

# OMEGA PROTEIN CORP

## FORM 10-Q (Quarterly Report)

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Address	2105 CITY WEST BLVD. SUITE 500 HOUSTON, TX 77042
Telephone	713-623-0060
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Sector	Consumer/Non-Cyclical
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended June 30, 2016

**OR**

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

For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 001-14003

**OMEGA PROTEIN CORPORATION**

(Exact name of Registrant as specified in its charter)

State of Nevada  
(State or other jurisdiction of incorporation or organization)

76-0562134  
(I.R.S. Employer Identification No.)

2105 City West Blvd., Suite 500  
Houston, Texas  
(Address of principal executive offices)

77042-2838  
(Zip Code)

Registrant's telephone number, including area code: (713) 623-0060

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No .

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No .

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Small reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes  No .

Number of shares outstanding of the Registrant's Common Stock, par value \$0.01 per share, on July 29, 2016: 22,305,073.

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**OMEGA PROTEIN CORPORATION**  
**TABLE OF CONTENTS**

<b>PART I. FINANCIAL INFORMATION</b>	
<b>Item 1. Financial Statements and Notes</b>	
Unaudited Condensed Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015	3
Unaudited Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2016 and 2015	4
Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015	5
Notes to Unaudited Condensed Consolidated Financial Statements	6
<b>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</b>	21
<b>Item 3. Quantitative and Qualitative Disclosures About Market Risk</b>	31
<b>Item 4. Controls and Procedures</b>	31
<b>PART II. OTHER INFORMATION</b>	
<b>Item 1. Legal Proceedings</b>	32
<b>Item 1A. Risk Factors</b>	32
<b>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</b>	33
<b>Item 3. Defaults Upon Senior Securities</b>	33
<b>Item 4. Mine Safety Disclosures</b>	33
<b>Item 5. Other Information</b>	33
<b>Item 6. Exhibits</b>	34
<b>Signatures</b>	35

**OMEGA PROTEIN CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET S**  
(In thousands, except par value amounts)  
**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements and Notes**

	June 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 6,404	\$ 661
Receivables, net	55,215	40,489
Inventories	106,989	119,994
Deferred tax asset, net	2,496	3,422
Prepaid expenses and other current assets	6,096	4,496
Total current assets	177,200	169,062
Property, plant and equipment, net	179,862	176,089
Goodwill	26,597	38,127
Other intangible assets, net	19,162	20,107
Other assets, net	5,665	3,818
Total assets	\$ 408,486	\$ 407,203
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 1,807	\$ 1,214
Accounts payable	10,786	15,876
Accrued liabilities	41,752	33,254
Total current liabilities	54,345	50,344
Long-term debt, net of current maturities	4,201	22,882
Deferred tax liability, net	26,109	27,844
Pension liabilities, net	5,845	6,048
Other long-term liabilities	4,316	4,915
Total liabilities	94,816	112,033
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 10,000,000 authorized shares; none issued	—	—
Common Stock, \$0.01 par value; 80,000,000 authorized shares; 22,463,801 and 22,371,179 shares issued and 22,297,073 and 22,221,027 shares outstanding at June 30, 2016 and December 31, 2015, respectively	221	220
Capital in excess of par value	152,814	151,250
Retained earnings	173,286	159,243
Treasury stock, at cost – 166,728 and 150,152 shares at June 30, 2016 and December 31, 2015, respectively	(2,863)	(2,505)
Accumulated other comprehensive loss	(9,788)	(13,038)
Total stockholders' equity	313,670	295,170
Total liabilities and stockholders' equity	\$ 408,486	\$ 407,203

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

**OMEGA PROTEIN CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues	\$ 112,650	\$ 93,176	\$ 197,493	\$ 164,799
Cost of sales	79,252	67,345	139,276	124,173
Gross profit	33,398	25,831	58,217	40,626
Selling, general, and administrative expense	11,106	9,997	20,039	19,413
Research and development expense	713	770	1,349	1,544
Impairment of goodwill and other intangible assets	11,614	—	11,614	—
Loss related to plant closure	1,023	649	1,665	1,287
(Gain) loss on disposal of assets	(31)	27	(66)	334
Operating income	8,973	14,388	23,616	18,048
Interest expense	(134)	(465)	(279)	(823)
Gain (loss) on foreign currency	73	83	(1,358)	(462)
Other income (expense), net	116	(94)	37	(204)
Income before income taxes	9,028	13,912	22,016	16,559
Provision for income taxes	3,365	5,108	7,973	6,086
Net income	5,663	8,804	14,043	10,473
Other comprehensive income (loss):				
Foreign currency translation adjustment net of tax (expense) benefit of (\$194), (\$180), (\$584) and \$706, respectively	360	334	1,085	(1,311)
Energy swap adjustment, net of tax expense of \$863, \$354, \$927 and \$319, respectively	1,603	657	1,721	593
Pension benefits adjustment, net of tax expense of \$120, \$105, \$239 and \$210, respectively	222	195	444	390
Comprehensive income	\$ 7,848	\$ 9,990	\$ 17,293	\$ 10,145
Basic earnings per share (See Note 14)	\$ 0.25	\$ 0.41	\$ 0.63	\$ 0.48
Weighted average common shares outstanding	21,885	21,111	21,873	21,059
Diluted earnings per share (See Note 14)	\$ 0.25	\$ 0.40	\$ 0.62	\$ 0.47
Weighted average common shares and potential common share equivalents outstanding	22,180	21,573	22,174	21,522

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

**OMEGA PROTEIN CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in thousands)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 14,043	\$ 10,473
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,599	11,911
Loss related to plant closures	1,986	—
Loss (gain) on disposal of assets	(66)	334
Impairment of goodwill and other intangible assets	11,614	—
Provisions for losses on receivables	29	24
Share based compensation	1,071	999
Deferred income taxes	(1,747)	(16)
Unrealized loss on foreign currency fluctuations, net	1,358	462
Changes in assets and liabilities:		
Receivables	(14,930)	(20,710)
Inventories	13,091	(4,625)
Prepaid expenses and other current assets	(1,596)	(2,154)
Other assets	(2,117)	(732)
Accounts payable	(5,271)	(8,536)
Accrued liabilities	11,989	7,326
Pension liability, net	241	(263)
Other long term liabilities	(390)	1,245
Net cash provided by (used in) operating activities	<u>41,904</u>	<u>(4,262)</u>
Cash flows from investing activities:		
Capital expenditures	(18,272)	(21,030)
Proceeds from disposition of assets	85	36
Net cash used in investing activities	<u>(18,187)</u>	<u>(20,994)</u>
Cash flows from financing activities:		
Principal payments of long-term debt	(24,500)	(3,793)
Proceeds from long-term debt	6,392	27,827
Treasury stock repurchase	(358)	(158)
Proceeds from equity compensation transactions	283	846
Excess tax benefit of equity compensation transactions	211	151
Net cash (used in) provided by financing activities	<u>(17,972)</u>	<u>24,873</u>
Net increase (decrease) in cash and cash equivalents	5,745	(383)
Translation effect on cash	(2)	—
Cash and cash equivalents at beginning of year	661	1,430
Cash and cash equivalents at end of period	<u>\$ 6,404</u>	<u>\$ 1,047</u>

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

**OMEGA PROTEIN CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES SUMMARY OF OPERATIONS AND BASIS OF PRESENTATION**

***Business Description***

Omega Protein Corporation (the “Company”) is a nutritional products company that develops, produces and delivers products throughout the world to improve the nutritional integrity of foods, dietary supplements and animal feeds. The Company operates through two industry segments: animal nutrition and human nutrition.

The animal nutrition segment is comprised primarily of two subsidiaries: Omega Protein, Inc. (“Omega Protein”) and Omega Shipyard, Inc. (“Omega Shipyard”). Omega Protein, the Company’s principal operating subsidiary, is the successor to a business conducted since 1913. Omega Protein produces and markets a variety of products produced from menhaden (a herring-like species of fish found in commercial quantities in the U.S. coastal waters of the Atlantic Ocean and Gulf of Mexico), including specialty fish meal, crude and refined fish oils and fish solubles. Omega Protein’s fish meal products are primarily used as a protein ingredient in animal feed for swine, aquaculture and household pets. Fish oil is used primarily for animal and aquaculture feeds, as well as additives to human food products and dietary supplements. Omega Protein’s fish solubles are sold primarily to bait manufactures and for use as an organic fertilizer. Omega Protein’s business is seasonal in nature and generally has higher revenues during the third quarter of each fiscal year. A portion of Omega Protein’s production is transferred to the human nutrition segment where it is further processed and sold. Omega Shipyard owns and operates a drydock facility in Moss Point, Mississippi that is used to provide shoreside maintenance for Omega Protein’s fishing fleet.

The human nutrition segment operates under the “tera’s ®” branded product and “Bioriginal” names. Bioriginal has three primary product lines: specialty oils, protein products and other nutraceutical ingredients. Bioriginal is comprised primarily of four subsidiaries: Bioriginal Food & Science Corp. (“Bioriginal Food & Science”), Wisconsin Specialty Protein, L.L.C. (“WSP”), Cyvex Nutrition, Inc. (“Cyvex”) and InCon Processing, L.L.C. (“InCon”). Bioriginal Food & Science, acquired by the Company in September 2014 and headquartered in Saskatoon, Canada with additional operations in the Netherlands, is a supplier of plant and marine based specialty oils to the food and nutraceutical industries. WSP, acquired by the Company in February 2013, is a manufacturer and marketer of specialty dairy proteins and other related products headquartered in Madison, Wisconsin and operates a production facility in Reedsburg, Wisconsin. Cyvex is located in Irvine, California and is a supplier for the food and nutraceutical industries. InCon is located in Batavia, Illinois and is a specialty processor that utilizes molecular distillation technology to purify and concentrate Omega-3 fish oils and, subject to outside demand and excess capacity, a variety of other compound products for third-party tolling customers. In March 2016, as part of its strategy to focus on non-concentrated omega-3 oils instead of concentrated omega-3 oils, the Company decided to exit its Batavia, Illinois oil concentration facility and relocate certain assets from this facility to other Company facilities. Subsequent to that decision and during the second quarter of 2016 the Company received a non-binding offer to purchase certain assets at the Batavia facility and began negotiations with a potential buyer to sell those assets. As of August 3, 2016, those negotiations are still in progress. For additional information related to the closure of the Batavia facility, see Note 2 – Plant Closures.

***Basis of Presentation***

These interim financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, the instructions to Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally provided have been omitted. The interim financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2015. The year end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

In the opinion of management the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the Company’s consolidated financial position as of June 30, 2016, and the results of its operations for the three month and six month periods ended June 30, 2016 and 2015 and its cash flows for the six month periods ended June 30, 2016 and 2015. Quarterly operating results are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

**OMEGA PROTEIN CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

**Accumulated Other Comprehensive Loss**

The components of accumulated other comprehensive (loss) gain, net of tax, included in stockholders' equity are as follows:

Changes in Accumulated Other Comprehensive Loss by Component  
For the Six Months Ended June 30, 2016 (in thousands)

	Gains and Losses On Cash Flow Hedges	Defined Benefit Pension Items	Foreign Currency Translation Adjustment	Total
Balance as of December 31, 2015	\$ (2,012)	\$ (8,335)	\$ (2,691)	\$ (13,038)
Other comprehensive gain (loss) before reclassifications	1,180	—	1,085	2,265
Amounts reclassified from accumulated other comprehensive loss	541 (a)	444 (b)	—	985
Net current-period other comprehensive income	1,721	444	1,085	3,250
Balance as of June 30, 2016	<u>\$ (291)</u>	<u>\$ (7,891)</u>	<u>\$ (1,606)</u>	<u>\$ (9,788)</u>

Changes in Accumulated Other Comprehensive Loss by Component  
For the Six Months Ended June 30, 2015 (in thousands)

	Gains and Losses On Cash Flow Hedges	Defined Benefit Pension Items	Foreign Currency Translation Adjustment	Total
Balance as of December 31, 2014	\$ (2,137)	\$ (7,804)	\$ (915)	\$ (10,856)
Other comprehensive gain (loss) before reclassifications	36	—	(1,311)	(1,275)
Amounts reclassified from accumulated other comprehensive loss	557 (a)	390 (b)	—	947
Net current-period other comprehensive income	593	390	(1,311)	(328)
Balance as of June 30, 2015	<u>\$ (1,544)</u>	<u>\$ (7,414)</u>	<u>\$ (2,226)</u>	<u>\$ (11,184)</u>

- (a) This accumulated other comprehensive income component is reclassified to the unallocated inventory cost pool in the period when the energy consumption takes place.
- (b) This accumulated other comprehensive income component is included in the computation of net periodic pension costs as amortization of actuarial loss which are explained in more detail in Note 15 to the consolidated financial statements in Item 8 of the Company's Form 10-K for the fiscal year ended December 31, 2015.

**Recently Issued Accounting Standards**

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments – Credit Losses*. ASU 2016-13 was issued to provide more decision-useful information about the expected credit losses on financial instruments and changes the loss impairment methodology. ASU No. 2016-13 will be effective for us as of January 1, 2020 using a modified retrospective adoption method. The impact of the adoption of ASU 2016-13 is not expected to have a significant impact on the Company's consolidated results of operations, financial position and related disclosures.

On March 30, 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation*. ASU 2016-09 was issued as part of the FASB's simplification initiative and affects all entities that issue share-based payment awards to their employees. ASU 2016-09 covers accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU No. 2016-09 will be effective for us as of January 1, 2017. The Company is currently reviewing the effect of ASU No. 2016-09 on the Company's consolidated results of operations, financial position and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which is intended to improve the reporting of leasing transactions to provide users of financial statements with more decision-useful information. ASU 2016-02 will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted, including interim periods within those fiscal years. The Company is currently assessing the potential impact of ASU 2016-02 on the Company's consolidated results of operations, financial position and related disclosures.



**OMEGA PROTEIN CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

***Foreign Currency Translations***

All amounts are expressed in U.S. Dollars unless otherwise indicated. The U.S. Dollar is the functional currency of Bioriginal Food & Science’s Canadian-based subsidiaries (“Bioriginal Food & Science Canada”). Monetary assets and liabilities denominated in foreign currencies are translated into U.S. Dollars at exchange rates in effect at the balance sheet date. Non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at average rates in effect in the period of the transaction. Foreign exchange gains and losses are included in the unaudited condensed consolidated statement of comprehensive income.

The Euro is the functional currency of Bioriginal Food & Science’s Netherlands-based subsidiaries (“Bioriginal Food & Science Europe”). The operations of these subsidiaries are considered self-sustaining and their financial statements are translated into U.S. Dollars using the current rate method. Under this method, all assets and liabilities are translated to U.S. Dollars at exchange rates in effect at the balance sheet date and all revenue and expenses are translated at average rates in effect in the period of the transaction. Exchange gains and losses arising from this translation, representing the net unrealized foreign currency translation gain (loss) on the Company’s net investment in its self-sustaining subsidiaries, are recorded in the accumulated other comprehensive income (loss) component of stockholders’ equity. Adjustments to the accumulated other comprehensive income (loss) account are not recorded in the unaudited condensed consolidated statement of comprehensive income until realized through an addition or reduction in the Company’s net investment in such operations.

**NOTE 2. PLANT CLOSURES**

**Batavia Plant**

As part of our strategic review and as a result of operating results that did not meet expectations, we re-assessed our business strategy to produce and sell concentrated menhaden fish oils. During this assessment, a reduction in efforts was instituted and the Company determined that the carrying values of certain assets located at our facility in Batavia, Illinois were no longer recoverable. In March, the Company decided to exit this facility and relocate certain assets from this facility to other Company facilities. Subsequent to that decision and during the second quarter of 2016 the Company received a non-binding offer to purchase certain assets at the Batavia facility and began negotiations with a potential buyer to sell those assets. As of August 3, 2016, those negotiations are still in progress. Under the accounting guidance of ASC 360, the Company determined that these negotiations represented a triggering event and re-assessed the carrying value of those assets. The Company determined that the carrying value of those assets exceeded their fair value by approximately \$1.2 million and recorded a charge to reduce their carrying value.

The following table shows all charges related to the plant closure that have been recorded in the Company’s unaudited condensed consolidated statements of comprehensive income for the three and six months ended June 30, 2016 and from December 1, 2015 to June 30, 2016:

	<u>Three Months Ended</u> <u>June 30, 2016</u>	<u>Six Months Ended</u> <u>June 30, 2016</u>	<u>December 1, 2015 to</u> <u>June 30, 2016</u>
	(in thousands)		
Impairment of property, plant and equipment	\$ 1,190	\$ 1,200	\$ 5,358
Write-off material and supplies inventory	—	239	239
Employee severance costs	183	539	539
Estimated decommissioning costs	—	—	375
<b>Total loss related to plant closure</b>	<b>\$ 1,373</b>	<b>\$ 1,978</b>	<b>\$ 6,511</b>

In addition to the above recognized losses, the Company expects that it may have additional losses related to ongoing costs not attributable to future production. To the extent we are unable to recover the remaining carrying value of the assets at the facility, we could have additional impairment charges. The remaining carrying value of these assets is \$1.2 million. Of this \$1.2 million in assets, approximately \$0.7 million represents assets that the Company expects to relocate and use at other Company facilities.

**OMEGA PROTEIN CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

Cameron Plant

In December 2013, the Company effectively closed its menhaden fish processing plant located in Cameron, Louisiana and re-deployed certain vessels from that facility to the Company's other Gulf Coast facilities located in Abbeville, Louisiana and Moss Point, Mississippi. In conjunction with the closure, the following charges were incurred in the Company's unaudited condensed consolidated statements of comprehensive income for the three and six months ended June 30, 2016 and 2015 and from December 2013 to June 30, 2016:

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	December 2013 to June 30, 2016
	(in thousands)				
Impairment of property, plant and equipment	\$ —	\$ —	\$ —	\$ —	\$ 7,922
Write-off material and supplies inventory	—	—	—	—	150
Employee severance costs	—	—	—	—	732
Estimated decommissioning costs	—	—	—	—	250
Other ongoing closure costs not attributable to future production	(350)	649	(313)	1,287	6,405
Total loss related to plant closure	<u>\$ (350)</u>	<u>\$ 649</u>	<u>\$ (313)</u>	<u>\$ 1,287</u>	<u>\$ 15,459</u>

In June 2016, the Company and its landlord agreed on the mutual termination of the lease for the Cameron facility pursuant to which the Company has no further ongoing lease payment or other obligations for the property. As a result of the termination of the lease, previously recognized accruals for ongoing contractual obligations were reversed and a gain was recognized during the three and six months ended June 30, 2016.

**NOTE 3. INDUSTRY SEGMENTS**

The Company evaluates and reviews its results of operations in two segments, animal nutrition and human nutrition. These segments are managed separately and information on each segment is used by the chief operating decision makers as they make decisions about the Company's overall resource allocation and assess performance.

The animal nutrition segment is primarily comprised of the Company's fishing related assets. These assets produce fish meal, oil and solubles that are sold primarily to animal nutrition customers. A portion of the Company's fish oil is also partially refined and transferred at cost to the human nutrition segment where it is further refined and concentrated for sale to the human nutrition market. The human nutrition segment is comprised of assets used to produce, procure, market and sell products, including plant oils, dairy proteins, fish oils and nutraceuticals, to human nutrition markets.

The tables below present information about reported segments for the three months ended June 30, 2016 and 2015 (in thousands):

<u>2016</u>	<u>Animal Nutrition</u>	<u>Human Nutrition</u>	<u>Unallocated</u>	<u>Total</u>
Revenue <sup>(1)</sup>	\$ 81,602	\$ 31,048	\$ —	\$ 112,650
Cost of sales	51,074	28,178	—	79,252
Gross profit	30,528	2,870	—	33,398
Selling, general and administrative expenses (including research and development)	662	4,473	6,684	11,819
Impairment of goodwill and other intangible assets	—	11,614	—	11,614
(Gain) loss related to plant closures	(350)	1,373	—	1,023
Other (gains) and losses	(31)	—	—	(31)
Operating income	<u>\$ 30,247</u>	<u>\$ (14,590)</u>	<u>\$ (6,684)</u>	<u>\$ 8,973</u>
Depreciation and amortization	\$ 4,740	\$ 1,453	\$ 190	\$ 6,383
Identifiable assets	\$ 256,755	\$ 140,937	\$ 10,794	\$ 408,486
Capital expenditures	\$ 7,442	\$ 429	\$ 697	\$ 8,568

**OMEGA PROTEIN CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

<u>2015</u>	<u>Animal Nutrition</u>	<u>Human Nutrition</u>	<u>Unallocated</u>	<u>Total</u>
Revenue ( 2 )	\$ 56,871	\$ 36,305	\$ —	\$ 93,176
Cost of sales	36,007	31,338	—	67,345
Gross profit	20,864	4,967	—	25,831
Selling, general and administrative expense (including research and development)	536	5,087	5,144	10,767
Loss related to plant closure	649	—	—	649
Other (gains) and losses	27	—	—	27
Operating income	\$ 19,652	\$ (120)	\$ (5,144)	\$ 14,388
Depreciation and amortization	\$ 4,376	\$ 1,528	\$ 129	\$ 6,033
Identifiable assets	\$ 243,720	\$ 168,570	\$ 1,874	\$ 414,164
Capital expenditures	\$ 8,376	\$ 1,382	\$ 712	\$ 10,470

(1) Excludes revenue from internal customers of \$0.4 million for fish oil that was transferred from the animal nutrition segment to the human nutrition segment at cost.

(2) Excludes revenue from internal customers of \$0.6 million for fish oil that was transferred from the animal nutrition segment to the human nutrition segment at cost.

The tables below present information about reported segments for the six months ended June 30, 2016 and 2015 (in thousands):

<u>2016</u>	<u>Animal Nutrition</u>	<u>Human Nutrition</u>	<u>Unallocated</u>	<u>Total</u>
Revenue ( 3 )	\$ 131,797	\$ 65,696	\$ —	\$ 197,493
Cost of sales	80,823	58,453	—	139,276
Gross profit	50,974	7,243	—	58,217
Selling, general and administrative expenses (including research and development)	1,148	8,609	11,631	21,388
Impairment of goodwill and other intangible assets	—	11,614	—	11,614
(Gain) loss related to plant closures	(313)	1,978	—	1,665
Other (gains) and losses	(66)	—	—	(66)
Operating income	\$ 50,205	\$ (14,958)	\$ (11,631)	\$ 23,616
Depreciation and amortization	\$ 9,410	\$ 2,807	\$ 382	\$ 12,599
Identifiable assets	\$ 256,755	\$ 140,937	\$ 10,794	\$ 408,486
Capital expenditures	\$ 15,904	\$ 1,504	\$ 864	\$ 18,272

<u>2015</u>	<u>Animal Nutrition</u>	<u>Human Nutrition</u>	<u>Unallocated</u>	<u>Total</u>
Revenue ( 4 )	\$ 93,700	\$ 71,099	\$ —	\$ 164,799
Cost of sales	62,290	61,883	—	124,173
Gross profit	31,410	9,216	—	40,626
Selling, general and administrative expense (including research and development)	1,093	10,116	9,748	20,957
Loss related to plant closure	1,287	—	—	1,287
Other (gains) and losses	334	—	—	334
Operating income (loss)	\$ 28,696	\$ (900)	\$ (9,748)	\$ 18,048
Depreciation and amortization	\$ 8,649	\$ 3,027	\$ 235	\$ 11,911
Identifiable assets	\$ 243,720	\$ 168,570	\$ 1,874	\$ 414,164
Capital expenditures	\$ 17,489	\$ 2,333	\$ 1,208	\$ 21,030

(3) Excludes revenue from internal customers of \$0.5 million for fish oil that was transferred from the animal nutrition segment to the human nutrition segment at cost.

(4) Excludes revenue from internal customers of \$1.0 million for fish oil that was transferred from the animal nutrition segment to the human nutrition segment at cost.

**OMEGA PROTEIN CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

The tables below reconcile total segment operating income to total earnings from operations before income taxes (in thousands):

	<b>Three Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
Operating income for reportable segments	\$ 8,973	\$ 14,388
Interest expense	(134)	(465)
Gain on foreign currency	73	83
Other expense, net	116	(94)
Income before income taxes	<u>\$ 9,028</u>	<u>\$ 13,912</u>

  

	<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
Operating income for reportable segments	\$ 23,616	\$ 18,048
Interest expense	(279)	(823)
Loss on foreign currency	(1,358)	(462)
Other expense, net	37	(204)
Income before income taxes	<u>\$ 22,016</u>	<u>\$ 16,559</u>

**NOTE 4 . GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill is measured as the excess of the cost of an acquisition over the sum of the amounts assigned to the fair value of tangible and intangible assets acquired less liabilities assumed. All of the Company's goodwill and other intangible assets are the result of acquisitions in the human nutrition segment.

Goodwill is tested annually for impairment, and whenever an event occurs or circumstances change that would more likely than not indicate that the carrying value of a reporting unit that includes goodwill is greater than the fair value of that reporting unit. Determining whether an indicator of impairment has occurred during an interim period involves a significant amount of judgment. During the interim periods, qualitative factors such as deterioration in general economic conditions, changes in the market for an entity's products or services, declines in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods, among others, are evaluated to determine if a triggering event which would result in a potential impairment has occurred.

During the second quarter of 2016, the Company completed its annual impairment testing of goodwill and indefinite life intangible assets related to its acquisition of Bioriginal Food & Science in September 2014. As of June 30, 2016, the calculated fair value of Bioriginal Food & Science's trade name exceeded its \$3.8 million carrying value by 21% and the calculated fair value of goodwill and other indefinite lived intangible assets exceeded their \$26.6 million carrying values by 26%. At this time, the Company does not consider the carrying value of these assets to be at risk due to the level of anticipated profitability of Bioriginal Food & Science. Key assumptions in the fair value calculation include sales volumes and prices, the portion of sales attributable to trade names, the cost and availability of raw materials and the discount rate.

As of December 31, 2015, the Company completed its annual assessment of the WSP reporting unit's goodwill for potential impairment. In that assessment, the Company estimated that the fair value of the reporting unit exceeded its carrying value by \$2.5 million or 12%. Key assumptions and sensitivities related to that assessment are more fully explained in Note 10 to the consolidated financial statements in Item 8 of the Company's Form 10-K for the fiscal year ended December 31, 2015. During the first six months of 2016, this reporting unit experienced gross profits and operating income lower than was assumed in the December 31, 2015 analysis. While dairy protein product sales grew, several relatively higher-margin products did not grow as rapidly as was anticipated in the forecast prepared as of December 31, 2015. As a result, the Company re-assessed and revised several key assumptions in its forecast for WSP. The revised assumptions included (i) lower sales growth rates, (ii) a change in the product mix that generally increased the portion of sales from relatively lower margin products, and (iii) a reduction in the long-term growth rate used in the terminal year. This resulted in a new forecast for WSP that was lower than the forecast prepared as of December 31, 2015. Based on (i) the modest excess of estimated fair value over carrying value at December 31, 2015, (ii) actual results that were less than forecast for the six months ended June 30, 2016, and (iii) a lower forecast, the Company determined that triggering events had occurred and there was sufficient evidence to indicate the need to perform an interim test for impairment of goodwill. The results of the interim test for impairment, which included the revised outlook for the business, indicated that the carrying amount of the reporting unit exceeded its fair value and the Company recorded a charge of \$11.6 million to impair the goodwill for this reporting unit. The interim testing also concluded that the fair value of the reporting unit's other indefinite-lived intangible assets (trade names) exceeded its \$1.1 million carrying value by 39% and no impairment was necessary.

**OMEGA PROTEIN CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

The following table summarizes the changes in the carrying amount of goodwill by reporting unit (in thousands):

	Bioriginal Food & Science	WSP	Total
January 1, 2016	\$ 26,513	11,614	\$ 38,127
Impairment	—	(11,614)	(11,614)
Foreign currency translation adjustment	84	—	84
June 30, 2016	<u>\$ 26,597</u>	<u>—</u>	<u>\$ 26,597</u>

The following table summarizes the Company's intangible assets (in thousands):

	Balance at January 1, 2016	Reclassified	(1) Amortization	Foreign currency translation adjustment	Balance at June 30, 2016
Customer relationships and brand names, net of accumulated amortization of \$4,230 and \$5,237, respectively	\$ 14,851	362	(1,007)	41	\$ 14,247
Indefinite life intangibles – trade names/secrets and other	5,256	(362)	—	21	4,915
Total intangible assets	<u>\$ 20,107</u>	<u>—</u>	<u>(1,007)</u>	<u>62</u>	<u>\$ 19,162</u>

(1) Weighted average life of approximately 10 years.

Amortization expense of the Company's intangible assets for the three months ended June 30, 2016 and 2015 was approximately \$0.5 million and for the six months ended June 30, 2016 and 2015 was approximately \$1.0 million. The table below shows estimated future amortization expense related to intangible assets (in thousands):

Remainder of 2016	\$ 1,010
2017	2,017
2018	2,017
2019	2,017
Thereafter	7,186
Total estimated future amortization expense	<u>\$ 14,247</u>

The Company's goodwill and other intangible assets are more fully explained in Note 10 to the consolidated financial statements in Item 8 of the Company's Form 10-K for the fiscal year ended December 31, 2015.

**OMEGA PROTEIN CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

**NOTE 5 . RECEIVABLES, NET**

R eceivables, net are summarized below (in thousands):

	June 30, 2016	December 31, 2015
Trade	\$ 50,052	\$ 32,179
Insurance	4,318	6,769
Income tax	841	1,133
Other	601	976
Total accounts receivable	55,812	41,057
Less allowance for doubtful accounts	(597)	(568)
Receivables, net	<u>\$ 55,215</u>	<u>\$ 40,489</u>

**NOTE 6 . INVENTORY**

The major classes of inventory are summarized below (in thousands):

	June 30, 2016	December 31, 2015	June 30, 2015
Fish meal	\$ 26,214	\$ 37,308	\$ 28,570
Fish oil	13,816	25,600	12,792
Fish solubles	201	696	471
Unallocated inventory cost pool (including off-season costs)	21,457	7,807	17,411
Other nutraceutical products	5,370	6,393	5,864
Bioriginal Food & Science products	21,382	24,024	21,927
Dairy protein products	7,870	8,447	5,332
Other materials and supplies	10,679	9,719	9,370
Total inventory	<u>\$ 106,989</u>	<u>\$ 119,994</u>	<u>\$ 101,737</u>

Inventory at June 30, 2016, December 31, 2015 and June 30, 2015 is stated at the lower of cost and net realizable value. The elements of the June 30, 2016 unallocated inventory cost pool include Omega Protein's plant and vessel related labor, utilities, rent, repairs and depreciation, which are allocated to 2016 fishing season production.

**NOTE 7 . PREPAID EXPENSES AND OTHER CURRENT ASSETS**

Prepaid expenses and other current assets are summarized below (in thousands):

	June 30, 2016	December 31, 2015
Prepaid insurance	\$ 3,894	\$ 2,317
Product deposits	254	767
Selling expenses	171	50
Leases	510	119
Energy swap	157	—
Other prepaids and expenses	1,110	1,243
Total prepaid expenses and other current assets	<u>\$ 6,096</u>	<u>\$ 4,496</u>

Amounts included in prepaid expenses and other current assets consist primarily of prepaid operating expenses including insurance, rents, and selling expenses. Prepaid selling expenses are expensed in those periods in which the related revenue is recognized.

**OMEGA PROTEIN CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

**NOTE 8 . OTHER ASSETS , NET**

Other assets, net are summarized below (in thousands):

	June 30, 2016	December 31, 2015
Fish nets, net of accumulated amortization of \$1,548 and \$1,003	\$ 1,930	\$ 1,193
Insurance receivables	2,205	1,369
Debt issuance costs	1,033	1,150
Energy swap	392	—
Deposits and other	105	106
Total other assets, net	<u>\$ 5,665</u>	<u>\$ 3,818</u>

Amortization expense for fishing nets amounted to approximately \$0.3 million for each of the three months ended June 30, 2016 and 2015 and \$0.5 million and \$0.6 million for the six months ended June 30, 2016 and 2015, respectively.

As of June 30, 2016 and December 31, 2015, insurance receivables primarily relates to Jones Act claims for employees aboard its vessels. This estimated amount is recorded gross of estimated claims which may be due to claimants and is included in accrued insurance liabilities.

The Company carries insurance for certain losses relating to its fishing vessels and Jones Act liability for employees aboard its vessels (collectively, “Vessel Claims Insurance”). The typical Vessel Claims Insurance policy contains an annual aggregate deductible (“AAD”) for which Omega Protein remains responsible, while the insurance carrier is responsible for all applicable amounts which exceed the AAD. It is Omega Protein’s policy to accrue current amounts due and record amounts paid out on each claim. Once payments exceed the AAD, Omega Protein records an insurance receivable for a given policy year.

**NOTE 9 . PROPERTY, PLANT AND EQUIPMENT , NET**

Property, plant and equipment, net are summarized below (in thousands):

	June 30, 2016	December 31, 2015
Land	\$ 9,407	\$ 9,407
Plant assets	210,787	207,249
Fishing vessels	124,786	114,453
Furniture and fixtures	12,286	12,315
Construction in progress	15,549	13,793
Total property and equipment	372,815	357,217
Less accumulated depreciation and impairment	(192,953)	(181,128)
Property, plant and equipment, net	<u>\$ 179,862</u>	<u>\$ 176,089</u>

Depreciation expense was \$5.5 million and \$5.2 million for the three months ended June 30, 2016 and 2015, respectively, and \$10.9 million and \$10.3 million for the six months ended June 30, 2016 and 2015, respectively.

The Company capitalizes interest as part of the acquisition cost of a qualifying asset. Interest is capitalized only during the period of time required to complete and prepare the asset for its intended use. For the three months ended June 30, 2016 and 2015, the Company capitalized interest of less than \$0.1 million and approximately \$0.2 million, respectively. For the six months ended June 30, 2016 and 2015, the Company capitalized interest of approximately \$0.1 million and \$0.3 million, respectively.

**OMEGA PROTEIN CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

**NOTE 10 . ENERGY SWAP AGREEMENTS**

**Energy Swap Agreements**

The Company does not enter into financial instruments for trading or speculative purposes. Omega Protein entered into energy swap agreements to manage portions of its cash flow exposure related to the volatility of natural gas, diesel and propane energy prices for its fish meal and fish oil production operations. The swaps effectively fix pricing for the quantities listed below during the consumption periods.

Energy Swap	Consumption Period	Quantity	Price Per Unit	Energy Swap Asset/(Liability) as of June 30, 2016	Deferred Tax Asset/(Liability) as of June 30, 2016
(in thousands)					
Diesel - NYMEX Heating Oil Swap	July - November, 2016	1,844,378 Gallons	\$ 2.01	\$ (909)	\$ 318
Natural Gas - NYMEX Natural Gas Swap	July - October, 2016	250,284 MMBTUs	\$ 3.05	(31)	11
Propane - Natural Gas Liquids Swap	July - November, 2016	2,095,640 Gallons	\$ 0.53	4	(1)
Diesel - NYMEX Heating Oil Swap	May - November, 2017	2,154,960 Gallons	\$ 1.50	242	(85)
Natural Gas - NYMEX Natural Gas Swap	April - October, 2017	343,700 MMBTUs	\$ 2.82	87	(30)
Propane - Natural Gas Liquids Swap	June - November, 2017	1,832,800 Gallons	\$ 0.43	196	(69)
Diesel - NYMEX Heating Oil Swap	May - November, 2018	725,000 Gallons	\$ 1.67	(1)	—
Propane - Natural Gas Liquids Swap	June - November, 2018	368,000 Gallons	\$ 0.55	(8)	3
				<u>\$ (420)</u>	<u>\$ 147</u>

Energy Swap	Consumption Period	Quantity	Price Per Unit	Energy Swap Asset/(Liability) as of December 31, 2015	Deferred Tax Asset/(Liability) as of December 31, 2015
(in thousands)					
Diesel - NYMEX Heating Oil Swap	May - November, 2016	2,418,679 Gallons	\$ 2.23	\$ (2,319)	\$ 812
Natural Gas - NYMEX Natural Gas Swap	April - October, 2016	374,850 MMBTUs	\$ 3.05	(207)	72
Propane - Natural Gas Liquids Swap	June - November, 2016	1,902,590 Gallons	\$ 0.58	(322)	113
Diesel - NYMEX Heating Oil Swap	May - November, 2017	716,560 Gallons	\$ 1.69	(165)	58
Natural Gas - NYMEX Natural Gas Swap	April - October, 2017	187,400 MMBTUs	\$ 2.97	(45)	15
				<u>\$ (3,058)</u>	<u>\$ 1,070</u>

As of June 30, 2016, Omega Protein has recorded a prepaid expense and other current asset of \$0.2 million, a long-term asset of \$0.4 million and an other current liability of \$1.0 million, to recognize the fair value of energy swap derivatives, and has also recorded a deferred tax asset of \$0.1 million associated therewith. As of December 31, 2015, Omega Protein has recorded a long-term liability of \$0.2 million and an other current liability of \$2.9 million to recognize the fair value of energy swap derivatives, and has also recorded a deferred tax asset of \$1.1 million associated therewith. The effective portion of the change in fair value from inception to June 30, 2016 is recorded in "accumulated other comprehensive loss" in the Company's unaudited condensed consolidated financial statements. The following table illustrates the changes recorded, net of tax, in accumulated other comprehensive loss resulting from the energy swap agreements (in thousands).

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Beginning balance	\$ (1,894)	\$ (2,201)	\$ (2,012)	\$ (2,137)
Net (gain) loss, net of tax, reclassified to unallocated inventory cost pool	541	557	541	557
Net change associated with current period swap transactions, net of tax	1,062	100	1,180	36
Balance as of June 30,	<u>\$ (291)</u>	<u>\$ (1,544)</u>	<u>\$ (291)</u>	<u>\$ (1,544)</u>

The \$0.3 million reported in accumulated other comprehensive loss as of June 30, 2016 will be reclassified to the unallocated inventory cost pool in the period when the energy consumption takes place. The amount of comprehensive loss to be reclassified, net of taxes, during the next 12 months is expected to be approximately \$0.5 million.





**OMEGA PROTEIN CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

The aggregate fair value of derivative instruments in gross liability positions as of June 30, 2016 and December 31, 2015 was \$1.1 million and \$3.1 million, respectively. The aggregate fair value of derivative instruments in gross asset positions as of June 30, 2016 and December 31, 2015 was \$0.8 million and \$0, respectively.

<u>As of June 30, 2016 (in thousands)</u>	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts of Assets (Liabilities)Offset	Net Amounts of Assets (Liabilities) Presented in the Balance Sheet
Energy swap derivatives – asset position	\$ 785	\$ (235)	\$ 550
Energy swap derivatives – liability position	\$ (1,082)	\$ 112	\$ (970)

<u>As of December 31, 2015 (in thousands)</u>	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts of Assets (Liabilities)Offset	Net Amounts of Assets (Liabilities) Presented in the Balance Sheet
Energy swap derivatives – liability position	\$ (3,058)	\$ -	\$ (3,058)

If, at any time, the swaps are determined to be ineffective due to changes in the Company's energy usage, price correlations or underlying hedge agreements or assumptions, the fair value of the portion of the energy swaps determined to be ineffective will be recognized as a gain or loss in cost of sales for the applicable period. For the three months ended June 30, 2016 and 2015, the Company recognized gains of \$0 and \$0.5 million, respectively, to cost of sales resulting from transactions associated with the ineffectiveness of diesel energy swaps. For the six months ended June 30, 2016 and 2015, the Company recognized a loss of less than \$0.1 million and a gain of \$0.1 million, respectively, to cost of sales resulting from transactions associated with the ineffectiveness of diesel energy swaps. The fair value of all outstanding derivatives is determined using a model with inputs that are observable in the market or can be derived from or corroborated by observable data (level 2).

**NOTE 11. NOTES PAYABLE AND LONG-TERM DEBT**

The Company's long-term debt is summarized in the table below (in thousands):

	June 30, 2016	December 31, 2015
Amounts due on Loan Agreement in August 2020, interest at a Base Rate, LIBOR, and CDOR plus an applicable margin (2.13% at June 30, 2016 and 1.49% to 2.70% at December 31, 2015)	\$ 4,201	\$ 22,882
ING Commercial Finance B.V., interest at EURIBOR plus an applicable rate (1.70% at June 30, 2016 and December 31, 2015)	1,807	1,214
<b>Total debt</b>	<b>6,008</b>	<b>24,096</b>
Less current maturities	(1,807)	(1,214)
<b>Long-term debt</b>	<b>\$ 4,201</b>	<b>\$ 22,882</b>

The estimated fair value of the Company's total debt at June 30, 2016 and December 31, 2015, based on quoted market prices available to the Company for issuance of similar debt with similar terms (level 2), approximated carrying value.

**OMEGA PROTEIN CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

On August 20, 2015 (the “Closing Date”), the Company and certain subsidiaries entered into a Second Amended and Restated Loan Agreement (the “Loan Agreement”) with Wells Fargo Bank, National Association, as administrative agent (the “Agent”) for the lenders (currently Wells Fargo Bank, N.A., JP Morgan Chase Bank, N.A. and BMO Harris Bank, N.A.) (collectively, the “Lenders”) pursuant to which the Lenders agreed to extend credit to the Company in the form of loans (each a “Loan” and collectively, the “Loans”) on a revolving basis of up to \$125.0 million in the aggregate (the “Commitment”), with \$95.0 million of such Commitment allocated to Revolving A Loans to be made to the Company or Omega Protein in U.S. Dollars or Alternative Currencies (as such term is defined in the Loan Agreement) and \$30.0 million of such Commitment allocated to Revolving B Loans to be made to the Company and certain subsidiaries, including Bioriginal Food & Science, in U.S. Dollars or Canadian Dollars. The Commitment includes a sub-facility for swingline loans up to an amount not to exceed \$10.0 million, a sub-facility for standby letters of credit issued for the account of the Company or Omega Protein up to an amount not to exceed \$20.0 million, a sub-facility for standby or commercial letters of credit issued for the account of Bioriginal Food & Science up to an amount not to exceed \$7.5 million (subject to a temporary increase of \$9.0 million), and an accordion feature that allows the Company to increase the amount of the Commitment up to an additional \$75.0 million, subject to the further commitments of the Lenders and other customary conditions precedent. The Loan Agreement amended and restated the Company’s existing senior secured credit facility (the “Prior Loan Agreement”). The proceeds of the Loan Agreement were used to (a) refinance existing debt under the Prior Loan Agreement, (b) pay fees and expenses incurred in connection with refinancing the Prior Loan Agreement and entry into the Loan Agreement, (c) refinance certain debt owed to HSBC Bank Canada pursuant to an agreement that has been terminated, and (d) provide ongoing working capital and for other general corporate purposes of the Company and its subsidiaries.

All Loans and all other obligations outstanding under the Loan Agreement shall be payable in full in August 2020. As of June 30, 2016 and December 31, 2015, the Company had \$4.2 million and \$22.9 million outstanding under the Loan Agreement and approximately \$8.6 million and \$7.8 million in standby letters of credit issued, respectively. As of June 30, 2016, the Company was in compliance with all financial covenants under the Loan Agreement. The Company has no off-balance sheet arrangements other than normal operating leases and standby letters of credit.

In March 2015, Bioriginal Food & Science Europe extended the terms of its credit facility with ING Commercial Finance B.V. which provides borrowings up to an amount based on accounts receivable and inventory balances, and matures on March 31, 2018. Advances are repayable on demand and bear interest payable monthly at 1.75% + EURIBOR (currently 1.70%). This credit facility is secured by accounts receivable and inventory of Bioriginal Food & Science Europe to a maximum of 85% of accounts receivable and 60% of inventory. This credit facility contains cross default provisions and other covenants. As of June 30, 2016 and December 31, 2015, Bioriginal Food & Science Europe had \$1.8 million and \$1.2 million outstanding under this credit facility, respectively, which is included in current maturities.

In June 2010, Bioriginal Food & Science Europe entered into a credit facility with ING Bank N.V. which provides borrowings up to 250,000 Euro and matures on November 16, 2016. Under the credit facility, interest is paid at 2.70% plus the EURIBOR rate (currently 2.49%). This credit facility is secured by Bioriginal Food & Science Europe’s equipment. This facility contains cross default provisions and other covenants. As of June 30, 2016 and December 31, 2015, there were no outstanding borrowings under this credit facility.

The Company’s notes payable and long-term debt are more fully explained in Note 11 to the consolidated financial statements in Item 8 of the Company’s Form 10-K for the fiscal year ended December 31, 2015.

**NOTE 12. ACCRUED LIABILITIES**

Accrued liabilities are summarized below (in thousands):

	June 30, 2016	December 31, 2015
Insurance	\$ 8,621	\$ 9,751
Reserve for plant closure costs	524	375
Salary and benefits	12,304	9,630
Trade creditors	8,377	7,085
Taxes, other than income tax	1,039	145
Income tax	8,015	3,199
Energy swap liability, current portion	970	2,849
Deferred revenue	1,624	99
Accrued interest	12	35
Other	266	86
<b>Total accrued liabilities</b>	<b>\$ 41,752</b>	<b>\$ 33,254</b>

Deferred revenue represents payments primarily received from international customers related to revenues which were not recognized until the subsequent period due to revenue recognition criteria.

**OMEGA PROTEIN CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

**NOTE 13. COMMITMENTS AND CONTINGENCIES**

*Bioriginal Contingency*

In September 2014, the Company acquired all of the outstanding equity of Bioriginal Food & Science pursuant to the terms of a share purchase agreement. A portion of the equity of Bioriginal Food & Science that was sold was indirectly held by the management, who continue to be employed by Bioriginal Food & Science and share in the management of Bioriginal Food & Science's business.

In addition to the acquisition date cash purchase price and restricted stock, the management sellers may also earn additional amounts based on the annual adjusted EBITDA of Bioriginal Food & Science's business during each of the calendar years 2014 through 2016. For each calendar year, if the adjusted EBITDA meets or exceeds agreed upon targets, the management sellers will be eligible for an earn-out payment ranging from \$1.2 million to \$2.9 million Canadian Dollars, subject to certain forfeitures based on termination of management sellers' employment. Based on results for 2014 and 2015, the maximum total payment for all three years is \$5.3 million Canadian dollars.

The earn-out payments are estimated on a quarterly basis and will be paid-out in September 2017. The Company records the estimated contractual obligation as compensation expense during each year as it is deemed probable that such amount will be payable. As of June 30, 2016 and December 31, 2015, the outstanding liability associated with the earn-out was \$2.0 million and \$1.3 million, respectively.

*Legal Contingencies*

The Company is subject to various claims and lawsuits involving its business and operations. Management believes that costs, if any, relating to these matters will not have a material adverse effect on the results of operations, cash flows or financial position of the Company.

*Regulatory Matters*

The Company is subject to various possible claims and lawsuits regarding environmental matters. Management believes that costs, if any, related to these matters will not have a material adverse effect on the results of operations, cash flows or financial position of the Company.

The Company has received a petition on probation filed by the U.S. Attorney's Office for the Eastern District of Virginia and as a result of that petition has become aware of a criminal investigation being conducted by the U.S. Attorney's Office for the Western District of Louisiana into the waste water discharge practices of the Abbeville, Louisiana facility of its Omega Protein subsidiary. The petition on probation seeks to revoke the subsidiary's probation based on alleged Clean Act Water Violations. A hearing on the petition is expected to occur in September 2016. The Company is unable to determine its potential outcome or its effects on the Company's probation status. As such, no liability has been recognized as of June 30, 2016 relating to this matter. In the event that Omega Protein is found to be not in compliance with the probation terms of the plea agreement and the court's sentencing order, Omega Protein could be subject to additional criminal penalties or prosecution in the Eastern District of Virginia. In addition, if the United States Attorney in the Western District of Louisiana were to file new criminal charges regarding the waste water disposal operations of the Abbeville facility as a result of that office's investigation, then Omega Protein could be subject to additional criminal penalties or prosecution in that district.

**NOTE 14. RECONCILIATION OF BASIC AND DILUTED PER SHARE DATA (in thousands except per share data)**

Basic earnings per share is calculated by dividing net income allocated to common shares outstanding by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share assumes the exercise of stock options provided the effect is not anti-dilutive.

**OMEGA PROTEIN CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

The Company grants certain incentive compensation awards, including restricted stock, to employees and non-employee directors that are considered to be participating securities. Due to the presence of participating securities, earnings per share is calculated using the two-class method.

<b>Three Months Ended June 30:</b>	<b>201 6</b>	<b>201 5</b>
Allocation of earnings:		
Net income	\$ 5,663	\$ 8,804
Income allocated to participating securities	(95)	(234)
Income allocated to common shares outstanding	\$ 5,568	\$ 8,570
Weighted average common shares outstanding	21,885	21,111
Basic earnings per share	<u>0.25</u>	<u>0.41</u>
Stock options assumed exercised	295	462
Weighted average diluted common shares and potential common share equivalents outstanding	22,180	21,573
Diluted earnings per share	<u>0.25</u>	<u>0.40</u>
<b>Six Months Ended June 30:</b>		
Allocation of earnings:		
Net income	\$ 14,043	\$ 10,473
Income allocated to participating securities	(233)	(277)
Income allocated to common shares outstanding	\$ 13,810	\$ 10,196
Weighted average common shares outstanding	21,873	21,059
Basic earnings per share	<u>0.63</u>	<u>0.48</u>
Stock options assumed exercised	301	463
Weighted average diluted common shares and potential common share equivalents outstanding	22,174	21,522
Diluted earnings per share	<u>0.62</u>	<u>0.47</u>

Options to purchase the following number of shares of common stock (in thousands) were outstanding during the three and six months ended June 30, 2016 and 2015 but were excluded from the computation of diluted earnings per share because the adjusted exercise prices of the options based upon the assumed proceeds were greater than the average market price of the shares during that period.

Three Months Ended June 30,		Six Months Ended June 30,	
2016	2015	2016	2015
-	125	-	125

**NOTE 15. STOCK-BASED COMPENSATION**

Restricted Stock

The Company has issued shares of restricted stock under the 2015 Long Term Incentive Plan (“2015 Incentive Plan”) and 2006 Incentive Plan. Shares of restricted stock have generally vested on the third anniversary of the grant date or in equal installments over three years except for shares of restricted stock granted to non-employee directors which vest six months after the grant date. Non-vested shares are generally forfeited upon the termination of employment or service as a director. Holders of shares of restricted stock are entitled to all rights of a stockholder of the Company, including the right to vote the shares and receive any dividends or other distributions. The non-vested shares are considered participating securities and the Company has calculated earnings per share using the two-class method. See Note 14 – Reconciliation of Basic and Diluted Per Share Data.

**OMEGA PROTEIN CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

During the six month periods ended June 30, 2016 and 2015, the Company issued 70,622 and 107,083 shares of restricted stock under the 2006 and 2015 Incentive Plans to employees and non-employee directors. The Company’s compensation expense related to restricted stock was approximately \$0.6 million and \$0.5 million (\$0.4 million and \$0.3 million after tax) for the three months ended June 30, 2016 and 2015, respectively, and approximately \$1.1 million and \$1.0 million (\$0.7 million and \$0.6 million after tax) for the six months ended June 30, 2016 and 2015, respectively, which is primarily reflected in selling, general and administrative expenses in the unaudited condensed consolidated statement of comprehensive income. As of June 30, 2016, there was approximately \$3.3 million (\$2.1 million after tax) of unrecognized compensation expense related to non-vested restricted stock that is expected to be recognized over a weighted-average period of 1.2 years, of which \$1.4 million (\$0.9 million after-tax) of compensation expense is expected to be recognized during the remainder of fiscal year 2016.

Performance Units

On February 6, 2014, the Company adopted the 2014 Cash Incentive Performance Unit Plan, on February 26, 2015, the Company adopted the 2015 Cash Incentive Performance Unit Plan and on March 8, 2016, the Company adopted the 2016 Cash Incentive Performance Unit Plan. The value of the performance units issued under these plans will be determined by reference to the performance of the Company’s common stock during the relevant performance period compared to the performance of the Russell 2000 Index member companies (the “Peer Group”) during that same period. One third of the performance units granted will be earned at the end of each calendar year of the performance period and will be valued for the calendar year based on the Total Shareholder Return (“TSR”) of the Company compared to the TSR of the Peer Group. The performance units contain a service provision of approximately 3 years and are liability-classified awards included in other long-term liabilities which are adjusted to fair value on a quarterly basis.

The Company’s compensation expense related to performance units was approximately \$0.6 million and \$0.3 million (\$0.4 million and \$0.2 million after tax) for the three months ended June 30, 2016 and 2015, respectively, and approximately \$0.8 million and \$0.7 million (\$0.5 million and \$0.4 million after tax) for the six months ended June 30, 2016 and 2015, respectively, which is primarily reflected in selling, general and administrative expenses in the unaudited condensed consolidated statement of comprehensive income. As of June 30, 2016, there was approximately \$2.8 million (\$1.8 million after tax) of unrecognized compensation expense related to performance units that is expected to be recognized over a weighted-average period of 1.9 years, of which \$0.9 million (\$0.6 million after-tax) of compensation expense is expected to be recognized during the remainder of fiscal year 2016.

**NOTE 16. COMPONENTS OF NET PERIODIC BENEFIT COST**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)		(in thousands)	
Service cost	\$ —	\$ —	\$ —	\$ —
Interest cost	251	230	502	460
Expected return on plan assets	(213)	(276)	(425)	(552)
Amortization of prior service costs	—	—	—	—
Amortization of net loss	342	300	683	600
Net periodic pension cost	<u>\$ 380</u>	<u>\$ 254</u>	<u>\$ 760</u>	<u>\$ 508</u>

For the six months ended June 30, 2016 and 2015, the Company contributed approximately \$0.3 million and \$0.6 million, respectively, to the Company’s pension plan. The Company expects to make contributions of \$0.3 million to the pension plan during the remainder of 2016.

In 2002, the Board of Directors authorized a plan to freeze the Company’s pension plan in accordance with ERISA rules and regulations so that new employees, after July 31, 2002, are not eligible to participate in the pension plan and further benefits no longer accrue for existing participants.

## OMEGA PROTEIN CORPORATION

### Item 2. 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 ("MD&A") should be read in conjunction with the Company's MD&A contained in the Form 10-K for the fiscal year ended December 31, 2015 (the "2015 Form 10-K"), and in conjunction with the consolidated financial statements included in this report and in the 2015 Form 10-K.*

*Forward-looking statements in this Form 10-Q, future filings by the Company with the Securities and Exchange Commission (the "Commission" or "SEC"), the Company's press releases and oral statements by authorized officers of the Company are intended to be subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that all forward-looking statements involve risks and uncertainty. The Company believes that forward-looking statements made by it are based on reasonable expectations; however, no assurances can be given that actual results will not differ materially from those contained in such forward-looking statements. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include the words "estimate," "project," "anticipate," "expect," "predict," "assume," "believe," "could," "would," "hope," "may," or similar expressions. In evaluating those statements, you should carefully consider the information above as well as the risks outlined in Item 1A. Risk Factors in our 2015 Form 10-K and this Form 10-Q.*

#### General

Omega Protein Corporation is a nutritional products company that develops, produces and delivers nutritious products throughout the world to improve the nutritional integrity of foods, dietary supplements and animal feeds. As used herein, the term the "Company" refers to Omega Protein Corporation and its consolidated subsidiaries, as applicable. The Company's principal executive offices are located at 2105 City West Boulevard, Suite 500, Houston, Texas 77042-2838 (Telephone: (713) 623-0060).

The Company operates in two primary industry segments: animal nutrition and human nutrition.

The Company's animal nutrition segment is comprised primarily of two subsidiaries: Omega Protein, Inc. ("Omega Protein") and Omega Shipyard, Inc. ("Omega Shipyard"). Omega Protein, the Company's principal operating subsidiary, is predominantly dedicated to the production of animal nutrition products and operates in the menhaden harvesting and processing business and is the successor to a business conducted since 1913. Omega Protein currently operates a total of three menhaden processing plants in the states of Louisiana, Mississippi and Virginia. The Company also operates a Health and Science Center in Reedville, Virginia, which provides 100-metric tons per day of fish oil input capacity for the Company's food, industrial and feed grade oils. A portion of Omega Protein's production is transferred to its human nutrition segment. Omega Shipyard owns and operates a drydock facility in Moss Point, Mississippi that is used to provide shoreside maintenance for Omega Protein's fishing fleet.

Prior to December 31, 2015, the Company's human nutrition segment operated under the names Nutegrity and Bioriginal Food & Science Corp. ("Bioriginal Food & Science"). Nutegrity was comprised primarily of three subsidiaries: Cyvex Nutrition, Inc. ("Cyvex"), InCon Processing, L.L.C. ("InCon") and Wisconsin Specialty Protein, L.L.C. ("WSP"). Subsequent to December 31, 2015, the Company combined the Nutegrity and Bioriginal Food & Science names into one name and does business under the name "Bioriginal" which includes all of the human nutrition businesses except the tera's® branded products. Bioriginal has three primary product lines: protein products, specialty oils and other nutraceutical ingredients. Bioriginal Food & Science, acquired by the Company in September 2014 and headquartered in Saskatoon, Canada with additional operations in the Netherlands, is a supplier of plant and marine based specialty oils to the food and nutraceutical industries. WSP, acquired by the Company in February 2013, is a manufacturer and marketer of specialty dairy proteins and other related products headquartered in Madison, Wisconsin and operates a production facility in Reedsburg, Wisconsin. Cyvex is located in Irvine, California and is an ingredient supplier for the food and nutraceutical industries. InCon is located in Batavia, Illinois and is a specialty processor that utilizes molecular distillation technology to purify and concentrate Omega-3 fish oils and, subject to outside demand and excess capacity, a variety of other compound products for third-party tolling customers. On March 8, 2016, as part of its strategy to focus on non-concentrated omega-3 oils instead of concentrated omega-3 oils, the Company decided to exit its Batavia, Illinois oil concentration facility and relocate certain assets from this facility to other Company facilities. In order to satisfy current customer obligations, the Company plans to continue to operate this facility on a limited basis through the middle of 2017. For additional information see Note 2 – Plant Closures to the unaudited condensed consolidated financial statements in Item 1.

The Company also operates a technical center in Houston, Texas, the Omega Protein Technology and Innovation Center, which has food science application labs as well as analytical, sensory, lipids research and pilot plant capabilities.

## OMEGA PROTEIN CORPORATION

For financial information about the Company's industry segments for the three and six months ended June 30, 2016 and 2015, see Note 3 – Industry Segments to the unaudited condensed consolidated financial statements in Item 1.

### Company Overview

*Revenues Composition.* The following table sets forth the Company's revenues by product (in millions) and the approximate percentage of total revenues represented thereby, for the indicated periods:

	<b>Three Months Ended June 30,</b>			
	<b>2016</b>		<b>2015</b>	
	Revenues	Percent	Revenues	Percent
<i>Animal Nutrition Revenues</i>				
Fish Meal	\$ 43.0	38.2%	\$ 32.2	34.6%
Fish Oil	31.3	27.8	17.8	19.1
Refined Fish Oil	6.3	5.6	5.7	6.1
Fish Solubles and Other	1.0	0.9	1.2	1.3
<i>Human Nutrition Revenues</i>				
Specialty oils	23.5	20.9	30.2	32.4
Dairy protein products	5.2	4.6	2.9	3.1
Other nutraceutical ingredients	2.3	2.0	3.2	3.4
<b>Total</b>	<b>\$ 112.6</b>	<b>100.0%</b>	<b>\$ 93.2</b>	<b>100.0%</b>

	<b>Six Months Ended June 30,</b>			
	<b>2016</b>		<b>2015</b>	
	Revenues	Percent	Revenues	Percent
<i>Animal Nutrition Revenues</i>				
Fish Meal	\$ 77.1	39.0%	\$ 58.8	35.8%
Fish Oil	40.1	20.3	20.5	12.4
Refined Fish Oil	12.7	6.4	12.4	7.5
Fish Solubles and Other	1.9	1.0	2.0	1.2
<i>Human Nutrition Revenues</i>				
Specialty oils	51.3	26.0	58.2	35.3
Dairy protein products	9.6	4.9	6.4	3.9
Other nutraceutical ingredients	4.8	2.4	6.5	3.9
<b>Total</b>	<b>\$ 197.5</b>	<b>100.0%</b>	<b>\$ 164.8</b>	<b>100.0%</b>

The following table sets forth the Company's revenues by geography (in millions) and the approximate percentage of total revenues represented thereby, for the indicated periods:

	<b>Three Months Ended June 30,</b>			
	<b>2016</b>		<b>2015</b>	
	Revenues	Percent	Revenues	Percent
U.S. - Domestic Revenues	\$ 51.6	45.8%	\$ 56.3	60.5%
Export Revenues	61.0	54.2	36.9	39.5
<b>Total</b>	<b>\$ 112.6</b>	<b>100.0%</b>	<b>\$ 93.2</b>	<b>100.0%</b>

	<b>Six Months Ended June 30,</b>			
	<b>2016</b>		<b>2015</b>	
	Revenues	Percent	Revenues	Percent
U.S. - Domestic Revenues	\$ 108.5	54.9%	\$ 108.4	65.8%
Export Revenues	89.0	45.1	56.4	34.2
<b>Total</b>	<b>\$ 197.5</b>	<b>100.0%</b>	<b>\$ 164.8</b>	<b>100.0%</b>



## OMEGA PROTEIN CORPORATION

### Animal Nutrition Products

*2016 Fishing Information.* At June 30, 2016, Omega Protein owned a fleet of 37 vessels and 27 spotter aircraft for use in its fishing operations and also leased additional aircraft where necessary to facilitate operations. During the 2016 fishing season in the Gulf of Mexico, which runs from mid-April through October, Omega Protein is operating 20 fishing and carry vessels and 21 spotter aircraft. The fishing area in the Gulf is generally located along the Gulf Coast, with a concentration off the Louisiana and Mississippi coasts. The fishing season along the Atlantic coast began in May and can extend into early December. During the 2016 season, Omega Protein is operating 8 fishing vessels and 7 independently-owned spotter aircraft along the Mid-Atlantic coast. The remaining fleet of fishing vessels and spotter aircraft are not routinely operated during the fishing season and are back-up to the active fleet, used for other transportation purposes, inactive, in the process of refurbishment in the Company's shipyard or held for disposal. Historical fish catch and production results at the end of the second quarter for the past five years are as follows:

	2016	2015	2014	2013	2012	2011 to 2015 5-Year Avg.
Fish catch in short tons as of June 30,	170,693	171,036	109,359	124,612	229,564	164,595
Fish meal, oil and solubles production in tons (excludes refined)	64,696	54,647	35,882	49,542	75,242	56,232
Total yield	37.9%	32.0%	32.8%	39.8%	32.8%	34.2%
Oil yield	10.6%	4.8%	6.7%	12.1%	5.2%	6.7%

The Company cautions that because of the volatility of fish catch generally, partial year catch numbers are not indicative of results that may be expected for a full year. In addition, the results of the 2016 fishing season will depend in large part on the volume of fish caught and the total yield associated with the catch. Total yields through June 30, 2016 increased by 18.6% compared to total yields in the same period in the 2015 fishing season and were higher by 10.9% compared to Omega Protein's five year total yield average during the same period, due primarily to higher fish oil yields. Omega Protein's oil yields for the 2016 fishing season through June 30, 2016 have been above average and were higher by 120.7% compared to those in the same period of the 2015 fishing season and were higher by 57.7% compared to Omega Protein's five year oil yield average. Omega Protein believes that fish oil yields are influenced by multiple factors, including but not limited to, fish diet, weather, water temperature and nutrient content, fish population and age of fish, but such possible relationships and inter-relationships are not generally well understood.

*Sales Contracts.* Omega Protein generally sells most of its products on up to a twelve-month forward contract basis with the balance sold on a spot basis through purchase orders or under longer-term forward contracts. Omega Protein's sales contracts generally contain force majeure and other production allocation provisions. Historically, fish meal and fish oil sold on a forward contract basis have fluctuated from year to year based upon perceived market availability and forward price expectations. As of June 30, 2016, Omega Protein has sold forward on a contract basis approximately 50,000 short tons (1 short ton = 2,000 pounds) of fish meal and 10,000 metric tons (1 metric ton = 2,204.6 pounds) of fish oil for 2016, contingent on 2016 production and product availability. Of these 2016 forward sales, the majority was contracted during 2016. As a basis of comparison, as of June 30, 2015, Omega Protein had sold forward on a contract basis approximately 60,000 short tons of fish meal and 10,000 metric tons of fish oil for 2015.

Omega Protein's annual revenues are highly dependent on pricing, annual fish catch, production yields and inventories. Inventory is generally carried over from one year to the next year and Omega Protein determines the level of inventory to be carried over based on existing contracts, prevailing market prices of the products and anticipated customer usage and demand during the off-season. Thus, production volumes do not necessarily correlate with sales volumes in the same year and sales volumes will fluctuate from quarter to quarter. Omega Protein's fish meal products have a useable life of approximately one year from the date of production. Practically, however, Omega Protein attempts to empty its warehouses of the previous season's products by May or June of the new fishing season. Omega Protein's crude fish oil products do not lose efficacy unless exposed to oxygen and, therefore, their storage life typically is longer than that of fish meal.

### **Results of Operations**

The following discussion segregates the financial results of our two industry segments: animal nutrition and human nutrition. For a discussion of our segments, see Note 3 - Industry Segments to the unaudited condensed consolidated financial statements in Item 1.

## OMEGA PROTEIN CORPORATION

### Interim Results for the Second Quarters ended June 30, 2016 and 2015

#### Animal Nutrition

	Three Months Ended June 30,		
	2016	2015	Increase (Decrease)
	(in millions)		
Revenues	\$ 81.6	\$ 56.9	\$ 24.7
Cost of sales	51.1	36.0	15.1
Gross profit	30.5	20.9	9.6
Selling, general and administrative expenses (including research and development)	0.7	0.5	0.2
(Gain) loss related to plant closures	(0.4)	0.7	(1.1)
Other (gains) and losses	—	—	—
Operating income	\$ 30.2	\$ 19.7	\$ 10.5

**Revenues .** Animal nutrition revenues increased \$24.7 million, or 43.5%, from \$56.9 million for the three months ended June 30, 2015 (the “Comparable Quarter”) to \$81.6 million for the three months ended June 30, 2016 (the “Current Quarter”). The increase in animal nutrition related revenues was primarily due to increased sales volumes of 46.5% and 101.0% for the Company’s fish meal and fish oil, respectively, partially offset by decreased sales prices of 9.0% and 20.3% for the Company’s fish meal and fish oil, respectively. Considering fish meal, fish oil and fish solubles sales activities in total, the Company experienced a \$34.2 million increase in revenues due to the increase in sales volumes partially offset by a \$9.5 million decrease in revenues caused by decreased sales prices, when comparing the Current Quarter and Comparable Quarter. The increase in fish meal and fish oil sales volumes is primarily due to the timing of contracts and increased level of inventory at the beginning of 2016 due to increased production during the 2015 fishing season compared to the 2014 fishing season. The decrease in fish oil sales prices during the Current Quarter as compared to the Comparable Quarter is mainly a reflection of prevailing market conditions and prices when underlying sales contracts were executed, as well as a change in product mix related to a larger relative volume of unrefined fish oil sales.

**Cost of sales .** Animal nutrition cost of sales, including depreciation and amortization, for the Current Quarter was \$51.1 million, an increase of \$15.1 million, or 41.8%, as compared to the Comparable Quarter. Cost of sales as a percentage of revenues was 62.6% for the Current Quarter compared to 63.3% for the Comparable Quarter. The decrease in cost of sales as a percentage of revenues was primarily the result of decreased cost per unit of sales of 10.0% during the Current Quarter compared to the Comparable Quarter, due to higher fish catch and production in the 2015 fishing season compared to the 2014 fishing season.

**Gross profit .** Animal nutrition gross profit increased \$9.6 million, or 46.3%, from \$20.9 million for the Comparable Quarter to \$30.5 million for the Current Quarter due largely to the increases in sales volumes. Gross profit as a percentage of revenue was 37.4% for the Current Quarter compared to 36.7% for the Comparable Quarter. The increase in gross profit as a percentage of revenue was primarily due to the decreased cost per unit of sales as discussed above.

**Selling, general and administrative expenses .** Animal nutrition selling, general and administrative expenses increased \$0.2 million to \$0.7 million for the Current Quarter compared to the Comparable Quarter. The increase is primarily due to a variety of miscellaneous expenses.

**(Gain) loss related to plant closures.** The gain related to plant closures for the Current Quarter of \$0.4 million is due to the early termination of the Cameron, Louisiana fish processing plant lease and the resulting reversal of various accruals related to the former lease. The Company recognized an ongoing loss on closure of approximately \$0.7 million in the Comparable Quarter primarily related to the relocation of certain assets at the Cameron facility and other closure costs not related to future inventory production.

#### Human Nutrition

	Three Months Ended June 30,		
	2016	2015	Increase (Decrease)
	(in millions)		
Revenues	\$ 31.1	\$ 36.3	\$ (5.2)
Cost of sales	28.2	31.3	(3.1)
Gross profit	2.9	5.0	(2.1)
Selling, general and administrative expenses (including research and development)	4.5	5.1	(0.6)
Impairment of goodwill and other intangible assets	11.6	—	11.6
Loss related to plant closures	1.4	—	1.4
Operating income (loss)	\$ (14.6)	\$ (0.1)	\$ (14.5)

## OMEGA PROTEIN CORPORATION

**Revenues** . Human nutrition revenues decreased \$5.2 million, or 14.5%, from \$36.3 million for the Comparable Quarter to \$31.1 million for the Current Quarter, primarily due to decreases in sales of specialty oils, partially offset by increases in sales of protein products. Specialty oils decreased by \$6.7 million to \$23.5 million (including \$0.4 million from menhaden omega-3 concentrates and tolling) of revenue in the Current Quarter from \$30.2 million (including \$1.3 million from menhaden omega-3 concentrates and tolling) in the Comparable Quarter. Protein products increased by \$2.3 million to \$5.2 million of revenue during the Current Quarter from \$2.9 million during the Comparable Quarter. The increase in revenues from protein products was primarily due to higher sales of bulk ingredients as well as tolling. Other nutraceutical ingredients decreased by \$0.9 million to \$2.3 million of revenue during the Current Quarter as compared to \$3.2 million during the Comparable Quarter.

**Cost of sales** . Human nutrition cost of sales, including depreciation and amortization, for the Current Quarter was \$28.2 million, a \$3.1 million, or 10.1%, decrease compared to the Comparable Quarter. Human nutrition cost of sales as a percentage of revenue increased from 86.3% for the Comparable Quarter to 90.8% for the Current Quarter. Specialty oils added \$21.2 million (including \$0.8 million from menhaden omega-3 concentrates and tolling) and \$26.3 million (including \$2.1 million from menhaden omega-3 concentrates and tolling) of cost of sales during the Current Quarter and Comparable Quarter, respectively.

Protein products cost of sales was \$5.5 million for the Current Quarter as compared to \$3.0 million during the Comparable Quarter. Other nutraceutical ingredients cost of sales was \$1.5 million during the Current Quarter as compared to \$2.0 million for the Comparable Quarter. The increase in protein products and decreases in specialty oils and other nutraceutical ingredients cost of sales were mainly attributed to changes in sales, as well as a \$0.6 million write-down of protein products inventory.

**Gross profit** . Human nutrition gross profit decreased \$2.1 million, or 42.3%, from \$5.0 million for the Comparable Quarter to \$2.9 million for the Current Quarter. Gross profit as a percentage of revenue was 9.2% for the Current Quarter as compared to 13.7% for the Comparable Quarter. The decrease in gross profit as a percentage of revenue was primarily due to decreased specialty oils gross profit as a percentage of revenues.

**Selling, general and administrative expenses** . Human nutrition selling, general and administrative expenses decreased \$0.6 million, or 12.1%, from \$5.1 million for the Comparable Quarter to \$4.5 million for the Current Quarter. The decrease is due to decreased labor and other miscellaneous expenses.

**Impairment of goodwill and other intangible assets** . Human nutrition impairment and other costs was \$11.6 million for Current Quarter due to the excess of carrying value over fair value for goodwill and certain other indefinite lived intangible assets at the protein products reporting unit. For additional information, see Note 4 – Goodwill and Other Intangible Assets. No such impairment charges were recognized during the Comparable Quarter.

**Loss related to plant closures** . As a result of the planned closing of the Batavia, Illinois oil concentration facility, the Company recognized a loss of \$1.4 million in the Current Quarter largely related to an additional impairment of property, plant and equipment. No such charge was recognized during the Comparable Quarter.

### Unallocated

	Three Months Ended June 30,		
	2016	2015	Increase (Decrease)
	(in millions)		
Selling, general and administrative expenses (including research and development)	\$ 6.7	\$ 5.1	\$ 1.6

**Selling, general and administrative expenses (including research and development)** . Unallocated selling, general and administrative expenses increased \$1.6 million, or 29.9%, from \$5.1 million for the Comparable Quarter to \$6.7 million for the Current Quarter. The increase is primarily due to increased professional fees for services as a result of the Company's proxy contest, as well as labor and other expenses.

## OMEGA PROTEIN CORPORATION

### Other non-segmented results of operation

**Interest expense** . Interest expense decreased \$0.4 million from \$0.5 million for the Comparable Quarter to \$0.1 million for the Current Quarter. The decrease in interest expense is primarily due to the decreased total debt balance and applicable interest rates for the Current Quarter compared to the Comparable Quarter. Capitalized interest, which offsets interest expense, was less than \$0.1 million and approximately \$0.2 million for the Current Quarter and Comparable Quarter, respectively.

**Gain on foreign currency** . The Company recorded a \$0.1 million gain on foreign currency in each of the Current Quarter and Comparable Quarter due to fluctuations in the Canadian dollar foreign exchange rate and working capital balances at Bioriginal Food & Science's Canadian operations.

**Provision for income taxes** . The Company recorded a \$3.4 million provision for income taxes for the Current Quarter representing an effective tax rate of 37.3% for income taxes compared to 36.7% for the Comparable Quarter. The increase in the effective tax rate is primarily the result of lower non-deductible expenses. The statutory tax rate of 35% for U.S. federal taxes was in effect for each of the Current and Comparable Quarters.

### **Interim Results for the Six Months ended June 30, 201 6 and June 30, 201 5**

#### Animal Nutrition

	Six Months Ended June 30,		
	2016	2015	Increase (Decrease)
	(in millions)		
Revenues	\$ 131.8	\$ 93.7	\$ 38.1
Cost of sales	80.8	62.3	18.5
Gross profit	51.0	31.4	19.6
Selling, general and administrative expenses (including research and development)	1.2	1.1	0.1
(Gain) loss related to plant closures	(0.3)	1.3	(1.6)
Other (gains) and losses	(0.1)	0.3	(0.4)
Operating income	\$ 50.2	\$ 28.7	\$ 21.5

**Revenues** . Animal nutrition revenues increased \$38.1 million, or 40.7%, from \$93.7 million for the six months ended June 30, 2015 (the "Comparable Period") to \$131.8 million for the six months ended June 30, 2016 (the "Current Period"). The increase in animal nutrition related revenues was primarily due to increased sales volumes of 41.0% and 101.6% for the Company's fish meal and fish oil, respectively, partially offset by decreased sales prices of 7.3% and 20.2% for the Company's fish meal and fish oil, respectively. Considering fish meal, fish oil and fish solubles sales activities in total, the Company experienced a \$50.1 million increase in revenues due to the increase in sales volumes partially offset by a \$12.0 million decrease in revenues caused by decreased sales prices, when comparing the Current Period and Comparable Period. The increase in fish meal and fish oil sales volumes is primarily due to the timing of contracts and increased level of inventory at the beginning of 2016 due to increased production during the 2015 fishing season compared to the 2014 fishing season. The decrease in fish oil sales prices during the Current Period as compared to the Comparable Period is mainly a reflection of prevailing market conditions and prices when underlying sales contracts were executed, as well as a change in product mix related to a larger relative volume of unrefined fish oil sales.

**Cost of sales** . Animal nutrition cost of sales, including depreciation and amortization, for the Current Period was \$80.8 million, an increase of \$18.5 million, or 29.8%, as compared to the Comparable Period. Cost of sales as a percentage of revenues was 61.3% for the Current Period compared to 66.5% for the Comparable Period. The decrease in cost of sales as a percentage of revenues was primarily the result of decreased cost per unit of sales of 14.5% during the Current Period compared to the Comparable Period, due to higher fish catch and production in the 2015 fishing season compared to the 2014 fishing season.

**Gross profit** . Animal nutrition gross profit increased \$19.6 million, or 62.3%, from \$31.4 million for the Comparable Period to \$51.0 million for the Current Period due largely to the increase in sales volumes. Gross profit as a percentage of revenue was 38.7% for the Current Period compared to 33.5% for the Comparable Period. The increase in gross profit as a percentage of revenue was primarily due to the decreased cost per unit of sales as discussed above.

## OMEGA PROTEIN CORPORATION

**Selling, general and administrative expenses.** Animal nutrition selling, general and administrative expenses increased \$0.1 million to \$1.2 million for the Current Period compared to the Comparable Period.

**(Gain) loss related to plant closures.** The gain related to plant closures for the Current Period of \$0.3 million is due to the early termination of the Cameron, Louisiana fish processing plant lease and reversing various accruals related to the former lease. The Company recognized an ongoing loss on closure of approximately \$1.3 million in the Comparable Period primarily related to the relocation of certain assets at the Cameron facility and other closure costs not related to future inventory production.

**Other (gains) and losses.** The Company recorded other losses for the Comparable Period of \$0.3 million related to the disposal of assets in the ordinary course of business. The gain for the Current Period was \$0.1 million.

### Human Nutrition

	Six Months Ended June 30,		
	2016	2015	Increase (Decrease)
	(in millions)		
Revenues	\$ 65.7	\$ 71.1	\$ (5.4)
Cost of sales	58.5	61.9	(3.4)
Gross profit	7.2	9.2	(2.0)
Selling, general and administrative expenses (including research and development)	8.6	10.1	(1.5)
Impairment of goodwill and other intangible assets	11.6	—	11.6
Loss related to plant closures	2.0	—	2.0
Operating income (loss)	\$ (15.0)	\$ (0.9)	\$ (14.1)

**Revenues.** Human nutrition revenues decreased \$5.4 million, or 7.6%, from \$71.1 million for the Comparable Period to \$65.7 million for the Current Period, primarily due to decreases in sales of specialty oils and other nutraceutical ingredients, partially offset by increases in sales of protein products. Specialty oils decreased by \$6.9 million to \$51.3 million (including \$1.3 million from menhaden omega-3 concentrates and tolling) of revenue in the Current Period from \$58.2 million (including \$2.8 million from menhaden omega-3 concentrates and tolling) in the Comparable Period. Protein products increased by \$3.2 million to \$9.6 million of revenue during the Current Period from \$6.4 million during the Comparable Period. The increase in revenues from protein products was primarily due to higher sales of bulk ingredients as well as tolling. Other nutraceutical ingredients decreased by \$1.7 million to \$4.8 million of revenue during the Current Period as compared to \$6.5 million during the Comparable Period.

**Cost of sales.** Human nutrition cost of sales, including depreciation and amortization, for the Current Period was \$58.5 million, a \$3.4 million, or 5.5%, decrease compared to the Comparable Period. Human nutrition cost of sales as a percentage of revenue increased from 87.0% for the Comparable Period to 89.0% for the Current Period. Specialty oils added \$45.8 million (including \$2.6 million from menhaden omega-3 concentrates and tolling) and \$51.3 million (including \$4.3 million from menhaden omega-3 concentrates and tolling) of cost of sales during the Current Period and Comparable Period, respectively.

Protein products cost of sales was \$9.4 million for the Current Period as compared to \$6.5 million during the Comparable Period. Other nutraceutical ingredients cost of sales was \$3.2 million during the Current Period as compared to \$4.1 million for the Comparable Period. The increase in protein products and decreases in specialty oils and other nutraceutical ingredients cost of sales were mainly attributed to changes in sales.

**Gross profit.** Human nutrition gross profit decreased \$2.0 million, or 21.4%, from \$9.2 million for the Comparable Period to \$7.2 million for the Current Period. Gross profit as a percentage of revenue was 11.0% for the Current Period as compared to 13.0% for the Comparable Period. The decrease in gross profit as a percentage of revenue was primarily due to decreased specialty oils gross profit as a percentage of revenues.

## OMEGA PROTEIN CORPORATION

**Selling, general and administrative expenses** . Human nutrition selling, general and administrative expenses decreased \$1.5 million, or 14.9%, from \$10.1 million for the Comparable Period to \$8.6 million for the Current Period. The decrease is primarily due to decreased labor and other expenses.

**Impairment of goodwill and other intangible assets** . Human nutrition impairment and other costs was \$11.6 million for Current Period due to the excess of carrying value over fair value for goodwill and certain other indefinite lived intangible assets at the protein products reporting unit. No such impairment charges were recognized during the Comparable Period.

**Loss related to plant closures** . As a result of the planned closing of the Batavia, Illinois oil concentration facility, the Company recognized a loss of \$2.0 million in the Current Period largely related to an additional impairment of property, plant and equipment and employee severance accruals. No such charge was recognized during the Comparable Period.

### Unallocated

	Six Months Ended June 30,		
	2016	2015	Increase (Decrease)
	(in millions)		
Selling, general and administrative expenses (including research and development)	\$ 11.6	\$ 9.7	\$ 1.9

**Selling, general and administrative expenses (including research and development)** . Unallocated selling, general and administrative expenses increased \$1.9 million, or 19.3%, from \$9.7 million for the Comparable Period to \$11.6 million for the Current Period. The increase is primarily due to increased professional fees for services as a result of the Company's proxy contest as well as labor and other expenses.

### Other non-segmented results of operation

**Interest expense** . Interest expense decreased \$0.5 million from \$0.8 million for the Comparable Period to \$0.3 million for the Current Period. The decrease in interest expense is primarily due to the decreased total debt balance and applicable interest rates for the Current Period compared to the Comparable Period. Capitalized interest, which offsets interest expense, was \$0.1 million and \$0.3 million for the Current Period and Comparable Period, respectively.

**Loss on foreign currency** . The Company recorded a \$1.4 million and a \$0.5 million loss on foreign currency in the Current Period and Comparable Period, respectively, due to fluctuations in the Canadian dollar foreign exchange rate and working capital balances at Bioriginal Food & Science's Canadian operations.

**Provision for income taxes** . The Company recorded an \$8.0 million provision for income taxes for the Current Period representing an effective tax rate of 36.2% for income taxes compared to 36.8% for the Comparable Period. The decrease in the effective tax rate is primarily the result of lower non-deductible expenses. The statutory tax rate of 35% for U.S. federal taxes was in effect for each of the Current and Comparable Periods.

### **Seasonal and Quarterly Results**

Omega Protein's menhaden harvesting and processing business is seasonal in nature. Omega Protein generally has higher sales during the third quarter of each fiscal year due to increased product availability and customer demand. Additionally, due to differences in gross profit margins for Omega Protein's various products, any variation in the mix of product sales between quarters may result in significant variations of total gross profit margins. These margins may also be affected by changes in costs from year to year and month to month, which includes variations in production yields. Similarly, from time to time Omega Protein defers sales of inventory, which may affect comparable period comparisons. As a result, the Company's quarterly operating results have fluctuated in the past and may fluctuate in the future.

### **Liquidity and Capital Resources**

The Company's primary sources of liquidity and capital resources have been cash flows from operations and bank credit facilities. These sources of cash flows have been used for operations, capital expenditures, payment of long-term debt, business acquisitions and the purchase and retirement of shares of the Company's common stock.

## OMEGA PROTEIN CORPORATION

At June 30, 2016, the Company had an unrestricted cash balance of \$6.4 million, an increase of \$5.7 million from December 31, 2015. Omega Protein's annual revenues and its resulting liquidity are highly dependent on annual fish catch, production yields, selling prices for its products and inventories available for sale. Omega Protein's average selling price for its animal nutrition products for the six months ended June 30, 2016 was 1% higher than the average selling price for the year ended December 31, 2015. Omega Protein's average per unit cost of sales for its animal nutrition ingredients for the six months ended June 30, 2016 was 2% lower than its average per unit cost of sales for the year ended December 31, 2015.

The aggregate amount of the Company's outstanding indebtedness as of June 30, 2016 was \$6.0 million compared to \$24.1 million as of December 31, 2015. The Company will be required to use a portion of its cash flows to pay principal and interest on its debt, which will reduce the amount of money the Company has for operations, capital expenditures, expansion, acquisitions or general corporate or other business activities. In addition, the covenants contained in the Company's debt agreements limit its ability to borrow money in the future for acquisitions, capital expenditures or to meet the Company's operating expenses or other general corporate obligations. See "Item 1A. Risk Factors - The Company has a moderate amount of indebtedness, which may adversely affect its ability to operate its business, remain in compliance with debt covenants and make payments on its debt" in the Company's 2015 Form 10-K.

As of June 30, 2016, the Company has contracted through energy swap derivatives or physical contracts a portion of its estimated 2016, 2017 and 2018 energy use.

### Source of Capital: Operations

Net operating activities provided cash of \$41.9 million and used cash of \$4.3 million during the six months ended June 30, 2016 and 2015, respectively. The increase in operating cash flow is primarily attributable to increased net income from the sale of animal nutrition segment inventory as a result of increased fish catch in 2015 as compared to 2014 as well as increased fish oil yields in 2016.

### Source of Capital: Debt

Net financing activities used cash of \$18.0 million and provided cash of \$24.9 during the six months ended June 30, 2016 and 2015, respectively. The six months ended June 30, 2016 included \$0.5 million in proceeds and tax effects received from stock options exercised, \$0.4 million in stock repurchases relating to employee returns of restricted stock to the Company in satisfaction of withholding taxes, \$24.5 million in debt principal payments and \$6.4 million in debt principal borrowings. The six months ended June 30, 2015 included \$1.0 million in proceeds and tax effects received from stock options exercised, \$0.2 million in stock repurchases relating to employee returns of restricted stock to the Company in satisfaction of withholding taxes, \$3.8 million in debt principal payments and \$27.8 million in debt principal borrowings.

On August 20, 2015 (the "Closing Date"), the Company and certain subsidiaries entered into a Second Amended and Restated Loan Agreement (the "Loan Agreement") with Wells Fargo Bank, National Association, as administrative agent (the "Agent") for the lenders (currently Wells Fargo Bank, N.A., JP Morgan Chase Bank, N.A. and BMO Harris Bank, N.A.) (collectively, the "Lenders") pursuant to which the Lenders agreed to extend credit to the Company in the form of loans (each a "Loan" and collectively, the "Loans") on a revolving basis of up to \$125.0 million in the aggregate (the "Commitment"), with \$95.0 million of such Commitment allocated to Revolving A Loans to be made to the Company or Omega Protein in U.S. Dollars or Alternative Currencies (as such term is defined in the Loan Agreement) and \$30.0 million of such Commitment allocated to Revolving B Loans to be made to the Company and certain subsidiaries, including Bioriginal Food & Science, in U.S. Dollars or Canadian Dollars. The Commitment includes a sub-facility for swingline loans up to an amount not to exceed \$10.0 million, a sub-facility for standby letters of credit issued for the account of the Company or Omega Protein up to an amount not to exceed \$20.0 million, a sub-facility for standby or commercial letters of credit issued for the account of Bioriginal Food & Science up to an amount not to exceed \$7.5 million (subject to a temporary increase of \$9.0 million), and an accordion feature that allows the Company to increase the amount of the Commitment up to an additional \$75.0 million, subject to the further commitments of the Lenders and other customary conditions precedent.

All Loans and all other obligations outstanding under the Loan Agreement shall be payable in full in August 2020. As of June 30, 2016 and December 31, 2015, the Company had \$4.2 million and \$22.9 million outstanding under the Loan Agreement and approximately \$8.6 million and \$7.8 million in standby letters of credit issued, respectively. As of June 30, 2016, the Company was in compliance with all financial covenants under the Loan Agreement. The Company has no off-balance sheet arrangements other than normal operating leases and standby letters of credit.



## OMEGA PROTEIN CORPORATION

In March 2015, Bioriginal Food & Science Europe extended the terms of its credit facility with ING Commercial Finance B.V. which provides borrowings up to an amount based on accounts receivable and inventory balances, and matures on March 31, 2018. Advances are repayable on demand and bear interest payable monthly at 1.75% + EURIBOR (currently 1.70%). This credit facility is secured by accounts receivable and inventory of Bioriginal Food & Science Europe to a maximum of 85% of accounts receivable and 60% of inventory. This credit facility contains cross default provisions and other covenants. As of June 30, 2016 and December 31, 2015, Bioriginal Food & Science Europe had \$1.8 million and \$1.2 million outstanding under this credit facility, respectively, which is included in current maturities.

In June 2010, Bioriginal Food & Science Europe entered into a credit facility with ING Bank N.V. which provides borrowings up to 250,000 Euro and matures on November 16, 2016. Under the credit facility, interest is paid at 2.70% plus the EURIBOR rate (currently 2.49%). This credit facility is secured by Bioriginal Food & Science Europe's equipment. This facility contains cross default provisions and other covenants. As of June 30, 2016 and December 31, 2015, there were no outstanding borrowings under this credit facility.

The Company's notes payable and long-term debt are more fully explained in Note 11 to the consolidated financial statements in Item 8 of the Company's Form 10-K for the fiscal year ended December 31, 2015.

### Use of Capital: Capital Investments

The Company's investing activities consist mainly of capital expenditures for equipment purchases, replacements, vessel refurbishments, plant expansions, fish oil refining processes and technology. The Company made capital expenditures of approximately \$18.3 million and \$21.0 million, including \$0.1 million and \$0.3 million of capitalized interest, for the six month periods ended June 30, 2016 and 2015, respectively. The Company anticipates investing an additional \$20 million to \$28 million in capital expenditures during the remainder of 2016, excluding capitalized interest, primarily for the expansion of production capabilities, refurbishment of vessels and plant assets, regulatory and environmental requirements and for the improvement of certain equipment. Additional investment opportunities or requirements may arise during the year, which could cause capital expenditures to exceed this range.

### Use of Capital: Financing

In May 2016, the Company announced a share repurchase program of up to \$40 million over the next 3 years. The Company is not obligated under the program to acquire any particular number of shares and can suspend or terminate the program at any time. Although no shares were repurchased during the six months ended June 30, 2016, it is possible that the share repurchase program could impact financing cash flows during the remainder of 2016.

### Use of Capital: Contractual Obligations

The following tables aggregate information about the Company's contractual cash obligations and other commercial commitments (in thousands) as of June 30, 2016:

<b>Contractual Cash Obligations</b>	<b>Payments Due by Period</b>				
	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Debt	\$ 6,008	\$ 1,807	\$ —	\$ 4,201	\$ —
Interest on debt	425	120	201	104	—
Operating lease obligations	10,064	2,719	5,040	1,829	476
Pension funding (1)	5,280	560	1,625	1,800	1,295
<b>Total Contractual Obligations</b>	<b>\$ 21,777</b>	<b>\$ 5,206</b>	<b>\$ 6,866</b>	<b>\$ 7,934</b>	<b>\$ 1,771</b>

(1) Represents estimated future contributions to the plan based on the expected return on plan assets and assumptions regarding discount rates

The Company believes that the existing cash, cash equivalents, cash flow from operations and funds available through the Loan Agreement described above will be sufficient to meet its working capital and capital expenditure requirements through the next twelve months.



## OMEGA PROTEIN CORPORATION

### Critical Accounting Policies and Estimates

The methods, estimates and judgments used in applying the Company's critical accounting policies have a significant impact on the results reported in the Consolidated Financial Statements. The SEC has defined the critical accounting policies as the ones that are most important to the portrayal of the Company's financial condition and operating results, and requires the Company to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are highly uncertain at the time of estimation. Based on this definition, the Company's most critical policies include: valuation of inventory (Notes 1 and 6 to the consolidated financial statements in Item 8 of the Company's 2015 Form 10-K), valuation of losses related to Jones Act and worker's compensation insurance claims (Note 1 to the consolidated financial statements in Item 8 of the Company's 2015 Form 10-K), valuation of income and deferred taxes (Notes 1 and 13 to the consolidated financial statements in Item 8 of the Company's 2015 Form 10-K), valuation of property, plant and equipment including impairments (Note 9 to the consolidated financial statements in Item 8 of the Company's 2015 Form 10-K), valuation of pension plan obligations (Notes 1 and 15 to the consolidated financial statements in Item 8 of the Company's 2015 Form 10-K), energy swap valuations (Notes 1 to the consolidated financial statements in Item 8 of the Company's 2015 Form 10-K) and the valuation of goodwill and other intangible assets (Notes 1 and 10 to the consolidated financial statements in Item 8 of the Company's 2015 Form 10-K).

For all financial statement periods presented, there have been no material modifications to the application of these critical accounting policies or methodologies regarding estimates and judgments.

### Item 3. Quantitative and Qualitative Disclosure About Market Risk.

In the normal course of business, the financial condition of the Company is exposed to minimal market risk associated with interest rate movements on the Company's borrowings. In the past, to mitigate this risk, the Company has entered into interest rate swap agreements to effectively lock-in the LIBOR component of certain debt instruments. However, no interest rate swap agreements are currently in effect. As of June 30, 2016, the Company's indebtedness of \$6.0 million was subject to variable interest rates. A one percent increase or decrease in the levels of interest rates on variable rate debt would not result in a material change to the Company's results of operations.

Although the Company sells products in foreign countries, most of the Company's revenues and costs are billed and paid for in US dollars. As a result, management does not believe that the Company is exposed to significant foreign country currency exchange risk. The Company had not historically utilized market risk sensitive instruments to manage its exposure to this risk but began to do so to a limited extent in 2015.

There have been no significant changes to the Company's exposure to market risk since the Company's 2015 Form 10-K.

### Item 4. Controls and Procedures.

#### (a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company conducted an evaluation of the effectiveness of its "disclosure controls and procedures," as that phrase is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. The evaluation was carried out under the supervision and with the participation of management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO").

Based on and as of the date of that evaluation, the Company's CEO and CFO have concluded that (i) the Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure, and (ii) that the Company's disclosure controls and procedures are effective.

Notwithstanding the foregoing, there can be no assurance that the Company's disclosure controls and procedures will detect or uncover all failures of persons within the Company and its consolidated subsidiaries to disclose material information otherwise required to be set forth in the Company's periodic reports. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures.

#### (b) Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## OMEGA PROTEIN CORPORATION

### PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings

The Company is defending various claims and litigation arising from operations in the ordinary course of the Company's business. In the opinion of management, except as noted in the Company's annual report on Form 10-K for the year ended December 31, 2015, any losses resulting from these matters will not have a material adverse effect on the Company's results of operations, cash flows or financial position.

The Company has received a petition on probation filed by the U.S. Attorney's Office for the Eastern District of Virginia and as a result of that petition has become aware of a criminal investigation being conducted by the U.S. Attorney's Office for the Western District of Louisiana into the waste water discharge practices of the Abbeville, Louisiana facility of its Omega Protein subsidiary. For additional information, see Item 1A Risk Factors.

#### Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in the Company's Form 10-K for the fiscal year ended December 31, 2015, except as set forth below.

**The Company has received a petition on probation filed by the U.S. Attorney's Office for the Eastern District of Virginia and as a result of that petition has become aware of a criminal investigation being conducted by the U.S. Attorney's Office for the Western District of Louisiana into the waste water discharge practices of the Abbeville, Louisiana facility of its Omega Protein subsidiary.** In June 2013, Omega Protein, the Company's principal subsidiary, entered into a plea agreement with the United States Attorney's Office for the Eastern District of Virginia, in which the subsidiary pled guilty to two felony counts under the Clean Water Act in order to resolve an investigation related to the fishing vessels and operations of its Reedville, Virginia facility. In connection with that plea agreement, Omega Protein paid a fine of \$5.5 million, and made a \$2.0 million contribution to an environmental fund.

The plea agreement and the terms of the court's sentencing order imposed a three-year period of probation that was scheduled to end in June 2016. The petition on probation filed by the U.S. Attorney's Office for the Eastern District of Virginia seeks to revoke the subsidiary's probation based on alleged Clean Water Act violations at its Abbeville, Louisiana facility. A hearing on the petition is expected to occur in September 2016.

Based on the petition, the Company became aware of a criminal investigation being conducted by the United States Attorney's Office for the Western District of Louisiana regarding Omega Protein's waste water discharge practices at its Abbeville, Louisiana facility. The Company is reviewing the Abbeville facility's waste water handling operations to determine compliance with applicable laws and regulations.

The Company cannot predict the outcome of the United States Attorney's investigation in the Western District of Louisiana, or the effect of the findings of that investigation on Omega Protein's probation status imposed by the federal court in the Eastern District of Virginia. In the event that Omega Protein is found to be not in compliance with the probation terms of the plea agreement and the court's sentencing order, Omega Protein could be subject to additional criminal penalties or prosecution in the Eastern District of Virginia. In addition, if the United States Attorney in the Western District of Louisiana were to file new criminal charges regarding the waste water disposal operations of the Abbeville facility as a result of that office's investigation, then Omega Protein could be subject to additional criminal penalties or prosecution in that district.

Omega Protein could also experience increased compliance costs, or material adverse alterations to the conduct of its normal course operations, in connection with these matters.

## OMEGA PROTEIN CORPORATION

In addition, the prior convictions under the Clean Water Act have adversely affected Omega Protein's ability to secure government contracts with the United States, and secure future loans under the NFMS Title XI loan program in connection with the affected facility. The subsidiary has received notice from the EPA that it is ineligible, as a result of the convictions under the Clean Water Act, for receipt of government contracts, loans or benefits if any part of the work will be performed, or the loan collateral will be located, at the facility where the offense occurred.

The Company cannot predict the outcome of any of the foregoing matters. Any of the foregoing matters could result in a material adverse effect on the Company's business, reputation, results of operation and financial condition.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company has never declared any dividends since it became a public company in April 1998. The Company generally intends to retain earnings, if any, and does not anticipate declaring or paying dividends on its common stock in the foreseeable future. Any future determination as to payment of dividends will be made at the discretion of the Board of Directors of the Company and will depend upon the Company's operating results, financial condition, capital requirements, general business conditions and such other factors that the Board of Directors deems relevant. See "Item 2—Management's Discussion and Analysis of Financial Conditional and Results of Operations—Liquidity and Capital Resources."

In May 2016, the Company announced a share repurchase program of up to \$40 million over the next 3 years. The Company is not obligated under the program to acquire any particular number of shares and can suspend or terminate the program at any time.

The following table sets forth information with respect to repurchases by the Company of its shares of Common Stock during the second quarter of 2016:

Period	Total number of shares repurchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs
April 2016	—	—	—	—
May 2016	—	—	—	—
June 2016	—	—	—	—
Three months ended June 30, 2016	—	—	—	—

### Item 3. Defaults Upon Senior Securities

None

### Item 4. Mine Safety Disclosures

Not applicable

### Item 5. Other Information

On July 21, 2016, Omega Protein received notice that the United Food and Commercial Workers International Union filed a petition with the National Labor Relations Board ("NLRB") seeking certification to represent certain employees for the purpose of collective bargaining at the Company's Reedville, Virginia fish processing plant. The matter is being processed and adjudicated under NLRB procedures.

## OMEGA PROTEIN CORPORATION

### Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
*3.1	First Amendment to the Amended and Restated Bylaws of Omega Protein Corporation (incorporated by reference from Appendix B to the Company's Proxy Statement on Schedule 14A filed with the Commission on May 23, 2016).
* † 10.1	Form of Award of Restricted Stock Agreement for Independent Directors dated June 28, 2016 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on July 1, 2016).
10.2	Termination of Lease Agreement dated as of June 9, 2016 between The Ardoin Limited Partnership, LR Henry, LLC and Omega Protein, Inc.
31.1	Rule 13a-14(a)/15d-14(a) Certification for Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification for Chief Financial Officer.
32.1	Section 1350 Certification for Chief Executive Officer.
32.2	Section 1350 Certification for Chief Financial Officer.
#101.INS	XBRL Instance Document.
#101.SCH	XBRL Taxonomy Extension Schema Document.
#101.PRE	XBRL Taxonomy Presentation Linkbase Document.
#101.LAB	XBRL Taxonomy Label Linkbase Document.
#101.CAL	XBRL Taxonomy Calculation Linkbase Document.
#101.DEF	XBRL Definition Linkbase Document.

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\* Incorporated by reference

† Management Contract or Compensatory Plan or arrangement

# Pursuant to applicable securities laws and regulations, we are deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and are not subject to liability under any anti-fraud provisions of the federal securities laws as long as we have made a good faith attempt to comply with the submission requirements and promptly amend the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under those Sections.

**OMEGA PROTEIN CORPORATION**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OMEGA PROTEIN CORPORATION  
(Registrant)

August 3, 2016

By: /s/ Andrew C. Johannesen  
Andrew C. Johannesen  
Executive Vice President, Chief Financial Officer

**TERMINATION OF LEASE AGREEMENT**

This TERMINATION OF LEASE AGREEMENT is made and agreed to as of June 9, 2016 (the "Effective Date") between The Ardoin Limited Partnership, a Louisiana limited partnership ("Lessor"), LR Henry, LLC ("Lessor" and collectively "Lessors") and Omega Protein, Inc. (fka Zapatie Haynie Corporation) ("Lessee").

**RECITALS**

A. Lessors and Zapata Haynie Corporation (now Omega Protein, Inc.) are parties to a Lease Agreement dated July 1, 1992, as extended by Amendment One dated February 16, 2006 (the "Lease Agreement") by which Lessors lease to Lessee and Lessee leases from Lessors certain property located in Sections 33 and 34, Township 15 South, Range 10 West, Cameron Parish Louisiana more fully described therein (the "Leases Premises").

**TERMS OF AGREEMENT**

In consideration of the premises, and for good and valuable consideration, the receipt and sufficiency of which is acknowledged by both parties, the parties hereto do hereby agree as follows:

1. The Lease is hereby terminated as of the Effective Date, and, without limitation, (i) all renewal options set forth in the Lease are null and void, (ii) Lessee has no further right to use, occupy or maintain possession of the Leased Premises, and (iii) Lessee owes no rent or other compensation or reimbursement under the Lease.

2. Lessors have inspected the Leased Premises and accept the Leased Premises, including all improvements constructed thereon, in their present condition and Lessee shall have no obligation to remove any improvements except as permitted in Section 5 below. Lessors do hereby release Lessee from any and all liability arising in any manner under, or in connection with, the Lease or Lessee's occupancy of the Leased Premises, including any environmental liabilities related to the Leased Premises, including claims or demands for environmental remediation, including claims made by the State of Louisiana or the United States, or a federal, state or local agency, or some other party, whether arising before or after the termination of the Lease. Lessee does hereby release Lessors from any and all liability arising in any manner under, or in connection with, the Lease.

3. Lessors do hereby warrant that they have not assigned or otherwise encumbered their interest in the Lease. Lessee does hereby warrant that it has not assigned or otherwise encumbered Lessee's interest in the Lease.

4. In consideration of Lessee's agreement to terminate the Lease, Lessors agree that the Leased Premises shall not be used, in any manner, in connection with the fishing or processing of menhaden on or before June 30, 2032 and Lessors agree that this restriction will run with the land and that Lessors will include this restriction in any sale, lease or other encumbrance of the Leased Premises and will require any transferee to also include this restriction in any future sale, lease or other encumbrance of the Leased Premises

5. Lessors agree that Lessee shall have the right to remove the existing septic (sludge) tank that services the guard shack on the Leased Premises within ten (10) days of the termination of the Lease and shall have the right to continue to post a guard in the guard shack until the septic (sludge) tank is removed and to access to the Leased Premises for this purpose.

6. This Termination of Lease Agreement may be signed in counterpart originals, which, taken together, shall constitute one single agreement and instrument.

7. This Agreement shall be given effect and construed by application of the law of the State of Louisiana. This Agreement shall be binding upon and shall inure to the benefit of the parties and their respective legal representatives, successors and assigns, and future owners of the property hereinabove described.

**[Signatures on the Following Pages.]**





In witness whereof, Lessor, LR Henry, LLC has executed and delivered this Termination of Lease Agreement on and as of the Effective Date.

Lessor:

LR Henry, LLC

By:           /s/ Jacqueline Henry Adkins          

Name:           Jacqueline Henry Adkins          

Title:           Authorized Member          

State of Louisiana

County (of Parish) of Calcasieu

On this this 19 day of June 2016, before me, the undersigned notary public, duly commissioned and qualified in and for the jurisdiction set forth above, personally came and appeared Jacqueline Henry Adkins (“Appearer”), who being first duly sworn, declared and acknowledged that Appearer is a Authorized Member of LR Henry, LLC (the “Lessor”), and that with the authority of the governing body of the Lessor, Appearer duly executed and delivered the above and foregoing instrument as the true act and deed of the Company, for the uses and purposes therein set forth.

          /s/ Jeff E. Townsend Jr.            
Notary Public



Exhibit 31.1  
**CERTIFICATION**

I, Bret D. Scholtes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Omega Protein Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2016

By: /s/ BRET D. SCHOLTES  
Name: Bret D. Scholtes  
Title: President and Chief Executive Officer

Exhibit 31.2  
**CERTIFICATION**

I, Andrew J. Johannesen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Omega Protein Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2016

By: /s/ ANDREW J. JOHANNESSEN  
Name: Andrew J. Johannesen  
Title: Executive Vice President and Chief Financial Officer

**Exhibit 32.1**

**Certification of Form 10-Q for the Quarter ended June 30, 2016, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

The undersigned Chief Executive Officer of Omega Protein Corporation, certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- the Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, and
- the information contained in the Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 fairly presents, in all material respects, the financial condition and results of operations of Omega Protein Corporation.

This certification is being furnished solely to comply with the requirements of Section 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as a part of the Form 10-Q.

A signed original of this written statement required by Section 906 has been provided to Omega Protein Corporation and will be retained by Omega Protein Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: August 3, 2016

/s/ BRET D. SCHOLTES  
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Bret D. Scholtes  
President and Chief Executive Officer

**Exhibit 32.2**

**Certification of Form 10-Q for the Quarter ended June 30, 2016 , pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

The undersigned Chief Financial Officer of Omega Protein Corporation, certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- the Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, and
- the information contained in the Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 fairly presents, in all material respects, the financial condition and results of operations of Omega Protein Corporation.

This certification is being furnished solely to comply with the requirements of Section 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as a part of the Form 10-Q.

A signed original of this written statement required by Section 906 has been provided to Omega Protein Corporation and will be retained by Omega Protein Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: August 3, 2016

/s/ ANDREW J. JOHANNESSEN

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Andrew J. Johannesen  
Executive Vice President and Chief Financial Officer