FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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OMEGA PROTEIN CORP
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2006

OR

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

Commission file number: 001-14003

OMEGA PROTEIN CORPORATION

(Exact name of Registrant as specified in its charter)

State of Nevada	**76-0562134**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2101 City West Blvd., Bldg. 3, Suite 500 Houston, Texas	**77042**
(Address of principal executive offices)	**(Zip Code)**

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

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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Large accelerated filer ☐ **Accelerated filer** ☒ **Non-accelerated filer** ☐

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 May 4, 2006: 25,062,318.

OMEGA PROTEIN CORPORATION

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OMEGA PROTEIN CORPORATION
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
(Dollars in thousands, except per share amounts)

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements and Notes

	March 31, 2006	December 31, 2005
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$24,025	$26,362
Receivables, net	20,382	23,941
Amounts due from majority owner	105	105
Inventories	49,063	46,860
Prepaid expenses and other current assets	2,114	1,122
Total current assets	95,689	98,390
Other assets, net	1,539	1,579
Deferred tax assets, net	5,736	6,293
Property and equipment, net	97,285	93,965
Total assets	$200,249	$200,227
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		

Current maturities of long-term debt	$2,470	$ 2,443
Accounts payable	3,040	3,849
Accrued liabilities	10,754	12,202
Deferred tax liabilities, net	776	776
Total current liabilities	17,040	19,270
Long-term debt	27,057	27,658
Pension liabilities, net	11,174	10,932
Total liabilities	55,271	57,860
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value; authorized 10,000,000 shares; none issued	–	–
Common stock, $0.01 par value; authorized 80,000,000 shares; 25,465,719 and 25,447,409 shares issued and 25,052,619 and 25,034,309 shares outstanding at March 31, 2006 and December 31, 2005, respectively	255	255
Capital in excess of par value	116,600	116,512
Retained earnings	37,779	35,253
Accumulated other comprehensive loss	(7,621)	(7,618)
Common stock in treasury, at cost – 413,100 shares	(2,035)	(2,035)
Total stockholders' equity	144,978	142,367

Total liabilities and stockholders' equity	$200,249	$200,227

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

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OMEGA PROTEIN CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME
(Dollars in thousands, except per share amounts)

	Three Months Ended March 31,	
	2006	2005
Revenues	$28,303	$23,831
Cost of sales	21,311	20,775
Gross profit	6,992	3,056
Selling, general, and administrative expense	3,336	2,778
Loss resulting from natural disaster (see Note 11 – Hurricane Losses)	241	–
Loss (gain) on disposal of assets	(1)	–
Operating income	3,416	278
Interest income	232	143
Interest expense	(524)	(266)
Other income (expense), net	(22)	(39)
Income before income taxes	3,102	116
Provision for income taxes	576	9
Net income	2,526	107
Other comprehensive income:		

Foreign currency translation adjustment, net of tax benefit	(3)	(1)
Comprehensive income	$2,523	$106
Basic earnings per share	$0.10	$0.00
Weighted average common shares outstanding	25,043	24,906
Diluted earnings per share	$0.10	$0.00
Weighted average common shares and common share equivalents outstanding	26,021	26,985

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

OMEGA PROTEIN CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollars in thousands, except per share amounts)

	Three Months Ended March 31,	
	2006	2005
	(in thousands)	
Cash flows provided by operating activities:		
Net income	$2,526	$107
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,402	3,330
Loss on sale of assets, net	(1)	–
Provision for losses on receivables	8	8
Share based compensation	6	–
Deferred income taxes	557	9
Changes in assets and liabilities:		
Receivables	1,551	2,716
Inventories	(2,203)	(4,298)
Prepaid expenses and other current assets	(992)	(9)
Other assets	(147)	(305)
Accounts payable	(809)	570

Accrued liabilities	(1,448)	(1,399)
Pension liabilities, net	242	204
Other, net	9	(28)
Total adjustments	175	798
Net cash provided by operating activities	2,701	905
Cash flows used in investing activities:		
Proceeds from disposition of assets	1	–
Proceeds from insurance company, hurricanes	2,000	–
Capital expenditures	(6,535)	(5,767)
Net cash used in investing activities	(4,534)	(5,767)
Cash flows used in financing activities:		
Principal payments of long-term debt obligations	(574)	(408)
Common stock transactions	73	217
Net cash used in financing activities	(501)	(191)
Effect of exchange rate changes on cash and cash equivalents	(3)	(1)
Net decrease in cash and cash equivalents	(2,337)	(5,054)
Cash and cash equivalents at beginning of year	26,362	32,757

Cash and cash equivalents at end of period	$24,025	$27,703

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

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OMEGA PROTEIN CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollars and shares in thousands)

	Common Stock Shares	Common Stock Amount	Capital Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock Amount	Total Stockholders' Equity
Balance at December 31, 2005	25,447	$ 255	$116,512	$35,253	$ (7,618)	$(2,035)	$ 142,367
Issuance of common stock	19	–	69	–	–	–	69
Tax benefit from exercise of stock options	–	–	19	–	–	–	19
Comprehensive income:							
Net income	–	–	–	2,526	–	–	2,526
Other comprehensive income:							
Foreign currency translation adjustment, net of tax benefit	–	–	–	–	(3)	–	(3)
Total comprehensive income (loss)	–	–	–	2,526	(3)	–	2,523
Balance at March 31, 2006	25,466	$ 255	$116,600	$37,779	$ (7,621)	$(2,035)	$ 144,978

The accompanying notes are in integral part of the 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 ("Omega" or the "Company") 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 regular grade and value-added specialty fish meals, crude and refined fish oils and fish solubles. The Company' s fish meal products are primarily used as a protein ingredient in animal feed for swine, cattle, aquaculture and household pets. Fish oil is utilized for animal and aquaculture feeds, industrial applications, as well as for additives to human food products and dietary supplements. The Company' s fish solubles are sold primarily to livestock feed manufacturers, aquaculture feed manufacturers and for use as an organic fertilizer.

Basis of Presentation

These interim financial statements of Omega 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. The interim financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2005. Accordingly, certain information and footnote disclosures normally provided have been omitted since such items are disclosed therein.

In the opinion of management the accompanying unaudited condensed consolidated financial statements reflect all adjustments (including normal recurring adjustments) necessary for a fair statement of the Company' s consolidated financial position as of March 31, 2006, and the results of its operations and its cash flows for the three month periods ended March 31, 2006 and 2005. Operating results for the three month period ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

Consolidation

The consolidated financial statements include the accounts of Omega and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Financial Statement Preparation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Company' s financial statements and the accompanying notes and the reported amounts of revenues and expenses during the reporting period. Actual amounts, when available, could differ from those estimates and those differences could have a material affect on the financial statements.

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Hurricane Losses

On August 29, 2005, the Company' s Moss Point, Mississippi fish processing facility and adjacent shipyard were severely damaged by Hurricane Katrina. On September 25, 2005, the Company' s Cameron, Louisiana and Abbeville, Louisiana fish processing facilities were also severely damaged by Hurricane Rita. Each of these facilities was non-operational immediately after these weather events. Operations at the Moss Point fish processing facility, the Abbeville fish processing facility and the shipyard were re-established in mid-October, 2005, but at reduced processing capabilities. The Company is currently rebuilding its Cameron, Louisiana facility and expects it to be fully operational by mid 2006.

The direct impact of the two hurricanes upon the Company was a loss of physical inventories and physical damage to the plants. The interruption of processing capabilities caused the Company to address the impact of abnormal downtime of its processing facilities, which resulted in the immediate recognition of costs which would ordinarily have been captured as inventory costs. The amounts of these losses are more fully described in Notes 2 and 11.

The Company maintains insurance coverage for a variety of these damages, most notably property, inventory and vessel insurance. The nature and extent of the insurance coverage varies by line of policy and the Company has recorded insurance recoveries as accounts receivable based on estimates. The Company anticipates that further recoveries could be available, but such additional recoveries will require further analysis and discussions with the Company' s insurance carriers. Such recoveries, if any, would be recognized in future periods once they are deemed probable. The Company does not maintain business interruption insurance in any material amounts.

Revenue Recognition

The Company derives revenue principally from the sales of a variety of protein and oil products derived from menhaden. The Company recognizes revenue for the sale of its products when title and rewards of ownership to its products are transferred to the customer.

Cash and Cash Equivalents

The Company considers cash in banks and short-term investments with original maturities of three months or less as cash and cash equivalents.

Allowances for Doubtful Accounts

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of the Company' s customers to make required payments. The Company considers the following factors when determining if collection is reasonably assured: customer credit worthiness, past transaction history with the customer, and changes in customer payment terms. If the Company has no previous experience with the customer, the Company typically obtains reports from credit organizations to ensure that the customer has a history of paying its creditors. The Company may also request financial information, including financial statements or other documents (e.g., bank statements), or may obtain a letter of credit from the customer to ensure that the customer has the means of making payment. If the financial condition of the Company' s customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required.

OMEGA PROTEIN CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Inventories

Inventory is stated at the lower of cost or market. The Company' s fishing season runs from mid-April to the first of November in the Gulf of Mexico and from the beginning of May into December in the Atlantic. Government regulations generally preclude the Company from fishing during the off-seasons.

The Company' s inventory cost system considers all costs associated with an annual fish catch and its processing, both variable and fixed, including both costs incurred during the off-season and during the fishing season. The Company' s costing system allocates cost to inventory quantities on a per unit basis as calculated by a formula that considers total estimated inventoriable costs for a fishing season (including off-season costs) to total estimated fish catch and the relative fair market value of the individual products produced. The Company adjusts the cost of sales, off-season costs and inventory balances at the end of each quarter based on revised estimates of total inventoriable costs and fish catch. The Company' s lower-of-cost-or-market-value analyses at year-end and at interim periods compare the total estimated per unit production cost of the Company' s expected production to the projected per unit market prices of the products. The impairment analyses involve estimates of, among other things, future fish catches and related costs, and expected commodity prices for the fish products as well as projected purchase commitments from customers. These estimates, which management believes are reasonable and supportable, involve estimates of future activities and events which are inherently imprecise and from which actual results may differ materially.

Any costs incurred during abnormal downtime related to activity at the Company' s plants are charged to expense as incurred.

During the off-seasons, in connection with the upcoming fishing seasons, the Company incurs costs (i.e., plant and vessel related labor, utilities, rent, repairs, and depreciation) that are directly related to the Company' s infrastructure. These costs accumulate in inventory and are applied as elements of the cost of production of the Company' s products throughout the fishing season ratably based on the Company' s monthly fish catch and the expected total fish catch for the season.

Insurance

The Company carries insurance for certain losses relating to its vessels and Jones Act liabilities for employees aboard its vessels. The Company provides reserves for those portions of the Annual Aggregate Deductible for which the Company remains responsible by using an estimation process that considers Company-specific and industry data as well as management' s experience, assumptions and consultation with counsel, as these reserves include estimated settlement costs. Management' s current estimated range of liabilities related to such cases is based on claims for which management can estimate the amount and range of loss. For those claims where there may be a range of loss, the Company has recorded an estimated liability inside that range, based on management' s experience, assumptions and consultation with counsel. The process of estimating and establishing reserves for these claims is inherently uncertain and the actual ultimate net cost of a claim may vary materially from the estimated amount reserved. There is some degree of inherent variability in assessing the ultimate amount of losses associated with these claims due to the extended period of time that transpires between when the claim might occur and the full settlement of such claims. This variability is generally greater for Jones Act claims by vessel employees. The Company continually evaluates loss estimates associated with claims and losses as additional information becomes available and revises its estimates. Although management believes estimated reserves related to these claims are adequately recorded, it is possible that actual results could significantly differ from the recorded reserves, which could materially impact the Company' s results of operations, financial position and cash flow.

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

The Company is primarily self-insured for health insurance. The Company purchases individual stop loss coverage with a large deductible. As a result, the Company is primarily self-insured for claims and associated costs up to the amount of the deductible, with claims in excess of the deductible amount being covered by insurance. Expected claims estimates are based on health care trend rates and historical claims data; actual claims may differ from those estimates. The Company evaluates its claims experience related to this coverage with information obtained from its risk management consultants.

Assumptions used in preparing these insurance estimates are based on factors such as claims settlement patterns, claim development trends, claim frequency and severity patterns, inflationary trends and data reasonableness. Together these factors will generally affect the analysis and determination of the "best estimate" of the projected ultimate claim losses. The results of these evaluations are used to both analyze and adjust the Company' s insurance loss reserves.

Advertising Costs

The costs of advertising are expensed as incurred in accordance with Statement of Position 93-7 "Reporting on Advertising Costs."

Research and Development

Costs incurred in research and development activities are expensed as incurred.

Accounting for the Impairment of Long-Lived Assets

The Company evaluates at each balance sheet date for continued appropriateness of the carrying value of its long-lived assets including its long-term receivables and property, plant and equipment in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposals of Long-Lived Assets." The Company reviews long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of any such assets or grouping of assets may not be recoverable. The Company has grouped certain assets together (primarily marine vessels) for impairment testing on a fleet basis. If indicators of impairment are present, management evaluates the undiscounted cash flows estimated to be generated by those assets or grouping of assets compared to the carrying amount of those items. The net carrying value of assets or grouping of assets not recoverable is reduced to fair value. The Company considers continued operating losses, or significant and long-term changes in business conditions, to be its primary indicators of potential impairment.

Income Taxes

The Company utilizes the liability method to account for income taxes. This method requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of existing temporary differences between the financial reporting and tax reporting basis of assets and liabilities, and operating loss and tax credits carryforwards for tax purposes. The Company records a valuation allowance to reduce the deferred tax assets to

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

amount that is more likely than not to be realized. The Company believes that the deferred tax recorded as of March 31, 2006 is realizable through future reversals of existing taxable temporary differences and future taxable income. If the Company were to subsequently determine that we would be able to realize deferred tax assets in the future in excess of the net recorded amount, an adjustment to deferred tax assets would increase earnings for the period in which such determination was made. The Company will continue to assess the adequacy of the valuation allowance on a quarterly basis. Any changes to the estimated valuation allowance could be material to the consolidated financial condition and results of operations.

Property, Equipment and Depreciation

Property and equipment additions are recorded at cost. Depreciation of property and equipment is computed by the straight-line method at rates expected to amortize the cost of property and equipment, net of salvage value, over their estimated useful lives. Estimated useful lives, determined at the date of acquisition, of new assets acquired are based primarily on the review of existing property and equipment. Estimated useful lives are as follows:

	Useful Lives (years)
Fishing vessels and fish processing plants	15-20
Machinery, equipment, furniture and fixtures and other	3-10

Replacements and major improvements are capitalized and amortized over a period of 5 to 15 years, and maintenance and repairs are charged to expense as incurred. Upon sale or retirement, the costs and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in the statement of operations. 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 month periods ended March 31, 2006 and 2005 the Company capitalized approximately $0 and $41,000, respectively, of interest.

Pension Plans

Annual costs of pension plans are determined actuarially based on SFAS No. 87, "Employers' Accounting for Pensions." The Company's policy is to fund U.S. pension plans at amounts not less than the minimum requirements of the Employee Retirement Income Security Act of 1974 and generally for obligations under its foreign plans to deposit funds with trustees under insurance policies. The Company applies the disclosure requirement of revised SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" for its pensions and other postretirement benefit plans.

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, hired after July 31, 2002, will not be eligible to participate in the pension plan and further benefits will no longer accrue for existing participants. The freezing of the pension plan had the effect of vesting all existing participants in their pension benefits in the plan.

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

Comprehensive loss

Comprehensive loss is defined as change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, including foreign currency translation adjustments and minimum pension liability adjustments. The Company presents comprehensive loss in its consolidated statements of stockholders' equity. The change in equity for minimum pension liability adjustment results from an increase in the minimum pension liability and an increase in prepaid pension cost presented net of tax.

The components of other comprehensive loss included in shareholder' s equity are as follows:

	March 31, 2006	December 31, 2005
	(in thousands)	
Cumulative Translation Adjustments	$(33)	$ (30)
Minimum Pension Liability Adjustments, net of tax	(7,588)	(7,588)
Accumulated Other Comprehensive Loss	$(7,621)	$ (7,618)

Foreign Currency Translation

The Company' s Mexican operations use the local currency as the functional currency. Assets and liabilities of those operations are translated into U.S. dollars using period-end exchange rates; income and expenses are translated using the average exchange rates for the reporting period. Translation adjustments are deferred in accumulated other comprehensive income (loss), a separate component of stockholders' equity.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and trade accounts receivable. The Company' s customer base generally remains consistent from year to year. The Company performs ongoing credit evaluations of its customers and generally does not require material collateral. The Company maintains reserves for potential credit losses and such losses have historically been within management' s expectations.

At March 31, 2006 and December 31, 2005, the Company had cash deposits concentrated primarily in one major bank. In addition, the Company had Certificates of Deposit and commercial quality grade investments A2P2 rated or better with companies and financial institutions. As a result of the foregoing, the Company believes that credit risk in such investments is minimal.

Earnings per Share

Basic earnings per common share (EPS) was computed by dividing net earnings by the weighted average number of common shares outstanding during the reporting period. Diluted EPS reflects the dilution that could occur if securities or contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Diluted earnings per common share was computed by dividing net earnings by the sum of the weighted average number of common shares outstanding plus the number of additional common shares that would have been outstanding if the dilutive potential common shares (in this case, exercise of the Company' s employee stock options) had been issued during each period as discussed in Note 9.

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

Recently Issued Accounting Standards

In December 2004, the FASB revised its SFAS No. 123 (“SFAS No. 123R”), “Accounting for Stock-Based Compensation.” The revision establishes standards for the accounting of transactions in which an entity exchanges its equity instruments for goods or services, particularly transactions in which an entity obtains employee services in share-based payment transactions. The revised statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost is to be recognized over the period during which the employee is required to provide service in exchange for the award. Changes in fair value during the requisite service period are to be recognized as compensation cost over that period. In addition, the revised statement amends SFAS No. 95, “Statement of Cash Flows,” to require that excess tax benefits be reported as a financing cash flow rather than as a reduction of taxes paid. The provisions of the revised statement are effective for financial statements issued for the annual reporting period beginning after June 15, 2005, with early adoption encouraged. See the Stock-Based Compensation section of this note for the impact of this statement on our consolidated results.

In March 2005, the SEC issued Staff Accounting Bulletin (“SAB”) No. 107 regarding the Staff’ s interpretation of SFAS No. 123(R). This interpretation provides the Staff’ s views regarding interactions between SFAS No. 123(R) and certain SEC rules and regulations and provides interpretations of the valuation of share-based payments for public companies. The interpretive guidance is intended to assist companies in applying the provisions of SFAS No. 123(R) and investors and users of the financial statements in analyzing the information provided. We will follow the guidance prescribed in SAB No. 107 in connection with our adoption of SFAS No. 123(R).

In March 2005, the FASB issued Interpretation (“FIN”) No. 47, “Accounting for Conditional Asset Retirement Obligations−an Interpretation of FASB Statement No. 143.” This interpretation clarifies the timing of liability recognition for legal obligations associated with an asset retirement when the timing and (or) method of settling the obligation are conditional on a future event that may or may not be within the control of the entity. FIN No. 47 is effective no later than the end of fiscal years ending after December 15, 2005. The adoption of FIN No. 47 did not have a material impact on the Company’ s financial condition, results of operations or cash flows.

In May 2005, the FASB issued SFAS No. 154, “Accounting Changes and Error Corrections−A replacement of APB Opinion No. 20 and FASB Statement No. 30” (“SFAS 154”). SFAS 154 replaces APB Opinion No. 20, “Accounting Changes,” and SFAS No. 3, “Reporting Accounting Changes in Interim Financial Statements,” and changes the requirements for the accounting for, and reporting of, a change in accounting principles. This statement applies to all voluntary changes in accounting principles and changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. Under previous guidance, changes in accounting principle were recognized as a cumulative affect in the net income of the period of the change. SFAS 154 requires retrospective application of changes in accounting principle, limited to the direct effects of the change, to prior periods’ financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. Additionally, this Statement requires that a change in depreciation, amortization or depletion method for long-lived, nonfinancial assets be accounted for as a change in accounting estimate affected by a change in accounting principle and that correction of errors in previously issued financial statements should be termed a “restatement.” The provisions in SFAS 154 are effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005, which was effective with our first quarter of the Company’ s fiscal 2006. The Company intends to adopt the disclosure requirements upon the effective date of the pronouncement if required. The Company does not believe that the adoption of this pronouncement will have a material effect on our consolidated financial position, result of operations or cash flows.

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

Stock-Based Compensation

As of March 31, 2006, the Company had a stock-based employee compensation plan, which is described in more detail in Note 11 to the consolidated financial statements of the Company' s 2005 Form 10-K. Prior to January 1, 2006, the Company accounted for that plan under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock-Based Compensation−Transition and Disclosure − an Amendment of FASB Statement No. 123." No stock-based employee compensation cost related to stock options was reflected in net earnings, as all options granted under those plans had an exercise price equal to or greater than the market value of the underlying common stock on the grant date. Accordingly, share-based compensation related to stock options was only included as a pro forma disclosure in the financial statement footnotes.

Effective January 1, 2006, the Company adopted SFAS No. 123R, "Share-Based Payment," using the modified prospective application transition method. Under this transition method, compensation cost in 2006 includes the portion vesting in the period for (1) all share-based payments granted prior to, but not vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and (2) all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. Under the modified prospective application transition method, no cumulative effect of change in accounting principle charge is required for the Company, and results for prior periods have not been restated. See below for the pro forma disclosures related to the three months ended March 31, 2006. SFAS No. 123R also requires excess tax benefits be reported as a financing cash inflow rather than an operating cash inflow.

Net earnings for the three months ended March 31, 2006 includes approximately $6,400 ($4,200 after tax) of share-based compensation costs and is included in selling, general and administrative expenses in the statement of operations and comprehensive income for the three months ended March 31, 2006. As of March 31, 2006, there was approximately $68,000 of total unrecognized compensation cost related to nonvested share-based compensation that is expected to be recognized over a weighted-average period of 3 years. Based on current grants, total share-based compensation cost for fiscal year 2006 is expected to be approximately $25,000.

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OMEGA PROTEIN CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (continued)

On February 27, 2006, the Company granted new options to employees for the purchase of 10,000 shares of common stock at an exercise price of $6.27 per share, which vest in equal one-third portions on 2007, 2008 and 2009. These options expire on February 27, 2016. These were the only options granted during the quarter ended March 31, 2006. There were 16,966 stock option exercises during the quarter ended March 31, 2006. A summary of option activity under the plan for the three months ended March 31, 2006 is as follows:

	Three Months Ended March 31, 2006		
	Number of Shares Underlying Options	Weighted Average Exercise Prices	Aggregate Intrinsic Value
Outstanding as of January 1, 2006	4,748,852	$ 7.35	
Granted	10,000	$ 6.27	
Exercised/Repurchased	(16,966)	$ 3.15	
Forfeited	(3,334)	$ 5.03	
Outstanding as of March 31, 2006	4,738,552	$ 7.37	$6,909,415
Exercisable as of March 31, 2006	4,715,552	$ 7.38	$6,909,415
Weighted-average fair value of options granted		$ 3.04	

The following table further describes the Company' s stock options outstanding as of March 31, 2006.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 3/31/2006	Weighted Average Remaining Contractual Life	Weighted Average Exercise Prices	Number Exercisable at 3/31/ 2006	Weighted Average Exercise Prices
$1.65 to $3.50	1,922,384	4.8 years	$ 2.28	1,922,384	$ 2.28
$3.95 to $4.70	211,168	6.5 years	$ 4.26	211,168	$ 4.26
$5.03 to $7.55	118,000	8.8 years	$ 6.13	95,000	$ 6.04

$7.76 to $10.58	799,200	7.7 years	$ 9.15	799,200	$ 9.15
$12.38 to $12.75	1,649,400	2.1 years	$ 12.73	1,649,400	$ 12.73
$16.06 to $17.25	38,400	2.1 years	$ 16.37	38,400	$ 16.37
	4,738,552			4,715,552	

	Three Months Ended March 31, 2006	**Weighted Average Grant-Date Fair Value**
Nonvested options as of January 1, 2006	18,000	$ 4.66
Granted	10,000	$ 3.04
Vested	(1,667)	$ 3.04
Forfeited	(3,333)	$ 3.04
Nonvested options as of March 31, 2006	23,000	$ 3.20

OMEGA PROTEIN CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (continued)

The fair value of the Company's stock options is the estimated present value at grant date using the Black-Scholes option pricing model with the following weighted average assumptions for the quarter ended March 31, 2006: expected dividend yield of 0 percent; expected volatility of 48.57% percent; risk-free interest rate of 4.66 percent; and an expected term of 5 years. The expected dividend yield is based on the Company's annual dividend payout at grant date. Expected volatility is based on the historical volatility of the Company's stock for a period approximating the expected life. The risk-free interest rate is based on the U.S. treasury yield in effect at the time of grant and has a term equal to the expected life. The expected term of the options represents the period of time the options are expected to be outstanding.

On May 5, 2005, the Company accelerated the vesting of all unvested, out-of-the-money, explicit service period stock options granted under the Company's 2000 Long-Term Incentive Plan. The purpose of accelerating vesting was to eliminate future compensation expense that the Company would otherwise recognize in its Statement of Operations with respect to these accelerated stock options upon the adoption by the Company of SFAS No. 123R. A stock option was considered "out-of-the-money" if the stock option exercise price was greater than $6.04, which was the closing price of the Company's common stock on the New York Stock Exchange on May 5, 2005. As a result of this action, stock options to purchase 390,000 shares of the Company's common stock became immediately exercisable. The vesting created a modification of stock options; however, there was no impact on the fair value of the options. The weighted average exercise price of all the accelerated stock options was $9.98.

For purposes of pro forma disclosures, the estimated fair value of stock options is assumed to be amortized to expense over the stock options' vesting periods. The pro forma effects of recognizing compensation expense under the fair value method on net income and net earnings per common share for the three month period ended March 31, 2005, were as follows (in thousands, except per share amounts):

	Three Months Ended March 31, 2005 (in thousands, except per share amounts)
Net earnings	$ 107
Total stock-based employee compensation determined under fair value-based method, net tax	(139)
Pro forma net earnings	$ (32)
Net earnings per common share:	
Basic – as reported	$ 0.00
Basic – pro forma	$ 0.00

Net earnings per common share:	
Diluted – as reported	$ 0.00
Diluted – pro forma	$ 0.00

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OMEGA PROTEIN CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Note 2. Accounts Receivable

Accounts receivable as of March 31, 2006 and December 31, 2005 are summarized as follows:

	March 31, 2006	December 31, 2005
	(in thousands)	
Trade	$10,268	$ 11,407
Insurance	9,618	11,704
Employee	103	42
Income tax	395	383
Other	195	595
Total accounts receivable	20,579	24,131
Less: allowance for doubtful accounts	(197)	(190)
Receivables, net	$20,382	$ 23,941

As a result of Hurricanes Katrina and Rita (see Note 11 – Hurricane Losses), the Company sustained damage to its three fish processing facilities and its shipyard located in the Gulf of Mexico region. Based on estimates, the Company believes its hurricane related insurance recoveries will total approximately $12 million. The Company has received $4 million in advances as of March 31, 2006.

The Company anticipates that further recoveries could be available, but such additional recoveries will require further estimation, analysis and discussions with the Company' s insurance carriers and adjusters. Additional amounts will be recognized when the amounts are deemed probable.

Note 3. Inventory

The major classes of inventory as of March 31, 2006 and December 31, 2005 are summarized as follows:

	March 31, 2006	December 31, 2005
	(in thousands)	

Fish meal	$9,960	$ 14,742
Fish oil	13,590	21,552
Fish solubles	441	672
Unallocated inventory cost pool (including off-season costs)	20,510	5,926
Other materials & supplies	4,562	3,968
Total inventory	$49,063	$ 46,860

Inventory at March 31, 2006 and December 31, 2005 is stated at the lower of cost or market. The elements of unallocated inventory cost pool include plant and vessel related labor, utilities, rent, repairs and depreciation, to be allocated to inventories produced through the remainder of 2006.

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OMEGA PROTEIN CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Note 4. Other Assets

Other assets as of March 31, 2006 and December 31, 2005 are summarized as follows:

	March 31, 2006	December 31, 2005
	(in thousands)	
Fish nets, net of accumulated amortization of $1,515 and $1,347	$ 605	$ 639
Insurance receivable, net of allowance for doubtful accounts	477	475
Title XI loan origination fee	318	337
Deposits	139	128
Total other assets, net	$ 1,539	$ 1,579

Amortization expense for fishing nets amounted to approximately $168,000 and $172,000 for the three months ended March 31, 2006 and 2005, respectively.

The Company carries insurance for certain losses relating to its 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 the Company remains responsible, while the insurance carrier is responsible for all applicable amounts which exceed the AAD. It is the Company’ s policy to accrue current amounts due and record amounts paid out on each claim. Once payments exceed the AAD, the Company records an insurance receivable for a given policy year, net of allowance for doubtful accounts. As of March 31, 2006 and December 31, 2005, the allowance for doubtful insurance receivable accounts was $2.0 million.

Note 5. Property and Equipment

Property and equipment at March 31, 2006 and December 31, 2005 are summarized as follows:

	March 31, 2006	December 31, 2005
	(in thousands)	
Land	$7,630	$7,630
Plant assets	93,958	89,650

Fishing vessels	91,015	90,880
Furniture and fixtures	4,565	2,792
Construction in progress	4,710	4,391
Total property and equipment	201,878	195,343
Less: accumulated depreciation and impairment	(104,593)	(101,378)
Property, plant and equipment, net	$97,285	$93,965

Depreciation expense for the three months ended March 31, 2006 and 2005 was $3.2 million and $3.1 million, respectively.

OMEGA PROTEIN CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Note 6. Notes Payable and Long-Term Debt

At March 31, 2006 and December 31, 2005, the Company' s long-term debt consisted of the following:

	March 31, 2006	December 31, 2005
	(in thousands)	
U.S. government guaranteed obligations (Title XI loan) collateralized by a first lien on certain vessels and certain plant assets:		
Amounts due in installments through 2016, interest from 6.49% to 7.6%	$29,178	$ 29,737
Amounts due in installments through 2014, interest at Eurodollar rates of 4.97% and 4.46% at March 31, 2006 and December 31, 2005, respectively, plus 4.5%	349	359
Other debt at 6.25% at March 31, 2006 and December 31, 2005	–	5
Total debt	29,527	30,101
Less current maturities	(2,470)	(2,443)
Long-term debt	$27,057	$ 27,658

The Company was initially authorized to receive up to $20.6 million in loans under the Title XI program, and has borrowed the entire amount authorized under such program. The Title XI loans are secured by liens on certain of the Company' s fishing vessels and mortgages on the Company' s Reedville, Virginia and Abbeville, Louisiana plants. Loans are now available under similar terms pursuant to the Title XI program without intervening lenders.

In September 2004, the United States Department of Commerce Fisheries Finance Program (the "FFP") approved the Company' s financing application in an amount not to exceed $14 million (the "Approval Letter"). Borrowings under the Approval Letter are to be used to finance and/or refinance approximately 73% of the actual depreciable cost of the Company' s future fishing vessels refurbishments and capital expenditures relating to shore-side fishing assets, for a term not to exceed 15 years from inception at interest rates determined by the U.S. Treasury. Final approval for all such future projects requires individual approval through the Secretary of Commerce, National Oceanic and Atmospheric Administration, and National Marine Fisheries Service ("National Marine Fisheries Service"). Borrowings under the FFP are required to be evidenced by secured agreements, undertakings, and other documents deemed in the sole discretion of the National Marine Fisheries Service as necessary to accomplish the intent and purpose of the Approval Letter. The Company is required to comply with customary National Marine Fisheries Service covenants as well as certain special covenants. In December 2004, the Company submitted a $4.9 million financing request against the $14 million approval, and subsequently amended that request to include the entire $14 million. The Company closed on the $14 million FFP loan on October 17, 2005. On December 1, 2005, pursuant to the Title XI program, the United States

Department of Commerce approved another financing application made by the Company in the amount of $16.4 million. No borrowings have been made from the $16.4 million commitment.

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OMEGA PROTEIN CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (continued)

The Company has a $20 million revolving credit agreement with Bank of America, N.A. (the "Credit Facility"). Borrowings under this facility may be used for working capital and capital expenditures. The Credit Facility permits the Company to borrow up to $31 million of Title XI loans. The term of the Credit Facility expires on October 31, 2007, the maximum borrowing availability tied to the Company' s eligible inventory is $12 million and the Company may not generate a net loss for any two consecutive quarters. The Credit Facility requires that the Company maintain a Fixed Charge Coverage Ratio of 1.25 to 1, as measured on a quarterly basis using the consolidated results of the four fiscal quarter period ending with the applicable reporting period. A commitment fee of 37.5 basis points per annum is payable quarterly on the actual daily amount of the availability under the Credit Facility. The applicable interest rate will be adjusted (up or down) prospectively on a quarterly basis from LIBOR plus 2.00% to LIBOR plus 2.50% or at the Company' s option, Prime minus 0.50% to Prime plus 0.00%, depending upon the Fixed Charge Coverage Ratio being greater than 2.5 times to less than or equal to 1.5 times, respectively. The Credit Facility is collateralized by all of the Company' s trade receivables, inventory and equipment. In addition, the Credit Facility does not allow for the payment of cash dividends or stock repurchases.

As of March 31, 2006, the Company was out of compliance with the Ratio of Earnings to Fixed Charges covenant in the Credit Facility. The Company notified the lender of the covenant non-compliance and received a waiver from the lender.

As of March 31, 2006, the Company had no borrowings outstanding under the Credit Facility. At March 31, 2006 and December 31, 2005, the Company had outstanding letters of credit under the Credit Facility totaling approximately $3.0 million and $8.0 million, respectively, issued in support of worker' s compensation insurance programs as of March 31, 2006 and December 31, 2005 and to purchase fish meal from a third party as of December 31, 2005.

Note 7. Accrued Liabilities

Accrued liabilities as of March 31, 2006 and December 31, 2005 are summarized as follows:

	March 31, 2006	December 31, 2005
	(in thousands)	
Salary and benefits	$1,841	$ 4,128
Insurance	4,023	3,879
Taxes, other than income tax	947	677
Trade creditors	3,564	3,243
Other	379	275
Total accrued liabilities	$10,754	$ 12,202

OMEGA PROTEIN CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Note 8. Commitments and Contingencies

Litigation

The Company is defending various claims and litigation arising from its operations which arise in the ordinary course of the Company' s business. In the opinion of management, and based on advice of legal counsel, it is believed that any existing litigation involving the Company will not materially affect its financial condition, cash flows or future results of operations.

Insurance

The Company carries insurance with coverages and coverage limits that it believes to be appropriate for the business. Although there can be no assurance that such insurance is sufficient to protect the Company against all contingencies, management believes that its insurance protection is reasonable in view of the nature and scope of the Company' s operations. Should the Company' s insurers become insolvent, the Company is responsible for payment of all outstanding claims associated with the insurer' s policies.

Environmental 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.

Indemnification

The Company' s Articles of Incorporation and By-Laws limit the liability of the Company' s officers and directors to the fullest extent permitted by Nevada law. Nevada provides that directors of Nevada coporations may be relieved of monetary liabilities for breach of their fiduciary duties as directors, except under certain circumstances, including (i) acts or omissions which involve intentional misconduct, fraud or a knowing violation of law of (ii) the willful or grossly negligent payment of unlawful distributions.

The Company' s Articles of Incorporation and By-Laws generally require the Company to indemnify its directors and officers to the fullest extent permitted by Nevada law. The Company' s Articles of Incorporation and By-Laws also require the Company to advance expenses to its directors and its officers to the fullest extent permitted by Nevada law upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it should be ultimately determined that they are not entitled to indemnification by the Company. The Company also has entered into indemnification agreements with all of its directors and certain of its officers which provides for the indemnification and advancement of expenses by the Company. The Company also maintains director and officer liability insurance with respect to liabilities arising out of certain matters, including matters arising under the securities laws. This insurance is subject to limitations, conditions and deductibles set forth in the respective insurance policy.

OMEGA PROTEIN CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Note 9. Reconciliation of Basic and Diluted Per Share Data (in thousands except per share data)

	Earnings (Numerator)	Shares (Denominator)	Per Share Data
Three Months Ended March 31, 2006			
Net earnings	$ 2,526		
Basic earnings per common share:			
Earnings available to common shareholders	$ 2,526	25,043	$ 0.10
Effect of dilutive securities:			
Stock options assumed exercised	–	978	
Diluted earnings per common share:			
Earnings available to common shareholders plus stock options assumed exercised	$ 2,526	26,021	$ 0.10

	Earnings (Numerator)	Shares (Denominator)	Per Share Data
Three Months Ended March 31, 2005			
Net earnings	$ 107		
Basic earnings per common share:			
Earnings available to common shareholders	$ 107	24,906	$ 0.00
Effect of dilutive securities:			

Stock options assumed exercised	–	2,079	
Diluted earnings per common share:			
Earnings available to common shareholders plus stock options assumed exercised	$ 107	26,985	$ 0.00

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

Options to purchase 2,530,000 shares of common stock at exercise prices ranging from $6.27 to $17.25 per share were outstanding during the three months ended March 31, 2006, but were not included in the computation of diluted earnings per share because the exercise prices of the options were greater than the average market price of the shares during that period.

Options to purchase 2,507,000 shares of common stock at exercise prices ranging from $7.76 to $17.25 a per share were outstanding during the three months ended March 31, 2005, but were not included in the computation of diluted earnings per share because the exercise prices of the options were greater than the average market price of the shares during that period.

Note 10. Components of Net Periodic Benefit Cost

	Three Months Ended March 31,	
	2006	**2005**
Service cost	$ –	$ –
Interest cost	358	364
Expected return on plan assets	(343)	(350)
Amortization of prior service costs	–	–
Amortization of net loss	227	190
Net periodic pension cost	$ 242	$ 204

As of March 31, 2006, no contributions to the Company’ s pension plan have been made. The Company expects to make contributions of $2.6 million to the pension plan during the remainder of 2006. No contributions to the pension plan were made during fiscal 2005.

Note 11. Hurricane Losses

On August 29, 2005, the Company’ s Moss Point, Mississippi fish processing facility and adjacent shipyard were severely damaged by Hurricane Katrina. On September 24, 2005, the Company’ s Cameron, Louisiana and the Abbeville, Louisiana fish processing facilities were also severely damaged by Hurricane Rita. Each of these facilities was non-operational immediately after these weather related events. For the three month period ended March 31, 2006, $241,000 of additional clean-up costs has been recognized in the Company’ s statement of operations. See Note 12 in the December 31, 2005, Form 10-K for additional information.

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking statements in this Form 10-Q, future filings by the Company with the Securities and Exchange Commission (the "Commission"), 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, including without limitation, the risks set forth under the caption "Risk Factors and Significant Factors that May Affect Forward-Looking Statements" appearing in Item 1A. "Risk Factors." 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," and similar expressions.

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OMEGA PROTEIN CORPORATION

General

Omega Protein Corporation is the largest processor, marketer and distributor of fish meal and fish oil products in the United States. As used herein, the term “Omega” or the “Company” refers to Omega Protein Corporation or to Omega Protein Corporation and its consolidated subsidiaries, as applicable. The Company’ s principal executive offices are at 2101 City West Blvd., Building 3, Suite 500, Houston, Texas 77042 (Telephone: (713) 623-0060).

The Company produces and sells a variety of protein and oil products derived from menhaden, a species of wild herring-like fish found along the Gulf of Mexico and Atlantic coasts. The fish is not genetically modified or genetically enhanced. The Company processes several grades of fish meal (regular or “FAQ” meal and specialty meals), as well as fish oil and fish solubles. The Company’ s fish meal products are primarily used as a protein ingredient in animal feed for swine, cattle, aquaculture and household pets. Fish oil is utilized for animal and aquaculture feeds, industrial applications, additives to human food products and as dietary supplements. The Company’ s fish solubles are sold primarily to livestock feed manufacturers, aquaculture feed manufacturers and for use as an organic fertilizer.

The Company operates four menhaden processing plants: two in Louisiana, one in Mississippi and one in Virginia. The Company also operates a Health and Science Center in Reedville, Virginia, which provides 100-metric tons per day fish oil processing capacity for the Company’ s food grade oils and industrial and feed grade oils.

In August 2005, the Company’ s Moss Point, Mississippi fish processing facility and adjacent shipyard were severely damaged by Hurricane Katrina. In September 2005, the Company’ s Cameron, Louisiana and Abbeville, Louisiana fish processing facilities were also severely damaged by Hurricane Rita. Each of these facilities was non-operational immediately after these weather events. The Moss Point, Abbeville and Cameron facilities accounted for approximately 16%, 31% and 22%, respectively, of the Company’ s full year 2004 production tonnage, so as an immediate result of the two hurricanes, approximately 70% of the Company’ s operating capacity was impaired and the Company’ s business, results of operations and financial condition were materially adversely affected. The Company’ s four plants, assuming that no hurricane damage had occurred, would have had an aggregate annual processing capacity as of December 31, 2005 of approximately 950,000 tons of fish. The hurricane damages reduced the Company’ s annual aggregate processing capacity to approximately 600,000 tons as of December 31, 2005.

Operations at the Moss Point and Abbeville fish processing facilities and the shipyard were re-established in mid-October 2005, but at reduced processing capabilities. These two facilities were returned to full operational status prior to the beginning of the Gulf fishing season in April 2006. The Company is currently rebuilding its Cameron, Louisiana facility and expects it to be fully operational by mid 2006.

The direct impact of the two hurricanes upon the Company was a loss of physical inventories and physical damage to the plants. The Company estimated its hurricane damages at approximately $28.0 million, of which approximately $12.0 million is expected to be recovered under insurance policies ($4.0 million of which has been received as of March 31, 2006). Therefore, the Company has recognized a $16.0 million loss through March 31, 2006 due to estimated damages in excess of insurance recoveries. Of the damage estimate, approximately $2.5 million was related to damaged fish meal inventory and approximately $13.0 million was related to write-offs of inventory costs that had been allocated and deferred to future production that did not occur. The Company did not maintain business interruption insurance for these types of deferred inventory costs due to its high cost and limited availability.

OMEGA PROTEIN CORPORATION

All of the Company' s products contain healthy long-chain Omega-3 fatty acids. Omega-3 fatty acids are commonly referred to as "essential fatty acids" because the body does not produce them. Instead, essential fatty acids must be obtained from outside sources, such as food or special supplements. Long-chain Omega-3s are also commonly referred to as a "good fat" for their health benefits, as opposed to the "bad fats" that create or aggravate health conditions through long-term consumption. Scientific research suggests that long-chain Omega-3s as part of a balanced diet may provide significant benefits for health issues such as cardiovascular disease, inflammatory conditions and other ailments.

Under its patented production process, the Company produces OmegaPure®, a taste-free, odorless refined fish oil which is the only marine source of long-chain Omega-3' s directly affirmed by the U.S. Food and Drug Administration ("FDA") as a food ingredient that is Generally Recognized as Safe ("GRAS"). See "Company Overview−Products" in Part I Item 1 and 2 of the Company' s Form 10-K Annual Report for the year ended December 31, 2005.

The Company operates through two material subsidiaries: Omega Protein, Inc. and Omega Shipyard, Inc. Omega Protein, Inc. is the Company' s principal operating subsidiary for its menhaden processing business and is the successor to a business conducted since 1913. Omega Shipyard, Inc. owns a drydock facility in Moss Point, Mississippi, which is used to provide shoreside maintenance for the Company' s fishing fleet and, subject to outside demand and excess capacity, occasionally for third-party vessels. Revenues from shipyard work for third-party vessels for the three month periods ended March 31, 2006 and 2005 were not material. The Company also has a number of other immaterial direct and indirect subsidiaries.

Prior to 2005, the Company had operated a Mexican subsidiary which had coordinated the Company' s fish meal and oil sales and purchases through a local Mexican sales office. In 2005, the Company discontinued its use of this Mexican office and consolidated these functions in its Houston, Texas headquarters.

Until April 1998, the Company, including its predecessors, was a wholly-owned subsidiary of Zapata Corporation ("Zapata"). In April 1998, the Company completed an initial public offering of its common stock. Zapata currently owns approximately 58% of the Company' s outstanding common stock.

Available Information

The Company files annual, quarterly and current reports and other information with the Securities and Exchange Commission ("SEC"). The Company' s annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed under the Securities and Exchange Act of 1934 ("Exchange Act"), as well as Section 16 filings by officers and directors, are available free of charge at the Company' s website at www.omegaproteininc.com or at the SEC' s website at www.sec.gov and are posted as soon as reasonably practicable after they are filed with the SEC. The Company will provide a copy of these documents to stockholders upon request. Information on the Company' s website or any other website is not incorporated by reference into this report and does not constitute part of this report.

In addition, the public may read and copy any materials filed by the Company with the SEC at the SEC' s Public Reference Room at 100 F. Street, NE., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

OMEGA PROTEIN CORPORATION

The Company' s Corporate Governance Guidelines, Code of Business Conduct and Ethics, Code of Ethics for Financial Professionals, as well as the Charters for the Board' s Audit Committee, Compensation Committee, Corporate Governance Committee and Scientific Committee, are available at the Company' s website. These Guidelines, Codes and Charters are not incorporated by reference into this report and do not constitute part of this report. The Company will provide a copy of these documents to stockholders upon request.

Company Overview

Business. Omega is the largest U.S. producer of protein-rich meal and oil derived from marine sources. The Company' s products are produced from menhaden (a herring-like fish found in commercial quantities), and includes regular grade and value-added specialty fish meals, crude and refined fish oils and fish solubles.

Fishing. During the first quarter of 2006, the Company owned a fleet of 61 fishing vessels and 32 spotter aircraft for use in its fishing operations and also leased additional aircraft where necessary to facilitate operations. During the 2006 fishing season in the Gulf of Mexico, which runs from mid-April through October, the Company plans to operate 31 fishing vessels and 28 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 begins in early May and usually extends into December. During the 2006 season, the Company plans to operate 10 fishing vessels and 7 spotter aircraft along the Mid-Atlantic coast, concentrated primarily in and around Virginia and North Carolina. 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 or in the process of refurbishment in the Company' s shipyard.

Menhaden usually school in large, tight clusters and are commonly found in warm, shallow waters. Spotter aircraft locate the schools and direct the fishing vessels to them. The principal fishing vessels transport two 40-foot purse boats, each carrying several fishermen and one end of a 1,500-foot net. The purse boats encircle the school and capture the fish in the net. The fish are then pumped from the net into refrigerated holds of the fishing vessel or onto a carry vessel, and then are unloaded at the Company' s processing plants. "Carry vessels" do not engage in active fishing but instead carry fish from the Company' s offshore fishing vessels to its plants. Utilization of carry vessels increases the amount of time that certain of the Company' s fishing vessels remain offshore fishing productive waters and therefore increases the Company' s fish catch per vessel employed. The carry vessels have reduced crews and crew expenses and incur less maintenance cost than the actual fishing vessels.

The Company' s principal raw material is menhaden, a species of fish that inhabits coastal and inland tidal waters in the United States. Menhaden are undesirable for direct human consumption due to their small size, prominent bones and high oil content. Certain state agencies, as well as interstate compacts, impose resource depletion restrictions on menhaden pursuant to fisheries management legislation or regulations and may impose additional legislation or regulations in the future. For example, in August 2005, the Management Board of the ASMFC approved an addendum to an existing Fishery Management Plan. The addendum, if it were to be accepted and implemented by the Commonwealth of Virginia as an ASMFC member, would establish an annual cap for a five year period beginning in 2006 on the Company' s menhaden landings from the Chesapeake Bay in an amount equal to the Company' s average annual landings over a five year period. The Company estimates that this annual limitation would be approximately 106,000 metric tons. Had the cap been in place for the 2005 fishing season, it would not have impacted the Company' s 2005 fishing operations in the Chesapeake Bay. However, in this case, the Virginia legislature did not approve the recommended cap, and the Virginia Attorney General later issued an advisory opinion that the Management Board exceeded its authority when it adopted the recommended cap. See the Company' s 2005 10-K "Item 1 and 2. Business and Properties – Company Overview−Regulation." To date, the Company has not experienced any material adverse impact on its fish catch or results of operations as a result of these recommended restrictions.

OMEGA PROTEIN CORPORATION

Meal and Oil Processing Plants. The Company operates four meal and oil processing plants, two in Louisiana, one in Mississippi and one in Virginia, where the menhaden are processed into three general products types: fish meal, fish oil and fish solubles. The Company' s processing plants are located in coastal areas near the Company' s fishing fleet. Annual volume processed varies depending upon menhaden catch. Each plant maintains a dedicated dock to unload fish, fish processing equipment and storage facility. The fish are unloaded from the fishing vessels into storage boxes and then conveyed into steam cookers. The fish are then passed through presses to remove most of the oil and water. The solid portions of the fish are dried and ground into fish meal. The liquid that is produced in the cooking and pressing operations contains oil, water, dissolved protein and some fish solids. This liquid is decanted to remove the water and solids and is put through a centrifugal oil and water separation process. The separated fish oil is a finished product called crude oil. The separated water and protein mixture is further processed through evaporators to recover the soluble protein, which can be sold as a finished product or added to the solid portions of the fish for processing into fish meal.

Shipyard. The Company owns a 49.4 acre shipyard facility in Moss Point, Mississippi which includes two dry docks, each with a capacity of 1,300 tons. The shipyard is used for routine maintenance and vessel refurbishment on the Company' s fishing vessels and occasionally for shoreside maintenance services to third-party vessels if excess capacity exists.

Health and Science Center. In October 2004, the Company completed construction and commenced operation of a new Health and Science Center that provides 100-metric tons per day fish oil processing capacity. The new center is located adjacent to the Company' s Reedville, Virginia processing plant. The food-grade facility includes state-of-the-art processing equipment and controls that will allow the Company to refine, bleach, fractionate and deodorize its menhaden fish oil and has more than tripled the Company' s previous refined fish oil production capacity for food grade oils and industrial and feed grade oils. The facility also provides the Company with automated packaging and on-site refrigerated storage capacity and has a new fully equipped lipids laboratory to enhance the development of Omega-3 oils and food products.

New Technical Center. The Company also plans to build a new technical center to be located in Houston, Texas to further develop its OmegaPure® food grade Omega-3 product line. The technical center will have food science application labs, as well as analytical, sensory and pilot plant capabilities. The technical center will also have a lipids research lab where the Company plans to continue to develop new Omega-3 products that have improved functionality and technical characteristics. The new facility is expected to be completed by mid-summer 2006.

Hurricane Damages. In August 2005, the Company' s Moss Point, Mississippi fish processing facility and adjacent shipyard were severely damaged by Hurricane Katrina. In September 2005, the Company' s Cameron, Louisiana and Abbeville, Louisiana fish processing facilities were also severely damaged by Hurricane Rita. Each of these facilities was non-operational immediately after these weather events. The Moss Point, Abbeville and Cameron facilities accounted for approximately 16%, 31% and 22%, respectively, of the Company' s full year 2004 production tonnage, so as an immediate result of the two hurricanes, approximately 70% of the Company' s operating capacity was impaired and the Company' s business, results of operations and financial condition were materially adversely affected.

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Operations at the Moss Point and Abbeville fish processing facilities and the shipyard were re-established in mid-October 2005, but at reduced processing capabilities. These two facilities were returned to full operational status prior to the beginning of the Gulf fishing season in April 2006. The Company is currently rebuilding its Cameron, Louisiana facility and expects it to be fully operational by mid 2006.

The Company maintains insurance coverage for a variety of these damages, most notably property, inventory and vessel insurance. The nature and extent of the insurance coverage varies by line of policy and the Company has recorded insurance recoveries as an account receivable based on the preliminary discussions with insurers and adjusters. The Company anticipates that further recoveries could be available, but such additional recoveries will require further analysis and discussions with the Company' s insurance carriers. Such recoveries, if any, would be recognized in future periods once they are deemed probable. The Company does not maintain business interruption insurance in any material amounts due to its high cost and limited availability.

The direct impact of the two hurricanes upon the Company was a loss of physical inventories and physical damage to the plants. The Company estimated its total hurricane damages at approximately $28.0 million, of which approximately $12.0 million is expected to be recovered under insurance policies ($4.0 million of which has been received as of March 31, 2006). Therefore, the Company has recognized a $16.0 million loss as of March 31, 2006 due to estimated damages in excess of insurance recoveries. Of the damage estimate, approximately $2.5 million was related to damaged fish meal inventory and approximately $13.0 million was related to write-offs of inventory costs that had been allocated to future production that did not occur. The Company did not maintain business interruption insurance for these types of deferred inventory costs due to its high cost and limited availability. See the Company' s 2005 10-K "Item 8. Financial Statements and Supplementary Data – Note 12 Hurricane Losses" for additional information on the components of the hurricane related losses. A substantial portion of the amounts listed are based upon estimates and assumptions. Actual amounts, when available, could differ materially from those estimates and changes to those estimates could have a material effect on the Company' s future financial statements.

Not included in the amounts listed are the replacement capital costs of property and equipment, which did not have any book basis and were destroyed in the hurricanes, and the costs of clean up incurred subsequent to March 31, 2006.

As of March 31, 2006, the Company' s four active processing plants, assuming that no hurricane damages had occurred, would have had an aggregate annual capacity to process approximately 950,000 tons of fish**.** The previously described hurricane damages reduced the annual aggregate processing capacity to approximately 600,000 tons as of March 31, 2006. This capacity is expected to return to original pre-hurricane capacity by mid-2006 when the Cameron facility is expected to be operational.

Because of the damages to the Company' s Cameron, Louisiana facility caused by Hurricane Rita, the Company has begun its 2006 fishing season by operating its full contingent of 31 Gulf of Mexico fishing vessels out of its two operating facilities in Abbeville, Louisiana and Moss Point, Mississippi. Later in the 2006 fishing season when the Company expects that the Cameron, Louisiana plant will be operational, up to 11 vessels will be shifted to Cameron. This plan will substantially increase the number of vessels at the Abbeville and Moss Point plants to a level that the Company has not operated at previously. Although these two facilities have adequate processing capacity, the Company believes that fishing efforts may be diminished because increased unloading time due to additional vessels could keep some vessels off the fishing grounds during the most optimal fishing times. It is possible that other logistical, mechanical or other manpower constraints arising out of this increased vessel load could also reduce the efficiency of these two plants. To date, the Company has not experienced any material problems from these issues.

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Distribution System. The Company' s distribution system of warehouses, tank storage facilities, vessel loading facilities, trucks, barges and railcars allows the Company to service customers throughout the United States and also foreign locations. The Company owns and leases warehouses and tank storage space for storage of its products, generally at terminals along the Mississippi River and Tennessee River. The Company generally contracts with third-party trucking, vessel, barge and railcar companies to transport its products to and from warehouses and tank storage facilities and directly to its customers.

Historically, approximately 35% to 40% of Omega' s FAQ grade fish meal was sold on a two-to-twelve-month forward contract basis. The balance of FAQ grade fish meal and other products was substantially sold on a spot basis through purchase orders. In 2002, the Company began a similar forward sales program for its specialty grade meals and crude fish oil due to increasing demand for these products. During 2003, 2004 and 2005, approximately 50%, 43% and 70%, respectively, of the Company' s specialty meals and crude fish oil had been sold on a forward contract basis. As of March 31, 2006, approximately 64% and 86% of the Company' s 2006 forecasted fish meal and crude fish oil had either been sold or sold forward on a contract basis. The percentage of fish meal and crude fish oil sold on a forward contract basis will fluctuate from year to year based upon perceived market availability. The Company' s annual revenues are highly dependent on both annual fish catch and inventories and, in addition, inventory is generally carried over from one year to the next year. The Company determines the level of inventory to be carried over based on prevailing market prices of the products, and sales volumes that will fluctuate from quarter to quarter and year to year. The Company' s fish meal products have a useable life of approximately one year from date of production; however, the Company typically attempts to empty its warehouses of the previous season' s meal products by the second or third month of the new fishing season. The Company' 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.

The Company' s annual revenues are highly dependent on both annual fish catch and inventories and, in addition, inventory is generally carried over from one year to the next year. The Company determines the level of inventory to be carried over based on prevailing market prices of the products and anticipated customer usage and demand during the off-season. Thus, production volume does not necessarily correlate with sales volume in the same year and sales volumes will fluctuate from quarter to quarter. The Company' s fish meal products have a useable life of approximately one year from date of production. Practically, however the Company attempts to empty its warehouses of the previous season' s products by the second or third month of the new fishing season. The Company' 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.

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:

	Three Months Ended March 31,			
	2006		2005	
	Revenues	Percent	Revenues	Percent
Regular Grade	$ 4.4	15.6 %	$ 4.1	17.2 %
Special Select	10.2	36.0	9.9	41.6
Sea-Lac	2.6	9.2	4.9	20.6
Crude Oil	8.3	29.3	3.3	13.9

Refined Oil	2.3	8.1	1.1	4.6
Fish Solubles	0.5	1.8	0.5	2.1
Total	$ 28.3	100.0 %	$ 23.8	100.0 %

Customers and Marketing. Most of the Company' s marine protein products are sold directly to about 600 customers by the Company' s agriproducts sales department, while a smaller amount is sold through independent sales agents. Product inventory was $24.0 million on March 31, 2006 versus $19.4 million as of March 31, 2005.

The Company' s fish meal is sold primarily to domestic feed producers for utilization as a high-protein ingredient for the swine, aquaculture, dairy and pet food industries. Fish oil sales primarily involve export markets where the fish oil is used for aquaculture feeds and is refined for use as a hydrogenated edible oil.

The Company' s products are sold both in the U.S. and internationally. International sales consist mainly of fish oil sales to Norway, Canada, Chile and Mexico. The Company' s sales in these foreign markets are denominated in U.S. dollars and not directly affected by currency fluctuations. Such sales could be adversely affected by changes in demand resulting from fluctuations in currency exchange rates.

A number of countries in which the Company currently sells products impose various tariffs and duties, none of which have a significant impact on the Company' s foreign sales. Certain of these duties are being reduced annually for certain countries under the North American Free Trade Agreement and the Uruguay Round Agreement of the General Agreement on Tariffs and Trade. In all cases, the Company' s products are shipped to its customers either by FOB shipping point or CIF terms, and therefore, the customer is responsible for any tariffs, duties or other levies imposed on the Company' s products sold into these markets.

During the off season, the Company fills purchase orders from the inventory it has accumulated during the fishing season or in some cases, by re-selling meal purchased from other suppliers. Prices for the Company' s products tend to be lower during the fishing season when product is more abundant than in the off season. Throughout the entire year, prices are often significantly influenced by supply and demand in world markets for competing products, primarily other global sources of fish meal and oil, and also soybean meal for its fish meal products, and vegetable oils for its fish oil products when used as an alternative.

Quality Control. The Company believes that maintaining high standards of quality in all aspects of its manufacturing operations play an important part in its ability to attract and retain customers and maintain its competitive position. To that end, the Company has adopted strict quality control systems and procedures designed to test the quality aspects of its products, such as protein content and digestibility. The Company regularly reviews, updates and modifies these systems and procedures as appropriate.

Purchases and Sales of Third-Party Meal and Oils. Omega has from time to time purchased fish meal and fish oil from other domestic and international manufacturers. These purchase and resale transactions have been ancillary to the Company' s base manufacturing and sales business.

Part of the Company' s business plan involves expanding its purchase and resale of other manufacturers' fish meal and fish oil products. During 2003, 2004 and 2005, the Company' s fish catch and resultant product inventories were reduced, primarily due to adverse weather conditions, and the Company further expanded its purchase and resales of other fish meals and oils (primarily Panamanian, Peruvian and Mexican fish meal and U.S. menhaden oil). Although operating margins from these activities are less than the margins typically generated from the Company' s base domestic production, these operations provide the Company with a source of fish meal and oil to sell into other markets where the Company has not historically had a presence. During 2003, the Company purchased products totaling approximately 12,500 tons, or approximately 5% of total volume 2003 sales. During 2004, the Company purchased products totaling approximately 17,800 tons, or approximately 8% of total volume 2004 sales. During 2005, the Company purchased products totaling approximately 16,600 tons, or approximately 8% of total volume 2005 sales. During the quarter ended March 31, 2006, the Company purchased products totaling approximately 12,000 tons.

Insurance. The Company maintains insurance against physical loss and damage to its assets, coverage against liabilities to third parties it may incur in the course of its operations, as well as workers' compensation, United States Longshoremen' s and Harbor Workers' Compensation Act and Jones Act coverage. Assets are insured at replacement cost, market value or assessed earning power. The Company' s limits for liability coverage are statutory or $50 million. The $50 million limit is comprised of several excess liability policies, which are subject to deductibles, underlying limits, annual aggregates and exclusions. The Company believes its insurance coverage to be in such form, against such risks, for such amounts and subject to such deductibles and self-retentions as are prudent and normal for its operations. Over the last four years, the Company has elected to increase its deductibles and self-retentions in order to achieve lower insurance premium costs. These higher deductibles and self-retentions have resulted in greater costs to the Company in the case of Hurricanes Katrina and Rita and will expose the Company to greater risk of loss if additional future claims occur. In addition, the Company' s cost of insurance for property damage has increased materially and will likely further increase materially in future years as insurers recoup losses paid and to be paid out in connection with the Katrina and Rita hurricanes by charging higher premiums. The Company does not maintain business interruption insurance in any material amount due to its high cost and limited availability.

Competition. The Company competes with a small domestic privately-owned menhaden fishing company and with international marine protein and oil producers, including Mexican sardine processors and South American anchovy processors. In addition, but to a lesser extent, the Company' s marine protein and oil business is also subject to significant competition from producers of vegetable and other animal protein products and oil products such as Archer Daniels Midland and Cargill. Many of these competitors have significantly greater financial resources and more extensive and diversified operations than those of the Company.

Omega competes on price, quality and performance characteristics of its products, such as protein level and amino acid profile in the case of fish meal. The principal competition for the Company' s fish meal and fish solubles is from other global production of marine proteins as well as other protein sources such as soybean meal and other vegetable or animal protein products. The Company believes, however, that these other non-marine sources are not complete substitutes because fish meal offers nutritional values not contained in such other sources. Other globally produced fish oils provide the primary market competition for the Company' s fish oil, as well as soybean and rapeseed oil, from time to time.

Fish meal prices have historically borne a relationship to prevailing soybean meal prices (more weakly correlated in recent years), while prices for fish oil are generally influenced by prices for vegetable fats and oils, such as rape and palm oils. Thus, the prices for the Company' s products are established by worldwide supply and demand relationships over which the Company has no control and tend to fluctuate significantly over the course of a year and from year to year.

Liquidity and Capital Resources

The Company' s primary sources of liquidity and capital resources have been cash flows from operations, bank credit facilities and term loans from various lenders provided pursuant to the National Marine Fisheries Finance Program under Title XI of the Marine Act of 1936 ("Title XI"). These sources of cash flows have been used for capital expenditures and payment of long-term debt. The Company expects to finance future expenditures through internally generated cash flows and, if necessary, through funds available from the Credit Facility and/or Title XI facilities described below.

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Under a program offered through National Marine Fisheries Services ("NMFS") pursuant to Title XI, the Company has secured loans through lenders with terms generally ranging between 12 and 20 years at interest rates between 6% and 8% per annum which are enhanced with a government guaranty to the lender for up to 80% of the financing. The Company' s current Title XI borrowings are secured by liens on 17 fishing vessels and mortgages on the Company' s Reedville, Virginia and Abbeville, Louisiana plants. In 1996, Title XI borrowing was modified to permit use of proceeds from borrowings obtained through this program for shoreside construction.

In September 2004, pursuant to the Title XI program, the United States Department of Commerce approved a financing application made by the Company in the amount of $14 million (the "Approval Letter"). In December 2004, the Company submitted a $4.9 million financing request to be drawn against the $14 million approved financing application. In 2005, the Company amended the request to include the entire $14 million, and closed on this loan in October 2005. On December 1, 2005, pursuant to the Title XI program, the United States Department of Commerce approved another financing application made by the Company in the amount of $16.4 million. The Company expects that this loan, or some portion of it, will close in the latter part of 2006. Borrowings under this Title XI program may be used for refurbishment of the Company' s fishing vessels and capital expenditures relating to the Company' s shore-side fishing assets. The Title XI loans are secured by liens on certain of the Company' s fishing vessels and mortgages on the Company' s Reedville, Virginia and Abbeville and Cameron, Louisiana plants.

Omega had an unrestricted cash balance of $24.0 million at March 31, 2006, down $2.4 million from December 31, 2005. This decrease was due primarily to capital expenditures, purchase of third party meal, and costs associated with the hurricane rebuilding efforts. The Company' s liquidity is greatly influenced by the selling prices received for its products. Should the Company experience decreased pricing in the future, as it experienced in 1999 and 2000, liquidity would decline and the Company would likely have to utilize its working capital credit facility. Additionally, as a result of Hurricanes Katrina and Rita, the Company suffered significant damages to property and equipment that will need to be repaired or replaced in the near future. Insurance proceeds are not expected to fully cover all of those costs and the remainder will be funded from the Company' s existing cash balances and Credit Facility. The Company' s long-term debt at March 31, 2006 and December 31, 2005 was $27.1 million and $27.7 million, respectively. Current maturities attributable to the Company' s long-term debt were $2.5 and $2.4 million at March 31, 2006 and December 31, 2005, respectively. The Company did not utilize its working capital credit facility during the first three months of 2006 and 2005 other than for $3.0 and $8.0 million, respectively, in standby letters of credit used to support Company workers compensation programs as of March 31, 2006 and December 31, 2005 and to purchase fish meal from a third party as of December 31, 2005. As of March 31, 2006, the Company had $13.4 million available under its working capital credit facility and had no borrowings except for standby letters of credit issued under that facility. The Company has no off-balance sheet arrangements other than normal operating leases and standby letters of credit.

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The following tables aggregate information about the Company' s contractual cash obligations and other commercial commitments (in thousands) as of March 31, 2006:

	Payments Due by Period				
Contractual Cash Obligations	**Total**	**Less than 1 year**	**1 to 3 years**	**4 to 5 years**	**After 5 years**
Long Term Debt	$29,527	$2,470	$5,044	$4,237	$17,776
Interest on long term debt	13,491	2,098	3,352	2,702	5,339
Operating Leases	7,239	872	1,661	1,557	3,149
Minimum Pension Liability (1)	11,174	–	–	–	11,174
Standby Letters of Credit (2)	2,974	2,974	–	–	–
Total Contractual Cash Obligations	$64,405	$8,414	$10,057	$8,496	$37,438

(1) The Company expects to make contributions of $2.6 million to the pension plan in 2006.

(2) As of March 31, 2006, the Company had no outstanding borrowings under the $20 million Credit Facility other than $3.0 million in standby letters of credit.

Net operating activities provided cash of approximately $2.7 and $0.9 million for the three months periods ended March 31, 2006 and 2005, respectively. The increase in operating activities is primarily attributable to the change in activities relating to receivables and net income.

Net investing activities used cash of $4.5 million and $5.8 million for the three month periods ended March 31, 2006 and 2005, respectively. In addition to any future capital expenditures related to the replacement or repair of property and equipment due to the Hurricanes Katrina and Rita, the Company' s investing activities consists mainly of capital expenditures for equipment purchases, replacements, vessel refurbishments, and fish oil refining processes. In addition to any future capital expenditures related to the replacement or repair of property and equipment due to Hurricanes Katrina and Rita, the Company anticipates making approximately $8 million in capital expenditures in 2006, which will be used to refurbish vessels, plant assets and to repair certain equipment. Investing activities also includes the receipt of $2.0 million from an insurance company relating to Hurricanes Katrina and Rita for the three months ending March 31, 2006.

Net financing activities used cash of $0.5 million and $0.2 million during the three month periods ended March 31, 2006 and 2005, respectively. The exercise of stock options provided proceeds of $54,000 and $217,000 for the three month periods ended March 31, 2006 and 2005, respectively.

The Company has a $20 million revolving credit agreement with Bank of America, N.A. (the "Credit Facility"). Borrowings under this facility may be used for working capital and capital expenditures. The Credit Facility permits the Company to borrow up to $31 million of Title XI loans. The term of the Credit Facility expires on October 31, 2007, the maximum borrowing availability tied to the Company' s eligible inventory is $12 million and the Company may not generate a net loss for any two consecutive quarters. The Credit Facility requires that the Company maintain a Fixed Charge Coverage Ratio of 1.25 to 1, as measured on a quarterly basis using the consolidated results of the four fiscal quarter period ending with the applicable reporting period. A commitment fee of 37.5 basis points per annum is payable quarterly on the actual daily amount of the availability under the Credit Facility. The applicable interest rate will be adjusted (up or down) prospectively on a quarterly basis from LIBOR plus 2.00% to LIBOR plus 2.50% or at the Company' s option, Prime minus 0.50% to Prime plus 0.00%, depending upon the Fixed Charge Coverage Ratio being greater than 2.5 times to less than or equal to 1.5 times, respectively. The Credit Facility is collateralized by all of the Company' s trade receivables, inventory and equipment. In addition, the Credit Facility does not allow for the payment of cash dividends or stock repurchases.

As of March 31, 2006, the Company was out of compliance with the Ratio of Earnings to Fixed Charges covenant in the Credit Facility. The Company notified the lender of the covenant non-compliance and received a waiver from the lender.

As of March 31, 2006, the Company had no borrowings outstanding under the Credit Facility. At March 31, 2006 and December 31, 2005, the Company had outstanding letters of credit under the Credit Facility totaling approximately $3.0 million and $8.0 million, respectively, issued primarily in support of worker' s compensation insurance programs as of March 31, 2006 and December 31, 2005 and to purchase fish meal from a third party as of December 31, 2005.

In September 2004, the United States Department of Commerce Fisheries Finance Program (the "FFP") approved the Company' s financing application in an amount not to exceed $14 million (the "Approval Letter"). Borrowings under the Approval Letter are to be used to finance and/or refinance approximately 73% of the actual depreciable cost of the Company' s future fishing vessel refurbishments and capital expenditures relating to shore-side fishing assets, for a term not to exceed 15 years from inception at interest rates determined by the U.S. Treasury. Final approval for all such future projects requires individual approval through the Secretary of Commerce, National Oceanic and Atmospheric Administration, and National Marine Fisheries Service ("National Marine Fisheries Service"). Borrowings under the FFP are required to be evidenced by secured agreements, undertakings, and other documents deemed in the sole discretion of the National Marine Fisheries Service as necessary to accomplish the intent and purpose of the Approval Letter. The Company is required to comply with customary National Marine Fisheries Service covenants as well as certain special covenants. In December 2004, the Company submitted a $4.9 million financing request against the $14 million approval, and subsequently amended that request to include the entire $14 million. The Company closed on the $14 million FFP loan on October 17, 2005. On December 1, 2005, pursuant to the Title XI program, the United States Department of Commerce approved another financing application made by the Company in the amount of $16.4 million. The Company expects to close on a portion of this application in the latter part of 2006.

The Company from time to time considers potential transactions including, but not limited to, enhancement of physical facilities to improve production capabilities and the acquisition of other businesses. Certain of the potential transactions reviewed by the Company would, if completed, result in its entering new lines of business (generally including certain businesses to which the Company sells its products such as pet food manufacturers, aquaculture feed manufacturers, fertilizer companies and organic foods distributors), although historically, reviewed opportunities have been generally related in some manner to the Company' s existing operations or which would have added new protein products to the Company' s product lines. Although the Company does not, as of the date hereof, have any commitment with respect to a material acquisition, it could enter into such agreement in the future.

The Company carries insurance for certain losses relating to its 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 the Company remains responsible, while the insurance carrier is responsible for all applicable amounts which exceed the AAD. It is the Company' s policy to accrue current amounts due and record amounts paid out on each claim. Once payments exceed the AAD, the Company records an insurance receivable for a given policy year.

In 2003, the Company' s Vessel Claims Insurance carrier for the period October 1, 1997 through September 30, 1998, and for 80% of the Company' s Jones Act claims for the period October 1, 1998 through March 31, 2000 was declared insolvent by a state insurance regulator. The Company had previously provided an allowance for doubtful accounts for all the amount due to the Company from the insurance carrier.

The Company believes that the existing cash, cash equivalents, short-term investments and funds available through its Credit Facility will be sufficient to meet its working capital and capital expenditure requirements through at least the next twelve months. In addition, the Company expects to receive insurance proceeds from hurricane damages to assist in meeting its capital expenditures.

Critical Accounting Policies and Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported therein, including estimates about the effects of matters or future events that are inherently uncertain. The most significant of these requiring difficult or complex judgments in any particular period involve the costing of inventory, including inventory lower-of-cost-or-market analyses and the Company' s accounting for various losses on self-insurance retentions.

Hurricane Losses

On August 29, 2005, the Company' s Moss Point, Mississippi fish processing facility and adjacent shipyard were severely damaged by Hurricane Katrina. On September 25, 2005, the Company' s Cameron, Louisiana and Abbeville, Louisiana fish processing facilities were also severely damaged by Hurricane Rita. Each of these facilities was non-operational immediately after these weather events. Operations at the Moss Point fish processing facility, the Abbeville fish processing facility and the shipyard were re-established in mid-October, 2005, but at reduced processing capabilities. The Company is currently rebuilding its Cameron, Louisiana facility and expects it to be fully operational by mid 2006.

The direct impact of the two hurricanes upon the Company was a loss of physical inventories and physical damage to the plants. The interruption of processing capabilities caused the Company to address the impact of abnormal downtime of its processing facilities, which resulted in the immediate recognition of costs which would ordinarily have been captured as inventory costs. The amounts of these losses are more fully described in Notes 2, 3, 5 and 12 to the financial statements included in the Company' s 2005 Form 10-K.

The Company maintains insurance coverage for a variety of these damages, most notably property, inventory and vessel insurance. The nature and extent of the insurance coverage varies by line of policy and the Company has recorded insurance recoveries as accounts receivable based on estimates. The Company anticipates that further recoveries could be available, but such additional recoveries will require further analysis and discussions with the Company' s insurance carriers and adjusters. Such recoveries, if any, would be recognized in future periods once they are deemed probable. The Company does not maintain business interruption insurance in any material amounts.

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Revenue Recognition

The Company derives revenue principally from the sales of a variety of protein and oil products derived from menhaden. The Company recognizes revenue for the sale of its products when title and rewards of ownership to its products are transferred to the customer.

Impairment of Long-Lived Assets

The Company evaluates at each balance sheet date the continued appropriateness of the carrying value of its long-lived assets including its long-term receivables and property, plant and equipment in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposals of Long-Lived Assets." The Company reviews long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of any such assets or grouping of assets may not be recoverable. The Company has grouped certain assets together (primarily marine vessels) for impairment testing on a fleet basis. If indicators of impairment are present, management would evaluate the undiscounted cash flows estimated to be generated by those assets or grouping of assets compared to the carrying amount of those items. The net carrying value of assets or grouping of assets not recoverable is reduced to fair value. The Company considers continued operating losses, or significant and long-term changes in business conditions, to be its primary indicators of potential impairment.

Property, Equipment and Depreciation

Property and equipment additions are recorded at cost. Depreciation of property and equipment is computed by the straight-line method at rates expected to amortize the cost of property and equipment, net of salvage value, over their estimated useful lives. Estimated useful lives, determined at the date of acquisition, of new assets acquired are based primarily on the review of existing property and equipment. Estimated useful lives are as follows:

	Useful Lives (years)
Fishing vessels and fish processing plants	15-20
Machinery, equipment, furniture and fixtures and other	3-10

Replacements and major improvements are capitalized; maintenance and repairs are charged to expense as incurred. Upon sale or retirement, the costs and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in the statement of operations. 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.

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Inventories

Inventory is stated at the lower of cost or market. The Company' s fishing season runs from mid-April to the first of November in the Gulf of Mexico and from the beginning of May into December in the Atlantic. Government regulations generally preclude the Company from fishing during the off-seasons.

The Company' s inventory cost system considers all costs associated with an annual fish catch and its processing, both variable and fixed, including both costs incurred during the off-season and during the fishing season. The Company' s costing system allocates cost to inventory quantities on a per unit basis as calculated by a formula that considers total estimated inventoriable costs for a fishing season (including off-season costs) to total estimated fish catch and the relative fair market value of the individual products produced. The Company adjusts the cost of sales, off-season costs and inventory balances at the end of each quarter based on revised estimates of total inventoriable costs and fish catch. The Company' s lower-of-cost-or-market-value analyses at year-end and at interim periods compares total estimated per unit production cost of the Company' s expected production to the projected per unit market prices of the products. The impairment analyses involve estimates of, among other things, future fish catches and related costs, and expected commodity prices for the fish products. These estimates, which management believes are reasonable and supportable, involve estimates of future activities and events which are inherently imprecise and from which actual results may differ materially. Revisions in such estimates or actual results could materially impact the Company' s results of operation and financial position.

Any costs incurred during abnormal down time related to activity at the Company' s plants are charged to expense as incurred.

During the off-seasons, in connection with the upcoming fishing seasons, the Company incurs costs (i.e., plant and vessel related labor, utilities, rent, repairs and depreciation) that are directly related to the Company' s infrastructure. These costs accumulate in inventory and are applied as elements of the cost of production of the Company' s products throughout the fishing season ratably based on the Company' s monthly fish catch and the expected total fish catch for the season.

Insurance

The Company carries insurance for certain losses relating to its vessels and Jones Act liabilities for employees aboard its vessels. The Company provides reserves for those portions of the Annual Aggregate Deductible for which the Company remains responsible by using an estimation process that considers Company-specific and industry data as well as management' s experience, assumptions and consultation with counsel, as these reserves include estimated settlement costs. Management' s current estimated range of liabilities related to such cases is based on claims for which management can estimate the amount and range of loss. For those claims where there may be a range of loss, the Company has recorded an estimated liability inside that range, based on management' s experience, assumptions and consultation with counsel. The process of estimating and establishing reserves for these claims is inherently uncertain and the actual ultimate net cost of a claim may vary materially from the estimated amount reserved. There is some degree of inherent variability in assessing the ultimate amount of losses associated with these claims due to the extended period of time that transpires between when the claim might occur and the full settlement of such claims. This variability is generally greater for Jones Act claims by vessel employees. The Company continually evaluates loss estimates associated with claims and losses as additional information becomes available and revises its estimates. Although management believes estimated reserves related to these claims are adequately recorded, it is possible that actual results could significantly differ from the recorded reserves, which could materially impact the Company' s results of operations, financial position and cash flow.

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With respect to health insurance, the Company is primarily self-insured. The Company purchases individual stop loss coverage with a large deductible. As a result, the Company is primarily self-insured for claims and associated costs up to the amount of the deductible, with claims in excess of the deductible amount being covered by insurance. Expected claims estimates are based on health care trend rates and historical claims data; actual claims may differ from those estimates. The Company continually evaluates its claims experience related to this coverage with information obtained from its risk management consultants.

Assumptions used in preparing these insurance estimates are based on factors such as claims settlement patterns, claim development trends, claim frequency and severity patterns, inflationary trends and data reasonableness. Together these factors will generally affect the analysis and determination of the “best estimate” of the projected ultimate claim losses. The results of these evaluations are used to both analyze and adjust the Company’ s insurance loss reserves.

Pension

The Company estimates income or expense related to its pension plan based on actuarial assumptions, including assumptions regarding discount rates and expected returns on plan assets. The Company determines the discount rates of return on high-quality fixed-income investments currently available and expected to be available during the period to maturity of its pension obligations. Based on historical data and discussions with its actuary, Omega determines its expected return on plan assets based on the expected long-term rate of return on its plan assets and the market-related value of its plan assets. Changes in these assumptions can result in significant changes in estimated pension income or expense. The Company will revise its assumptions on an annual basis based upon changes in current interest rates, return on plan assets and the underlying demographics of the workforce. These assumptions are reasonably likely to change in future periods and may have a material impact on future earnings.

Results of Operations

The following table sets forth as a percentage of revenues certain items of the Company’ s operations for each of the indicated periods.

	Three Months Ended March 31,	
	2006	**2005**
Revenues	100.0 %	100.0 %
Cost of sales	75.3	87.2
Gross profit	24.7	12.8
Selling, general and administrative expense	11.7	11.7
Loss resulting from natural disaster	0.9	0.0
Loss on disposal of assets	0.0	0.0

Operating income	12.1	1.1
Interest income	0.8	0.6
Interest expense	(1.9)	(1.1)
Other income (expense), net	0.0	(0.2)
Income before income taxes	11.0	0.4
Provision for income taxes	2.1	0.0
Net income	8.9 %	0.4 %

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Interim Results for the First Quarters ended March 31, 2006 and March 31, 2005

Revenues. Revenues increased $4.5 million or 18.8% for the quarter ended March 31, 2006 as compared to the quarter ended March 31, 2005. The increase was primarily due to an 123.4% increase in sales volumes of the Company' s fish oil, partially offset by a 17% decline in fish meal sales volumes. Additionally, the Company experienced a 10.6% and 9.0% increase in sales prices of the Company' s fish meal and fish oil, respectively. The Company experienced a $2.8 million increase in revenues due to increased sales prices and a $1.9 million increase in revenues due to sales volumes of the Company' s fish meal and fish oil.

Cost of Sales. Cost of sales, including depreciation and amortization, for the current quarter ended March 31, 2006 was $21.3 million, an increase of $0.5 million or 2.6% from $20.8 million for the quarter ended March 31, 2005. Cost of sales as a percentage of revenues decreased 11.9% to 75.3% for the quarter ended March 31, 2006. The decrease in cost of sales as a percentage of revenues was due to higher sales prices for the current quarter.

Gross Profit. Gross profit increased 128.8% from a $3.1 million gross profit in the quarter ended March 31, 2005 to $7.0 million in the current quarter ended March 31, 2006. The increase in gross profit margins was primarily due to higher sales prices for the first quarter 2006 as compared to the first quarter 2005.

Selling, general and administrative expenses. Selling, general, and administrative expenses increased $558,000 from $2.8 million for the first quarter ended March 31, 2005 to $3.3 million for the first quarter ended March 31, 2006. This increase was attributable primarily to increased consulting expenditures relating to the Company' s governmental relations program and other consulting expenditures relating to hurricane insurance recovery efforts.

Loss resulting from natural disaster. For the current quarter ended March 31, 2006, the Company incurred losses of $241,000 relating to damages incurred at its Moss Point, Mississippi fish processing facility and adjacent shipyard from Hurricane Katrina, and damages incurred at its Cameron and Abbeville, Louisiana fish processing facilities from Hurricane Rita. These costs primarily relate to clean up costs incurred during the current quarter.

Operating income. As a result of the factors discussed above, the Company' s operating income increased $3.1 million from an operating income of $0.3 million for the quarter ended March 31, 2005 to an operating income of $3.4 million for the quarter ended March 31, 2006.

Interest income. Interest income increased $89,000 for the current quarter ended March 31, 2006 as compared to the quarter ended March 31, 2005. The increase was primarily due to higher returns on the Company' s cash and cash equivalents.

Interest expense. Interest expense increased $258,000 for the current quarter ended March 31, 2006 as compared to the quarter ended March 31, 2005. The increase in interest expense is primarily due to interest associated with the additional $14 million in debt that was obtained in October 2005.

Other income (expense), net. Other expense, net decreased $17,000 in the current quarter ended March 31, 2006 as compared to the quarter ended March 31, 2005. The decrease was primarily due to the fees paid to the Company' s banking institution.

Provision for income taxes. The Company recorded a $576,000 provision for income taxes for the first quarter 2006 representing an effective tax rate of 19%. For the first quarter 2005, the Company recorded a $9,000 provision for income taxes representing an effective tax rate of 8%. The effective tax rates for the first quarter

2006 and 2005 were reduced below the statutory rate due mainly to a state income tax benefit on current period pre-tax income and the partial exclusion of income on foreign sales. The Company believes that it is more probable than not that the recorded estimated deferred tax asset will be realized.

Seasonal and Quarterly Results

The Company' s menhaden harvesting and processing business is seasonal in nature. The Company generally has higher sales during the menhaden harvesting season (which includes the second and third quarter of each fiscal year) due to increased product availability, but prices during the fishing season tend to be lower than during the off-season. As a result, the Company' s quarterly operating results have fluctuated in the past and may fluctuate in the future. In addition, from time to time the Company defers sales of inventory based on worldwide prices for competing products that affect prices for the Company' s products which may affect comparable period comparisons.

Item 3. Quantitative and Qualitative Disclosures 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. 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, substantially all of the Company' s revenues are billed and paid for in US dollars. As a result, management does not believe that the Company is exposed to any significant foreign country currency exchange risk, and the Company does not utilize market risk sensitive instruments to manage its exposure to this risk.

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 Rule 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 Office ("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 discussed by the Company in the reports that the Company files or submits to the Securities and Exchange Commission ("SEC") 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. Accordingly, even effective disclosure controls and procedures can only provide reasonable, not absolute, assurance of achieving their control objectives.

(b) Changes in Internal Controls

There were no changes in the Company' s internal controls 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.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is defending various claims and litigation arising from operations which arise in the ordinary course of the Company' s business. In the opinion of management, any losses resulting from these matters will not have a material adverse affect on the Company' s results of operations, cash flows or financial position.

Item 1A. Risk Factors

Risk Factors and Significant Factors That May Affect Forward-Looking Statements

The Company cautions investors that the following risk factors, and those factors described elsewhere in this Report, other filings by the Company with the SEC from time to time and press releases issued by the Company, could affect the Company' s actual results which could differ materially from those expressed in any forward-looking statements made by or on behalf of the Company.

The risks described below are not the only ones facing the Company. The Company' s business is also subject to other risks and uncertainties that affect many other companies, such as competition, technological obsolescence, labor relations (including risks of strikes), general economic conditions and geopolitical events. Additional risks not currently known to the Company or risks that the Company currently believes are immaterial may also impair the Company' s business, results of operations and financial results.

Risks Relating to the Company' s Business and Industry:

The Company is dependent on a single natural resource and may not be able to catch the amount of menhaden that it requires to operate profitably. The Company' s primary raw material is menhaden. The Company' s business is totally dependent on its annual menhaden harvest in ocean waters along the U.S. Atlantic and Gulf coasts. The Company' s ability to meet its raw material requirements through its annual menhaden harvest fluctuates from year to year, and even at times month to month, due to natural conditions over which the Company has no control. These natural conditions, which include varying fish population, adverse weather conditions and disease, may prevent the Company from catching the amount of menhaden required to operate profitability.

The Company' s operations are geographically concentrated in the Gulf of Mexico where they are susceptible to regional adverse weather patterns such as hurricanes. Three of the Company' s four operating plants are located in the Gulf of Mexico (two in Louisiana and one in Mississippi), a region which has historically been subject to a late summer/early fall hurricane season. The Company' s Virginia facility has in the past also at times been adversely affected by hurricanes. All three of the Company' s Gulf of Mexico plants were severely damaged within a one-month span by Hurricanes Katrina and Rita in August and September 2005. Immediately after the second hurricane, approximately 70% of the Company' s 2004 production capacity was impaired and the Company' s business, results of operations and financial condition were materially adversely affected. Additional future weather related disruptions could, if they occur, also have a material adverse effect on the Company' s business, results of operations and financial condition. In addition, the Company' s costs of insurance for property damage have increased as insurers recoup losses paid and to be paid out in connection with the Katrina and Rita hurricanes by charging higher premiums. It is possible that Hurricanes Katrina and Rita may have adversely affected Gulf Coast waters by causing increased pollution or debris in shallow waters where the Company historically has operated and these adverse effects if they occur could adversely affect the Company' s ability to catch menhaden.

The costs of energy may materially impact the Company' s business. The Company has experienced substantially higher costs for energy in recent years, particularly in 2005 and expects these higher costs to continue into 2006. The Company' s business is materially dependent on diesel fuel for its vessels and natural gas for its operating facilities. The costs of these commodities, which are beyond the Company' s control, may have an adverse material impact on the Company' s business, results of operations and financial condition.

Fluctuation in "oil yields" derived from the Company' s fish catch could impact the Company' s ability to operate profitably. The "oil yield," or the percentage of oil derived from the menhaden fish, while it is relatively high compared to many species of fish, has fluctuated over the years and from month to month due to natural conditions relating to fish biology over which the Company has no control. The oil yield has at times materially impacted the amount of fish oil that the Company has been able to produce from its available fish catch and it is possible that oil yields in the future could also adversely impact the Company' s ability to operate profitably.

Laws or regulations that restrict or prohibit menhaden or purse seine fishing operations could adversely affect the Company' s ability to operate. The adoption of new laws or regulations at federal, regional, state or local levels that restrict or prohibit menhaden or purse seine fishing operations, or stricter interpretations of existing laws or regulations, could materially adversely affect the Company' s business, results of operations and financial condition. In addition, the impact of a violation by the Company of federal, regional, state or local law or regulation relating to its fishing operations, the protection of the environment or the health and safety of its employees could have a material adverse affect on the Company' s business, results of operations and financial condition.

One example of potentially restrictive regulation involves an addendum to a fisheries management plan recommended by a regional regulatory board in August 2005 which, if it were to be adopted by the Commonwealth of Virginia, could limit for a five-year period the annual amount commercial menhaden catch in the Chesapeake Bay to the Company' s 5-year average Bay catch. There is also the possibility, which the Company does not believe is likely, that if the U.S. Secretary of Commerce were to find the Commonwealth of Virginia out of compliance with the management plan, that he could declare a moratorium on all commercial harvesting of menhaden in Virginia waters unless Virginia were to comply with the restriction. See the Company' s 2005 Form 10-K "Item 1 and 2. Business and Properties−Company Overview−Regulation" for more information.

The Company' s fish catch may be impacted by restrictions on its spotter aircraft. If the Company' s spotter aircraft are prohibited or restricted from operating in their normal manner during the Company' s fishing season, the Company' s business, results of operations and financial condition could be adversely affected. For example, as a direct result of the September 11, 2001 terrorist attacks, the Secretary of Transportation issued a federal ground stop order that grounded certain aircraft (including the Company' s fish-spotting aircraft) for approximately nine days. This loss of spotter aircraft coverage severely hampered the Company' s ability to locate menhaden fish during this nine-day period and thereby reduced its amount of saleable product.

Worldwide supply and demand relationships, which are beyond the Company' s control, influence the prices that the Company receives for many of its products and may from time to time result in low prices for many of the Company' s products. Prices for many of the Company' s products are subject to, or influenced by, worldwide supply and demand relationships over which the Company has no control and which tend to fluctuate to a significant extent over the course of a year and from year to year. The factors that influence these supply and demand relationships are world supplies of fish meal made from other fish species, animal proteins and fats, palm oil, soy meal and oil, and other edible oils.

New laws or regulation regarding contaminants in fish oil or fish meal may increase the Company' s cost of production or cause the Company to lose business. It is possible that future enactment of increasingly stringent regulations regarding contaminants in fish meal or fish oil by foreign countries or the United States may adversely affect the Company' s business, results of operations and financial condition. More stringent regulations could result in: (i) the Company' s incurrence of additional capital expenditures on contaminant reduction technology in order to meet the requirements of those jurisdictions, and possibly higher production costs for Company' s products, or (ii) the Company' s withdrawal from marketing its products in those jurisdictions.

Risks Relating to the Company' s Ongoing Operations:

Three of the Company' s four operating plants were severely damaged by Hurricanes Katrina and Rita and the Company has had to undertake substantial rebuilding efforts. As an immediate result of the two hurricanes, approximately 70% of the Company' s operating capacity was impaired. Operations at the Moss Point and Abbeville fish processing facilities and the shipyard were re-established in mid-October 2005, but at reduced processing capabilities. These two facilities have been returned to full operational status prior to the beginning of the Gulf fishing season in April 2006. The Company is currently rebuilding is Cameron, Louisiana facility and expects it to be fully operational by mid 2006.

The costs of the rebuilding efforts will be substantial and not all costs will be covered by insurance due to deductibles, exclusions and other policy limitations. In addition, there could be some initial loss of productivity as Company personnel become familiar with new equipment and associated new operating procedures. The Company' s failure to successfully rebuild its operations by effectively managing rebuilding costs, as well as any initial loss of productivity from the rebuilding efforts, could have a material adverse effect on the Company' s financial condition and results of operations.

The Company' s plan to operate 31 vessels out of two Gulf of Mexico plants in 2006 rather than three may be unsuccessful. Because of the damages to the Company' s Cameron, Louisiana facility caused by Hurricane Rita, the Company intends to begin its 2006 fishing season by operating its full contingent of 31 Gulf of Mexico fishing vessels out of its two operating facilities in Abbeville, Louisiana and Moss Point, Mississippi. Later in the 2006 fishing season when the Company expects that the Cameron, Louisiana plant will be operational, up to 11 vessels will be shifted to Cameron. This plan will substantially increase the number of vessels at Abbeville and Moss Point to a level that the Company has not operated at previously. Although these two facilities have adequate processing capacity, the Company believes that fishing efforts may be diminished because increased unloading time due to additional vessels will keep some vessels off the fishing grounds during the most optimal fishing times. It is possible that other logistical, mechanical or other manpower constraints arising out of this increased vessel load could also reduce the efficiency of these two plants. To date the Company has not experienced any material problems from these issues.

The Company' s strategy to expand into the food grade oils market may be unsuccessful. The Company' s attempts to expand its fish oil sales into the market for refined, food grade fish oils for human consumption may not be successful. The Company' s expectations regarding future demand for Omega-3 fatty acids may prove to be incorrect or, if future demand does meet the Company' s expectations, it is possible that purchasers could utilize Omega-3 sources other than the Company' s products.

The Company' s quarterly operating results will fluctuate. Fluctuations in the Company' s quarterly operating results will occur due to the seasonality of the Company' s business, the unpredictability of the Company' s fish catch and oil yields, and the Company' s deferral of sales of inventory based on worldwide prices for competing products.

The Company' s business is subject to significant competition, and some competitors have significantly greater financial resources and more extensive and diversified operations than the Company. The marine protein and oil business is subject to significant competition from producers of vegetable and other animal protein products and oil products such as Archer Daniels Midland and Cargill. In addition, but to a lesser extent, the Company competes with small domestic privately-owned menhaden fishing companies and international marine protein and oil producers, including Scandinavian herring processors and South American anchovy and sardine processors. Many of these competitors have significantly greater financial resources and more extensive and diversified operations than the Company.

The Company' s foreign customers are subject to disruption typical to foreign countries. The Company' s sales of its products in foreign countries are subject to risks associated with foreign countries such as changes in social, political and economic conditions inherent in foreign operations, including:

Changes in the law and policies that govern foreign investment and international trade in foreign countries;

Changes in U.S. laws and regulations relating to foreign investment and trade;

Changes in tax or other laws;

Partial or total expropriation;

Current exchange rate fluctuations;

Restrictions on current repatriation; or

Political disturbances, insurrection or war.

In addition, it is possible that the Company, at any one time, could have a significant amount of its revenues generated by sales in a particular country which would concentrate the Company' s susceptibility to adverse events in that country.

The Company may undertake acquisitions that are unsuccessful and the Company' s inability to control the inherent risks of acquiring businesses could adversely affect its business, results of operations and financial condition operations. In the future the Company may undertake acquisitions of other businesses, located either in the United States or in other countries, although there can be no assurances that this will occur. There can be no assurance that the Company will be able (i) to identify and acquire acceptable acquisition candidates on favorable terms, (ii) to profitably manage future businesses it may acquire, or (iii) to successfully integrate future businesses it may acquire without substantial costs, delays or other problems. Any of these outcomes could have a material adverse effect on the Company' s business, results of operations and financial condition.

The Company' s failure to comply with federal U.S. citizenship ownership requirements may prevent it from harvesting menhaden in the U.S. jurisdictional waters. The Company' s harvesting operations are subject to the Shipping Act of 1916 and the regulations promulgated thereunder by the Department of

Transportation, Maritime Administration which require, among other things, that the Company be incorporated under the laws of the U.S. or a state, the Company’ s chief executive officer be a U.S. citizen, no more of the Company’ s directors be non-citizens than a minority of a number necessary to constitute a quorum and at least 75% of the Company’ s outstanding capital stock (including a majority of its voting capital stock) be owned by U.S. citizens. If the Company fails to observe any of these requirements, the Company will not be eligible to conduct its harvesting activities in U.S. jurisdictional waters. Such a lost of eligibility would have a material adverse effect on the Company’ s business, results of operations and financial condition.

The Company may not be able to recruit, train and retain qualified marine personnel in sufficient numbers. The Company’ s business is dependent on its ability to recruit, train and retain qualified marine personnel in sufficient numbers such as vessel captains, vessel engineers and other crewmembers. To the extent that the Company is not successful in recruiting, training and retaining these employees in sufficient numbers, its productivity may suffer. If the Company were unable to secure a sufficient number of workers during periods of peak employment, the lack of personnel could have an adverse effect on the Company’ s business, results of operations and financial condition. The impact of Hurricanes Katrina and Rita have exacerbated the difficulties of recruiting and retaining qualified marine personnel in the Gulf Coast area.

The Company participates in the United States H2B Visa Program whereby foreign nationals are permitted to enter the United States temporarily and engage in seasonal, non-agricultural employment. The Company utilizes its H2B Visa workers for a portion of its fishing vessel crews and plant personnel. Changes in the H2B Visa Program, the termination of that program, or caps on the number of workers available under that program, could have a material adverse effect upon the Company’ s ability to secure a sufficient number of workers during periods of peak employment.

The Company’ s Credit Facility and other Fisheries Finance Program loan agreements contain covenants and restrictions that may limit the Company’ s financial flexibility. The Company’ s Credit Facility with Bank of America, N.A. and the Company’ s loan agreements under the Title XI Fisheries Finance Program contain various covenants and restrictions such as prohibitions on dividends and stock repurchases without the lender’ s consent. The Credit Facility also contains various financial covenants that provide, for example, that the Company may not report two quarters of consecutive net losses, and that the Company must maintain a certain ratio of earnings to fixed charges. Because the Company did experience net losses in quarters three and four in 2005 and did not maintain the required fixed charge coverage ratio for the fourth quarter of 2005, it requested (and received) a waiver of these two covenants from the bank lender. If the Company were to experience an additional two quarters of consecutive net losses or fail to maintain the fixed charge coverage ratio covenant again, it would require an additional waiver from the bank lender or the Company would be in default under the Credit Facility.

Investment Risks. Investment risks specifically related to the Company’ s common stock include:

The Company’ s market liquidity for its common stock is relatively low. As of March 31, 2006, the Company had 25,052,619 shares of common stock outstanding. The average daily trading volume in the Company’ s common stock during the three month period ending March 31, 2006 was approximately 10,100 shares. Although a more active trading market may develop in the future, the limited market liquidity for the Company’ s stock could affect a stockholder’ s ability to sell at a price satisfactory to that stockholder.

If significant shares eligible for future sale are sold, the result could depress the Company’ s stock price by increasing the supply of shares in the market at a time when demand may be limited. As of March 31, 2006, the Company had approximately 25.0 million shares of common stock outstanding, as well as stock options to purchase approximately 4.7 million shares of common stock. Of these options, approximately 4.7 million were exercisable at March 31, 2006. In addition, certain of the Company’ s officers and directors have entered into Rule 10b5-1 sales plans with brokers unaffiliated with the Company whereby they have committed to sell automatically and without discretion a predetermined number of shares of Company common stock over a period of time according to their own individual criteria. To the extent that the above stock options are exercised or the above shares are sold, it is possible that the additional shares being offered in the market or the increase in the number of outstanding shares could adversely affect the price for the Company' s common stock.

The Company is controlled by a principal stockholder. Zapata Corporation, a publicly traded company, owns approximately 58% of the Company' s common stock. As a result, Zapata has the ability to elect all the members of the Company' s Board of Directors and otherwise control the management and affairs of the Company. This concentration of ownership makes it unlikely that any other holder or holders of the Company' s common stock will be able to affect the way the Company is managed or the direction of the Company' s business. The interests of Zapata with respect to matters potentially or actually involving or affecting the Company, such as future acquisitions, financings and other corporate opportunities and attempts to acquire the Company, may conflict with the interests of the Company' s other stockholders. Zapata' s ownership will make an unsolicited acquisition of the Company' s common stock more difficult, and could discourage certain types of transactions in which holders of Company common stock might otherwise receive a premium for their shares over current market prices. In addition, because of Zapata' s majority ownership, the Company is a "controlled company" under the New York Stock Exchange corporate governance guidelines and accordingly, is exempt from certain of the NYSE corporate governance requirements.

In December 2005, Zapata issued a press release announcing that Zapata' s Board of Directors had authorized its management to seek a buyer for its 58% interest in the Company. The press release also announced that although Zapata' s Board has asked its management to find a buyer for its interest in the Company, there can be no assurance that any transaction will result from that process.

The Company' s Articles of Incorporation and Bylaws, Nevada Law, and Federal Law have provisions that discourage corporate takeovers and could prevent stockholders from realizing a premium on their investment. Certain provisions of the Company' s Articles of Incorporation and Bylaws, as well as the Nevada Corporation Law, to which the Company is subject, could delay or frustrate the removal of incumbent directors and could make difficult a merger, tender offer or proxy contest involvement the Company, even if such events could be viewed as beneficial by its stockholders. The Company' s Board of Directors is empowered to issue preferred stock in one or more series without stockholder action. Any issuance of this blank-check preferred stock could materially limit the rights of holders of the Company' s common stock and render more difficult or discourage an attempt to obtain control of the Company by means of a tender offer, merger, proxy contest or otherwise. In additional, the Articles of Incorporation and Bylaws contain a number of provisions which could impede a takeover or change in control of the Company, including, among other things, staggered terms for members of its Board of Directors, the requiring of two-thirds vote of stockholders to amend certain provisions of the Articles of Incorporation or the inability, after Zapata no longer owns a majority of the Company' s common stock, to take action by written consent or to call special stockholder meetings. Certain provisions of the Nevada Corporation Law could also discourage takeover attempts that have not been approved by the Company' s Board of Directors. In addition, federal law requires that at least 75% of the Company' s outstanding capital stock be owned by U.S. citizens which will discourage takeover attempts by potential foreign purchasers.

The Company has not paid dividends and does not expect to pay dividends in the near future. The Company has never declared or paid any cash dividends on its common stock since it became a public company in April 1998 and has no intention to do so in the near future. Any determination as to payment of dividends will be made at the discretion of the Company' s Board of Directors 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. In addition, the payment of cash dividends is not permitted by the terms of the Company' s revolving credit agreement with Bank of America, N.A.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

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Item 5. Other Information

None

Item 6. Exhibits

Exhibit No.	Description of Exhibit
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	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Chief Executive Officer.
32.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Chief Financial Officer.

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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)

May 8, 2006

By: /s/ ROBERT W. STOCKTON
(Executive Vice President, Chief Financial Officer)

Exhibit 31.1

CERTIFICATION

I, Joseph L. von Rosenberg III, 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 15(d)-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;

   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 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 registrant' s board of directors (or persons performing the equivalent function):

   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: May 8, 2006

By:

/s/ Joseph L. von Rosenberg

Name: Joseph L. von Rosenberg III

Title: President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Robert W. Stockton, 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 15(d)-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;

   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 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 registrant' s board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal controls 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: May 8, 2006

By:

/s/ Robert W. Stockton

Name: Robert W. Stockton
Title: Executive Vice President and
Chief Financial Officer

Exhibit 32.1

Certification of Form 10-Q for the Quarter ended March 31, 2006, 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, that:

the Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 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 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: May 8, 2006

/s/ JOSEPH L. VON ROSENBERG, III

Joseph L. von Rosenberg, III
President and Chief Executive Officer

Exhibit 32.2

Certification of Form 10-Q for the Quarter ended March 31, 2006, 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, that:

the Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 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 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: May 8, 2006

/s/ ROBERT W. STOCKTON

Robert W. Stockton
Executive Vice President and
Chief Financial Officer