however, no option (or right to purchase the Corporation's Common Stock) shall be granted to an employee if such employee, immediately after the option is granted, owns, directly or indirectly, shares of Corning Common Stock possessing five percent or more of the total combined voting power or value of all classes of shares of Corning or any subsidiary within the meaning of Sections 423(b)(3) and 424(f) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder

("Code"). The Committee may also limit eligibility to designated payroll groups such as salaried or non-unionized hourly employees or to designated locations. The Committee may also in its discretion designate the employees of Corning subsidiaries that may participate in the Plan. The Corning Board of Directors (the "Board") may also limit any employee's rights to purchase shares pursuant to the Plan to a rate that does not exceed $25,000 per calendar year or such other amount as may be specified under Section 423 of the Code.

3. Offerings. An aggregate of 30,000,000 shares of Corporation's Common Stock, par value $.50 per share, ("Corning Common Stock" or "Stock") shall be available for issuance under the Plan, subject to adjustment under Section 16, for a five year period commencing with Stock issued after May 1, 2002.

Each calendar quarter the Corporation shall offer to eligible employees the opportunity to purchase Stock pursuant to the Plan. Each offering period shall be a calendar quarter. The Board may make an offering period shorter or longer, but not longer than 27 months. An eligible employee can purchase Stock on a quarterly basis (the "purchase period") or a different purchase period as the Board determines in its discretion. The first business day of each offering period is referred to as the entry date, except that for employees who elect to participate after that date, the entry date is the first business day of the first purchase period beginning after their election or such other date as the Committee may determine in its discretion.

4. Participation. An eligible employee may participate in such offering by completing and forwarding to the employee's appropriate payroll location by a date, selected by the Committee, prior to the entry date a payroll deduction authorization form. The employee will authorize a regular payroll deduction from his regular compensation and will specify the entry date, on which such deduction is to commence, which may not be retroactive. If the Committee so determines, the employee may also specify whether he wishes deductions to be made from such non-fixed, bonus compensation as he may receive from time to time.

5. Deductions. The Corporation will maintain payroll deduction accounts for all participating employees. With respect to offerings made under the Plan, an employee may authorize a payroll deduction in terms of whole number of dollars, but (i) not in excess of a maximum of 10% of the regular compensation an employee receives during the offering period (or during such portion thereof as an employee may elect to participate) and (ii) not in excess of a percentage of non-fixed, bonus compensation as the Committee may from time to time determine pursuant to Section 4 above.

6. Deduction Changes. During any offering period, the employee may at any time stop his payroll deduction by filing a new payroll authorization form. The cessation of contributions shall become effective as soon as possible after receipt of the form. The employee may thereafter begin participation again only during a succeeding quarterly offering period. To the extent the Board authorizes offering periods in excess of one quarter, a participating employee may stop, increase or reduce prospectively the amount of his or her deduction as of the beginning of any calendar quarter. The Committee is authorized to establish rules limiting the frequency with which participating employees may stop, increase or reduce the level of contributions and may establish a waiting period for participating employees requesting to re-authorize or increase payroll deductions.

7. No Withdrawal of Funds. Unless otherwise determined by the Committee, in its discretion, once an employee has begun participation in any offering period, he may stop his payroll deductions but may not withdraw any balance accumulated in his account for such offering period.

8. Interest. Except as otherwise determined by the Committee, the Corporation shall not credit an employee's account with interest.

9. Purchase and Price of Shares. Each employee participating in any offering under the Plan will purchase as many shares of Corning Common Stock as the amounts withheld pursuant to Section 5 above shall cover.

The purchase price for each share purchased will be 85% of the market price on either the employee's entry date or the last business day of the purchase period (whichever price is lower).

The phrase "market price" means the closing price of Corning Common Stock on the New York Stock Exchange on a given day or, if no sales of Corning Common Stock were made on that day, the closing price of stock on the next preceding day on which sales were made on such

Exchange.

As of the last trading day of each purchase period, the account of each participating employee shall be totaled and funds in the employee's account as of that date shall be used to purchase Corning Common Stock. The employee shall be deemed to have exercised an option to purchase such shares at such price and the employee's account shall be charged for the amount of the purchase. Subsequent shares purchased by the employee will be purchased in the same manner, subject to funds having again been deposited in the employee's account.

10. International Employees. The Board shall have the power and authority to allow the employees of Corning or any subsidiary or related entity ("Affiliate") who work or reside outside of the United States an opportunity to acquire Stock pursuant to the Plan in accordance with such special terms and conditions as the Board may designate with respect to each such Affiliate. Without limiting the authority of the Board, the special terms and conditions which may be established with respect to each such Affiliate, and which need not be the same for all Affiliates, include but are not limited to the right to participate, procedures for elections to participate, the payment of any interest with respect to amounts received from or credited to accounts held for the benefit of Participants, the purchase price of any shares to be acquired, the length of any purchase period, the maximum amount of contributions, credits or Stock which may be acquired by any Participant, and a Participant's rights in the event of his or her death, disability, withdrawal from the Plan, termination of employment on behalf of the Corporation and all matters related thereto. This Section 10 is not subject to Section 423 of the Code or any other provision of the Plan that refers to or is based upon such section. For tax purposes, this Section 10 shall be treated as separate and apart from the balance of the Plan.

11. Registration of Certificates. It is anticipated that shares of Corning Common Stock purchased by the employee shall be held by a third party agent in an investment account established for and by the employee and that, unless special arrangements are made to the contrary, if there are any dividends paid on shares of Corning Common Stock purchased under the Plan such dividends will be reinvested.

Upon request by the employee to the third party agent or Corning, as appropriate, certificates for whole shares will be delivered to the employee. Fractional shares will not be delivered.

Certificates when issued may be registered only in the name of the employee, or, if the employee so indicates on the employee's payroll deduction authorization form, in the employee's name jointly with a member of the employee's family or another person.

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12. Rights as a Stockholder. A participating employee shall not have any of the rights or privileges of a stockholder with respect to shares purchased under the Plan unless and until payment is made for such shares and his ownership interest has been evidenced on Corning's books.

13. Rights on Retirement, Death, or Termination of Employment. In the event of a participating employee's retirement, death, or termination of employment during a quarterly offering period, no payroll deduction shall be taken from any pay due and owing to an employee at such time. In the event of an employee's death and upon the request of his estate but subject to the approval of the Committee, the balance in the deceased employee's payroll deduction account shall be paid to the employee's estate in cash.

14. Rights Not Transferable. Rights under the Plan are not transferable by a participating employee and are exercisable during the employee's lifetime only by the employee. Any amount credited to the account of any employee under the Plan may not be assigned, transferred, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge, hypothecation or other disposition or levy of attachment or similar process upon any employee's account or on any employee's right to purchase will be null and void and without effect.

15. Application of Funds. All funds received or held by Corning under the Plan may be used for any corporate purpose.

16. Adjustments upon Changes in Capitalization, Merger or Sale of Assets. In the event of any stock split, stock dividend, spin-off, reclassification, recapitalization or other similar event affecting Corning's Common Stock, adjustments may be made in the number of shares approved for the Plan, the number and kind of shares of stock to be purchased pursuant to each option and the price per share of common stock covered by each option. Any such adjustment will be made by the Committee, whose determination shall be final. In the event of a proposed sale of all or substantially all of the assets of the Corporation or the merger or consolidation of the Corporation with another company, the Board may determine that each option will be assumed by, or an equivalent option substituted by the successor company or an affiliate, that the purchase date will be accelerated, or that all outstanding options will terminate and accumulated payroll deductions will be refunded. In the event of any other change affecting Corning Common Stock, such adjustment shall be made as may be deemed equitable by the Board to give proper effect to such event.

17. Amendment of the Plan. The Board may terminate or amend the 2002 Plan at any time, except that it may not, without shareholder approval, increase the number of shares subject to the Plan other than as described in Section 16 of the Plan. The Board is expressly authorized to amend the Plan in any respect the Board deems necessary or advisable to provide employees with the maximum benefits provided or to be provided under provisions of the Code relating to employee stock purchase plans and/or to bring the Plan and/or rights to purchase shares granted under it into compliance therewith. Rights and obligations under a right to purchase shares granted before amendment of the Plan shall not be impaired by any amendment of the Plan, except with the consent of the person to whom such rights were granted, or except as necessary to comply with any laws or governmental regulations, or except as necessary

to ensure that the Plan and/or rights granted under the Plan comply with the requirements of Section 423 of the Code.

18. Termination of the Plan. The Plan and all rights of employees under any offering hereunder shall terminate on the earlier of:

(a) the day that participating employees become entitled to purchase a number of shares greater than the number of shares remaining available for purchase; provided, however, if the number of shares so purchasable is greater than the shares remaining available, the available shares shall be allocated by the Committee among such participating employees in such manner as it deems fair;

(b) April 30, 2007; or

(c) at any time, at the discretion of the Board.

Upon termination of the Plan all amounts in the accounts of participating employees shall be carried forward into the employee's payroll deduction account under a successor plan, if any, or promptly refunded.

19. Compliance with Rule 16b-3. Any transactions under the Plan with respect to officers (as defined in Rule 16a-1 promulgated under the Securities Exchange Act of 1934, as amended, (the "1934 Act")) are intended to comply with all applicable conditions of Rule 16b-3 of the 1934 Act. To the extent any provision of the 2002 Plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

20. Governmental Regulations. The Corporation's obligation to sell and deliver shares of Corning Common Stock under the Plan is subject to the approval of any governmental authority required in connection with the authorization, issuance, or sale of such stock.

21. Stock. The shares of Corning Common Stock subject to sale under the Plan may be either (i) authorized and unissued, (ii) issued and held in the Corporation's treasury, or (iii) purchased on the open market by a third party agent.

22. No Employment Rights. Nothing in this Plan shall confer on any employee any express or implied right to employment or continued employment by the Corporation or any Affiliate, whether for the duration of the Plan or otherwise. This Plan shall not form part of any contract of employment between the Corporation or any Affiliate and any employee of the Corporation or any Affiliate, nor shall this Plan amend, abrogate or affect any existing employment contract between the Corporation or any Affiliate and their respective employees. Nothing in this Plan shall confer on any person any legal or equitable right against the Corporation or any Affiliate directly or indirectly or give rise to any cause of action at law or in equity against the Corporation or any Affiliate.

23. No Restriction on Corporate Action. Nothing contained in the Plan shall be construed to prevent the Corporation or any subsidiary from taking any corpoARGIN-RIGHT: 0pt" align="center">Page 23

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

The Company regularly reviews potential acquisitions of complementary businesses, services or products. However, the Company may be unable to identify suitable acquisition candidates in the future. Even if the Company identifies appropriate acquisition candidates, the Company may be unable to complete such acquisitions on favorable terms, if at all. In addition, the process of integrating an acquired business, service or product into the Company's 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 the Company's business. Moreover, the Company 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 the Company to incur debt, assume contingent liabilities or amortize expenses related to intangible assets, any of which could harm the Company's business.

Terrorist attacks or acts of war may cause damage or disruption to the Company and the Company's employees, facilities, information systems, security systems, suppliers and customers, which could significantly impact the Company's 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 United States, and further acts of terrorism, bioterrorism, violence or war could affect the markets in which the Company operates, the Company's business operations, the Company's expectations and other forward-looking statements contained in this report. The threat of terrorist attacks in the United States since September 11, 2001 continues to create many economic and political uncertainties. 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 war in Afghanistan, may cause greater uncertainty and cause the Company's 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 the Company's facilities or those of the Company's suppliers or customers could have an impact on the Company's sales, supply chain, production capability and costs and the Company's ability to deliver its finished products.

If the Company experiences difficulties or a significant disruption in the Company's information systems or if the Company fails to implement new systems and software successfully, the Company's business could be materially adversely affected.

The Company depends on information systems throughout the Company's business to process incoming customer orders and outgoing supplier orders, manage inventory, collect raw materials and distribute products, process and bill shipments to and collect cash from the Company's customers, respond to customer and supplier inquiries, contribute to the Company's overall internal control processes, maintain records of the Company's property, plant and equipment, and record and pay amounts due vendors and other creditors.

If the Company were to experience a disruption in its 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 the Company's business, financial condition and results of operations. The Company 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 disruption in business operations, loss of sales or profits, or cause the Company to incur significant costs to reimburse third parties for damages, and, as a result, may have a material adverse effect on the Company's results of operations.

The Company's products may infringe the intellectual property rights of others, which may cause the Company to incur unexpected costs or prevent the Company from selling its products.

The Company maintains valuable trademarks, service marks, copyrights, trade names, trade secrets, proprietary technologies and similar intellectual property, and considers the Company's intellectual property to be of material value. The Company has in the past and may in the future be subject to legal proceedings and claims in the ordinary course of its business, including claims of alleged infringement of patents, trademarks and other intellectual property rights of third parties by the Company or its customers. Any such claims, whether or not meritorious, could result in costly litigation and divert the efforts of the Company's management. Moreover, should the Company be found liable for infringement, the Company 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 the Company to incur significant costs and prevent the Company from manufacturing or selling its products.

The recently enacted legislation on healthcare reform and proposed amendments thereto could impact the healthcare benefits required to be provided by the Company and cause the Company's compensation costs to increase, potentially reducing the Company's net income and adversely affecting its cash flows.

The recently enacted healthcare legislation and proposed amendments thereto contain provisions that could materially impact the Company's future healthcare costs. While the legislation's ultimate impact is not yet known, it is possible that these changes could significantly increase the Company's compensation costs, which would reduce the Company's net income and adversely affect its cash flows.

The market value of the Company's common stock has been and may continue to be volatile.

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

- actual or anticipated fluctuations in commodities prices;
- actual or anticipated variations in the Company's results;
- the Company's earnings releases and financial performance;
- changes in financial estimates or buy/sell recommendations by securities analysts;
- the integration of Griffin's business, the effect of the Merger on the Company's business going forward and the Company's ability to realize growth opportunities as a result therefrom;
- the Company's ability to repay its debt;
- the Company's access to financial and capital markets to refinance its debt or its ability to repay indebtedness under the Company's Senior Secured Credit Facilities and its Senior Unsecured Notes;
- the effect of future sales of substantial amounts of the Company's common stock;
- performance of the Company's joint venture investments;
- the Company’s dividend policy;
- market conditions in the industry and the general state of the securities markets;
- investor perceptions of the Company and the industry and markets in which it operates;
- governmental legislation or regulation;
- currency and exchange rate fluctuations; and
- general economic and market conditions, such as recessions or significant inflation.

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

The Company is 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 the Company's common stock or convertible securities, including the Company's outstanding options, or otherwise, will dilute the ownership interest of the Company's common stockholders.

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

The Company's common stock is an equity security and is subordinate to the Company's existing and future indebtedness.

The Company's common stock is an equity interest and does not constitute indebtedness. As such, shares of common stock rank junior to all of the Company's indebtedness and to other non-equity claims on the Company and the Company's assets available to satisfy claims on the Company, including claims in a bankruptcy, liquidation or similar proceeding. The Company's existing indebtedness restricts, and future indebtedness may restrict, payment of dividends on its 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 the Company's board of directors or a duly authorized committee of the board and (ii) as a corporation, the Company is restricted to only making dividend payments and redemption payments out of legally available assets. Further, the common stock places no restrictions on the Company's business or operations or on the Company's ability to incur indebtedness or engage in any transactions, subject only to the voting rights available to stockholders generally.

In addition, any of the Company's rights (including the rights of the holders of the Company's common stock) to participate in the assets of any of the Company's 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 the Company may itself be a creditor of that subsidiary), including that subsidiary's trade creditors and the Company's creditors who have obtained or may obtain guarantees from the subsidiaries. As a result, the Company's common stock is subordinated to the Company and the Company's subsidiaries' obligations and liabilities, which currently include borrowings under the Company's Senior Secured Credit Facilities and the Company's Senior Unsecured Notes.

The Company's ability to pay any dividends on its common stock may be limited.

The Company has not paid any dividends on its common stock since January 3, 1989. The Company's current financing arrangements permit the Company to pay cash dividends on the Company's common stock within limitations defined by the terms of the Company's existing indebtedness, including the Company's Senior Secured Credit Facilities, Senior Unsecured Notes and any indentures or other financing arrangements that the Company enters into in the future. For example, the agreements governing the Company's Senior Secured Credit Facilities restrict the Company's 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 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, business opportunities, restrictions imposed by any of the Company's financing arrangements, provisions of applicable law and any other factors that the Company's 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 an investment in the Company's common stock.

The Company's board of directors is authorized to cause the Company to issue classes or series of preferred stock without any action on the part of the Company's 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 designation, preferences, limitations and relative rights over the common stock with respect to dividends or upon the liquidation, dissolution or winding up of the Company's business and other terms. If the Company issues 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 the Company issues preferred shares with voting rights that dilute the voting power of the common stock, the rights of holders of the Company's common stock or the market price of the common stock could be adversely affected. As of the date of this filing, the Company has no outstanding shares of preferred stock but the Company has available for issuance 1,000,000 authorized but unissued shares of preferred stock.

UNRESOLVED STAFF COMMENTS
ITEM
1.B

None.

PROPERTIES
ITEM
2.

The Company's corporate headquarters is located at 251 O'Connor Ridge Boulevard, Suite 300, Irving, Texas, 75038, in an office facility where the Company leases approximately 31,000 square feet. The Company also maintains regional offices in Cold Spring, Kentucky and Des Moines, Iowa.

As of January 1, 2011, the Company operates over 125 processing and transfer facilities including the processing locations listed below. All of the processing facilities are owned except for ten leased facilities and the Company owns or leases over 60 transfer stations in the U.S., some of which also process yellow grease and trap. These transfer stations serve as collection points for routing raw material to the processing facilities set forth below. Some locations service a single business segment while others service more than one business segment. The following is a listing of the Company's operating facilities by business segment:

LOCATION	DESCRIPTION
Combined Rendering and Restaurant Services Business Segments	
Bastrop, TX	Rendering/Yellow Grease
Bellevue, NE	Rendering/Yellow Grease
Berlin, WI	Rendering/Yellow Grease
Blue Earth, MN	Rendering/Yellow Grease
Boise, ID	Rendering/Yellow Grease
Butler, KY	Rendering/Yellow Grease
Clinton, IA	Rendering/Yellow Grease
Coldwater, MI	Rendering/Yellow Grease
Collinsville, OK	Rendering/Yellow Grease
Columbus, IN	Rendering/Yellow Grease
Dallas, TX	Rendering/Yellow Grease
Denver, CO	Rendering/Yellow Grease
Des Moines, IA	Rendering/Yellow Grease
Detroit, MI	Rendering/Yellow Grease/Trap
East Dublin, GA	Rendering/Yellow Grease
E. St. Louis, IL	Rendering/Yellow Grease/Trap
Ellenwood, GA	Rendering/Yellow Grease
Fresno, CA	Rendering/Yellow Grease
Houston, TX	Rendering/Yellow Grease/Trap
Jackson, MS	Rendering/Yellow Grease
Kansas City, KS	Rendering/Yellow Grease/Trap
Los Angeles, CA	Rendering/Yellow Grease/Trap
Mason City, IL	Rendering/Yellow Grease
Newark, NJ	Rendering/Yellow Grease/Trap
Newberry, IN	Rendering/Yellow Grease
Russellville, KY	Rendering/Yellow Grease
San Francisco, CA (1)	Rendering/Yellow Grease/Trap
Sioux City, IA	Rendering/Yellow Grease
Starke, FL	Rendering/Yellow Grease
Tacoma, WA (1)	Rendering/Yellow Grease/Trap
Tampa, FL	Rendering/Yellow Grease
Turlock, CA	Rendering/Yellow Grease
Union City, TN	Rendering/Yellow Grease
Wahoo, NE	Rendering/Yellow Grease
Wichita, KS	Rendering/Yellow Grease/Trap

Rendering Business Segment	
Cincinnati, OH	Hides
Denver, CO	Edible Meat and Tallow
Fairfax, MO	Protein Blending
Grand Island, NE (1)	Pet Food
Henderson, KY	Fertilizer Blending
Kansas City, KS	Protein Blending
Kansas City, MO	Hides
Kendallville, IN	Specialty Rendering
Lexington, NE	Rendering & Protein Blending
Lynn Center, IL	Protein Blending
Omaha, NE (2)	Rendering
Omaha, NE	Protein Blending
Omaha, NE (2)	Technical Tallow
Quincy, FL	Hides
Restaurant Services Business Segment	
Alma, GA	Yellow Grease/Trap
Calhoun, GA	Yellow Grease/Trap
Chicago, IL	Yellow Grease/Trap
Cleveland, OH	Yellow Grease/Trap
Ft. Lauderdale, FL (2)	Yellow Grease/Trap
Holden, LA	Yellow Grease/Trap
Indianapolis, IN	Yellow Grease/Trap
Little Rock, AK	Yellow Grease/Trap
No. Las Vegas, NV	Yellow Grease/Trap
San Diego, CA (1)	Trap
Santa Ana, CA (1)	Trap
Smyrna, GA	Trap
Tampa, FL (2)	Yellow Grease/Trap
Bakery Feed Segment	
Albertville, AL (1)	Bakery Feed
Butler, KY (1)	Bakery Feed
Doswell, VA	Bakery Feed/Yellow Grease
Henderson, KY (1)	Bakery Feed
Honey Brook, PA	Bakery Feed
Marshville, NC	Bakery Feed/Yellow Grease
Memphis, TN (1)	Bakery Feed
North Baltimore, OH	Bakery Feed
Watts, OK (1)	Bakery Feed/Yellow Grease
Other	
Butler, KY	Biodiesel

(1) Property is leased. Rent expense for these leased properties was $1.0 million in the aggregate in fiscal 2010.

(2) Property location ceased operations in January 2011. All raw materials that were processed by this plant are now processed by another Company facility.

Substantially all assets of the Company, including real property, are either pledged or mortgaged as collateral for borrowings under the Company's Senior Secured Credit Facilities.

LEGAL PROCEEDINGS
ITEM
3.

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

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

As a result of the matters discussed above, the Company has established loss reserves for insurance, environmental and litigation matters. At January 1, 2011 and January 2, 2010, the reserves for insurance, environmental and litigation contingencies reflected on the balance sheet in accrued expenses and other non-current liabilities for which there are no potential insurance recoveries were approximately $28.2 million and $15.6 million, respectively. 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 financial statements.

Lower Passaic River Area. The Company has been named as a third party defendant in a lawsuit pending in the Superior Court of New Jersey, Essex County, styled New Jersey Department of Environmental Protection, The Commissioner of the New Jersey Department of Environmental Protection Agency and the Administrator of the New Jersey Spill Compensation Fund, as Plaintiffs, vs. Occidental Chemical Corporation, Tierra Solutions, Inc., Maxus Energy Corporation, Repsol YPF, S.A., YPF, S.A., YPF Holdings, Inc., and CLH Holdings, as Defendants (Docket No. L-009868-05) (the "Tierra/Maxus Litigation"). In the Tierra/Maxus Litigation, which was filed on December 13, 2005, the plaintiffs seek to recover from the defendants past and future cleanup and removal costs, as well as unspecified economic damages, punitive damages, penalties and a variety of other forms of relief, purportedly arising from the alleged discharges into the Passaic River of a particular type of dioxin and other unspecified hazardous substances. The damages being sought by the plaintiffs from the defendants are likely to be substantial. On February 4, 2009, two of the defendants, Tierra Solutions, Inc. ("Tierra") and Maxus Energy Corporation ("Maxus"), filed a third party complaint against over 300 entities, including the Company, seeking to recover all or a proportionate share of cleanup and removal costs, damages or other loss or harm, if any, for which Tierra or Maxus may be held liable in the Tierra/Maxus Litigation. Tierra and Maxus allege that Standard Tallow Company, an entity that the Company acquired in 1996, contributed to the discharge of the hazardous substances that are the subject of this case while operating a former plant site located in Newark, New Jersey. The Company is investigating these allegations, has entered into a joint defense agreement with many of the other third-party defendants and intends to defend itself vigorously. Additionally, 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. 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 these matters will have a material effect on the Company's financial position or results of operation.

(Removed and Reserved)
ITEM
4.

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
2010:		
First Quarter	$ 9.13	$ 7.48
Second Quarter	$ 9.69	$ 7.25
Third Quarter	$ 8.59	$ 7.02
Fourth Quarter	$ 13.59	$ 8.31
2009:		
First Quarter	$ 6.39	$ 2.94
Second Quarter	$ 8.24	$ 4.14
Third Quarter	$ 8.13	$ 6.33
Fourth Quarter	$ 8.39	$ 6.80

On February 23, 2011, the closing sales price of the Company's common stock on the NYSE was $13.91. The Company has been notified by its stock transfer agent that as of February 23, 2011, there were 176 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 2011. The agreements underlying the Company's Senior Secured Credit Facilities and Senior Unsecured 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 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 CS-Agribusiness Index for the period from December 31, 2005 to January 1, 2011, assuming the investment of $100 on December 31, 2005 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 1, 2011 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	1,397,022 (1)	$ 5.87	1,933,217
Equity compensation plans not approved by security holders	–	–	–
Total	1,397,022	$ 5.87	1,933,217

(1) Includes shares underlying options that have been issued and granted non-vested stock pursuant to the Company's 2004 Omnibus Incentive Plan (the "2004 Plan") as approved by the Company's stockholders. See Note 12 of Notes to Consolidated Financial Statements for information regarding the material features of the 2004 Plan.

SELECTED FINANCIAL DATA
ITEM
6.

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 1, 2011, January 2, 2010, and January 3, 2009, and the related notes thereto.

	Fiscal 2010 Fifty-two Weeks Ended January 1, 2011 (l)	Fiscal 2009 Fifty-two Weeks Ended January 2, 2010 (k)	Fiscal 2008 Fifty-three Weeks Ended January 3, 2009 (j)	Fiscal 2007 Fifty-two Weeks Ended December 29, 2007	Fiscal 2006 Fifty-two Weeks Ended December 30, 2006 (i)
	(dollars in thousands, except per share data)				
Statement of Operations Data:					
Net sales	$ 724,909	$ 597,806	$ 807,492	$ 645,313	$ 406,990
Cost of sales and operating expenses	531,648	440,111	614,708	483,453	321,416
Selling, general and administrative expenses (a)	68,042	61,062	59,761	57,999	45,649
Depreciation and amortization	31,908	25,226	24,433	23,214	20,686
Acquisition costs	10,798	468	-	-	-
Goodwill impairment (b)	-	-	15,914	-	-
Operating income	82,513	70,939	92,676	80,647	19,239
Interest expense (c)	8,737	3,105	3,018	5,045	7,184
Other (income)/expense, net (d), (e)	3,433	955	(258)	570	4,682
Income from continuing operations before income taxes	70,343	66,879	89,916	75,032	7,373
Income tax expense	26,100	25,089	35,354	29,499	2,266
Net Income	$ 44,243	$ 41,790	$ 54,562	$ 45,533	$ 5,107
Basic earnings per common share (f)	$ 0.53	$ 0.51	$ 0.67	$ 0.56	$ 0.07
Diluted earnings per common share (f)	$ 0.53	$ 0.51	$ 0.66	$ 0.56	$ 0.07
Weighted average shares outstanding (f)	82,854	82,142	81,685	81,091	74,310
Diluted weighted average shares outstanding (f)	83,243	82,475	82,246	81,916	75,259
Other Financial Data:					
Adjusted EBITDA (g)	$ 114,421	$ 96,165	$ 133,023	$ 103,861	$ 39,925
Depreciation	26,328	21,398	19,266	18,332	16,134
Amortization	5,580	3,828	5,167	4,882	4,552
Capital expenditures (h)	24,720	23,638	31,006	15,552	11,800
Balance Sheet Data:					
Working capital	$ 30,756	$ 75,100	$ 67,446	$ 34,385	$ 17,865
Total assets	1,382,258	426,171	394,375	351,338	320,806
Current portion of long-term debt	3,009	5,009	5,000	6,250	5,004

Total long-term debt less current portion	707,030	27,539	32,500	37,500	78,000
Stockholders' equity	464,296	284,877	236,578	200,984	151,325

(a) Included in selling, general and administrative expenses is a loss on a legal settlement of approximately $2.2 million offset by a gain on a separate legal settlement of approximately $1.0 million in fiscal 2007.

(b) Includes a goodwill impairment charge of $15.9 million in the fourth quarter of fiscal 2008.

(c) Included in interest expense for fiscal 2010 is approximately $3.1 million for bank financing fees paid as a result of the acquisition of Griffin.

(d) Included in other (income)/expense in fiscal 2010 and fiscal 2006 is a write-off of deferred loan costs of approximately $0.9 million and $2.6 million, respectively for the early termination of previous senior credit agreements. In addition, in fiscal 2006 other (income)/expense include early retirement fees of approximately $1.9 million for the early retirement of senior subordinated notes.

(e) Included in other (income)/expense in fiscal 2010 is a write-off of property for fire and casualty losses of approximately $1.0 million for losses incurred in plant fires at two plant locations.

(f) The Company has prepared fiscal 2010 and fiscal 2009 earnings per share computations and retrospectively only revised the Company's comparative prior period computations for fiscal 2008 and 2007 to include in basic and diluted earnings per share non-vested and restricted share awards considered participating securities as a result of the Company's January 4, 2009 adoption of the provisions of the Financial Accounting Standards Board's ("FASB") authoritative guidance pertaining to whether instruments granted in share-based payment transactions are participating securities prior to vesting and therefore, need to be included in the earnings allocation in computing earnings per share under the two class method.

(g) 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 generally accepted accounting principles (GAAP). Since EBITDA is not calculated identically by all companies, the presentation in this report may not be comparable to those 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 and other income/(expense). 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 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 U.S. 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. 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 1, 2011	January 2, 2010	January 3, 2009	December 29, 2007	December 30, 2006
Net income	$ 44,243	$ 41,790	$ 54,562	$ 45,533	$ 5,107
Depreciation and amortization	31,908	25,226	24,433	23,214	20,686
Goodwill impairment	-	-	15,914	-	-
Interest expense	8,737	3,105	3,018	5,045	7,184
Income tax expense	26,100	25,089	35,354	29,499	2,266
Other, net	3,433	955	(258)	570	4,682
Adjusted EBITDA	$ 114,421	$ 96,165	$ 133,023	$ 103,861	$ 39,925

(h) Excludes the capital assets acquired as part of the Merger of Griffin and from Nebraska By-Products, Inc. of approximately $243.7 million in fiscal 2010. Excludes the capital assets acquired as part of acquiring substantially all of the assets of National By-Products, LLC ("NBP") of approximately $51.9 million in fiscal 2006 and API Recycling's used cooking oil collection business of $3.4 million in fiscal 2008. Also excludes the capital assets acquired in fiscal 2009 from Boca Industries, Inc. and Sanimax USA, Inc. of approximately $8.0 million.

(i) Fiscal 2006 includes 33 weeks of contribution from the acquired NBP assets

(j) Fiscal 2008 includes 19 weeks of contribution from the API Recycling used cooking oil collection business.

(k) Fiscal 2009 includes 45 weeks of contribution from the acquired assets of Boca Industries, Inc. and does not include any contribution from assets acquired from Sanimax USA, Inc. as the acquisition occurred on December 31, 2009.

(l) Fiscal 2010 includes 2 weeks of contribution from the Griffin assets and 31 weeks of contribution from the assets of Nebraska By-Products, Inc.

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 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 of this report. During fiscal 2010, the Company was organized into two operating business segments, Rendering and Restaurant Services. See Note 18 of Notes to Consolidated Financial Statements.

Overview

The Company is a leading provider of rendering, cooking oil and bakery waste recycling and recovery solutions to the nation's food industry. The Company collects and recycles animal by-products, bakery waste and used cooking oil from poultry and meat processors, commercial bakeries, grocery stores, butcher shops, and food service establishments and provides grease trap cleaning services to many of the same establishments. On December 17, 2010, Darling completed its acquisition of Griffin Industries, Inc. and its subsidiaries ("Griffin") pursuant to the Agreement and Plan of Merger, dated as of November 9, 2010 (the "Merger Agreement"), by and among Darling, DG Acquisition Corp., a wholly-owned subsidiary of Darling ("Merger Sub"), Griffin and Robert A. Griffin, as the Griffin shareholders' representative. Merger Sub was merged with and into Griffin (the "Merger"), and Griffin survived the Merger as a wholly-owned subsidiary of Darling. The Company operates over 125 processing and transfer facilities located throughout the United States to process raw materials into finished products such as protein (primarily meat and bone meal, ("MBM") and poultry meal ("PM")), tallow (primarily bleachable fancy tallow, ("BFT")), poultry grease ("PG"), yellow grease ("YG"), bakery by-product ("BBP") and hides as well as a range of branded and value-added products. The Company sells these products nationally and internationally, primarily to producers of animal feed, pet food, fertilizer, bio-fuels and other consumer and industrial ingredients, including oleo-chemicals, soaps and leather goods for use as ingredients in their products or for further processing. All of the Company's finished products are commodities and are priced relative to competing commodities primarily corn, soybean oil and soybean meal. Finished product prices will track as to nutritional and industry value to the ultimate customer’s use of the product. As a result of the Merger, the Company’s year-end results for 2010 reflect 2 weeks of contribution from Griffin. For additional information on the Company's business, see Item 1, "Business," and for additional information on the Company's segments, see Note 18 of Notes to Consolidated Financial Statements.

Fiscal 2010 will be remembered as an exceptional and transformational year for Darling International Inc. Earnings reflect the second best year in our 128 year history only to be accented by the Company's merger with Griffin on December 17, 2010. For the year, the Company watched values for the global grains and oilseeds complex approach record highs and in turn saw the Company's finished product prices escalate throughout the year. Overall, the Company's raw material tonnage grew nicely in both rendering and restaurant services. On the rendering side, the Company benefited from improved slaughter volumes driven by a return of profitability for both the livestock producer and meat processor. The Company’s restaurant services segment benefited from increased volumes and improved prices for finished products as the U.S. economy began to rebound and eating out normalized. Energy costs for both natural gas and diesel were favorable. Overall operating costs were effectively managed and reflected the Company’s higher volume of inputs.

Operating income increased by $11.6 million in fiscal 2010 compared to fiscal 2009. Operating income was impacted in fiscal 2010 by operating expenses of approximately $10.8 million representing acquisition costs and expenses incurred as a result of the acquisitions during fiscal 2010. The continuing challenges faced by the Company indicate there can be no assurance that operating results achieved by the Company in fiscal 2010 are indicative of future operating performance of the Company.

Summary of Critical Issues Faced by the Company during Fiscal 2010

- Significantly higher finished product prices for BFT and YG as compared to fiscal 2009 are a sign of improving U.S. and world economies and increased global demand for BFT and YG for use in bio-fuels in fiscal 2010. These higher prices were offset somewhat by lower MBM prices in fiscal 2010 as compared to fiscal 2009. Finished product prices were favorable to the Company's sales revenue, but this favorable result was partially offset by the negative impact on raw material cost, due to the Company's formula pricing arrangements with raw material suppliers, which index raw material cost to the prices of finished product derived from the raw material. The financial impact of finished goods prices on sales revenue and raw material cost is summarized below in Results of Operations. Comparative sales price information from the Jacobsen index, an established trading exchange publisher used by management, is listed below in Summary of Key Indicators.

- Higher raw material volumes were collected from suppliers during fiscal 2010 as compared to fiscal 2009. Management believes the positive effect of the integration of current and prior year acquisition activity excluding the effects of the acquisition of Griffin and improving conditions in the food service industry contributed to the increase in raw material volumes collected by the Company during fiscal 2010 as compared to fiscal 2009. The financial impact of higher raw material volumes is summarized below in Results of Operations.

- Energy prices for natural gas costs declined during fiscal 2010 as compared to fiscal 2009, but were more than offset by an increase in diesel fuel costs during fiscal 2010 as compared to fiscal 2009.

Summary of Critical Issues and Known Trends Faced by the Company in Fiscal 2010 and Thereafter

Critical Issues and Challenges

- The acquisition of Griffin is the largest and most significant acquisition Darling has undertaken. Although Darling expects that Griffin's business will operate to a significant extent on an independent basis and that it will not require significant integration going forward for the Company to continue the operations of Griffin's business, this may not prove to be the case. See the risk factor entitled "The Company's efforts to combine Darling's business and Griffin's business may not be successful" on page 14 for more information.

- Integration of smaller current and prior year acquisition activity and improving conditions in the food service industry contributed to the increased raw material volumes collected by the Company in fiscal 2010 as compared to fiscal 2009. No assurance can be given that increased activity in the food service industry or the U.S. and global economies will continue in the future. If further economic instability were to occur in the future there could be a negative impact on the Company's ability to obtain raw materials for the Company's operations.

- Finished product prices for BFT and YG commodities increased during fiscal 2010 as compared to fiscal 2009. No assurance can be given that this increase in commodity prices for BFT and YG will continue in the future, as commodity prices are volatile by their nature. A future decrease in commodity prices could have a significant impact on the Company's earnings in fiscal 2011 and into future periods.

- The Company consumes significant volumes of natural gas to operate boilers in its plants, which generate steam to heat raw material. Natural gas prices represent a significant cost of factory operation included in cost of sales. The Company also consumes significant volumes of diesel fuel to operate its fleet of tractors and trucks used to collect raw material. Diesel fuel prices represent a significant component of cost of collection expenses included in cost of sales. Diesel fuel prices were higher during fiscal 2010 as compared to the same period of fiscal 2009. These prices can be volatile and there can be no assurance that these prices will not increase further in the near future, thereby representing an ongoing challenge to the Company's operating results for future periods. A material increase in energy prices for natural gas and diesel fuel over a sustained period of time could materially adversely affect the Company's business, financial condition and results of operations.

Worldwide Government Energy Policies

- As previously noted, prices for the Company's finished products may be impacted by worldwide government policies relating to renewable fuels and greenhouse gas emissions, and programs such as RFS2 and tax credits for bio-fuels both in the U.S. and abroad may positively impact the demand for the Company's finished products. See the risk factor entitled "The Company's business may be affected by energy policies of U.S. and foreign governments," on page 14, for more information regarding RFS2 and how changes to these worldwide government policies could have a negative impact on the Company's business and results of operations.

Other Food Safety and Regulatory Issues

- Effective August 1997, the FDA promulgated the BSE Feed Rule prohibiting the use of mammalian proteins, with some exceptions, in feeds for cattle, sheep and other ruminant animals. The intent of this rule is to prevent the spread of BSE, commonly referred to as "mad cow disease." As previously noted, the FDA has amended the BSE Feed Rule, which the FDA began enforcing on October 26, 2009. Management has followed this proposed amendment throughout its history in order to assess and minimize the impact of its implementation on the Company. See the risk factor entitled "The Company's business may be affected by the impact of BSE and other food safety issues," beginning on page 16, for more information about BSE, including the Final BSE Rule, and other food safety issues and their potential effects on the Company, including the potential effects of additional government regulations, finished product export restrictions by foreign governments, market price fluctuations for finished goods, reduced demand for beef and beef products by consumers and increases in operating costs resulting from BSE-related concerns.

Even though the export markets for U.S. beef have been significantly re-opened, most of these markets remain closed to MBM derived from U.S. beef. Continued concern about BSE in the U.S. may result in additional regulatory and market related challenges that may affect the Company's operations and/or increase the Company's operating costs.

These challenges indicate there can be no assurance that fiscal 2010 operating results are indicative of future operating performance of the Company.

Results of Operations

Fifty-two Week Fiscal Year Ended January 1, 2011 ("Fiscal 2010") Compared to Fifty-two Week Fiscal Year Ended January 2, 2010 ("Fiscal 2009")

Summary of Key Factors Impacting Fiscal 2010 Results:

Principal factors that contributed to a $11.6 million increase in operating income, which are discussed in greater detail in the following section, were:

- Changes in finished product prices and quality down grades,
- Higher raw material volumes, and
- Two weeks of contribution from the acquisition of Griffin.

These increases to operating income were partially offset by:

- Acquisition costs and expenses from current year acquisitions,
- Increased costs due to current and prior year acquisition activity other than Griffin,
- Higher payroll and incentive-related benefits, and
- Higher energy costs, primarily related to diesel fuel.

Summary of Key Indicators of Fiscal 2010 Performance:

Principal indicators that management routinely monitors and compares to previous periods as an indicator of problems or improvements in operating results include:

- Finished product commodity prices,
- Raw material volume,
- Production volume and related yield of finished product,
- Energy prices for natural gas quoted on the NYMEX index and diesel fuel,
- Collection fees and collection operating expense, and
- Factory operating expenses.

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

Finished Product Commodity Prices. Prices for finished product commodities that the Company produces are reported each business day on the Jacobsen index, an established trading exchange price publisher. The Jacobsen index reports industry sales from the prior day’s activity by product. The Jacobsen index includes reported prices for feed grade and pet food PM, MBM, BFT and PG (which are end products of the Company's Rendering Segment) and YG (which is an end product of the Company's Restaurant Services Segment). The Bakery segment’s end product is BBP. The Company regularly monitors Jacobsen index reports on PM, MBM, BFT, PG, YG and BBP because they provide a daily indication of the Company's revenue performance against business plan benchmarks. Although the Jacobsen index provides one useful metric 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, the Jacobsen index does not provide forward or future period pricing. The Jacobsen 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 prices, the Company's actual sales prices for its finished products may vary significantly from the Jacobsen index 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 related Jacobsen index. During Fiscal 2010, the Company’s actual sales prices by product trended with the disclosed Jacobsen prices. Average Jacobsen prices (at the specified delivery point) for Fiscal 2010, compared to average Jacobsen prices for Fiscal 2009 follow:

	Avg. Price Fiscal 2010	Avg. Price Fiscal 2009	Increase/ (Decrease)	% Increase/ (Decrease)
Rendering Segment:				
MBM (Illinois)	$297.35/ton	$338.09/ton	$ (40.74)/ton	(12.1)%
Feed Grade PM (Carolina)	$366.89/ton	$390.04/ton	$ (23.15)/ton	(5.9)%
Pet Food PM (Southeast)	$606.55/ton	$626.39/ton	$ (19.84)/ton	(3.2)%
BFT (Chicago)	$ 33.43/cwt	$ 25.21 /cwt	$ 8.22/cwt	32.6%
PG (Southeast)	$ 29.01/cwt	$ 23.44 /cwt	$ 5.57/cwt	23.8%
Restaurant Services Segment:				
YG (Illinois)	$ 26.89/cwt	$ 20.73 /cwt	$ 6.16/cwt	29.7%
Bakery Segment:				
BBP (Chicago)	$143.57/ton	$135.70/ton	$ 7.87/ton	5.8%

The overall increase in average BFT and YG prices of the finished products the Company sells had a favorable impact on revenue that was partially offset by lower MBM prices and by a negative impact to the Company’s raw material cost resulting from formula pricing arrangements, which compute raw material cost based upon the price of finished product.

Raw Material Volume. Raw material volume represents the quantity (pounds) of raw material collected from Rendering Segment suppliers, such as butcher shops, grocery stores and independent beef, pork and poultry processors, and from Restaurant Services Segment suppliers, such as food service establishments, or in the case of the Bakery segment, commercial bakeries. Raw material volumes from the Company's Rendering Segment suppliers provide an indication of the future production of feed grade and pet food PM, MBM, BFT and PG finished products, raw material volumes from the Company's Restaurant Services Segment suppliers provide an indication of the future production of YG finished products, and raw material volumes from the Company's Bakery segment suppliers provide an indication of the future production of BBP finished products.

Production Volume and Related Yield of Finished Product. Finished product production volumes are the end result of the Company's production processes, and directly impact goods available for sale, and thus become an important component of sales revenue. In addition, physical inventory turn-over is impacted by both the availability of credit to the Company's customers and suppliers and reduced market demand which can lower finished product inventory values. Yield on production is a ratio of production volume (pounds), divided by raw material volume (pounds) and provides an indication of effectiveness of the Company's production process. Factors impacting yield on production include quality of raw material and warm weather during summer months, which rapidly degrades raw material. The quantities of finished products produced varies depending on the mix of raw materials used in production. For example, raw material from cattle yields more fat and protein than raw material from pork or poultry. Accordingly, the mix of finished products produced by the Company can vary from quarter to quarter depending on the type of raw material being received by the Company. The Company cannot increase the production of protein or fat based on demand since the type of raw material available will dictate the yield of each finished product.

Energy Prices for Natural Gas quoted on the NYMEX Index and Diesel Fuel. Natural gas and heating oil commodity prices are quoted each day on the NYMEX exchange for future months of delivery of natural gas and delivery of diesel fuel. The prices are important to the Company because natural gas and diesel fuel are major components of factory operating and collection costs and natural gas and diesel fuel prices are an indicator of achievement of the Company's business plan.

Collection Fees and Collection Operating Expense. The Company charges collection fees which are included in net sales. Each month the Company monitors both the collection fee charged to suppliers, which is included in net sales, and collection expense, which is included in cost of sales. The importance of monitoring collection fees and collection expense is that they provide an indication of achievement of the Company’s business plan. Furthermore, management monitors collection fees and collection expense so that the Company can consider implementing measures to mitigate against unforeseen increases in these expenses.

Factory Operating Expenses. The Company incurs factory operating expenses which are included in cost of sales. Each month the Company monitors factory operating expense. The importance of monitoring factory operating expense is that it provides an indication of achievement of the Company's business plan. Furthermore, when unforeseen expense increases occur, the Company can consider implementing measures to mitigate such increases.

Net Sales. The Company collects and processes animal by-products (fat, bones and offal), including hides, commercial bakery waste and used restaurant cooking oil to principally produce finished products of feed grade and pet food PM, MBM, BFT, PG, YG, BBP and hides as well as a range of branded and value-added products. Sales are significantly affected by finished goods prices, quality and mix of raw material, and volume of raw material. Net sales include the sales of produced finished goods, collection fees, fees for grease trap services, and finished goods purchased for resale.

During Fiscal 2010, net sales were $724.9 million as compared to $597.8 million during Fiscal 2009. The Rendering Segments' finished products are primarily feed grade and pet food PM and MBM, which collectively are approximately $243.5 million and $244.7 million of net sales for the year ended January 1, 2011 and January 2, 2010, respectively and BFT and PG, which collectively are approximately $262.9 million and $187.8 million of net sales for the year ended January 1, 2011 and January 2, 2010, respectively. The Restaurant Services Segment's finished product is YG, which is approximately $136.2 million and $95.9 million of net sales for the year ended January 1, 2011 and January 2, 2010, respectively. The increase in Rendering Segment sales of $78.3 million, the increase in Restaurant Services Segment sales of $38.6 million and Bakery Segment sales of $10.2 million accounted for the $127.1 million increase in sales. The increase in net sales was primarily due to the following (in millions of dollars):

	Rendering	Restaurant Services	Bakery	Corporate	Total
Increase in finished product prices	$ 39.7	$ 33.6	$ –	$ –	$ 73.3
Increase in net sales due to acquisition of Griffin	17.5	–	10.2	–	27.7
Increase in raw material volume	20.8	3.6	–	–	24.4
Increase/(decrease) in yield	3.2	(0.5)	–	–	2.7
Purchases of finished product for resale	(1.6)	2.6	–	–	1.0
Increase/(decrease) in other sales	(2.1)	0.1	–	–	(2.0)
Product transfers	0.8	(0.8)	–	–	–
	$ 78.3	$ 38.6	$ 10.2	$ –	$ 127.1

Further detail regarding the $78.3 million increase in sales in the Rendering Segment, the $38.6 million increase in sales in the Restaurant Services Segment and the $10.2 million increase in sales in the Bakery Segment is as follows:

Rendering

Finished Product Prices: Higher prices in the overall commodity market for corn and soybean oil, which are competing fats to BFT, positively impacted the Company’s finished product prices while MBM prices were lower as soybean meal prices were lower. $39.7 million of the increase in Rendering Segment sales is due primarily to a market-wide increase in BFT prices (fat), but this increase was impacted by extreme summer temperatures in the third quarter of fiscal 2010 as compared to the third quarter of fiscal 2009 that also extended for a longer period of time which affected product quality resulting in lower grades of rendered tallow and grease for sale. The market increases were due to changes in supply/demand in both the domestic and export markets for commodity fats, including BFT.

Net Sales from Acquisition of Griffin: The Company’s net sales have increased by $17.5 million in the Rendering Segment as a result of two weeks of contribution from the acquisition of Griffin.

Raw Material Volume: The positive effect of the integration of current and prior year acquisition activity other than Griffin has resulted in higher raw material volumes available to process. The higher raw material volumes from Rendering Segment suppliers, which are processed into MBM and BFT finished products, increased sales by $20.8 million. As noted elsewhere, MBM and BFT are derived principally from bones, fat and offal from the Rendering Segment's suppliers. The proportions of bones, fat and offal are relatively stable, but will vary from production run to production run based on the source and whether the material is principally beef, pork or poultry material. The Company has no ability to alter the proportion of bones, fat and offal offered to the Company by the Company's suppliers and therefore the Company cannot meaningfully alter the mix of MBM and BFT resulting from the Company’s rendering process.

Yield: The raw material processed in Fiscal 2010 compared to the same period of Fiscal 2009 yielded more finished product for sale and increased sales by $3.2 million. The increase in the relative portion of cattle offal in the raw material collected during Fiscal 2010 impacted yields since cattle offal is a higher yielding material than pork and poultry offal.

Purchases of Finished Product for Resale: The Company purchased less finished product for resale from third party suppliers in Fiscal 2010 compared to the same period in Fiscal 2009 by $1.6 million. Higher volumes and higher yields reduced the need to source third party product.

Other Sales: The $2.1 million decrease in other Rendering Segment sales was primarily due to lower collection and processing fees.

Product Transfers: Depending on the Company's customers' finished product quality specifications and the quality of raw material the Company receives from meat processors and other sources, from time to time BFT material must be downgraded and sold as YG.   Generally, product transfers occur when BFT is downgraded and the product is reclassified as YG, which is a Restaurant Services Segment product. Product transfers from the Rendering Segment to the Restaurant Services Segment were less in Fiscal 2010 compared to the same period in Fiscal 2009. When less product is transferred from the Rendering Segment to the Restaurant Services Segment, more BFT is available for sale by the Rendering Segment and YG sales will decrease correspondingly. The increased BFT available in Fiscal 2010 compared to Fiscal 2009 resulted in an increase in Rendering Segment sales of $0.8 million.

Restaurant Services

Finished Product Prices: Higher prices in competing commodities due to an increase in global demand for use of YG in bio-fuels positively impacted the Company's YG finished product prices. The $33.6 million increase in Restaurant Services Segment sales was due to a significant increase in prices for YG and competing commodity products during Fiscal 2010 as compared to the same period in Fiscal 2009.

Raw Material Volume: The positive effect of the integration of prior year acquisition activity and improving conditions in the food service industry impacted the volume of raw material available for collection. Higher raw material volume from used cooking oil suppliers increased YG sales by $3.6 million. As noted elsewhere, YG is produced by the Company's Restaurant Services Segment as a result of refining used cooking oil collected from the Company's food service establishment suppliers.

Yield: Although the volume of cooking oil has improved, the Company believes that YG yields have declined because the cooking oil received is being used longer by the foodservice industry, which decreases the quality of oil picked up from suppliers. This lowers yield and lowers the amount of finished product available for sale resulting in reduced sales of $0.5 million.

Purchases of Finished Product for Resale: The $2.6 million increase in purchase of finished product resulted from the Company purchasing more finished product for resale from third party suppliers in Fiscal 2010 as compared to the same period in Fiscal 2009.

Other Sales: The $0.1 million increase in other sales was primarily from prior year acquisitions in the Restaurant Services Segment.

Product Transfers: Product transfers from the Rendering Segment to the Restaurant Services Segment were less in Fiscal 2010 as compared to the same period in Fiscal 2009. The decrease in product transfers was a result of less BFT (a Rendering Segment product) being downgraded and transferred to the Restaurant Services Segment to be sold as YG in Fiscal 2010 compared to Fiscal 2009. As a result, Restaurant Services Segment sales were decreased by $0.8 million in Fiscal 2010.

Bakery

Net Sales from Acquisition of Griffin: The Bakery segment was acquired with Griffin and contributed $10.2 million of net sales during the period subsequent to the Merger.

Cost of Sales and Operating Expenses. Cost of sales and operating expenses include the cost of raw material, the cost of product purchased for resale and the cost to collect raw material, which includes diesel fuel and processing costs including natural gas. The Company utilizes both fixed and formula pricing methods for the purchase of raw materials. Fixed prices are adjusted where possible for changes in competition. Significant changes in finished goods market conditions impact finished product inventory values, while raw materials purchased under formula prices are correlated with specific finished goods prices. Energy costs, particularly diesel fuel and natural gas, are significant components of the Company's cost structure. The Company has the ability to burn alternative fuels at a majority of its plants to help manage the Company's price exposure to volatile energy markets.

During Fiscal 2010, cost of sales and operating expenses were $531.6 million as compared to $440.1 million during Fiscal 2009. The increase in Rendering Segment cost of sales and operating expenses of $62.6 million, the increase in Restaurant Services Segment cost of sales and operating expenses of $20.8 million and Bakery Segment cost of sales and operating expenses of $8.0 million accounted for substantially all of the $91.5 million increase in cost of sales and operating expenses. The increase in cost of sales and operating expenses was primarily due to the following (in millions of dollars):

	Rendering	Restaurant Services	Bakery	Corporate	Total
Increase in raw material costs	$ 35.6	$ 15.7	$ –	$ –	$ 51.3
Increase in cost of sales and operating expense due to acquisition of Griffin	11.8	–	8.0	–	19.8
Increase/(decrease) in other	10.0	3.1		–	13.1
Increase in raw material volume	4.4	0.9	–	–	5.3
Increase/(decrease) in energy costs primarily diesel fuel	2.1	1.0	–	0.1	3.2
Purchases of finished product for resale	(2.1)	0.9	–	–	(1.2)
Product transfers	0.8	(0.8)	–	–	–
	$ 62.6	$ 20.8	$ 8.0	$ 0.1	$ 91.5

Further detail regarding the $62.6 million increase in cost of sales and operating expenses in the Rendering Segment, the $20.8 million increase in the Restaurant Services Segment and the $8.0 million increase in Bakery Segment is as follows:

Rendering

Raw Material Costs: A portion of the Company's volume of raw material is acquired on a formula basis. Under a formula arrangement, the cost of raw material is tied to the finished product market for MBM and BFT. The Company's formula pricing was impacted by extreme summer temperatures in Fiscal 2010 as compared to Fiscal 2009 due primarily to raw material being priced based on higher quality rendered tallow and grease than the Company’s actual sales, which increased the overall impact of higher raw material costs from overall higher BFT prices in Fiscal 2010 resulting in an increase of $35.6 million in raw material costs in Fiscal 2010 as compared to Fiscal 2009.

Cost of Sales and Operating Expenses from Acquisition of Griffin: The Company's cost of sales and operating expenses increased by $11.8 million in the Rendering Segment as a result of two weeks of contribution from the acquisition of Griffin.

Other Expense: The $10.0 million increase in other expense which includes increases in payroll and related benefits, increases in repairs and maintenance and increases in hauling costs is primarily due to the integration of additional locations resulting from current and prior year acquisitions in the Rendering Segment other than the acquisition of Griffin.

Raw Material Volume: The integration of current and prior year acquisition activity and signs of an improved U.S. economy have resulted in higher raw material volume available to process. The higher raw material volume from Rendering Segment suppliers increased cost of sales by $4.4 million.

Energy Costs: Both natural gas and diesel fuel are major components of collection and factory operating costs to the Rendering Segment. During Fiscal 2010, energy costs were higher and are reflected in the $2.1 million increase due primarily to increased diesel fuel costs as compared to the same period in Fiscal 2009.

Purchases of Finished Product for Resale: The Company purchased less finished product for resale from third party suppliers in Fiscal 2010 compared to the same period in Fiscal 2009 by $2.1 million.

Product Transfers: In Fiscal 2010, less BFT failed to meet customer finished product quality specifications than in Fiscal 2009, and therefore less BFT was downgraded to YG value and transferred from the Rendering Segment to the Restaurant Services Segment. Since the Rendering Segment had relatively more BFT available for sale in Fiscal 2010, cost of sales related to product transfers increased by $0.8 million.

Restaurant Services

Raw Material Costs: YG finished product prices were higher in Fiscal 2010 as compared to Fiscal 2009, which caused the raw material costs to increase by $15.7 million.

Other Expense: The $3.1 million increase in other expense was primarily due to the integration of additional locations resulting from prior year acquisitions in the Restaurant Services Segment.

Raw Material Volume: Signs of improving conditions in the food service industry impacted the volume of raw material available for collection. Higher raw material volume from used cooking oil suppliers increased cost of sales by $0.9 million.

Energy Costs: Both natural gas and diesel fuel are major components of collection and factory operating costs to the Restaurant Services Segment. During Fiscal 2010, energy costs were higher and are reflected in the $1.0 million increase due primarily to diesel fuel costs as compared to the same period in Fiscal 2009.

Purchases of Finished Product for Resale: The Company purchased more finished product for resale from third party suppliers in Fiscal 2010 compared to the same period in Fiscal 2009 by $0.9 million.

Product Transfers: Because less BFT was downgraded for failure to meet customer specifications and subsequently sold by the Restaurant Services Segment as YG in Fiscal 2010 compared to Fiscal 2009 cost of sales was decreased by $0.8 million.

Bakery

Cost of Sales and Operating Expenses from Acquisition of Griffin: The Company's cost of sales and operating expenses related to the Bakery segment acquired with Griffin were $8.0 million for the period subsequent to the Merger.

Selling, General and Administrative Expenses.   Selling, general and administrative expenses were $68.0 million during Fiscal 2010, a $6.9 million increase (11.3%) from $61.1 million during Fiscal 2009. Payroll and related expense increased selling, general and administrative costs primarily due to current and prior year acquisition activity other than Griffin and more favorable operations in Fiscal 2010 as compared to Fiscal 2009. Additionally, selling, general and administrative expenses increased from the two weeks of contributions for the acquisition of Griffin. The increase in selling, general and administrative expenses is primarily due to the following (in millions of dollars):

	Rendering	Restaurant Services	Bakery	Corporate	Total
Payroll and related benefits expense	$0.8	$0.5	$–	$2.7	$4.0
Increases in selling, general and administrative expense from two weeks of contribution related to Griffin	1.0	–	0.4	0.9	2.3
Increase/(decrease) in other	0.1	0.8	–	(0.3)	0.6
	$ 1.9	$ 1.3	$ 0.4	$ 3.3	$ 6.9

Depreciation and Amortization.   Depreciation and amortization charges increased $6.7 million (26.6%) to $31.9 million during Fiscal 2010 as compared to $25.2 million during Fiscal 2009. The increase in depreciation and amortization is primarily due to an overall increase in depreciable capital assets and intangibles due to capital expenditures and current and prior year acquisition activity.

Acquisition Costs. Acquisition costs were $10.8 million during Fiscal 2010, a $10.3 million increase from $0.5 million during Fiscal 2009. The increase is primarily due to the acquisition of Griffin.

Interest Expense. Interest expense was $8.7 million during Fiscal 2010 compared to $3.1 million during Fiscal 2009, an increase of $5.6 million, primarily due to bank fees paid in association with an unutilized and expired bridge finance facility of $3.1 million and an increase in interest of approximately $2.0 million due to an increase in debt outstanding as a result of the acquisition of Griffin.

Other Income/Expense. Other expense was $3.4 million in Fiscal 2010, a $2.4 million increase from $1.0 million in Fiscal 2009. The increase in other expense is primarily due to losses reported as a result of fires at two plant locations of approximately $1.0 million, write-off of deferred loan costs of approximately $0.9 million due to the termination of the previous credit agreement and an increase in loss on sale of fixed assets of approximately $0.3 million.

Income Taxes. The Company recorded income tax expense of $26.1 million for Fiscal 2010, compared to income tax expense of $25.1 million recorded in Fiscal 2009, an increase of $1.0 million, primarily due to an increase in pre-tax earnings of the Company in Fiscal 2010. The effective tax rate for Fiscal 2010 and Fiscal 2009 is 37.1% and 37.5%, respectively. The difference from the federal statutory rate of 35% in Fiscal 2010 and Fiscal 2009 is primarily due to state taxes.

Results of Operations

Fifty-two Week Fiscal Year Ended January 2, 2010 (“Fiscal 2009”) Compared to Fifty-three Week Fiscal Year Ended January 3, 2009 (“Fiscal 2008”)

Fiscal 2008 includes an additional week of operations which occurs every five to six years. In Fiscal 2008 the additional week increased both net sales and costs by approximately $10 million with an immaterial effect on operating income and net income.

Summary of Key Factors Impacting Fiscal 2009 Results:

Principal factors that contributed to a $21.8 million decrease in operating income, which are discussed in greater detail in the following section, were:

- Lower raw material volumes, and
- Lower finished product prices.

These decreases to operating income were partially offset by:

- Lower raw material costs,
- Lower energy costs, primarily related to natural gas and diesel fuel, and
- Prior year goodwill impairment.

Summary of Key Indicators of Fiscal 2009 Performance:

Principal indicators that management routinely monitors and compares to previous periods as an indicator of problems or improvements in operating results include:

- Finished product commodity prices,
- Raw material volume,
- Production volume and related yield of finished product,
- Energy prices for natural gas quoted on the NYMEX index and diesel fuel,
- Collection fees and collection operating expense, and
- Factory operating expenses.

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

Finished Product Commodity Prices. Prices for finished product commodities that the Company produces are reported each business day on the Jacobsen index, an established trading exchange price publisher. The Jacobsen index reports industry sales from the prior day's activity by product. The Jacobsen index includes reported prices for MBM and BFT (which are end products of the Company's Rendering Segment) and YG (which is an end product of the Company's Restaurant Services Segment). The Company regularly monitors Jacobsen index reports on MBM, BFT and YG because they provide a daily indication of the Company's revenue performance against business plan benchmarks. Although the Jacobsen index provides one useful metric 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, the Jacobsen index does not provide forward or future period pricing. The Jacobsen 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 prices, the Company's actual sales prices for its finished products may vary significantly from the Jacobsen index 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. Average Jacobsen prices (at the specified delivery point) for Fiscal 2009, compared to average Jacobsen prices for Fiscal 2008 follow:

	Avg. Price Fiscal 2009	Avg. Price Fiscal 2008	Increase/ (Decrease)	% Increase/ (Decrease)
Rendering Segment:				
MBM (Illinois)	$338.09/ton	$333.17 /ton	$4.92/ton	1.5%
BFT (Chicago)	$ 25.21/cwt	$ 34.21 /cwt	$ (9.00)/cwt	(26.3)%
Restaurant Services Segment:				
YG (Illinois)	$ 20.73/cwt	$ 27.75 /cwt	$ (7.02)/cwt	(25.3)%

The overall decrease in average prices for BFT and YG of the finished products the Company sells had an unfavorable impact on revenue that was partially offset by a positive impact to the Company's raw material cost resulting from formula pricing arrangements, which compute raw material cost based upon the price of finished product.

Raw Material Volume. Raw material volume represents the quantity (pounds) of raw material collected from Rendering Segment suppliers, such as butcher shops, grocery stores and independent beef, pork and poultry processors, and from Restaurant Services Segment suppliers, such as food service establishments. Raw material volumes from the Company's Rendering Segment suppliers provide an indication of the future production of MBM and BFT finished products, and raw material volumes from the Company's Restaurant Services Segment suppliers provide an indication of the future production of YG finished products.

Production Volume and Related Yield of Finished Product. Finished product production volumes are the end result of the Company's production processes, and directly impact goods available for sale, and thus become an important component of sales revenue. In addition, physical inventory turn-over is impacted by both the availability of credit to the Company's customers and suppliers and reduced market demand which can lower finished product inventory values. Yield on production is a ratio of production volume (pounds), divided by raw material volume (pounds) and provides an indication of effectiveness of the Company's production process. Factors impacting yield on production include quality of raw material and warm weather during summer months, which rapidly degrades raw material. The quantities of finished products produced varies depending on the mix of raw materials used in production. For example, raw material from cattle yields more fat and protein than raw material from pork or poultry. Accordingly, the mix of finished products produced by the Company can vary from quarter to quarter depending on the type of raw material being received by the Company. The Company cannot increase the production of protein or fat based on demand since the type of raw material will dictate the yield of each finished product.

Energy Prices for Natural Gas quoted on the NYMEX Index and Diesel Fuel. Natural gas and heating oil commodity prices are quoted each day on the NYMEX exchange for future months of delivery of natural gas and diesel fuel. The prices are important to the Company because natural gas and diesel fuel are major components of factory operating and collection costs and natural gas and diesel fuel prices are an indicator of achievement of the Company’s business plan.

Collection Fees and Collection Operating Expense. The Company charges collection fees which are included in net sales. Each month the Company monitors both the collection fee charged to suppliers, which is included in net sales, and collection expense, which is included in cost of sales. The importance of monitoring collection fees and collection expense is that they provide an indication of achievement of the Company’s business plan. Furthermore, management monitors collection fees and collection expense so that the Company can consider implementing measures to mitigate against unforeseen increases in these expenses.

Factory Operating Expenses. The Company incurs factory operating expenses which are included in cost of sales. Each month the Company monitors factory operating expense. The importance of monitoring factory operating expense is that it provides an indication of achievement of the Company’s business plan. Furthermore, when unforeseen expense increases occur, the Company can consider implementing measures to mitigate such increases.

Net Sales. The Company collects and processes animal by-products (fat, bones and offal), including hides, and used restaurant cooking oil to principally produce finished products of MBM, BFT, YG and hides. Sales are significantly affected by finished goods prices, quality and mix of raw material, and volume of raw material. Net sales include the sales of produced finished goods, collection fees, fees for grease trap services, and finished goods purchased for resale.

During Fiscal 2009, net sales were $597.8 million as compared to $807.5 million during Fiscal 2008. The Rendering Segments’ finished products are primarily MBM, which is approximately $244.7 million and $259.9 million of net sales for the year ended January 2, 2010 and January 3, 2009, respectively and BFT, which is approximately $187.8 million and $276.6 million of net sales for the year ended January 2, 2010 and January 3, 2009, respectively. The Restaurant Services Segment’s finished product is YG, which is approximately $95.9 million and $186.3 million of net sales for the year ended January 2, 2010 and January 3, 2009, respectively. The decrease in Rendering Segment sales of $126.5 million, the decrease in Restaurant Services Segment sales of $83.2 million accounted for the $209.7 million decrease in sales. The decrease in net sales was primarily due to the following (in millions of dollars):

	Rendering	Restaurant Services	Corporate	Total
Decrease in finished product prices	$ (59.0)	$ (40.5)	$ –	$ (99.5)
Decrease in raw material volume	(64.3)	(9.8)	–	(74.1)
Other sales (decreases)/increases	(24.6)	4.7	–	(19.9)
Purchases of finished product for resale	(8.7)	(2.1)	–	(10.8)
Decrease in yield	(4.5)	(0.9)	–	(5.4)
Product transfers	34.6	(34.6)	–	–
	$ (126.5)	$ (83.2)	$ –	$ (209.7)

Further detail regarding the $126.5 million decrease in sales in the Rendering Segment and the $83.2 million decrease in sales in the Restaurant Services Segment is as follows:

Rendering

Finished Product Prices: Lower prices in the overall commodity market for corn and soybean oil, which are competing fats to BFT, negatively impacted the Company’s finished product prices. $59.0 million of the decrease in Rendering Segment sales is due to a market-wide decrease in BFT prices (fat) offset slightly by a market-wide increase in MBM prices (protein). The market declines were due to changes in supply/demand in both the domestic and export markets for commodity fats, including BFT.

Raw Material Volume: Production cutbacks from integrated processors and closures of mid-sized processor operations as a result of difficult economic conditions for consumers generally and in the food service industry resulted in lower raw material available to process. The lower raw material from Rendering Segment suppliers, which is processed into MBM and BFT finished products, decreased sales by $64.3 million. As noted elsewhere, MBM and BFT are derived principally from bones, fat and offal from the Rendering Segment's suppliers. The proportions of bones, fat and offal are relatively stable, but will vary from production run to production run based on the source and whether the material is principally beef, pork or poultry material. The Company has no ability to alter the proportion of bones, fat and offal offered to the Company by the Company's suppliers and therefore the Company cannot meaningfully alter the mix of MBM and BFT resulting from the Company's rendering process. During Fiscal 2009, the Company's suppliers in the Rendering Segment were negatively impacted by the continued weak economy and decline in consumer confidence, resulting in a reduction in meat consumption and a corresponding reduction in the supply of raw materials available to the Company.

Other Sales: The $24.6 million decrease in other Rendering Segment sales was primarily due to lower prices and volumes on hides. Hide volumes were down due to lower dead stock volume and lower slaughter rates at beef processors, as well as the Company's decision not to skin as many hides since the cost to process the hides was more than the value of the finished product. Prices were impacted by difficult economic conditions and decreased demand for leather goods. The lower dead stock volume was due primarily to unseasonably good weather in Fiscal 2009.

Purchases of Finished Product for Resale: The Company purchased less finished product for resale from third party suppliers in Fiscal 2009 compared to the same period in Fiscal 2008 by $8.7 million. Lower domestic and export demand for finished products reduced the need to source third party product.

Yield: The raw material processed in Fiscal 2009 compared to the same period of Fiscal 2008 yielded less finished product for sale and reduced sales by $4.5 million. The reduction in cattle kills by the packing industry during the year impacted yields since cattle offal is a higher yielding material than pork and poultry offal.

Product Transfers: Depending on the Company's customers' finished product quality specifications and the quality of raw material the Company receives from meat processors and other sources, from time to time BFT material must be downgraded and sold as YG. Generally, product transfers occur when BFT is downgraded and the product is reclassified as YG, which is a Restaurant Services Segment product. Product transfers from the Rendering Segment to the Restaurant Services Segment were less in Fiscal 2009 compared to the same period in Fiscal 2008. When less product is transferred from the Rendering Segment to the Restaurant Services Segment, more BFT is available for sale by the Rendering Segment and YG sales will decrease correspondingly. The increased BFT available in Fiscal 2009 compared to Fiscal 2008 resulted in an increase in Rendering Segment sales of $34.6 million.

Restaurant Services

Finished Product Prices: Lower prices in the commodity markets for competing fats and corn negatively impacted the Company's YG finished product prices. The $40.5 million decrease in Restaurant Services Segment sales was due to a significant decrease in prices for YG and competing commodity products. The market declines were due to weaker demand in both the domestic and export markets for YG.

Raw Material Volume: Difficult economic conditions in the food service industry impacted the volume of raw material available for collection. Lower raw material volume from used cooking oil suppliers decreased YG sales by $9.8 million. As noted elsewhere, YG is produced by the Company's Restaurant Services Segment as a result of refining used cooking oil collected from the Company's food service establishment suppliers. During Fiscal 2009, the Company's suppliers in the Restaurant Services Segment were negatively impacted by the continued weak economy and decline in consumer confidence, resulting in reduced patronage of restaurants, longer usage by restaurants of cooking oil and a corresponding reduction in the supply of used cooking oil available to the Company.

Other Sales: The $4.7 million increase in other sales was primarily from the current year acquisitions in the Restaurant Services Segment.

Purchases of Finished Product for Resale: The $2.1 million decrease in sales resulted from the Company purchasing less finished product for resale from third party suppliers in Fiscal 2009 as compared to the same period in Fiscal 2008. With less demand for finished products, the Company's need to source additional third party product for sales decreased.

Yield: The Company believes that YG yields have declined because of the current economic environment in the U.S. that has caused the food service industry to use their current oil longer, which decreases the volumes and quality of cooking oil picked up from suppliers. This lowers yields and lowers the amount of finished product available for sale resulting in reduced sales of $0.9 million.

Product Transfers: Product transfers from the Rendering Segment to the Restaurant Services Segment were less in Fiscal 2009 as compared to the same period in Fiscal 2008. The reduction in product transfers was a result of less BFT (a Rendering Segment product) being downgraded and transferred to the Restaurant Services Segment to be sold as YG in Fiscal 2009 compared to Fiscal 2008. As a result, Restaurant Services Segment sales were reduced by $34.6 million in Fiscal 2009.

Cost of Sales and Operating Expenses. Cost of sales and operating expenses include the cost of raw material, the cost of product purchased for resale and the cost to collect raw material, which includes diesel fuel and processing costs including natural gas. The Company utilizes both fixed and formula pricing methods for the purchase of raw materials. Fixed prices are adjusted where possible for changes in competition. Significant changes in finished goods market conditions impact finished product inventory values, while raw materials purchased under formula prices are correlated with specific finished goods prices. Energy costs, particularly diesel fuel and natural gas, are significant components of the Company's cost structure. The Company has the ability to burn alternative fuels at a majority of its plants to help manage the Company's price exposure to volatile energy markets.

During Fiscal 2009, cost of sales and operating expenses were $440.1 million as compared to $614.7 million during Fiscal 2008. Decreases in Rendering Segment cost of sales and operating expenses of $108.5 million and the decrease in Restaurant Services Segment cost of sales and operating expenses of $67.0 million accounted for a majority of the $174.6 million decrease in cost of sales and operating expenses. The decrease in cost of sales and operating expenses was primarily due to the following (in millions of dollars):

	Rendering	Restaurant Services	Corporate	Total
Decrease in raw material costs	$ (56.4)	$ (25.6)	$ –	$ (82.0)
Decreases in energy costs, primarily natural gas and diesel fuel	(24.4)	(3.1)	(0.3)	(27.8)
Other expense (decreases)/increases	(28.8)	0.9	1.2	(26.7)
Decrease in raw material volume	(19.7)	(2.8)	–	(22.5)
Purchases of finished product for resale	(10.6)	(1.8)	–	(12.4)
Multi-employer pension plans mass withdrawal termination	(3.2)	–	–	(3.2)
Product transfers	34.6	(34.6)	–	–
	$ (108.5)	$ (67.0)	$ 0.9	$ (174.6)

Further detail regarding the $108.5 million decrease in cost of sales and operating expenses in the Rendering Segment and the $67.0 million decrease in the Restaurant Services Segment is as follows:

Rendering

Raw Material Costs: In Fiscal 2009 approximately 53% of the Company's annual volume of raw material was acquired on a "formula" basis. Under a formula arrangement, the cost of raw material is tied to the finished product market for MBM and BFT. Since finished product prices were lower in Fiscal 2009 as compared to Fiscal 2008, the raw material costs decreased by $56.4 million.

Energy Costs: Both natural gas and diesel fuel are major components of collection and factory operating costs to the Rendering Segment. The lower energy costs of $24.4 million reflect the lower cost of natural gas and diesel fuel during Fiscal 2009 as compared to Fiscal 2008.

Other Expense: Other expense decreased $28.8 million in cost of sales and operating expenses principally due to lower hide prices and volumes. Hide volumes were down due to lower dead stock volumes and lower slaughter rates at beef processors, as well as the Company's decision not to skin as many hides since the cost to process the hides was more than the value of the finished product. Prices were impacted by difficult economic conditions and decreased demand for leather goods. The lower dead stock volume was due primarily to unseasonably good weather in Fiscal 2009.

Raw Material Volume: Production cutbacks from integrated processors and closures of mid-sized processor operations resulted in lower raw material available to be processed. The lower raw material reduced the cost of sales by $19.7 million.

Purchases of Finished Product for Resale: The Company purchased less finished product for resale from third party suppliers in Fiscal 2009 compared to the same period in Fiscal 2008 by $10.6 million.

Product Transfers: In Fiscal 2009, less BFT failed to meet customer finished product quality specifications than in Fiscal 2008, and therefore less BFT was downgraded to YG value and transferred from the Rendering Segment to the Restaurant Services Segment. Since the Rendering Segment had relatively more BFT available for sale in Fiscal 2009, cost of sales related to product transfers increased $34.6 million.

Restaurant Services

Raw Material Costs: YG finished product prices were lower in the Fiscal 2009 as compared to Fiscal 2008, which caused the raw material costs to decrease by $25.6 million.

Raw Material Volume: Difficult economic conditions in the food service industry impacted the volume of raw material available to collect. Lower raw material volume from used cooking oil suppliers decreased cost of sales by $2.8 million.

Energy Costs: Diesel fuel and natural gas are major components of collection and operating costs to the Restaurant Services Segment. The lower energy costs of $3.1 million reflect the lower cost of diesel fuel and natural gas during Fiscal 2009 as compared to the same period in Fiscal 2008.

Other Expense: The $0.9 million increase in other expense was primarily due to current year acquisitions in the Restaurant Services Segment that more than offset efforts by the operations groups to reduce collection expense.

Purchases of Finished Product for Resale: The $1.8 million decrease in cost of sales is from purchasing less finished product for resale from third party suppliers.

Product Transfers: Because less BFT was downgraded for failure to meet customer specifications and subsequently sold by the Restaurant Services Segment as YG in Fiscal 2009 compared to Fiscal 2008, the cost of sales was reduced by $34.6 million year over year.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $61.1 million during Fiscal 2009, a $1.3 million increase (2.2%) from $59.8 million during Fiscal 2008. The increase in selling, general and administrative expenses is primarily due to the following (in millions of dollars):

	Rendering	Restaurant Services	Corporate	Total
Other expense (decreases)/increases	$ (0.2)	$ (0.2)	$ 1.7	$ 1.3
Consulting fees	–	–	0.6	0.6
Payroll and related benefits expense	0.8	0.8	(1.1)	0.5
Bad debt expense (decreases)/ increases	(0.8)	(0.5)	0.2	(1.1)
	$ (0.2)	$ 0.1	$ 1.4	$ 1.3

Depreciation and Amortization. Depreciation and amortization charges increased $0.8 million (3.3%) to $25.2 million during Fiscal 2009 as compared to $24.4 million during Fiscal 2008. The increase in depreciation and amortization is primarily due to an overall increase in depreciable capital assets on the balance sheet.

Acquisition Costs. Acquisition costs were $0.5 million during Fiscal 2010 and represent acquisition costs primarily related to the acquisition of certain rendering, grease and collection and trap servicing business assets from Sanimax USA, Inc.

Interest Expense. Interest expense was $3.1 million during Fiscal 2009 compared to $3.0 million during Fiscal 2008, an increase of $0.1 million, primarily due to an increase in fees from the amended credit agreement that was partially offset by a decrease in outstanding balance related to the Company's debt.

Other Income/Expense. Other expense was $1.0 million in Fiscal 2009, a $1.3 million increase from other income of $0.3 million in Fiscal 2008. The increase in other expense is primarily due to a decrease in interest income on the Company's interest bearing accounts due to lower rates and increases in other non-operating expenses, which includes approximately $0.5 million of costs associated with the expected renewable diesel joint venture project.

Income Taxes. The Company recorded income tax expense of $25.1 million for Fiscal 2009, compared to income tax expense of $35.4 million recorded in Fiscal 2008, a decrease of $10.3 million, primarily due to a decrease in pre-tax earnings of the Company in Fiscal 2009. The effective tax rate for Fiscal 2009 and Fiscal 2008 is 37.5 % and 39.3%, respectively. The difference from the federal statutory rate of 35% in Fiscal 2009 and Fiscal 2008 is primarily due to state taxes.

FINANCING, LIQUIDITY, AND CAPITAL RESOURCES

On December 17, 2010, the Company entered into a $625 million credit agreement (the "Credit Agreement"). The Company used the proceeds of the term loan facility and a portion of the revolving loan facility to pay a portion of the consideration of its acquisition of Griffin, to pay related fees and expenses and to provide for working capital needs and general corporate purposes. The principal components of the Credit Agreement consist of the following:

- The Credit Agreement provides for senior secured credit facilities (the "Senior Secured Facilities") in the aggregate principal amount of $625.0 million comprised of a five-year revolving loan facility of $325.0 million (approximately $75.0 million of which will be available for a letter of credit sub-facility and $15.0 million of which will be available for a swingline sub-facility) and a six-year term loan facility of $300.0 million.

- The $325.0 million revolving credit facility has a term that matures on December 17, 2015. As of January 1, 2011, the Company had an aggregate of $160.0 million outstanding under the revolving loan facility. On February 4, 2011, the Company repaid all $160.0 million of the revolving loan facility that was outstanding with the proceeds from its $307 million common stock public offering which was consummated on February 2, 2011.

    - As of January 1, 2011, the Company has borrowed all $300.0 million under the term loan facility, which provides for scheduled quarterly amortization payments of $0.75 million over a six-year term ending with a final installment in the amount of all term loans then outstanding due and payable on December 17, 2016. The Company has the right to prepay the term loan without penalty, but any amounts that have been repaid may not be reborrowed. As of January 1, 2011, the Company had an aggregate of $300.0 million principal outstanding under the term loan facility. On February 8, 2011, the Company repaid $140.0 million of the term loan facility that was outstanding with the proceeds from its $307 million common stock public offering which was consummated on February 2, 2011.

- With respect to any revolving facility loan, i) an alternate base rate means a rate per annum equal to the greatest of (a) the prime rate (b) the federal funds effective rate (as defined in the Credit Agreement) plus ½ of 1% and (c) the adjusted London Inter-Bank Offer Rate ("LIBOR") for a month interest period plus 1%, plus in each case, a margin determined by reference to a pricing grid under the Credit Agreement and adjusted according to the Company's adjusted leverage ratio, and, ii) Eurodollar rate loans bear interest at a rate per annum based on the then applicable LIBOR multiplied by the statutory reserve rate plus a margin determined by reference to a pricing grid and adjusted according to the Company's adjusted leverage ratio. With respect to an alternate base rate loan that is a term loan, at no time shall the alternate base rate be less than 2.50% per annum, plus the term loan alternate base rate margin of 2.50%. With respect to a LIBOR loan that is a term loan, at no time shall the LIBOR rate applicable to the term loans (before giving effect to any adjustment for reserve requirements) be less than 1.50% per annum, plus the term loan LIBOR margin of 3.50%.

- The Credit Agreement contains various customary representations and warranties by the Company, which include customary use of materiality, material adverse effect and knowledge qualifiers. The Credit Agreement also contains (a) certain affirmative covenants that impose certain reporting and/or performance obligations on the Company, (b) certain negative covenants that generally prohibit, subject to various exceptions, the Company from taking certain actions, including, without limitation, incurring indebtedness, making investments, incurring liens, paying dividends, and engaging in mergers and consolidations, sale leasebacks and sales of assets, (c) financial covenants such as maximum total leverage ratio and a minimum fixed charge coverage ratio and (d) customary events of default (including a change of control). Obligations under the Credit Agreement may be declared due and payable upon the occurrence of such customary events of default.

On December 17, 2010, Darling issued $250.0 million aggregate principal amount of its 8.5% Senior Notes due 2018 (the "Notes") under an indenture, dated as of December 17, 2010 (the "Original Indenture"), among Darling, Darling National, and U.S. Bank National Association, as trustee (the "Trustee"). After the Merger, Griffin and its subsidiary, Craig Protein Division, Inc. ("Craig Protein", and collectively with Griffin and Darling National, the "Guarantors"), entered into a supplemental indenture with the Trustee (the "Supplemental Indenture," and together with the Original Indenture, the "Indenture"), to provide for the guarantee of the Notes by Griffin and its subsidiary. The Notes were sold pursuant to a purchase agreement dated December 3, 2010 among the Company, the guarantors named therein and the initial purchasers named therein (the "Initial Purchasers"), at an issue price of 100.0%. Darling used the net proceeds from the sale of the Notes to finance in part the cash portion of the purchase price to be paid in connection with Darling's acquisition of Griffin. The principal components of the Notes consist of the following:

- The Notes will mature on December 15, 2018. The Company will pay interest on June 15 and December 15 of each year, commencing on June 15, 2011. Interest on the Notes will accrue at a rate of 8.5% per annum and be payable in cash.

- The Company is not required to make any mandatory redemption or sinking fund payments with respect to the Notes. If a Change of Control (as defined in the Indenture) occurs, unless the Company has exercised its right to redeem all the Notes as described below, each holder will have the right to require the Company to repurchase all or any part (equal to $1,000 or an integral multiple thereof) of such holder's Notes at a purchase price in cash equal to 101% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to the date of purchase, subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date. If the Company or its subsidiaries engage in certain Asset Dispositions (as defined in the Indenture), the Company generally must, within specific periods of time, either prepay, repay or repurchase certain of its or its restricted subsidiaries' indebtedness or make an offer to purchase a principal amount of the Notes and certain other debt equal to the excess net cash proceeds, or invest the net cash proceeds from such sales in additional assets. The purchase price of the Notes will be 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase. The Company may at any time and from time to time purchase Notes in the open market or otherwise.

- The Company may redeem some or all of the Notes at any time prior to December 15, 2014, at a redemption price equal to 100% of the principal amount of the Notes redeemed, plus accrued and unpaid interest to the redemption date and an Applicable Premium (as defined below) as of the date of redemption subject to the rights of holders on the relevant record date to receive interest due on the relevant interest payment date. The "Applicable Premium" means, with respect to any Note on any redemption date, the greater of: (a) 1.0% of the principal amount of such Note; and (b) the excess, if any, of (i) the present value at such redemption date of (A) the redemption price of such Note at December 15, 2014 (such redemption price being set forth in the table below), plus (B) all required interest payments due on such Note through December 15, 2014 (excluding accrued but unpaid interest to the redemption date), computed using a discount rate equal to the applicable treasury rate as of such redemption date plus 50 basis points; over (ii) the principal amount of such Note.

- On and after December 15, 2014, the Company may redeem all or, from time to time, a part of the Notes (including any additional Notes) upon not less than 30 nor more than 60 days' notice, at the following redemption prices (expressed as a percentage of principal amount), plus accrued and unpaid interest on the Notes, if any, to the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve-month period beginning on December 15 of the years indicated below:

Year	Percentage
2014	104.250%
2015	102.125%
2016 and thereafter	100.000%

- In addition, until December 15, 2013, the Company may, at its option, redeem up to 35% of the original principal amount of the Notes and any issuance of additional Notes with the net cash proceeds of one or more equity offerings at a redemption price equal to 108.5% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date; provided that at least 65% of the original principal amount of the Notes and any issuance of additional Notes remains outstanding immediately after each such redemption; provided further that the redemption occurs within 90 days after the closing of such equity offering.

- The Indenture contains covenants limiting Darling's ability and the ability of its restricted subsidiaries to, among other things incur additional indebtedness or issue preferred stock; pay dividends on or make other distributions or repurchase of Darling's capital stock or make other restricted payments; create restrictions on the payment of dividends or other amounts from Darling's restricted subsidiaries to Darling or Darling's other restricted subsidiaries; make loans or investments; enter into certain transactions with affiliates; create liens; designate Darling's subsidiaries as unrestricted subsidiaries; and sell certain assets or merge with or into other companies or otherwise dispose of all or substantially all of Darling's assets.

- Holders of the Notes have the benefit of registration rights. In connection with the issuance of the Notes, Darling and the Guarantors entered into a registration rights agreement (the "Notes Registration Rights Agreement") with the representative of the Initial Purchasers. Darling and the Guarantors have agreed to consummate a registered exchange offer for the Notes within 270 days after the date of the Merger. Darling and the Guarantors have agreed to file and keep effective for a certain time period a shelf registration statement for the resale of the Notes if an exchange offer cannot be effected and under certain other circumstances. Darling will be required to pay additional interest on the Notes if it fails to timely comply with its obligations under the Notes Registration Rights Agreement until such time as it complies.

- The Indenture also provides for customary events of default, including, without limitation, payment defaults, covenant defaults, cross acceleration defaults to certain other indebtedness in excess of specified amounts, certain events of bankruptcy and insolvency and judgment defaults in excess of specified amounts. If any such event of default occurs and is continuing under the Indenture, the Trustee or the holders of at least 25% in principal amount of the total outstanding Notes may declare the principal, premium, if any, interest and any other monetary obligations on all the then outstanding Notes issued under the Indenture to be due and payable immediately.

The Company's Notes and Credit Agreement consist of the following elements at January 1, 2011 (in thousands):

Notes:	
8.5% Senior Notes due 2018	$ 250,000
Credit Agreement:	
Term Loan	$ 300,000
Revolving Credit Facility:	
Maximum availability	$ 325,000
Borrowings outstanding	160,000
Letters of credit issued	23,383
Availability	$ 141,617

The obligations under the Credit Agreement are guaranteed by Darling National, Griffin, and its subsidiary, Craig Protein and are secured by substantially all of the property of the Company, including a pledge of 100% of the stock of all material domestic subsidiaries and 65% of the capital stock of certain foreign subsidiaries. The Notes are guaranteed on an unsecured basis by Darling's existing restricted subsidiaries, including Griffin and all of its subsidiaries, other than Darling's foreign subsidiaries, its captive insurance subsidiary and any inactive subsidiary with nominal assets. The Notes rank equally in right of payment to any existing and future senior debt of Darling. The Notes will be effectively junior to existing and future secured debt of Darling and the guarantors, including debt under the Credit Agreement, to the extent of the value of the assets securing such debt. The Notes will be structurally subordinated to all of the existing and future liabilities (including trade payables) of each of the subsidiaries of Darling that do not guarantee the Notes. The guarantees by the Guarantors (the "Guarantees") rank equally in right of payment to any existing and future senior indebtedness of the guarantors. The Guarantees will be effectively junior to existing and future secured debt of the Guarantors including debt under the Credit Agreement, to the extent the value of the assets securing such debt. The Guarantees will be structurally subordinated to all of the existing and future liabilities (including trade payables) of each of the subsidiaries of each Guarantor that do not guarantee the Notes.

As of January 1, 2011, the Company believes it is in compliance with all of the financial covenants, as well as all of the other covenants contained in the Credit Agreement and Indenture.

The classification of long-term debt in the Company’s January 1, 2011 consolidated balance sheet is based on the contractual repayment terms of the Notes and debt issued under the Credit Agreement.

On January 1, 2011, the Company had working capital of $30.8 million and its working capital ratio was 1.20 to 1 compared to working capital of $75.1 million and a working capital ratio of 2.05 to 1 on January 2, 2010. The decrease in working capital is primarily due to the decrease in cash and cash equivalents and working capital from the Griffin acquisition. At January 1, 2011, the Company had unrestricted cash of $19.2 million and funds available under the revolving credit facility of $141.6 million, compared to unrestricted cash of $68.2 million and funds available under the revolving credit facility of $109.1 million at January 2, 2010. The Company diversifies its cash investments by limiting the amounts located at any one financial institution and invests primarily in government-backed securities.

Net cash provided by operating activities was $81.5 million and $79.2 million for the fiscal years ended January 1, 2011 and January 2, 2010, respectively, an increase of $2.3 million due primarily to an increase in net income of approximately $2.5 million. Cash used by investing activities was $783.6 million during Fiscal 2010, compared to $55.7 million in Fiscal 2009, an increase of $727.9 million, primarily due to the acquisition of Griffin in December 2010. Net cash provided by financing activities was $653.2 million during Fiscal 2010 compared to net cash used by financing activities of $6.1 million in Fiscal 2009, an increase of $659.3 million due primarily to borrowings made to complete the acquisition of Griffin in December 2010.

Capital expenditures of $24.7 million were made during Fiscal 2010 as compared to $23.6 million in Fiscal 2009, an increase of $1.1 million (4.7%). The increase is due to a slight overall increase in spending. Capital expenditures related to compliance with environmental regulations were $3.5 million in Fiscal 2010, $3.1 million in Fiscal 2009 and $1.1 million in Fiscal 2008. Fiscal 2009 compliance spending included capital expenditures related to the Final BSE Rule of approximately $1.5 million.

Based upon the underlying terms of the Credit Agreement, approximately $3.0 million in current debt, which is included in current liabilities on the Company's balance sheet at January 1, 2011, will be due during the next twelve months, which includes scheduled quarterly installment payments of $0.75 million.

Based upon the annual actuarial estimate, current accruals, and claims paid during Fiscal 2010, the Company has accrued approximately $8.6 million it expects will become due during the next twelve months in order to meet obligations related to the Company's self insurance reserves and accrued insurance obligations, which are included in current accrued expenses at January 1, 2011. The self insurance reserve is composed of estimated liability for claims arising for workers' compensation and for auto liability and general liability claims. The self insurance reserve liability is determined annually, based upon a third party actuarial estimate. The actuarial estimate may vary from year to year, due to changes in costs of health care, the pending number of claims and other factors beyond the control of management of the Company. No assurance can be given that the Company's funding obligations under its self insurance reserve will not increase in the future.

Based upon current actuarial estimates, the Company expects to make payments of approximately $2.0 million in order to meet minimum pension funding requirements during fiscal 2011. The minimum pension funding requirements are determined annually, based upon a third party actuarial estimate. The actuarial estimate may vary from year to year, due to fluctuations in return on investments or other factors beyond the control of management of the Company or the administrator of the Company's pension funds. No assurance can be given that the minimum pension funding requirements will not increase in the future. Additionally, the Company has made required and tax deductible discretionary contributions to its pension plans in Fiscal 2010 and Fiscal 2009 of approximately $1.0 million and $14.9 million, respectively.

The Pension Protection Act of 2006 ("PPA") was signed into law in August 2006 and went into effect in January 2008. The stated goal of the PPA is to improve the funding of pension plans. Plans in an under-funded status will be required to increase employer contributions to improve the funding level within PPA timelines. The impact of recent declines in the world equity and other financial markets have had and could continue to have a material negative impact on pension plan assets and the status of required funding under the PPA. The Company participates in several multi-employer pension plans that 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. Current information with respect to the Company's proportionate share of the over- and under-funded status of all actuarially computed value of vested benefits over these pension plans' net assets is not available as the Company relies on third parties outside its control to provide such information. The Company knows that three of these multi-employer plans were under-funded as of the latest available information, some of which is over a year old. The Company has no ability to compel the plan trustees to provide more current information. In June 2009, the Company received a notice of a mass withdrawal termination and a notice of initial withdrawal liability from one of these underfunded plans. The Company had anticipated this event and as a result had accrued approximately $3.2 million as of January 3, 2009 based on the most recent information that was probable and estimable for this plan. The plan had given a notice of redetermination liability in December 2009. In the second quarter of fiscal 2010, the Company received further third party information confirming the future payout related to this multi-employer plan. As a result, the Company reduced its liability to approximately $1.2 million. In April 2010, another underfunded multi-employer plan in which the Company participates gave notification of partial withdrawal liability. As of January 1, 2011, the Company has an accrued liability of approximately $1.1 million representing the present value of scheduled withdrawal liability payments under this multi-employer plan. While the Company has no ability to calculate a possible current liability for under-funded multi-employer plans that could terminate or could require additional funding under the PPA, the amounts could be material.

The Company has the ability to burn alternative fuels, including its fats and greases, at a majority of its plants as a way to help manage the Company's exposure to high natural gas prices. Beginning October 1, 2006, the federal government effected a program which provides federal tax credits under certain circumstances for commercial use of alternative fuels in lieu of fossil-based fuels. Beginning in the fourth quarter of 2006, the Company filed documentation with the IRS to recover these Alternative Fuel Mixture Credits as a result of its use of fats and greases to fuel boilers at its plants. The Company has received approval from the IRS to apply for these credits. However, the federal regulations relating to the Alternative Fuel Mixture Credits are complex and further clarification is needed by the Company prior to recognition of certain tax credits received. As of January 1, 2011, the Company has $0.7 million of received credits included in current liabilities on the balance sheet as deferred income while the Company pursues further clarification. This and other federal bio-fuel tax incentive programs expired on December 31, 2009. On December 17, 2010, however, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was signed into public law which extended through 2011 and made retroactive to January 1, 2010 the Alternative Fuel Mixture Credits. The Company will continue to evaluate the option of burning alternative fuels at its plants in future periods depending on the price relationship between alternative fuels and natural gas.

The Company announced on January 21, 2011 that a wholly-owned subsidiary of Darling entered into the JV Agreement with a wholly-owned subsidiary of Valero to form the Joint Venture. The Joint Venture will be owned 50% / 50% with Valero and was formed to design, engineer, construct and operate the Facility, which will be capable of producing approximately 9,300 barrels per day of renewable diesel fuel and certain other co-products, to be located adjacent to Valero’s refinery in Norco, Louisiana. The Joint Venture intends to construct the Facility under an engineering, procurement and construction contract ("EPC Contract") that will fix the Company’s maximum economic exposure for the cost of the Facility. On January 20, 2011, the U.S. Department of Energy ("DOE") offered to the Joint Venture a conditional commitment to issue an approximately $241 million loan guarantee (the "DOE Guarantee") under the Energy Policy Act of 2005 to support the construction of the Facility. Each of Darling and Valero will be required, as a condition to the DOE Guarantee, to guarantee the completion of the Facility on a several (but not joint and several) basis; however, the Company's obligations under the completion guarantee will be terminated if Congress repeals the biomass-based diesel mandate under RSF2 in its entirety. Through equity investments into the Joint Venture, each of Darling and Valero are committed to contributing approximately $93.2 million (the "Equity Commitment") of the estimated aggregate costs of approximately $427.0 million for completion of the Facility. The ultimate cost of the Joint Venture to the Company cannot be determined until, among other things, further detailed engineering reports and studies have been completed. As part of the terms and conditions of the DOE Guarantee, until the Company's Equity Commitment has been paid in full or repayment of the DOE Guarantee, the Company has to commit to, among other things, a sponsor completion guarantee covering certain costs of the construction of the Facility and the Company must maintain a cash balance of approximately $27 million (less the pro rata portion of the Company's Equity Commitment made prior to such date) in a segregated financial account, the proceeds of which will be used solely to fund the Company's Equity Commitment required under the DOE Guarantee and its related documentation. The Company's funds on deposit in such segregated financial account cannot at any time be lower than the initial funding less one third of the portion of the Equity Commitment that the Company has made. The Company will not have access to those funds for any other part of the Company's business. In addition to the segregated financial account requirement, the Company will be required to maintain, on each business day, average availability under a debt facility and in cash and/or cash equivalents (including any amounts in the segregated financial account) sufficient to fund the full amount of the Company's remaining Equity Commitment required under the DOE Guarantee and its related documentation. As a result of the requirements that the Company maintains a minimum cash balance in a segregated financial account and certain availability under a debt facility to cover the Company’s Equity Commitment, such committed funds will not be available to the Company for other purposes, including other business opportunities, development costs for other projects, working capital and general corporate needs. The Company is also required to pay for 50% of any cost overruns incurred in connection with the construction of the Facility. Further, the Company will have to grant a security interest in substantially all of the assets of the Joint Venture, including providing a pledge of all of the Company’s equity interests in the Joint Venture, for the benefit of the DOE until the loan guaranteed by the DOE Guarantee has been paid in full and the DOE Guarantee has terminated in accordance with its terms.

On January 27, 2011, the Company entered into an underwritten public offering for 24,193,548 shares of its common stock, at a price to the public of $12.70 per share, pursuant to an effective shelf registration statement. The offering closed on February 2, 2011. In addition, certain former stockholders of Griffin Industries, Inc. (pursuant to such stockholders' contractual registration rights) granted the underwriters a 30-day option, which the underwriters subsequently exercised in full, to purchase from them up to an additional 3,629,032 shares of Darling common stock to cover over-allotments. The Company used the net proceeds of approximately $292.7 million from the offering to repay all of its outstanding revolver balance and a portion of its term loan facility under the Company's Credit Agreement. The repayment of such indebtedness will, among other things, provide Darling with additional debt capacity and cash from operations to use in connection with the Joint Venture. Darling did not receive any proceeds from the sale of shares by the former stockholders of Griffin.

The Company's management believes that cash flows from operating activities consistent with the level generated in Fiscal 2010, unrestricted cash and funds available under the Credit Agreement will be sufficient to meet the Company's working capital needs and maintenance and compliance-related capital expenditures, scheduled debt and interest payments, income tax obligations, continued funding of the Joint Venture and other contemplated needs through the next twelve months. Numerous factors could have adverse consequences to the Company that cannot be estimated at this time, such as: reductions in raw material volumes available to the Company due to weak margins in the meat production industry as a result of higher feed costs or other factors, reduced volume from food service establishments, reduced demand for animal feed, or otherwise; a further reduction in finished product prices; changes to worldwide government policies relating to renewable fuels and greenhouse gas emissions that adversely affect programs like RFS2 and tax credits for bio-fuels both in the U.S. and abroad; possible product recall resulting from developments relating to the discovery of unauthorized adulterations to food additives; the occurrence of Bird Flu in the U.S.; any additional occurrence of BSE in the U.S. or elsewhere; unanticipated costs and/or reductions in raw material volumes related to the Company's implementation of and compliance with the Final BSE Rule, including capital expenditures to comply with the Final BSE Rule; unforeseen new U.S. or foreign regulations affecting the rendering industry (including new or modified animal feed, 2009 H1N1 flu, Bird Flu or BSE regulations); increased contributions to the Company's multi-employer and employer-sponsored defined benefit pension plans as required by the PPA; bad debt write-offs; loss of or failure to obtain necessary permits and registrations; unexpected cost overruns related to the Joint Venture; continued or escalated conflict in the Middle East; and/or unfavorable export markets. These factors, coupled with volatile prices for natural gas and diesel fuel, general performance of the U.S. economy and declining consumer confidence including the inability of consumers and companies to obtain credit due to the current lack of liquidity in the financial markets, among others, could negatively impact the Company's results of operations in fiscal 2011 and thereafter. The Company cannot provide assurance that the cash flows from operating activities generated in Fiscal 2010 are indicative of the future cash flows from operating activities that will be generated by the Company's operations. The Company reviews the appropriate use of unrestricted cash periodically. Except for the potential contributions to the Joint Venture, no decision has been made as to non-ordinary course cash usages at this time; however, potential usages could include: opportunistic capital expenditures and/or acquisitions; investments relating to the Company's developing a comprehensive renewable energy strategy, including, without limitation, potential investments in additional renewable diesel and/or biodiesel projects; investments in response to governmental regulations relating to BSE or other regulations; unexpected funding required by the PPA requirements; and paying dividends or repurchasing stock, subject to limitations under the Credit Agreement, as well as suitable cash conservation to withstand adverse commodity cycles.

The current economic environment in the Company's markets has the potential to adversely impact its liquidity in a variety of ways, including through reduced raw materials availability, reduced finished product prices, reduced sales, potential inventory buildup, increased bad debt reserves, potential impairment charges and/or higher operating costs.

The principal products that the Company sells are commodities, the prices of which are based on established commodity markets and are subject to volatile changes. Any decline in these prices has the potential to adversely impact the Company's liquidity. Any of a continued decline in raw material availability, a further decline in commodities prices, increases in energy prices and the impact of the PPA has the potential to adversely impact the Company's liquidity. A decline in commodities prices, a rise in energy prices, a slowdown in the U.S. or international economy, continued or escalated conflict in the Middle East, or other factors, could cause the Company to fail to meet management's expectations or could cause liquidity concerns.

CONTRACTUAL OBLIGATIONS AND OTHER COMMERCIAL COMMITMENTS

The following table summarizes the Company’s expected material contractual payment obligations, including both on- and off-balance sheet arrangements at January 1, 2011 (in thousands):

	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Contractual obligations(a):					
Long-term debt obligations (b)	$ 710,000	$ 3,000	$ 5,250	$ 166,750	$ 535,000
Operating lease obligations (c)	58,806	14,355	18,696	8,910	16,845
Estimated interest payable (d)	284,016	42,669	84,902	79,979	76,466
Purchase commitments (e)	21,003	21,003	–	–	–
Pension funding obligation (f)	2,049	2,049	–	–	–
Other obligations	39	9	20	10	–
Total	$ 1,075,913	$ 83,085	$ 108,868	$ 255,649	$ 628,311

(a) The above table does not reflect uncertain tax positions of approximately $0.1 million because the timing of the cash settlement cannot be reasonably estimated.

(b) See Note 9 to the consolidated financial statements. In February 2011, approximately $300.0 million of the outstanding debt was repaid from the proceeds of a public stock offering of 24,193,548 shares of the Company’s common stock.

(c) See Note 8 to the consolidated financial statements.

(d) Interest payable was calculated using the current rate for term, revolver, senior notes and current rates on other liabilities that existed as of January 1, 2011.

(e) Purchase commitments were determined based on specified contracts for natural gas, diesel fuel and finish product purchases.

(f) Pension funding requirements are determined annually based upon a third party actuarial estimate. The Company expects to make approximately $2.0 million in required contributions to its pension plan in fiscal 2011. The Company is not able to estimate pension funding requirements beyond the next twelve months. The accrued pension benefit liability was approximately $18.1 million at the end of Fiscal 2010. The Company knows that one of the multi-employer pension plans that has not terminated to which it contributes and which is not administered by the Company was under-funded as of the latest available information, and while the Company has no ability to calculate a possible current liability for the under-funded multi-employer plan to which the Company contributes, the amounts could be material.

The Company's off-balance sheet contractual obligations and commercial commitments as of January 1, 2011 relate to operating lease obligations, letters of credit, forward purchase agreements, and employment agreements. The Company has excluded these items from the balance sheet in accordance with accounting principles generally accepted in the U.S.

The following table summarizes the Company’s other commercial commitments, including both on- and off-balance sheet arrangements at January 1, 2011 (in thousands):

Other commercial commitments:	
Standby letters of credit	$ 23,383
Total other commercial commitments:	$ 23,383

OFF BALANCE SHEET OBLIGATIONS

Based upon the underlying purchase agreements, the Company has commitments to purchase $21.0 million of commodity products, consisting of approximately $14.2 million of finished products and approximately $6.8 million of natural gas and diesel fuel, during the next twelve months, which are not included in liabilities on the Company’s balance sheet at January 1, 2011. These purchase agreements are entered into in the normal course of the Company’s business and are not subject to derivative accounting. The commitments will be recorded on the balance sheet of the Company when delivery of these commodities occurs and ownership passes to the Company during fiscal 2011, in accordance with accounting principles generally accepted in the U.S.

Based upon underlying lease agreements, the Company is obligated to pay approximately $14.4 million for operating leases during fiscal 2011 which are not included in liabilities on the Company's balance sheet at January 1, 2011. These lease obligations are included in cost of sales or selling, general and administrative expense on the Company's Statement of Operations as the underlying lease obligation comes due, in accordance with accounting principles generally accepted in the U.S.

CRITICAL ACCOUNTING POLICIES

The Company follows certain significant accounting policies when preparing its consolidated financial statements. A complete summary of these policies is included in Note 1 to the Consolidated Financial Statements.

Certain of the policies require management to make significant and subjective estimates or assumptions that may deviate from actual results. In particular, management makes estimates regarding valuation of inventories, estimates of useful life of long-lived assets related to depreciation and amortization expense, estimates regarding fair value of the Company's reporting units and future cash flows with respect to assessing potential impairment of both long-lived assets and goodwill, self-insurance, environmental and litigation reserves, pension liability, estimates of income tax expense, and estimates of expense related to stock options granted. Each of these estimates is discussed in greater detail in the following discussion.

Inventories

The Company's inventories are valued at the lower of cost or market. Finished product manufacturing cost is calculated using the first-in, first-out (FIFO) method, based upon the Company's raw material costs, collection and factory production operating expenses, and depreciation expense on collection and factory assets. Market values of inventory are estimated at each plant location, based upon either: 1) the backlog of unfilled sales orders at the balance sheet date; or 2) unsold inventory, calculated using regional finished product prices quoted in the Jacobsen index at the balance sheet date. Estimates of market value, based upon the backlog of unfilled sales orders or upon the Jacobsen index, assume that the inventory held by the Company at the balance sheet date will be sold at the estimated market finished product sales price, subsequent to the balance sheet date. Actual sales prices received on future sales of inventory held at the end of a period may vary from either the backlog unfilled sales order price or the Jacobsen index quotation at the balance sheet date. These variances could cause actual sales prices realized on future sales of inventory to be different than the estimate of market value of inventory at the end of the period. Inventories were approximately $45.6 million and $19.1 million at January 1, 2011 and January 2, 2010, respectively. The increase in inventory is primarily due to the acquisition of Griffin.

Long-Lived Assets, Depreciation and Amortization Expense and Valuation

The Company's property, plant and equipment are recorded at cost when acquired. Depreciation expense is computed on property, plant and equipment based upon a straight line method over the estimated useful life of the assets, which is based upon a standard classification of the asset group. Buildings and improvements are depreciated over a useful life of 15 to 30 years, machinery and equipment are depreciated over a useful life of 3 to 10 years and vehicles are depreciated over a life of 2 to 6 years. These useful life estimates have been developed based upon the Company's historical experience of asset life utility, and whether the asset is new or used when placed in service. The actual life and utility of the asset may vary from this estimated life. Useful lives of the assets may be modified from time to time when the future utility or life of the asset is deemed to change from that originally estimated when the asset was placed in service. Depreciation expense was approximately $26.3 million, $21.4 million and $19.3 million in fiscal years ending January 1, 2011, January 2, 2010 and January 3, 2009, respectively.

The Company's intangible assets, including permits, routes, non-compete agreements, trade names and royalty, consulting and leasehold agreements are recorded at fair value when acquired. Amortization expense is computed on these intangible assets based upon a straight line method over the estimated useful life of the assets, which is based upon a standard classification of the asset group. Collection routes are amortized over a useful life of 8 to 20 years; non-compete agreements are amortized over a useful life of 3 to 7 years; trade names with a finite life are amortized over a useful life of 15 years; royalty, consulting and leasehold agreements are amortized over the term of the agreement; and permits are amortized over a useful life of 11 to 20 years. The actual economic life and utility of the asset may vary from this estimated life. Useful lives of the assets may be modified from time to time when the future utility or life of the asset is deemed to change from that originally estimated when the asset was placed in service. Intangible asset amortization expense was approximately $5.6 million, $3.8 million and $5.2 million in fiscal years ending January 1, 2011, January 2, 2010 and January 3, 2009, respectively.

The Company reviews the carrying value of long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of an asset, or related asset group, may not be recoverable from estimated future undiscounted cash flows. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset or asset group to estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. During the fourth quarter of Fiscal 2008, due to lower commodity markets and the loss of certain large raw material suppliers, the Company performed testing of all its long-lived assets for impairment based on future undiscounted cash flows and has determined during this testing process that no impairment exists for its long-lived assets. In Fiscal 2009 and Fiscal 2010, no triggering event occurred requiring that the Company perform testing of all of its long-lived assets for impairment.

The net book value of property, plant and equipment was approximately $393.4 million and $152.0 million at January 1, 2011 and January 2, 2010, respectively. The net book value of intangible assets was approximately $391.0 million and $40.3 million at January 1, 2011 and January 2, 2010, respectively. The increase in property, plant and equipment, and intangible assets is primarily due to the acquisition of Griffin.

Goodwill Valuation

The Company reviews the carrying value of goodwill on a regular basis, including at the end of each fiscal year, for indications of impairment at each reporting unit that has recorded goodwill as an asset. Impairment is indicated whenever the carrying value of a reporting unit exceeds the estimated fair value of a reporting unit. For purposes of evaluating impairment of goodwill, the Company estimates fair value of a reporting unit, based upon future discounted net cash flows. In calculating these estimates, actual historical operating results and anticipated future economic factors, such as future business volume, future finished product prices, and future operating costs and expenses are evaluated and estimated as a component of the calculation of future discounted cash flows for each reporting unit with recorded goodwill. The estimates of fair value of these reporting units and of future discounted net cash flows from operation of these reporting units could change if actual volumes, prices, costs or expenses vary from these estimates.

Based on the Company's annual impairment testing at the end of the fourth quarter of Fiscal 2008, it was determined that goodwill was impaired due to lower commodity markets and the loss of certain large raw material suppliers in the fourth quarter of Fiscal 2008, which resulted in the Company recording an impairment charge of approximately $15.9 million based on future discounted net cash flows. In addition, a future reduction of earnings in the reporting units with recorded goodwill could result in future impairment charges because the estimate of fair value would be negatively impacted by a reduction of earnings at those reporting units. Based on the Company's annual impairment testing at the end of the fourth quarter of Fiscal 2009 and Fiscal 2010, the fair values of the Company's reporting units containing goodwill exceeded the related carrying value. Goodwill was approximately $376.3 million and $79.1 million at January 1, 2011 and January 2, 2010, respectively. The increase in goodwill is primarily due to the acquisition of Griffin.

Self Insurance, Environmental and Legal Reserves

The Company's workers compensation, auto and general liability policies contain significant deductibles or self insured retentions. The Company estimates and accrues for 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. In developing estimates for self insured losses, the Company utilizes its staff, a third party actuary and outside counsel as sources of information and judgment as to the expected undiscounted future costs of the claims. The Company accrues reserves related to environmental and litigation matters based on estimated undiscounted future costs. With respect to the Company's self insurance, environmental and litigation reserves, estimates of reserve liability could change if future events are different than those included in the estimates of the actuary, consultants and management of the Company. The reserve for self insurance, environmental and litigation contingencies included in accrued expenses and other non-current liabilities for which there are no potential insurance recoveries was approximately $28.2 million and $15.6 million at January 1, 2011 and January 2, 2010, respectively.

Pension Liability

The Company provides retirement benefits to employees under separate final-pay noncontributory pension plans for salaried and hourly employees (excluding those employees covered by a union-sponsored plan), who meet service and age requirements. Benefits are based principally on length of service and earnings patterns during the five years preceding retirement. Pension expense and pension liability recorded by the Company is based upon an annual actuarial estimate provided by a third party administrator. Factors included in estimates of current year pension expense and pension liability at the balance sheet date include estimated future service period of employees, estimated future pay of employees, estimated future retirement ages of employees, and the projected time period of pension benefit payments. Two of the most significant assumptions used to calculate future pension obligations are the discount rate applied to pension liability and the expected rate of return on pension plan assets. These assumptions and estimates are subject to the risk of change over time, and each factor has inherent uncertainties which neither the actuary nor the Company is able to control or to predict with certainty. See Note 13 of Notes to Consolidated Financial Statements for summaries of pension plans.

The discount rate applied to the Company’s pension liability is the interest rate used to calculate the present value of the pension benefit obligation. The weighted average discount rate was 5.55% and 5.90% at January 1, 2011 and January 2, 2010, respectively. The net periodic benefit cost for fiscal 2011 would increase by approximately $0.9 million if the discount rate was 0.5% lower at 5.05%. The net periodic benefit cost for fiscal 2011 would decrease by approximately $0.8 million if the discount rate was 0.5% higher at 6.05%.

The expected rate of return on the Company’s pension plan assets is the interest rate used to calculate future returns on investment of the plan assets. The expected return on plan assets is a long-term assumption whose accuracy can only be assessed over a long period of time. The weighted average expected return on pension plan assets was 7.85% for Fiscal 2010 and Fiscal 2009, respectively. During Fiscal 2010, the Company’s actual return on pension plan assets was a gain of $12.0 million or approximately 14% of pension plan assets as compared to Fiscal 2009 where the Company’s actual return on pension plan assets was a gain of $12.8 million or approximately 21% of pension plan assets.

The Company has recorded a pension liability of approximately $18.1 million and $19.1 million at January 1, 2011 and January 2, 2010, respectively. The Company’s net pension cost was approximately $3.9 million, $6.3 million and $0.4 million for the fiscal years ending January 1, 2011, January 2, 2010 and January 3, 2009, respectively. The projected net periodic pension expense for fiscal 2011 is expected to decrease by approximately $0.7 million as compared to Fiscal 2010.

Income Taxes

In calculating net income, the Company includes estimates in the calculation of income tax expense, the resulting tax liability and in future realization of deferred tax assets that arise from temporary differences between financial statement presentation and tax recognition of revenue and expense. The Company’s deferred tax assets include a net operating loss carry-forward which is limited to approximately $0.7 million per year in future utilization due to the change in control resulting from the May 2002 recapitalization of the Company. Valuation allowances for deferred tax assets are recorded when it is more likely than not that deferred tax assets will not be realized. Based upon the Company’s evaluation of these matters, a portion of the Company’s net operating loss carry-forwards will expire unused. The valuation allowance established to provide a reserve against these deferred tax assets was less than $0.1 million and approximately $0.2 million at January 1, 2011 and January 2, 2010, respectively.

Stock Option Expense

The calculation of expense of stock options issued utilizes the Black-Scholes mathematical model which estimates the fair value of the option award to the holder and the compensation expense to the Company, based upon estimates of volatility, risk-free rates of return at the date of issue and projected vesting of the option grants. The Company recorded compensation expense related to stock options expense for the year ended January 1, 2011, January 2, 2010 and January 3, 2009 of approximately $0.1 million, $0.1 million and $0.2 million, respectively.

NEW ACCOUNTING PRONOUNCEMENTS

In January 2010, the FASB issued ASU No. 2010-06, Improving Disclosures about Fair Value Measurements. The ASU amends ASC Topic 820, Fair Value Measurements and Disclosures. The new standard provides for additional disclosures requiring the Company to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements, describe the reasons for the transfers and present separately information about purchases, sales, issuances and settlements in the reconciliation of Level 3 fair value measurements. The update also provides clarification of existing disclosures requiring the Company to determine each class of assets and liabilities based on the nature and risks of the investments rather than by major security type and for each class of assets and liabilities, and to disclose the valuation techniques and inputs used to measure fair value for both Level 2 and Level 3 fair value measurements. The Company adopted ASU 2010-06 as of January 3, 2010, except for the presentation of purchases, sales, issuances and settlement in the reconciliation of Level 3 fair value measurements, which is effective for the Company on January 2, 2011. This update will not change the techniques the Company uses to measure fair values and is not expected to have a material impact on the Company’s consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts. The ASU amends Topic 350, Intangibles-Goodwill and Other. The new standard requires an entity to perform all steps in the test for a reporting unit whose carrying value is zero or negative if it is more likely than not (more than 50%) that a goodwill impairment exists based on qualitative factors, resulting in the elimination of an entity’s ability to assert that such a reporting unit’s goodwill is not impaired and additional testing is not necessary despite the existence of qualitative factors that indicate otherwise. The Company is required to adopt ASU 2010-28 on January 2, 2011 and it is not expected to have a material impact on the Company's consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-29 Disclosure of Supplementary Pro Forma Information for Business Combinations. The ASU amends Topic 805, Business Combinations. The new standard provides for changes to the disclosure of pro forma information for business combinations. These changes clarify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. Also, the existing supplemental pro forma disclosures were expanded to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The Company is required to adopt ASU 2010-29 on January 2, 2011 and it is not expected to have a material impact on the Company's consolidated financial statements.

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K includes “forward-looking” statements that involve risks and uncertainties. The words "believe," "anticipate," "expect," "estimate," "intend," "could" and similar expressions identify forward-looking statements. All statements other than statements of historical facts included in the Annual Report on Form 10-K, including, without limitation, the statements under the sections entitled "Business," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Legal Proceedings" and located elsewhere herein regarding industry prospects and the Company's financial position are forward-looking statements. Actual results could differ materially from those discussed in the forward-looking statements as a result of certain factors, including many that are beyond the control of the Company. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct.

In addition to those factors discussed under the heading "Risk Factors" in Item 1A of this report and elsewhere in this report, and in the Company's other public filings with the SEC, important factors that could cause actual results to differ materially from the Company's expectations include: the Company's continued ability to obtain sources of supply for its rendering operations; general economic conditions in the American, European and Asian markets; a decline in consumer confidence; prices in the competing commodity markets which are volatile and are beyond the Company's control; energy prices; changes to worldwide government policies relating to renewable fuels and greenhouse gas emissions; the implementation of the Enhanced BSE Rule; BSE and its impact on finished product prices, export markets and government regulations, which are still evolving and are beyond the Company's control; the occurrence of Bird Flu in the U.S.; possible product recall resulting from developments relating to the discovery of unauthorized adulterations (such as melamine or salmonella) to food additives; increased contributions to the Company's multi-employer defined benefit pension plans as required by the PPA; the Company’s ability to bring its planned Joint Venture to construct a renewable diesel plant with Valero to fruition including the Joint Venture's ability to enter into a credit agreement providing adequate construction funding on acceptable terms; and the Company’s ability to combine Darling’s business and Griffin's business and to realize the anticipated growth opportunities and cost synergies and to integrate the two businesses efficiently. Among other things, future profitability may be affected by the Company's ability to grow its business, which faces competition from companies that may have substantially greater resources than the Company. The Company cautions readers that all forward-looking statements speak only as of the date made, and the Company undertakes no obligation to update any forward-looking statements, whether as a result of changes in circumstances, new events or otherwise.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks affecting the Company are exposures to changes in prices of the finished products the Company sells, interest rates on debt, availability of raw material supply and the price of natural gas and diesel fuel used in the Company's plants. Raw materials available to the Company are impacted by seasonal factors, including holidays, when raw material volume declines; warm weather, which can adversely affect the quality of raw material processed and finished products produced; and cold weather, which can impact the collection of raw material. Predominantly all of the Company's finished products are commodities that are generally sold at prices prevailing at the time of sale.

The Company makes limited use of derivative instruments to manage cash flow risks related to interest expense, natural gas usage, diesel fuel usage and inventory. The Company does not use derivative instruments for trading purposes. Interest rate swaps are entered into with the intent of managing overall borrowing costs by reducing the potential impact of increases in interest rates on floating-rate long-term debt. Natural gas swaps and 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 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. Inventory swaps and options are entered into with the intent of managing seasonally high concentrations of feed grade and pet food PM, MBM, BFT, PG, YG and BBP inventories by reducing the potential impact of decreasing prices. The interest rate swaps and the natural gas swaps are subject to the requirements of FASB authoritative guidance. Some of the Company's natural gas and diesel fuel instruments are not subject to the requirements of FASB authoritative guidance because some of the natural gas and diesel fuel instruments qualify as normal purchases as defined in FASB authoritative guidance. At January 1, 2011, the Company had natural gas swaps outstanding that qualified and were designated for hedge accounting as well as heating oil swaps and natural gas swaps and options that did not qualify and were not designated for hedge accounting.

In fiscal 2010, the Company has entered into natural gas contracts that are considered cash flow hedges according to FASB authoritative guidance. Under the terms of the natural gas swap contracts the Company fixed the expected purchase cost of a portion of its plants expected natural gas usage through a portion of fiscal 2011. As of January 1, 2011, the aggregate fair value of these natural gas swaps was approximately $0.1 million and are included in current assets and accrued expenses on the balance sheet, with an offset recorded in accumulated other comprehensive income for the effective portion.

Additionally, the Company had heating oil swaps and natural gas swaps and options that are marked to market because they did not qualify for hedge accounting at January 1, 2011. The heating oil swaps and natural gas swaps and options had an aggregate fair value of $0.3 million and are included in current other assets at January 1, 2011.

As of January 1, 2011, the Company had forward purchase agreements in place for purchases of approximately $6.8 million of natural gas and diesel fuel in fiscal 2011. As of January 1, 2011, the Company had forward purchase agreements in place for purchases of approximately $14.2 million of finished product in fiscal 2011.

Interest Rate Sensitivity

The Company's obligations subject to fixed or variable interest rates include (in thousands, except interest rates):

	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Long-term debt:					
Fixed rate	$250,039	$9	$20	$10	$250,000
Average interest rate	8.50 %	5.75 %	5.75 %	5.75 %	8.50 %
Variable rate	460,000	3,000	5,250	166,750	285,000
Average interest rate	4.50 %	5.00 %	5.00 %	3.62 %	5.00 %
Total	$710,039	$3,009	$5,270	$166,760	$535,000

The Company's fixed rate debt obligations consist of the Notes and other immaterial debt that accrue interest at an annual weighted average fixed rate of approximately 8.5%. These obligations are not affected by changes in interest rates.

The Company has $460.0 million in variable rate debt that represents the balance outstanding at January 1, 2011 under the Company's Credit Agreement. This portion of the Company's debt is sensitive to fluctuations in interest rates. The Company estimates that a 1% increase in interest rates will increase the Company's interest expense by approximately $4.6 million in fiscal 2011.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

DARLING INTERNATIONAL INC. AND SUBSIDIARIES

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Darling International Inc.:

We have audited the consolidated financial statements of Darling International Inc. and subsidiaries as listed in the accompanying index. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Darling International Inc. and subsidiaries as of January 1, 2011 and January 2, 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended January 1, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Darling International Inc.'s internal control over financial reporting as of January 1, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 2, 2011 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Dallas, Texas
March 2, 2011

DARLING INTERNATIONAL INC. AND SUBSIDIARIES

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Darling International Inc.:

We have audited Darling International Inc.'s internal control over financial reporting as of January 1, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Darling International Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Darling International Inc. maintained, in all material respects, effective internal control over financial reporting as of January 1, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In December 2010, Darling International Inc. acquired Griffin Industries, Inc. (Griffin) and management excluded from its assessment of the effectiveness of Darling International Inc.'s internal control over financial reporting as of January 1, 2011, Griffin's internal control over financial reporting associated with total assets of $924.8 million and total revenues of $27.7 million included in the consolidated financial statements of Darling International Inc. and subsidiaries as of and for the year ended January 1, 2011. Our audit of internal control over financial reporting of Darling International Inc. also excluded an evaluation of the internal control over financial reporting of Griffin.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Darling International Inc. and subsidiaries as listed in the accompanying index, and our report dated March 2, 2011 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Dallas, Texas
March 2, 2011

DARLING INTERNATIONAL INC. AND SUBSIDIARIES

Consolidated Balance Sheets
January 1, 2011 and January 2, 2010
(in thousands, except share and per share data)

ASSETS	January 1, 2011	January 2, 2010
Current assets:		
Cash and cash equivalents	$ 19,202	$ 68,182
Restricted cash	373	397
Accounts receivable, less allowance for bad debts of $2,134 at January 1, 2011 and $2,148 at January 2, 2010	87,455	45,572
Escrow receivable	16,267	–
Inventories	45,606	19,057
Income taxes refundable	1,474	605
Other current assets	8,833	5,348
Deferred income taxes	6,376	7,216
Total current assets	185,586	146,377
Property, plant and equipment, net	393,420	151,982
Intangible assets, less accumulated amortization of $56,689 at January 1, 2011 and $51,109 at January 2, 2010	390,954	40,298
Goodwill	376,263	79,085
Other assets	36,035	8,429
	$ 1,382,258	$ 426,171
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 3,009	$ 5,009
Accounts payable, principally trade	70,123	18,746
Accrued expenses	81,698	47,522
Total current liabilities	154,830	71,277
Long-term debt, net of current portion	707,030	27,539
Other noncurrent liabilities	50,760	36,143
Deferred income taxes	5,342	6,335
Total liabilities	917,962	141,294
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.01 par value; 150,000,000 and 100,000,000 shares authorized, 93,014,691 and 82,629,970 shares issued at January 1, 2011 and January 2, 2010, respectively	930	826
Additional paid-in capital	290,106	157,343
Treasury stock, at cost; 455,020 and 403,280 shares at January 1, 2011 and January 2, 2010, respectively	(4,340)	(3,855)
Accumulated other comprehensive loss	(20,988)	(23,782)
Retained earnings	198,588	154,345
Total stockholders' equity	464,296	284,877
	$ 1,382,258	$ 426,171

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

DARLING INTERNATIONAL INC. AND SUBSIDIARIES

Consolidated Statements of Operations
Three years ended January 1, 2011
(in thousands, except per share data)

	January 1, 2011	January 2, 2010	January 3, 2009
Net sales	$724,909	$597,806	$807,492
Costs and expenses:			
Cost of sales and operating expenses	531,648	440,111	614,708
Selling, general and administrative expenses	68,042	61,062	59,761
Depreciation and amortization	31,908	25,226	24,433
Acquisition costs	10,798	468	