

Edgar Filing: ZAPATA CORP - Form 10-Q/A

ZAPATA CORP  
Form 10-Q/A  
April 05, 2006

=====

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
-----

FORM 10-Q/A  
-----

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005

OR

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

COMMISSION FILE NUMBER: 1-4219

ZAPATA CORPORATION  
(Exact name of Registrant as specified in its charter)

STATE OF NEVADA  
(State or other jurisdiction of  
incorporation or organization)

C-74-1339132  
(I.R.S. Employer  
Identification No.)

100 MERIDIAN CENTRE, SUITE 350  
ROCHESTER, NY  
(Address of principal executive  
offices)

14618  
(Zip Code)

(585) 242-2000  
(Registrant's telephone number, including area code)

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

As of November 10, 2005 the Registrant had outstanding 19,137,856 shares of common stock, \$0.01 par value.

=====

# Edgar Filing: ZAPATA CORP - Form 10-Q/A

## ZAPATA CORPORATION

### TABLE OF CONTENTS

	PAGE	
	----	
PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets as of September 30, 2005 (unaudited) and December 31, 2004	3
	Unaudited Condensed Consolidated Statements of Operations for the Three Months and Nine Months Ended September 30, 2005 and 2004	4
	Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2005 and 2004	5
	Notes to Unaudited Condensed Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	49
Item 4.	Controls and Procedures	50
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	51
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	51
Item 3.	Defaults Upon Senior Securities	51
Item 4.	Submission of Matters to a Vote of Security Holders	51
Item 5.	Other Information	51
Item 6.	Exhibits	51
SIGNATURES		53
EXHIBITS		

#### EXPLANATORY NOTE:

This Quarterly report on Form 10-Q/A ("Form 10-Q/A") is being filed in order to correct the previously issued consolidated financial statements of Zapata Corporation (the "Company") for the three and nine month periods ended September 30, 2005 and 2004 initially filed with the Securities and Exchange Commission (the "SEC") on November 14, 2005 (the "Original Filing"). The corrections are primarily related to the timing of the reversal of \$4.2 million of deferred tax liabilities established during periods in which Safety Components International, Inc. ("Safety Components") was consolidated into the financial statements of the Company for book purposes and not consolidated for tax purposes. In the Original Filing, the Company reported that the reversal of \$4.2 million of deferred tax liabilities would occur at the closing of the sale of Safety Components, that the closing was anticipated to occur (and did occur) during the fourth quarter of 2005 and that this reversal would result in a gain. The Company has subsequently determined that this reversal should have been recognized in the third quarter in conjunction with the write-down of the Company's carrying value in Safety Components. Accordingly, this Form 10-Q/A recognizes the reversal of this amount in the third quarter of 2005. In addition, as part of the restatement, the Company i) corrected the allocation of the income tax provision for the three and nine months ended September 30, 2005 between continuing and

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

discontinued operations for the amounts of \$573,000 and \$1.6 million, respectively, and ii) recorded in the third quarter of 2005, certain immaterial income tax adjustments related to the first and second quarters of 2005 of \$174,000. See Note 18 "Restatement" under Notes to Unaudited Condensed Consolidated Financial Statements included in Part 1, Item 1 of this Form 10-Q/A.

This Form 10-Q/A amends Items 1, 2 and 4 of Part I and Exhibits 31.1, 31.2, 32.1 and 32.2 included in Item 6 of Part II of the Original Filing to reflect this correction. The remaining Items contained within this Form 10-Q/A consists of all other Items contained in the Original Filing. These remaining Items are not amended hereby, but are included for the convenience of the reader. Except for the forgoing amended information, this Form 10-Q/A continues to describe conditions as of the date of the Original Filing, and we have not updated the disclosures contained herein to reflect events that occurred at a later date.

The Company has filed three current reports on Form 8-K subsequent to the original filing of the 10-Q.

2

### PART I -- FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS AND NOTES

ZAPATA CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	SEPTEMBER 30, 2005 (RESTATED)
ASSETS	-----
Current assets:	
Cash and cash equivalents	\$ 38,191
Accounts receivable, net	26,139
Inventories, net	50,285
Prepaid expenses and other current assets	3,827
Assets related to discontinued operations	74,706
Total current assets	----- 193,148
Other assets, net	23,019
Property, plant and equipment, net	92,823
Non-current assets related to discontinued operations	32,470
Total assets	----- \$ 341,460 =====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Current maturities of long-term debt	\$ 1,713
Accounts payable	2,199

Edgar Filing: ZAPATA CORP - Form 10-Q/A

Accrued and other current liabilities	19,934
Liabilities related to discontinued operations	30,681
	-----
Total current liabilities	54,527
	-----
Long-term debt	14,680
Pension liabilities	10,255
Other liabilities and deferred taxes	2,579
Non-current liabilities related to discontinued operations	6,785
	-----
Total liabilities	88,826
	-----
Minority interest	79,524
Commitments and contingencies	
Stockholders' equity:	
Preferred stock, \$.01 par; 1,600,000 shares authorized; none issued or outstanding	--
Preference stock, \$.01 par; 14,400,000 shares authorized; none issued or outstanding	--
Common stock, \$0.01 par, 132,000,000 shares authorized; 24,569,936 and 24,564,600 shares issued at September 30, 2005 and December 31, 2004, respectively; and 19,137,856 and 19,132,520 shares outstanding at September 30, 2005 and December 31, 2004, respectively	246
Capital in excess of par value	160,357
Retained earnings	46,222
Treasury stock, at cost, 5,432,080 shares	(31,668)
Accumulated other comprehensive (loss) income	(2,047)
	-----
Total stockholders' equity	173,110
	-----
Total liabilities and stockholders' equity	\$ 341,460
	=====

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

3

ZAPATA CORPORATION  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED		NINE SE
	SEPTEMBER 30,		
	2005	2004	2005
	(RESTATED)		(RESTATE
	-----	-----	-----
Revenues	\$ 31,418	\$ 41,501	\$ 82,75
Cost of revenues	24,032	36,376	68,50
	-----	-----	-----
Gross profit	7,386	5,125	14,25
Operating expense:			
Selling, general and administrative	4,738	3,737	13,56
Loss resulting from natural disaster, net	13,183	--	13,18
	-----	-----	-----

Edgar Filing: ZAPATA CORP - Form 10-Q/A

Total operating expenses	17,921	3,737	26,75
	-----	-----	-----
Operating (loss) income	(10,535)	1,388	(12,49)
	-----	-----	-----
Other income (expense):			
Interest income	334	244	1,03
Interest expense	(337)	(63)	(84)
Other, net	(59)	(57)	14
	-----	-----	-----
	(62)	124	33
(Loss) income before income taxes and minority interest	(10,597)	1,512	(12,15)
Benefit (provision) for income taxes	4,684	(854)	5,08
Minority interest in net loss (income) of consolidated subsidiaries	2,583	(734)	2,26
	-----	-----	-----
Net loss from continuing operations	(3,330)	(76)	(4,80)
	-----	-----	-----
Discontinued operations:			
(Loss) income before taxes and minority interest (including loss on disposal)	(8,846)	2,452	(3,13)
Benefit (provision) for income taxes	3,368	(1,191)	51
Minority interest	(353)	(401)	(1,19)
	-----	-----	-----
Net (loss) income from discontinued operations	(5,831)	860	(3,81)
Net (loss) income to common stockholders	\$ (9,161)	\$ 784	\$ (8,61)
	=====	=====	=====
Net (loss) income per common share - basic and diluted			
Loss from continuing operations	\$ (0.17)	\$ (0.00)	\$ (0.2)
Discontinued operations, net of income taxes and minority interest	(0.31)	0.04	(0.2)
	-----	-----	-----
(Loss) income per common share - basic and diluted	\$ (0.48)	\$ 0.04	\$ (0.4)
	=====	=====	=====
Weighted average common shares outstanding:			
Basic	19,136	19,131	19,13
	=====	=====	=====
Diluted	19,136	19,131	19,13
	=====	=====	=====

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

Edgar Filing: ZAPATA CORP - Form 10-Q/A

(RESTATED)

Cash flows from operating activities:	
Net(loss) income	\$ (8,619)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	9,90
Involuntary conversion from natural disaster	8,33
Loss on sale of Safety Components International, Inc.	6,64
Loss on disposal of assets	13
Provisions for losses on receivables	2
Tax benefit from stock option exercises	-
Stock option modification expense	35
Minority interest in net (loss) income of consolidated subsidiaries	(2,26)
Deferred income taxes	(4,20)
Changes in assets and liabilities:	
Accounts receivable	(11,79)
Inventories	(9,84)
Prepaid expenses and other current assets	(10)
Other assets	(42)
Accounts payable	(36)
Pension liabilities	57
Accrued liabilities and other current liabilities	4,47
Other liabilities	(7)
Discontinued operations	8,61
Total adjustments	9,97
Net cash provided by operating activities	1,35
Cash flows from investing activities:	
Proceeds from disposition of assets	36
Gain on involuntary conversion	(30)
Proceeds of long-term investments	-
Capital expenditures	(12,87)
Discontinued operations	(5,48)
Net cash (used in) provided by investing activities	(18,29)
Cash flows from financing activities:	
Repayments of long-term obligations	(1,21)
Proceeds from stock option exercises	42
Discontinued operations	(2,06)
Net cash used in financing activities	(2,84)
Effect of exchange rate changes on cash and cash equivalents	(3,19)
Net (decrease) increase in cash and cash equivalents	(22,98)
Increase in cash from discontinued operations	(2,07)
Cash and cash equivalents at beginning of period	63,24
Cash and cash equivalents at end of period	\$ 38,19

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

# Edgar Filing: ZAPATA CORP - Form 10-Q/A

5

## ZAPATA CORPORATION NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1. SUMMARY OF OPERATIONS AND BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements included herein have been prepared by Zapata Corporation ("Zapata" or the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission. The financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of such information. All such adjustments are of a normal recurring nature. Although Zapata believes that the disclosures are adequate to make the information presented not misleading, certain information and footnote disclosures, including a description of significant accounting policies normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the financial statements and the notes thereto included in Zapata's 2004 Annual Report on Form 10-K filed with the Securities and Exchange Commission and with the information presented by Safety Components International, Inc., Omega Protein Corporation and Zap.Com Corporation in their 2004 Annual Reports on Form 10-K. The results of operations for the three month period ended September 30, 2005 are not necessarily indicative of the results for any subsequent quarter or the entire fiscal year ending December 31, 2005.

### BUSINESS DESCRIPTION

Zapata Corporation ("Zapata" or the "Company") was incorporated in Delaware in 1954 and was reincorporated in Nevada in April 1999. The Company's principal executive offices are at 100 Meridian Centre, Suite 350, Rochester, New York 14618. Zapata's common stock is listed on the New York Stock Exchange ("NYSE") and trades under the symbol "ZAP."

Zapata Corporation is a holding company which currently has two operating companies, Safety Components International, Inc. ("Safety Components" or "Safety") and Omega Protein Corporation ("Omega Protein" or "Omega"). As of September 30, 2005, Zapata had a 77% ownership interest in Safety and a 58% ownership interest in Omega. In addition, Zapata owns 98% of Zap.Com Corporation ("Zap.Com"), a public shell company.

On September 23, 2005, Zapata entered into a stock purchase agreement with WLR Recovery Fund II, L.P., and WLR Recovery Fund III, L.P., Delaware limited partnerships (collectively the "WLR Recovery Funds"), to sell all of its 4,162,394 shares of common stock in Safety Components International, Inc. The purchase price is \$12.30 per share or approximately \$51.2 million. The closing is expected to take place in the fourth quarter of 2005.

Safety Components is an independent supplier of automotive airbag fabric and cushions and technical fabrics with operations in North America and Europe. Safety has recently entered into joint ventures to produce products in China and South Africa, although commercial production has not yet commenced in either of these locations. Safety Components sells airbag fabric domestically and cushions worldwide to the major airbag module integrators that outsource their demand for such products. Safety Components also manufactures value-added technical fabrics used in a variety of niche industrial and commercial applications such as fire service apparel, filtration and military fabrics. Safety Components trades on the over-the counter electronic bulletin board ("OTCBB"), under the symbol "SAFY."

Omega Protein produces and markets a variety of products produced from menhaden

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

(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. Omega'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 a dietary supplement. Omega's fish solubles are sold primarily to livestock feed manufacturers, aquaculture feed manufacturers and for use as an organic fertilizer. Omega Protein trades on the New York Stock Exchange under the symbol "OME."

6

Zap.Com is a public shell company which does not have any existing business operations. Zap.Com is likely to search for assets or businesses that it can acquire so that it can become an operating company. Zap.Com may also consider developing a new business suitable for its situation. Zap.Com trades on the OTCBB under the symbol "ZPCM."

As used throughout this report, "Zapata Corporate" is defined as Zapata Corporation exclusive of its majority owned subsidiaries Safety Components, Omega Protein and Zap.Com.

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

#### DISCONTINUED OPERATIONS

The Company has adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This standard establishes a single accounting model for long-lived assets to be disposed of by sale, including discontinued operations to include a "component of an entity" (rather than a segment of a business). A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity that is classified as held for sale, or has been disposed of, is presented as a discontinued operation if the operations and cash flows of the component are eliminated from the ongoing operations of the entity and the entity will not have any significant continuing involvement in the operations of the component.

#### STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation according to Accounting Principles Board Opinion No. 25 and the related interpretations under Financial Accounting Standards Board ("FASB") Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation." The Company adopted the required disclosure provisions under SFAS No. 148 and continues to use the intrinsic value method of accounting for stock-based compensation. Had compensation expense for the Company's stock option grants been determined based on fair value at the grant date using the Black-Scholes option-pricing model, the Company's net income and earnings per share (basic and diluted) would have been as follows:

7

THREE MONTHS ENDED  
SEPTEMBER 30,  
2005 2004



Edgar Filing: ZAPATA CORP - Form 10-Q/A

	(RESTATED)	
	-----	
	(IN THOUSANDS)	
Net loss from continuing operations, as reported	\$ (3,330)	\$ (76)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax effects:		
Zapata Corporate	(22)	(32)
Omega Protein	(33)	(112)
Zap.Com	(1)	--
	-----	-----
Pro forma expense	(56)	(144)
	-----	-----
Pro forma net loss from continuing operations	\$ (3,386)	\$ (220)
Net (loss) income from discontinued operations, as reported	\$ (5,831)	\$ 860
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax effects	--	--
	-----	-----
Pro forma net (loss) income from discontinued operations	(5,831)	860
	-----	-----
Total pro forma net (loss) income	\$ (9,217)	\$ 640
	=====	=====
 (Loss) earnings per share:		
Basic - as reported	\$ (0.48)	\$ 0.04
	=====	=====
Basic - pro forma	\$ (0.48)	\$ 0.03
	=====	=====
Diluted - as reported	\$ (0.48)	\$ 0.04
	=====	=====
Diluted - pro forma	\$ (0.48)	\$ 0.03
	=====	=====

8

	NINE MONTHS ENDED	
	SEPTEMBER 30,	
	2005	2004
	(RESTATED)	
	-----	
	(IN THOUSANDS)	
Net loss from continuing operations, as reported	\$ (4,801)	\$ (828)
Add: Stock-based employee compensation expense determined under APB No. 25, included in reported net income, net of tax effects	219	--
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax effects:		
Zapata Corporate	(284)	(98)
Omega Protein	(716)	--
Zap.Com	(4)	(248)
	-----	-----

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

Pro forma expense	(1,004)	(346)
	-----	-----
Pro forma net loss from continuing operations	\$ (5,586)	\$ (1,174)
Net (loss) income from discontinued operations, as reported	\$ (3,818)	\$ 4,246
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax effects	--	--
	-----	-----
Pro forma net (loss) income from discontinued operations	(3,818)	4,246
	-----	-----
Total pro forma net (loss) income	\$ (9,404)	\$ 3,072
	=====	=====
(Loss) earnings per share:		
Basic - as reported	\$ (0.45)	\$ 0.18
	=====	=====
Basic - pro forma	\$ (0.49)	\$ 0.16
	=====	=====
Diluted - as reported	\$ (0.45)	\$ 0.18
	=====	=====
Diluted - pro forma	\$ (0.49)	\$ 0.16
	=====	=====

On May 5, 2005, Omega accelerated the vesting of all unvested, out-of-the-money, explicit service period stock options granted under Omega's 2000 Long-Term Incentive Plan. The purpose of accelerating vesting was to eliminate future compensation expense that Omega would otherwise recognize in its Statement of Operations with respect to these accelerated stock options upon the adoption by Omega of SFAS No. 123R. As of September 30, 2005, Omega had not recognized any expense relating to the acceleration of vesting. 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 Omega'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 Omega'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.

### RECLASSIFICATION

Certain reclassifications of prior information have been made to conform to the current presentation.

### NOTE 3. DISCONTINUED OPERATIONS

On September 21, 2005, Zapata's Board of Directors approved a plan to pursue a sale with respect to the Company's holdings of 4,162,394 shares of Safety Components common stock. Based on this approval, the Company determined that this subsidiary substantially met the criteria to report the pending sale as "Assets Held for Sale" and the subsidiary as "Discontinued Operations" in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of

Long-Lived Assets." Accordingly, assets classified as held for sale have been measured at the lower of the carrying amount or fair value less cost to sell. As

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

used throughout this document, all amounts and disclosures related to Safety Components pertain to "Discontinued Operations".

Zapata expects that this transaction will close during the fourth quarter of 2005 at which time the Company expects to receive net proceeds of approximately \$49.9 million. At that time, the Company will record the cash proceeds and cease to consolidate Safety's statement of position, results of operations and cash flows and disclosures. During the quarter ended September 30, 2005, the Company recognized a transaction related loss of \$6.6 million. This loss was recognized primarily to reduce the carrying value of Safety Components to the fair value less cost to sell, partially offset by the reversal of deferred tax liabilities established during periods in which Safety Components was consolidated for book purposes and not consolidated for tax purposes. At closing, the Company will recognize additional losses (gains) to reflect Zapata's share of Safety's net income (loss) for the period from October 1, 2005 through closing.

Although Zapata has agreed to sell its shares of Safety for \$51.2 million and originally purchased these shares for \$47.8 million, the Company recorded an accounting loss on the transaction quarter ended September 30, 2005. Despite selling our interest in Safety Components for a cash gain, Zapata recorded an accounting loss primarily due to Safety Components' generation of net income subsequent to Zapata's acquisition of Safety's common stock. During the periods in which Zapata consolidated Safety's results of operations, Safety Component's recognition of net income caused Zapata's carrying value in the investment in Safety's common stock to increase by its share of Safety's net income. Accordingly, concurrent with the approval of Zapata's board of directors to sell its interest in Safety Components, Zapata was required to record a loss equal to the difference between its carrying value in Safety Component's common stock and the net selling price.

Generally, as the expected sale proceeds of \$51.2 million exceed Zapata's original purchase price of \$47.8 million, the sale will be taxable to us. Adjusting for expected transaction closing costs and changes in the tax basis, we estimate a taxable gain from the sale of approximately \$213,000. Because we have existing loss carryforwards, we do not anticipate that we will pay any income taxes related to the sale.

In accordance with SFAS No. 144, depreciation and amortization expense were suspended on assets held for sale effective with the September 21, 2005 Board approval of the disposal plan. Operating results of our discontinued operations for the periods ended September 30, are as follows:

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS EN SEPTEMBER 30,	
	2005	2004	2005	2004
	(IN THOUSANDS)			
Revenue from discontinued operations	\$ 50,562	\$ 56,172	\$ 168,182	\$ 191,182
Income before taxes and minority interest	1,748	2,452	7,464	13,464

The major classes of assets and liabilities of our discontinued operations at September 30, 2005 and December 31, 2004 are as follows:

Edgar Filing: ZAPATA CORP - Form 10-Q/A

	SEPTEMBER 30, 2005	DECEMBER 31, 2004
	-----	-----
	(IN THOUSANDS)	
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 6,258	\$ 4,184
Accounts receivable, net	38,383	38,872
Assets held in deferred compensation plan	2,205	4,361
Inventory, net	23,381	26,882
Prepaid expenses and other assets	4,479	4,141
	-----	-----
Total current assets	\$ 74,706	\$ 78,440
	=====	=====
<b>NON-CURRENT ASSETS:</b>		
Intangible assets, net	\$ 4,588	\$ 6,158
Other assets	415	373
Property, plant and equipment, net	27,467	39,481
	-----	-----
Total non-current assets	\$ 32,470	\$ 46,012
	=====	=====
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	\$ 2,273	\$ 3,263
Accounts payable	13,896	16,828
Accrued and other current liabilities	14,512	18,903
	-----	-----
Total current liabilities	\$ 30,681	\$ 38,994
	=====	=====
<b>NON-CURRENT LIABILITIES:</b>		
Long-term debt	\$ 2,363	\$ 3,729
Other liabilities and deferred taxes	4,422	3,784
	-----	-----
Total non-current liabilities	\$ 6,785	\$ 7,513
	=====	=====
MINORITY INTEREST	\$ 18,525	\$ 17,233
	=====	=====

Inventory related to discontinued operations is summarized as follows (in thousands):

	SEPTEMBER 30, 2005	DECEMBER 31, 2004
	-----	-----
Raw materials	\$ 6,447	\$ 7,153
Work-in-process	7,247	8,073
Finished goods	9,687	11,656
	-----	-----
Total	\$ 23,381	\$ 26,882

Edgar Filing: ZAPATA CORP - Form 10-Q/A

=====

Long-term debt of discontinued operations consisted of the following:

	SEPTEMBER 30, 2005
	-----
	(IN THOUSANDS)
Wachovia revolving credit facility due on October 8, 2006, interest at a variable rate of 6.5% at September 30, 2005 and 5.0 % at December 31,2004	\$ --
Wachovia Term A loan, due on October 8, 2006, interest at a variable rate of 6.5% at September 30, 2005 and 5.0 % at December 31, 2004	1,648
KeyCorp equipment note due August 2005, interest rate of 1.3% over LIBOR	--
HBV Bank Czech Republic mortgage note due March 2007, interest rate of 1.7% over EURIBOR	1,563
Capital equipment notes payable, with various interest rates ranging from 4.90% to 8.36%, maturing at various dates through July 2008	1,425
	-----
Total debt related to discontinued operations	4,636
Less: current maturities	(2,273)
	-----
Total long-term debt related to discontinued operations	\$ 2,363
	=====

Safety has a credit facility with Wachovia Bank, National Association ("Wachovia"), successor by merger to Congress Financial Corporation (Southern). Safety has an aggregate \$35.0 million revolving credit facility with Wachovia (the "Wachovia Revolver") expiring October 8, 2006. Under the Wachovia Revolver, Safety may borrow up to the lesser of (a) \$35.0 million or (b) 85% of eligible accounts receivable, plus 60% of eligible finished goods, plus 50% of eligible raw materials. No amount was outstanding under the Wachovia Revolver at September 30, 2005 on Safety's consolidated balance sheet. The Wachovia Revolver also includes a \$5.0 million letter of credit facility, of which \$297,000 was utilized at September 30, 2005.

In addition, Safety has a term facility with Wachovia (the "Wachovia Term A loan") under which \$1.6 million was outstanding as of September 30, 2005. At September 30, 2005, \$534,000 of the \$1.6 million outstanding was included in current portion of long-term debt on Safety's consolidated balance sheet. The Wachovia Term A loan is payable in equal monthly installments of approximately \$45,000, with the unpaid principal amount due on October 8, 2006. Additional amounts are not available for borrowing under the Wachovia Term A loan. In addition to the Wachovia Revolver and the Wachovia Term A loan, Safety also has an additional term loan (the "Wachovia Term B loan" and, collectively with the Wachovia Revolver and the Wachovia Term A loan, the "Wachovia Facilities") which is undrawn and under which \$4.5 million was available as of September 30, 2005. At September 30, 2005, Safety's availability for additional borrowings (based on the maximum allowable limit) under the Wachovia Revolver and the Wachovia Term B loan was approximately \$39.2 million.

The interest rate on the Wachovia Revolver and Wachovia Term A loan is variable,

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

depending on the amount of Safety's Excess Availability (as defined in the Wachovia Facilities) at any particular time and the ratio of Safety's EBITDA, less certain capital expenditures made by Safety, to certain fixed charges of Safety (the "Fixed Charge Coverage Ratio"). Safety may make borrowings based on the prime rate as described in the Wachovia Facilities (the "Prime Rate") or the LIBOR rate as described in the Wachovia Facilities, in each case with an applicable margin applied to the rate. The Wachovia Term B loan bears interest at the Prime Rate plus 3%. At September 30, 2005, the margin on Prime Rate loans was 0.0% and the margin on LIBOR rate loans was 1.75%. Safety is required to pay a monthly unused line fee of 0.25% per annum on the unutilized portion of the Wachovia Revolver and a monthly fee equal to 1.75% per annum of the amount of any outstanding letters of credit.

Under the Wachovia Revolver and Wachovia Term A loan, Safety is subject to a covenant that requires it to maintain a certain tangible net worth. If Safety has borrowings outstanding under the Wachovia Term B loan, it is subject to additional financial covenants that require Safety: (i) to maintain EBITDA of no less than certain specified amounts, (ii) to maintain a Fixed Charge Coverage Ratio of no less than a specified amount, (iii) to maintain a ratio of certain indebtedness to EBITDA not in excess of a specified amount, and (iv) not to make capital expenditures in excess of

12

specified amounts. In addition, Safety would be required to repay the Wachovia Term B loan to the extent of certain excess cash flow.

The Wachovia Facilities also impose limitations upon Safety's ability to, among other things, incur indebtedness (including capitalized lease arrangements); become or remain liable with respect to any guaranty; make loans; acquire investments; declare or make dividends or other distributions; merge, consolidate, liquidate or dispose of assets or indebtedness; incur liens; issue capital stock; or change its business. At September 30, 2005, Safety was in compliance with all financial covenants. At September 30, 2005, Safety was also in compliance with all non-financial covenants and had obtained a waiver of non-compliance from Wachovia for not dissolving an inactive subsidiary. Substantially all assets of Safety are pledged as collateral for the borrowings under the Wachovia Facilities.

### LITIGATION OF DISCONTINUED OPERATIONS

The U.S. Environmental Protection Agency (the "EPA") has notified Safety that it believes Valentec Wells, LLC ("Valentec"), as a successor to one or more other companies, is one of the 73 largest Potentially Responsible Parties ("PRPs") with responsibility for the RRG Clayton Chemical Site (the "Site") in Sauget, Illinois under the Comprehensive Environmental Response Compensation and Liability Act ("CERCLA"). Valentec is an inactive subsidiary of Safety. Safety requested that the EPA provide any information in its possession related to the alleged successor relationship between Valentec and any other company that may have sent waste to the Site; however, to date the EPA has provided no such information, and Safety's own inquiries have not confirmed the presence or absence of any such relationship. A group of PRPs has negotiated a proposed administrative order of consent (the "Consent Order") with the EPA providing for an initial limited soil cleanup, and has requested that Valentec and other parties named as PRPs join the Consent Order. Safety has become a party to the Consent Order and estimated costs of this matter are considered de minimis. There can be no assurance, however, that Safety's entry into the Consent Order would limit any costs imposed on Safety as proposed in the Consent Order because compliance with the Consent Order does not release Safety from all further liability, and if costs were greater than Safety's estimates, they could be material to Safety. Although Safety does not believe that under current

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

circumstances, such costs could be material to Safety.

By letter dated November 2, 2004, a division employee, at the time a controller for the Safety's North American Automotive Group, filed a complaint with the U.S. Department of Labor, Occupational Safety & Health Administration ("OSHA"), pursuant to Section 806 of the Corporate and Criminal Fraud Accountability Act of 2002, Title VIII of the Sarbanes-Oxley Act of 2002 (the "Act"), alleging that a change in his duties in September 2004 resulted from his allegations of improprieties in the Company's operations in Mexico and California. Safety has reported that neither the internal investigations conducted by various levels of Safety's management nor the ensuing external investigation conducted by a forensic accounting firm engaged by the Audit Committee of Safety's Board of Directors following notification by management of the issues raised substantiated any of the allegations. Due to circumstances unrelated to the investigation or the complaint, Safety terminated the employee on December 15, 2004. By letter dated December 15, 2004, the employee amended his complaint to allege that his termination was also in retaliation for his allegations. By letter dated February 14, 2005, Safety was notified by OSHA that it had completed its investigation and found that there is no reasonable cause to believe that Safety violated the Act, and that the employee has 30 days from his receipt of such notification to file an objection and request a hearing before an Administrative Law Judge. The employee has subsequently requested a hearing before an Administrative Law Judge. The employee filed such objection, but Safety has not received a notice of request for a hearing.

### DERIVATIVES AND HEDGING OF DISCONTINUED OPERATIONS

Safety Components monitors its risk associated with the volatility of certain foreign currencies against its functional currency, the U.S. dollar. Safety uses certain derivative financial instruments to reduce exposure to volatility of foreign currencies. Safety has formally documented all relationships between hedging instruments and hedged items, as well as risk management objectives and strategies for undertaking various hedge transactions. Derivative financial instruments are not entered into for trading or speculative purposes.

Certain operating expenses at Safety's Mexican facilities are paid in Mexican pesos. To reduce exposure to fluctuations in the U.S. dollar and Mexican peso exchange rates, Safety entered into forward contracts on February 16, 2005 to buy Mexican pesos for periods and amounts consistent with the related, underlying forecasted cash outflows. These contracts were designated as hedges at inception and are monitored for effectiveness on a routine basis. At

13

September 30, 2005, Safety had outstanding forward exchange contracts that mature between October 2005 and December 2005 to purchase Mexican pesos with an aggregate notional amount of approximately \$2.1 million. The fair values of these contracts at September 30, 2005 totaled approximately \$148,000 which is recorded as an asset on the balance sheet in "current assets related to discontinued operations." Changes in the derivatives' fair values are deferred and recorded in the balance sheet as a component of accumulated other comprehensive income ("AOCI"), until the underlying transaction is recorded in earnings. When the hedged item affects earnings, gains or losses are reclassified from AOCI to the consolidated statement of operations as cost of revenues.

Certain intercompany sales at Safety's Czech Republic facility are denominated and settled in Euros and certain of its operating expenses are paid in Czech Korunas. To reduce exposure to fluctuations in the Euro and Czech Koruna exchange rates, Safety entered into forward contracts on March 3, 2005 to buy Czech Korunas with Euros for periods and amounts consistent with the related,

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

underlying forecasted cash outflows. These contracts were designated as hedges at inception and are monitored for effectiveness on a routine basis. At September 30, 2005, Safety had outstanding forward exchange contracts that mature between October 2005 and December 2005 to purchase Czech Korunas with an aggregate notional amount of approximately \$1.4 million. The fair values of these contracts at September 30, 2005 totaled approximately \$65,000 which is recorded as an asset on the balance sheet in "current assets related to discontinued operations." Changes in the derivatives' fair values are deferred and recorded in the balance sheet as a component of AOCI, until the underlying transaction is recorded in earnings. When the hedged item affects earnings, gains or losses are reclassified from AOCI to the consolidated statement of operations as cost of goods sold.

### GUARANTEES OF DISCONTINUED OPERATIONS

FASB Interpretation No. 45 provides guidance on the disclosures to be made by a guarantor about its obligations under certain guarantees that it has issued and specific disclosures related to product warranties. As of September 30, 2005, Safety and various consolidated subsidiaries of Safety are borrowers under the Wachovia Facilities (as defined above) and a note payable to a bank in the Czech Republic, and are party to forward hedge contracts for foreign currency with a U.S. bank (together, the "Guarantee Facilities"). The Guarantee Facilities are guaranteed by either Safety and/or various consolidated subsidiaries of Safety in the event that the borrower(s) default under the provisions of the Guarantee Facilities. The guarantees are in effect for the duration of the related Guarantee Facilities. Safety does not provide product warranties within the disclosure provisions of Interpretation No. 45.

### NOTE 4. ACCOUNTS RECEIVABLE

Accounts receivable as of September 30, 2005 and December 31, 2004 are summarized as follows:

	SEPTEMBER 30, 2005	DECEMBER 31, 2004
	-----	-----
	(IN THOUSANDS)	
Trade	\$ 12,869	\$ 12,161
Insurance	12,931	1,242
Income tax	288	722
Other	234	540
	-----	-----
Total accounts receivable	26,322	14,665
Less: allowance for doubtful accounts	(183)	(160)
	-----	-----
Receivables, net	\$ 26,139	\$ 14,505
	=====	=====

As a result of Hurricanes Katrina and Rita (see Note 15 - Hurricane Losses), Omega sustained damage to its three fish processing facilities and its shipyard located in the Gulf of Mexico region. Based on preliminary discussions with its insurers and adjusters, Omega believes its hurricane related insurance recoveries will total approximately \$12 million, which Omega has currently recognized as an account receivable as of September 30, 2005. This estimate may change as additional information becomes available. Omega anticipates that further recoveries could be available, but such additional recoveries will require further analysis and discussions with Omega's insurance carriers. Additional amounts will be recognized when the amounts are probable.



Edgar Filing: ZAPATA CORP - Form 10-Q/A

NOTE 5. INVENTORIES

Inventories are summarized as follows:

	SEPTEMBER 30, 2005	DECEMBER 31, 2004
	-----	-----
	(IN THOUSANDS)	
Fish meal	\$21,221	\$18,600
Fish oil	23,649	11,100
Fish solubles	831	5,700
Unallocated inventory cost pool (including off season costs)	477	5,700
Other materials and supplies	4,107	4,300
	-----	-----
Total inventory	\$50,285	\$40,400
	=====	=====

At September 30, 2005 and December 31, 2004, consolidated inventory consisted exclusively of Omega Protein's inventories.

Inventory at September 30, 2005 and December 31, 2004 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 2005.

As a result of hurricanes Katrina and Rita, Omega sustained damage to its Gulf of Mexico fish meal storage facilities and materials and supplies warehouses. Omega recognized a \$2,375,000 fish meal inventory write-off and \$1,387,000 materials and supplies write-off for the three-and nine-month periods ended September 30, 2005. (See Note 15 - Hurricane Losses)

The hurricanes also affected Omega's 2005 Gulf of Mexico fishing season due to the closure of its three fish processing facilities in the Gulf of Mexico region. As a result of these closures and their impact on fishing, Omega has recognized a \$12,978,000 unallocated inventory cost pool write-off for the three-and nine-month periods ended September 30, 2005. (See Note 15 - Hurricane Losses)

NOTE 6. ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other current liabilities are summarized as follows:

	SEPTEMBER 30, 2005	DECEMBER 31, 2004
	-----	-----
	(IN THOUSANDS)	
Salary and benefits	\$ 8,215	\$ 4,619
Insurance	3,260	3,340
Safety Components management retention bonus	1,000	--
Transaction costs	309	--
Trade creditors	2,479	2,556
Federal and state income taxes	2,195	1,893
Litigation reserves	410	435

Edgar Filing: ZAPATA CORP - Form 10-Q/A

Other	1,892	1,134
	-----	-----
	\$ 19,760	\$ 13,977
	=====	=====

During the third quarter of 2005, Zapata approved a plan in order to provide Safety Components management with an incentive to continue with Safety Components until the completion of the proposed sale to WLR Recovery Funds. Under this plan, Zapata has agreed to pay an aggregate of \$1,000,000 in the form of a capital contribution to Safety Components for the Safety Components compensation committee to pay bonuses to the Safety Components executive officers and key employees.

Transaction costs are general and administrative costs incurred by Zapata associated with the sale of Safety Components.

15

NOTE 7. DEBT

Long-term debt consisted of the following:

	SEPTEMBER 30, 2005	DE
	-----	---
	(IN THOUSAN	
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 5.7% to 7.6%	\$ 16,014	\$
Amounts due in installments through 2014, interest at Eurodollar rates of 3.93% and 2.42% at September 30, 2005 and December 31, 2004, respectively, plus 4.5%	369	
Other debt at 6.25% at September 30, 2005 and December 31, 2004	10	
	-----	---
Total debt	16,393	
Less: current maturities	(1,713)	
	-----	---
Total long-term debt	\$ 14,680	\$
	=====	==

At September 30, 2005 and December 31, 2004, consolidated debt consisted exclusively of Omega Protein.

Omega received \$20.6 million in loans under the Title XI program. The Title XI loans are secured by liens on certain of Omega's fishing vessels and mortgages on Omega's Reedville, Virginia and Abbeville, Louisiana plants. Loans are now available under similar terms pursuant to the Title XI program without intervening lenders.

On October 1, 2003, pursuant to the Title XI program, the United States Department of Commerce approved the fiscal 2003 financing application made by Omega in the amount of \$5.3 million. Omega closed on the \$5.3 million Title XI loan on December 30, 2003.

In September 2004, the United States Department of Commerce Fisheries Finance Program approved Omega's financing application in an amount not to exceed \$14

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

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 Omega'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 United States Department of Commerce Fisheries Finance Program are required to be evidenced by secured agreements, undertakings, and other documents of whatsoever nature deemed by the National Marine Fisheries Service in its sole discretion, as necessary to accomplish the intent and purpose of the Approval Letter. Omega is required to comply with customary National Marine Fisheries Service covenants as well as certain special covenants. In December 2004, Omega submitted a \$4.9 million financing request against the \$14 million approval, and subsequently amended that request to include the entire \$14 million. As of September 30, 2005, Omega had no borrowings outstanding under the Approval Letter. Subsequent to September 30, 2005, Omega closed on that \$14 million loan and received \$14 million in loan proceeds. (See Note 17 - Subsequent Events)

On December 20, 2000 Omega entered into a three-year \$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. On May 19, 2003, Omega amended the existing Credit Facility to among other things, extend the maturity until December 20, 2006, delete certain existing financial covenants and add certain affirmative covenants such as, a Leverage Ratio covenant not to exceed 3 to 1 at any time and a Fixed Charge Coverage Ratio covenant not to be less than 1 as of the end of each month, measured for the twelve-month period then ended. Omega is required to comply with the financial covenants from and after the last day of any month in which the Credit Facility's availability is less than \$3 million on any date or the Credit Facility's availability averages less than \$6 million for any calendar month. A commitment fee of 50 basis points per annum is payable on the unused portion of the Credit Facility. If at any time Omega's loan outstanding under the Credit Facility is \$5 million or greater, the commitment fee on the unused portion will be 25 basis points per annum. Applicable interest is payable at alternative rates of LIBOR plus 2.25% or Prime plus 0%. The applicable interest rate will be adjusted (up or down) prospectively on a quarterly basis from LIBOR plus 2.25% to LIBOR plus 2.75% or at Omega's option, Prime plus 0% to Prime plus 0.25%, depending

16

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 Omega's trade receivables, inventory and equipment. In addition, the Credit Facility does not allow for the payment of cash dividends or stock repurchases and also limits capital expenditures and investments. The Credit Facility was amended on July 26, 2005 to increase the annual limitation on capital expenditures from \$11.0 million to \$16.5 million for the fiscal year ending December 31, 2005. As of September 30, 2005, Omega had no borrowings outstanding under the Credit Facility. At September 30, 2005 and December 31, 2004, Omega had outstanding letters of credit under the Credit Facility totaling approximately \$2.7 million, issued primarily in support of worker's compensation insurance programs. Subsequent to September 30, 2005, Omega amended the existing Credit Facility by entering into a Third Amendment to the Loan and Security Agreement. (See Note 17 - Subsequent Events)

NOTE 8. COMMON STOCK

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

On April 6, 2005, the Company effected an eight-for-one stock split, resulting in approximately 19.1 million shares of common stock then outstanding. In addition, the Company's authorized shares increased to 132.0 million common stock shares, 1.6 million preferred stock shares and 14.4 million preference stock shares. The preferred and preference stock are undesignated "blank check" shares.

In accordance with SEC Staff Accounting Bulletin Topic 4C, all share information on the financial statements and notes to financial statements, including per share amounts, have been proportionally adjusted as if the eight-for-one stock split had been effective as of the date or period presented.

### NOTE 9. EARNINGS PER SHARE INFORMATION

The following reconciles amounts used in the computations of basic and diluted income per common share (in thousands, except per share amounts):

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE S
	2005	2004	2005
Weighted average number of common shares used in basic earnings per share	19,136	19,131	19,1
Effect of dilutive stock options	--	223	
Weighted average number of common shares and potentially dilutive common shares outstanding used in diluted earnings per share	19,136	19,354	19,1

The following table details the potential common shares excluded from the calculation of diluted earnings per share because their exercise price was greater than the average market price for the period (in thousands, except per share amounts):

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NI SEP
	2005	2004	2005
Potential common shares excluded from the calculation of diluted earnings per share:			
Stock options (in thousands)	12	12	12
Weighted average exercise price per share	\$ 10.938	\$ 10.938	\$ 10.938

17

### NOTE 10. COMPREHENSIVE (LOSS) INCOME

The components of other comprehensive (loss) income are as follows:

Edgar Filing: ZAPATA CORP - Form 10-Q/A

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NIN SEPT
	2005	2004	2005
	(RESTATED)		(RESTATED)
	(IN THOUSANDS)		
Net (loss) income to common stockholders	\$ (9,161)	\$ 784	\$ (8,619)
Currency translation adjustment, net of tax effects	(1)	2	6
Amounts related to discontinued operations, net of tax effects	(580)	475	4,491
Total comprehensive (loss) income	\$ (9,742)	\$ 1,261	\$ (4,122)

NOTE 11. COMMITMENTS AND CONTINGENCIES

LITIGATION

Zapata is involved in litigation relating to claims arising out of its past and current operations in the normal course of business. Zapata maintains insurance coverage against such potential ordinary course claims in an amount in which it believes to be adequate. While the results of any ultimate resolution cannot be predicted, in the opinion of Zapata's management, based upon discussions with counsel, any losses resulting from these matters will not have a material adverse effect on Zapata's results of operations, cash flow or financial position.

ENVIRONMENTAL MATTERS

During the third quarter of 2005, Zapata was notified by Weatherford International Inc. ("Weatherford") of a claim for reimbursement of approximately \$200,000 in connection with the investigation and cleanup of purported environmental contamination at two properties formerly owned by a non-operating Zapata subsidiary. The claim was made under an indemnification provision given by Zapata to Weatherford in a 1995 asset purchase agreement and relates to alleged environmental contamination that purportedly existed on the properties prior to the date of the sale.

Weatherford has also advised the Company that it anticipates that further remediation and cleanup may be required, although they have not provided any information regarding the cost of any such future clean up. Zapata has challenged any responsibility to indemnify Weatherford and is in the process of retaining its own expert to determine whether the condition is such that it would be required to provide indemnification under the asset purchase agreement, including, whether the contamination occurred after the sale of the property.

At this time, although it is reasonably possible that some costs could be incurred related to this site, the Company has inadequate information to enable it to estimate any reasonably possible range of estimated liability relating to these sites beyond the specific amount claimed to date by Weatherford. Further, there can be no assurance that the Company will not incur material costs and expenses in connection with any further investigation and remediation at the site.

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

Zapata and its subsidiaries are subject to various possible claims and lawsuits regarding environmental matters. Zapata's management believes that costs, if any, related to these matters will not have a material adverse effect on the consolidated results of operations, cash flows or financial position of the Company.

### CAPITAL COMMITMENTS

In May 2005, Omega Protein closed on the purchase of a previously reported 40-acre facility containing office and warehouse space located next to its Moss Point, Mississippi facility. The purchase price was \$1.8 million.

18

### GUARANTEES

The Company has applied the disclosure provisions of FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," to its agreements containing guarantee or indemnification clauses. These disclosure provisions expand those required by SFAS No. 5, "Accounting for Contingencies," by requiring a guarantor to disclose certain types of guarantees, even if the likelihood of requiring the guarantor's performance is remote. The following is a description of arrangements in which the Company is the guarantor.

Zapata's articles of incorporation, bylaws and certain other agreements contain indemnification clauses for its officers, directors and certain consultants for losses incurred as a result of claims made against such individuals arising out of, or because of their service to the Company. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, Zapata maintains director and officer liability insurance that limits this exposure. As a result of this insurance coverage, it is the opinion of Zapata's management that the estimated fair value of any liabilities under these indemnification agreements is minimal and should not materially impact the Company's financial position, results of operations or cash flows. These indemnification obligations were in effect prior to December 31, 2002 and are therefore grandfathered under the provisions of FIN No. 45. Accordingly, no liabilities have been recorded for the indemnification clauses in these agreements.

During February 2003, Zapata's directors and officers entered into indemnification agreements with the Company. These agreements provide additional rights to persons entitled to indemnification than is currently provided under the Company's Articles of Incorporation and By-laws and will protect the officers and directors from losses incurred as a result of claims made against such individuals arising out of, or because of their service to the Company. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, Zapata maintains director and officer liability insurance to limit potential exposure. As a result of this insurance coverage, it is the opinion of Zapata's management that the estimated fair value of any liabilities under these indemnification agreements is minimal and accordingly, no liabilities have been recorded under the provisions of FIN 45.

Throughout its history, the Company has entered into numerous transactions relating to the sale, disposal or spin-off of past operations. Pursuant to certain of these transactions, the Company may be obligated to indemnify other parties to these agreements. These obligations include indemnifications for losses incurred by such parties arising out of the operations of such businesses prior to these transactions or the inaccuracy of representations of information

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

supplied by the Company in connection with such transactions. These indemnification obligations were in effect prior to December 31, 2002 and are therefore grandfathered under the provisions of FIN No. 45. Accordingly, no liabilities have been recorded for the indemnification clauses in these agreements.

In addition, Omega Protein and Zap.Com have articles of incorporation, bylaws and certain other agreements containing indemnification clauses for their officers and directors. The estimated fair values of any liabilities under these indemnification agreements are limited by insurance coverages and should not materially impact the Company's financial position, results of operations or cash flows. No liabilities have been recorded for the indemnification clauses in these agreements.

### PURCHASE OBLIGATION

As of September 30, 2005, Omega Protein had normal purchase commitments for energy usage of approximately \$353,000, that will be delivered in quantities expected to be used in the normal course of business during the 2005 fishing season.

### NOTE 12. RELATED PARTY TRANSACTIONS

#### SAFETY COMPONENTS

During the third quarter of 2005, Zapata approved a plan in order to provide Safety Components management with an incentive to continue with Safety Components until the completion of the proposed sale to WLR Recovery Funds. Under this plan, Zapata has agreed to pay an aggregate of \$1,000,000 in the form of a capital contribution to Safety Components for the Safety Components compensation committee to pay bonuses to the Safety Components executive officers and key employees.

19

After acquiring in excess of 80% of the voting interests in Safety Components, the Company entered into a Tax Sharing and Indemnity Agreement (the tax sharing agreement) with Safety Components. On or about April 1, 2004, Zapata's stock ownership percentage of Safety Components outstanding stock decreased below 80% due to stock option exercises by Safety Components' employees. As a result of Zapata's ownership of Safety Components outstanding stock falling below 80%, Zapata will not consolidate Safety Components into Zapata's consolidated income tax returns for periods subsequent to the first quarter of 2004.

The tax sharing agreement defines each company's respective rights and obligations relating to federal, state and other taxes for taxable periods attributable to the filing of consolidated or combined income tax returns as part of the Zapata affiliated tax group. Pursuant to this agreement, Safety Components is required to pay Zapata its share of federal income taxes, if any, for those periods. In addition, each party is required to reimburse the other party for its use of either party's tax attributes for those periods.

#### OMEGA PROTEIN CORPORATION

Upon completion of Omega's initial public offering in 1998, Omega and Zapata entered into certain agreements including the Administrative Services Agreement, which covers certain administrative services Omega provides to Zapata. The Administrative Services Agreement allows Omega to provide certain administrative services to Zapata at Omega's estimated cost. Zapata received no services under the agreement for the three and nine months ended September 30, 2005 and

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

reimbursed Omega approximately \$4,000 and \$15,000 for services provided under the agreement for the three and nine months ended September 30, 2004.

### ZAP.COM CORPORATION

Since its inception, Zap.Com has utilized the services of the Zapata's management and staff under a shared services agreement that allocated these costs on a percentage of time basis. Zap. Com also subleases its office space in Rochester, New York from Zapata. Under the sublease agreement, annual rental payments are allocated on a cost basis. Zapata has waived its rights under the shared services agreement to be reimbursed for these expenses since May 1, 2000. For the three months ended September 30, 2005 and 2004, approximately \$3,000 was recorded as contributed capital for these services. For each of the nine months ended September 30, 2005 and 2004, approximately \$9,000 and 10,000, respectively, was recorded as contributed capital for these services.

### OTHER

The Malcolm I. Glazer Family Limited Partnership, which owns approximately 51% of Zapata's common stock, executed a Voting Agreement wherein it committed to vote in favor of the proposed transaction between Zapata and the WLR Recovery Funds and against any competing transaction. Pursuant to the Voting Agreement the Malcolm I. Glazer Family Limited Partnership also granted WLR a voting proxy to effect its undertaking in the Voting Agreement.

In February 2005, the Company modified the terms of certain outstanding stock options held by Darcie Glazer and Edward Glazer, to extend the early termination of the exercise period following Darcie Glazer's termination of employment with the Company in 2001. Consistent with FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation (an interpretation of APB Opinion No. 25)," the Company recorded a compensation charge of approximately \$353,000 related to this modification.

### NOTE 13. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." SFAS No. 123R is a revision of SFAS No. 123, "Accounting for Stock Based Compensation", and supersedes APB 25. Among other items, SFAS 123R eliminates the use of APB 25 and the intrinsic value method of accounting, and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments, based on the grant date fair value of those awards, in the financial statements. On April 14, 2005, the Securities and Exchange Commission (SEC) announced that the effective date of SFAS 123R will be suspended until January 1, 2006, for calendar year companies. The Company currently expects to adopt SFAS 123R effective January 1, 2006, based on the new effective date announced by the SEC. The Company is in the process of reviewing the impact of the adoption of this statement and

20

believes that the adoption of this standard may have a material effect on the Company's consolidated financial position and results of operations.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs," which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. SFAS No. 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is in the process of reviewing the impact, if any, that the adoption of this statement will have on the Company's financial position, results of



## Edgar Filing: ZAPATA CORP - Form 10-Q/A

operations or cash flows.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets," which eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 will be effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company is in the process of reviewing the impact, if any, that the adoption of this statement will have on the Company's financial position, results of operations or cash flows.

### NOTE 14. QUALIFIED DEFINED BENEFIT PLANS

Zapata and Omega Protein have separate and independent noncontributory defined benefit pension plans covering certain U.S. employees. Additionally, Zapata has a supplemental pension plan, which provides supplemental retirement payments to certain former senior executives of Zapata.

The amounts shown below reflect the consolidated defined benefit pension plan expense for Zapata and Omega Protein, including Zapata's supplemental pension plan expense.

### COMPONENTS OF NET PERIODIC BENEFIT COST

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS SEPTEMBER 30,	
	2005 (UNAUDITED)	2004 (UNAUDITED)	2005 (UNAUDITED)	2004 (UNAUDITED)
	(IN THOUSANDS)			
Service cost	\$ 10	\$ 10	\$ 31	\$ 31
Interest cost	645	651	1,936	1,936
Expected return on plan assets	(734)	(750)	(2,201)	(2,201)
Amortization of transition assets and other deferrals	375	335	1,126	1,126
Net periodic benefit cost	\$ 296	\$ 246	\$ 892	\$ 892

Zapata and Omega have not made, and do not anticipate making any contributions to their respective pension plans during 2005. Additionally, neither company made any contributions to their respective pension plans during 2004.

### NOTE 15. HURRICANE LOSSES

On August 29, 2005, Omega's Moss Point, Mississippi fish processing facility and adjacent shipyard were severely damaged by Hurricane Katrina. On September 24, 2005, Omega'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 and nine-month periods ending September 30, 2005, the following amounts have been recognized in Omega's statement of operations:

Damaged fish meal inventory	\$ 2,375,000
Write-off of other materials and supplies	1,387,000

Edgar Filing: ZAPATA CORP - Form 10-Q/A

Write-off of unallocated inventory cost pool	12,978,000
Involuntary conversion of property and equipment	8,333,000
Clean-up costs incurred	110,000
Estimated insurance recoveries	(12,000,000)
	-----
Estimated damages in excess of insurance recoveries	\$ 13,183,000
	=====

A substantial portion of the amounts listed above 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 affect on Omega's future financial statements.

Not included in the amounts listed in the above table are the replacement capital costs of property and equipment, which did not have any book basis and were destroyed by the hurricanes, and the costs of clean up incurred subsequent to September 30, 2005.

21

NOTE 16. INDUSTRY SEGMENT AND GEOGRAPHIC INFORMATION

The following summarizes certain financial information of each segment for the three and nine months ended September 30, 2005 and 2004 (in thousands):

	REVENUES	OPERATING INCOME (LOSS)	TOTAL ASSETS	DEPRECIATION AND AMORTIZATION	INTEREST (EXPENSE) INCOME, NET
	-----	-----	-----	-----	-----
THREE MONTHS ENDED					
SEPTEMBER 30, 2005					
Corporate	\$ --	\$ (1,286)	\$ 43,909	\$ 6	\$ 21
Discontinued Operations	--	--	107,039	--	--
Omega Protein	31,418	(9,201)	188,728	3,214	(23)
Zap.Com	--	(48)	1,784	--	1
	-----	-----	-----	-----	-----
	\$ 31,418	\$ (10,535)	\$ 341,460	\$ 3,220	\$ (
	=====	=====	=====	=====	=====
THREE MONTHS ENDED					
SEPTEMBER 30, 2004					
Corporate	\$ --	\$ (1,277)	\$ 48,937	\$ 10	\$ 9
Discontinued Operations	--	--	123,689	--	--
Omega Protein	41,501	2,703	196,351	2,883	8
Zap.Com	--	(38)	1,838	--	--
	-----	-----	-----	-----	-----
	\$ 41,501	\$ 1,388	\$ 370,815	\$ 2,893	\$ 18
	=====	=====	=====	=====	=====
NINE MONTHS ENDED					
SEPTEMBER 30, 2005					
Corporate	\$ --	\$ (4,219)	\$ 43,909	\$ 26	\$ 56
Discontinued Operations	--	--	107,039	--	--
Omega Protein	82,759	(8,159)	188,728	9,875	(40)
Zap.Com	--	(113)	1,784	--	3

Edgar Filing: ZAPATA CORP - Form 10-Q/A

	----- \$ 82,759 =====	----- \$ (12,491) =====	----- \$ 341,460 =====	----- \$ 9,901 =====	----- \$ 19 =====
NINE MONTHS ENDED					
SEPTEMBER 30, 2004					
Corporate	\$ --	\$ (4,017)	\$ 48,937	\$ 35	\$ 23
Discontinued Operations	--	--	123,689	--	--
Omega Protein	93,013	6,886	196,351	8,920	(28)
Zap.Com	--	(128)	1,838	--	1
	----- \$ 93,013 =====	----- \$ 2,741 =====	----- \$ 370,815 =====	----- \$ 8,955 =====	----- \$ (3) =====

NOTE 17. SUBSEQUENT EVENTS

On October 11, 2005, Omega amended its existing credit facility with Bank of America, N.A. by entering into a Third Amendment to the Loan and Security Agreement dated December 20, 2000. The Third Amendment increased the amount of Title XI loans (federal loans under the U.S. Department of Commerce Fisheries Finance Program) that Omega is permitted to borrow from \$25,000,000 to \$31,000,000. All other terms and conditions of the credit facility remain the same.

On October 17, 2005, Omega closed on a \$14 million loan with the U.S. Department of Commerce Fisheries Finance Program ("FFP"). This loan was entered into pursuant to Omega's financing application previously approved by the FFP in September 2004. The loan is secured by liens on four of Omega's fishing vessels and a mortgage on Omega's Reedville, Virginia facility. Borrowings will be used to reimburse Omega for prior expenditures for fishing vessel refurbishments and improvements to shore-side marine assets. The loan has a term of 15 years, is amortized on a quarterly basis, and bears interest at 6.5%.

NOTE 18. RESTATEMENT

The Company's financial statements as of and for the three months and nine month periods ended September 30, 2005 have been restated from amounts previously reported. The adjustments are primarily related to the timing of the reversal of \$4.2 million of deferred tax liabilities established during periods in which Safety Components was consolidated into the financial statements of the Company for book purposes and not consolidated for tax purposes. In the Company's initial filing of its Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2005 (the "Original Filing"), the Company reported that the reversal of \$4.2 million of deferred tax liabilities would occur at the closing of the transaction, that the closing was anticipated to occur (and did occur) during the fourth quarter of 2005 and that this reversal would result in a gain. The Company has subsequently determined that this reversal should have been recognized in the third quarter in conjunction with the write-down of the Company's carrying value in Safety Components. Accordingly, this Form 10-Q/A recognizes the reversal of this amount in the third quarter of 2005. In addition, as part of the restatement, the Company i) corrected the allocation of the income tax provision for the three and nine months ended September 30, 2005 between continuing and discontinued operations for the amounts of \$573,000 and \$1.6 million, respectively, and ii) recorded in the third quarter of 2005, certain immaterial income tax adjustments related to the first and second quarters of 2005 of \$174,000. The following tables show the Condensed Consolidated Statement of Operations and Balance Sheet line items that have been restated.

Edgar Filing: ZAPATA CORP - Form 10-Q/A

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS  
THREE MONTHS ENDED SEPTEMBER 30, 2005

	PREVIOUSLY REPORTED -----	ADJUSTME -----
Continuing operations: -----		
Benefit (provision) for income taxes	4,285	399
Net (loss) from continuing operations	(3,729)	399
Discontinued operations: -----		
(Provision) benefit for income taxes	(223)	3,591
Net (loss) income from discontinued operations	(9,422)	3,591
Net (loss) income to common stockholders	(13,151)	3,990
Net (loss) income per common share - basic and diluted:		
Loss from continuing operations	(0.20)	0.03
(Loss) income from discontinued operations	(0.49)	0.18
(Loss) income per common share - basic and diluted	(0.69)	0.21

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS  
NINE MONTHS ENDED SEPTEMBER 30, 2005

	PREVIOUSLY REPORTED -----	ADJUSTME -----
Continuing operations: -----		
Benefit (provision) for income taxes	3,710	1,377
Net (loss) income from continuing operations	(6,178)	1,377
Discontinued operations: -----		
(Provision) benefit for income taxes	(2,102)	2,613
Net (loss) income from discontinued operations	(6,431)	2,613
Net (loss) income to common stockholders	(12,609)	3,990
Net (loss) income per common share - basic and diluted:		
Loss from continuing operations	(0.32)	0.07
(Loss) income from discontinued operations	(0.34)	0.14
(Loss) income per common share - basic and diluted	(0.66)	0.21

CONDENSED CONSOLIDATED BALANCE SHEET  
SEPTEMBER 30, 2005

	PREVIOUSLY REPORTED -----	ADJUSTME -----
--	---------------------------------	-------------------

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

Accrued and other current liabilities	19,760	174
Other liabilities and deferred taxes	6,743	(4,164)
Retained earnings	42,232	3,990

22

### 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 ("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 those identified from time to time in press releases and other communications with stockholders by the Company and the filings made with the Commission by the Company, Safety Components International, Inc. ("Safety Components" or "Safety"), Omega Protein Corporation ("Omega Protein" or "Omega") and Zap.Com Corporation ("Zap.Com"), such as those disclosed under the caption "Significant Factors That Could Affect Future Performance and Forward-Looking Statements" appearing in Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operation" of this Report. 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. The Company assumes no obligation to update forward-looking statements or to update the reasons actual results could differ from those projected in the forward-looking statements.

### RESTATEMENT

This Quarterly report on Form 10-Q/A ("Form 10-Q/A") is being filed in order to correct the previously issued consolidated financial statements of Zapata Corporation for the three and nine month periods ended September 30, 2005 and 2004 initially filed with the Securities and Exchange Commission (the "SEC") on November 14, 2005 (the "Original Filing"). The corrections are primarily related to the timing of the reversal of \$4.2 million of deferred tax liabilities established during periods in which Safety Components International, Inc. was consolidated into the financial statements of the Company for book purposes and not consolidated for tax purposes. In the Original Filing, the Company reported that the reversal of \$4.2 million of deferred tax liabilities would occur at the closing of the sale of Safety Components, that the closing was anticipated to occur (and did occur) during the fourth quarter of 2005 and that this reversal would result in a gain. The Company has subsequently determined that this reversal should have been recognized in the third quarter in conjunction with the write-down of the Company's carrying value in Safety Components. Accordingly, this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations recognizes the reversal of this amount in the third quarter of 2005 and has been updated accordingly. In addition, as part of the restatement, the Company i) corrected the allocation of the income tax provision for the three and nine months ended September 30, 2005 between continuing and discontinued operations for the amounts of \$573,000 and \$1.6 million, respectively, and ii) recorded in the third quarter of 2005, certain immaterial income tax adjustments related to the first and second quarters of 2005 of \$174,000. See Note 18 "Restatement" under Notes to Unaudited Condensed Consolidated Financial Statements included in Part 1, Item 1 of this Form 10-Q/A.

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

### GENERAL

Zapata Corporation ("Zapata" or the "Company") was incorporated in Delaware in 1954 and was reincorporated in Nevada in April 1999. The Company's principal executive offices are at 100 Meridian Centre, Suite 350, Rochester, New York 14618. Zapata's common stock is listed on the New York Stock Exchange ("NYSE") and trades under the symbol "ZAP."

Zapata is a holding company which currently has two operating companies, Safety Components International, Inc. ("Safety Components" or "Safety") and Omega Protein Corporation ("Omega Protein" or "Omega"). As of September 30, 2005, the Company had approximately a 77% ownership interest in Safety Components and a 58% ownership interest in Omega Protein. Safety Components trades on the over-the-counter electronic bulletin board ("OTCBB") under the symbol "SAFY" and Omega Protein trades on the New York Stock Exchange under the symbol "OME." In addition, Zapata owns 98% of Zap.Com Corporation ("Zap.Com"), which is a public shell company and trades on the OTCBB under the symbol "ZPCM."

On September 23, 2005, Zapata Corporation entered into a Stock Purchase Agreement with WLR Recovery Fund II, L.P. and WLR Recovery Fund III, L.P., Delaware limited partnerships (collectively the "WLR Recovery Funds"), to sell all its 4,162,394 shares of common stock in Safety Components. The purchase price is \$12.30 per share or \$51,197,446 in the aggregate, which has been placed in escrow pending the closing of the transaction. The parties obligation to consummate the transaction is subject to customary closing conditions, including approval by Zapata stockholders and the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"). The Company requested early termination of the waiting period which was granted and effective on October 26, 2005. The parties have covenanted to take all actions required of them under the agreement to complete the transaction (subject to certain exceptions) by December 31, 2005.

The closing is expected to take place in the fourth quarter of 2005. The Stock Purchase Agreement provides that after the closing of the transaction, Zapata's representatives will resign as Safety Components directors. Until the issuance of the share certificates to the WLR Recovery Funds, Zapata is obligated to vote WLR's nominees to Safety Components board of directors.

Zapata expects that this transaction will close during the fourth quarter of 2005 at which time the Company expects to receive net proceeds of approximately \$49.9 million. At that time, the Company will record the cash proceeds and cease to consolidate Safety's statement of position, results of operations and cash flows and disclosures. During the quarter ended September 30, 2005, the Company recognized a transaction related loss of \$6.6 million. This loss was recognized

primarily to reduce the carrying value of Safety Components to the fair value less cost to sell, partially offset by the reversal of deferred tax liabilities established during periods in which Safety Components was consolidated for book purposes and not consolidated for tax purposes. At closing, the Company will recognize additional losses (gains) to reflect Zapata's share of Safety's net income (loss) for the period from October 1, 2005 through closing.

Although Zapata has agreed to sell its shares of Safety for \$51.2 million and

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

originally purchased these shares for \$47.8 million, the Company recorded an accounting loss on the transaction quarter ended September 30, 2005. Despite selling our interest in Safety Components for a cash gain, Zapata recorded an accounting loss primarily due to Safety Components' generation of net income subsequent to Zapata's acquisition of Safety's common stock. During the periods in which Zapata consolidated Safety's results of operations, Safety Component's recognition of net income caused Zapata's carrying value in the investment in Safety's common stock to increase by its share of Safety's net income. Accordingly, concurrent with the approval of Zapata's board of directors to sell its interest in Safety Components, Zapata was required to record a loss equal to the difference between its carrying value in Safety Component's common stock and the net selling price.

Either Zapata or the WLR Recovery Funds may terminate the Stock Purchase Agreement if the closing conditions are not satisfied as of December 31, 2005 (unless they have not been satisfied due to the terminating parties breach of the agreement). Zapata will be required to pay the WLR Recovery Funds WLR \$2,000,000 and actual documented out-of-pocket expenses incurred by WLR up to \$500,000 plus a limited amount of accrued interest if the termination is by the WLR Recovery Funds and if as of December 31, 2005 Zapata has not completed certain covenants in the agreement or Zapata's stockholder vote has not been secured as a result of a breach by Zapata and there are no other unfulfilled conditions or breaches by the WLR Recovery Funds.

During the third quarter of 2005, Zapata approved a plan in order to provide Safety Components management with an incentive to continue with Safety Components until the completion of the proposed sale to WLR Recovery Funds. Under this plan, Zapata has agreed to pay an aggregate of \$1,000,000 in the form of a capital contribution to Safety Components for the Safety Components compensation committee to pay bonuses to the Safety Components executive officers and key employees.

Concurrently with the execution of the Stock Purchase Agreement, the Malcolm I. Glazer Family Limited Partnership, which owns approximately 51% of Zapata's common stock, executed a Voting Agreement wherein it committed to vote in favor of the proposed transaction and against any competing transaction. Pursuant to the Voting Agreement the Malcolm I. Glazer Family Limited Partnership also granted the WLR Recovery Funds a voting proxy to effect its undertaking in the Voting Agreement.

### ZAPATA CORPORATE

The Company effected an eight-for-one stock split of its outstanding shares of common stock, par value \$.01 per share (the "Common Stock"), effective at the close of business on April 6, 2005. Where a number of shares of Common Stock is listed in this report for a date or period prior to the effective date of the stock split, that number of shares of Common Stock has been proportionately adjusted as if the eight-for-one stock split had been in effect on that prior date or during that prior period.

Zapata's Board of Directors has authorized the Company to purchase up to 4.0 million shares of its outstanding common stock in the open market or privately negotiated transactions. The shares may be purchased from time to time as determined by the Company. Any purchased shares would be placed in treasury and may subsequently be reissued for general corporate purposes. The repurchases will be made only at such times as are permissible under the federal securities laws. No time limit has been placed on the duration of the program and no minimum number or value of shares to be repurchased has been fixed. Zapata reserves the right to discontinue the repurchase program at any time and there can be no assurance that any repurchases will be made. As of the date of this report, no shares have been repurchased under this program.

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

Zapata continues to evaluate strategic opportunities for the use of its capital resources, including but not limited to the acquisition of other operating businesses, the minority interest of controlled subsidiaries, funding of start-up proposals and possible stock repurchases. The Company has not focused and does not intend to focus its acquisition efforts solely on any particular industry or geographical market. While the Company focuses its attention in the United

24

States, the Company may investigate acquisition opportunities outside of the United States when management believes that such opportunities might be attractive. Similarly, the Company does not yet know the structure of any acquisition. The Company may pay consideration in the form of cash, securities of the Company or a combination of both. The Company may raise capital through the issuance of equity or debt and may utilize non-investment grade securities as a part of an acquisition strategy. Such investments often involve a high degree of risk and may be considered highly speculative.

Other than the aforementioned Stock Purchase Agreement with the WLR Recovery Funds, as of the date of this report, Zapata is not a party to any other agreements related to the acquisition of an operating business, business combination or for the sale or other transaction related to any of its subsidiaries. There can be no assurance that the sale of the Company's common stock to the WLR Recovery Funds or any other possible transaction will occur or that they will ultimately be advantageous to Zapata or enhance Zapata stockholder value.

### SAFETY COMPONENTS

Based on Zapata's Board of Directors approval to pursue the sale of Safety Components, the Company determined that this subsidiary substantially met the criteria to be reported as "Discontinued Operations". Accordingly, as used throughout this document, all amounts and disclosures related to Safety Components pertain to "Discontinued Operations".

Safety Components is an independent supplier of automotive airbag fabric and cushions and technical fabrics with operations in North America and Europe. Safety has recently entered into joint ventures to produce products in China and South Africa, although commercial production has not yet commenced in either of these locations. Safety Components sells airbag fabric domestically and cushions worldwide to the major airbag module integrators that outsource their demand for such products. Safety Components also manufactures value-added technical fabrics used in a variety of niche industrial and commercial applications such as fire service apparel, filtration and military fabrics.

On September 1, 2005 Safety exercised an option to acquire 49% of the ownership interests of NxGen Technologies, LLC ("NxGen"), which is in the business of designing airbags, airbag systems and inflator units. Safety exercised this option in connection with NxGen's entry into a License and Consulting Agreement with Delphi Automotive Systems LLC ("Delphi") pursuant to which NxGen granted Delphi an exclusive, worldwide, royalty-bearing license to certain of NxGen's patents and patent know-how. Safety recognized approximately \$1.5 million (free of tax from an existing capital loss carryforward) into equity in earnings from unconsolidated affiliate in connection with the exercise of the option and recorded an asset of approximately \$247,000 (which represents Safety's ownership interest in this affiliate's equity) in "Non-current assets related to discontinued operations" on the balance sheet. Safety will participate in NxGen's subsequent profits and losses pro rata in accordance with its equity ownership.



## Edgar Filing: ZAPATA CORP - Form 10-Q/A

Safety's customers supply airbag modules to various automotive manufacturers. The automotive manufacturers have recently experienced rising inventories of unsold automobiles and trucks resulting in reduced production in order to balance inventory levels with sales. The impact of any further sustained reductions in production cannot be predicted but may impact Safety's results of operations and/or financial position adversely.

A number of significant uncertainties are impacting the outlook for Safety's financial results for the fourth quarter of 2005 and beyond. These include instability in the raw material and commodity markets, particularly given the effects of the 2005 Gulf Coast storms; continuing distress throughout the supply chain, exacerbated by the unprecedented increases in raw material prices, potential for supply disruptions and other supplier and customer bankruptcies; and an uncertain sales and production environment in North America and Europe.

During the third quarter of 2005, one of the Company's largest raw materials suppliers announced a price increase of approximately 4% on raw material yarn purchased for the Company's North America airbag fabric weaving facility, effective in the fourth quarter of 2005. Management has estimated the impact on the cost of raw material purchases to be approximately \$250,000 for the year ending December 31, 2005 and approximately \$1 million on an annual basis. The Company is currently in negotiations with its airbag cushion customers in North America to pass along this increase. However, the outcome of such negotiations cannot be determined at this time.

During the second quarter of 2004, one of Safety's largest raw materials suppliers implemented a price increase of approximately 11% on raw material yarn purchased for Safety's North America airbag fabric weaving facility.

25

Safety's negotiations with its airbag cushion customers in North America to increase prices of certain of its products in order to preserve profit margins on these products were only partially successful and resulted in a mixture of agreements where such price increases were either agreed to or future sales price reductions were deferred.

Safety has a \$16.2 million intercompany note in the form of a loan from a U.S. subsidiary to a European subsidiary. This note has been classified as long-term in nature pursuant to U.S. generally accepted accounting principles which treat any changes in the value of the note due to fluctuations of currency rates between the U.S. dollar and the euro to be recorded as a separate component of equity (i.e. designated as a hedging transaction). On June 30, 2005 this note ceased to be designated as a hedging transaction and the European subsidiary began to pay down the note resulting in the note's equity component of approximately \$6.2 million being frozen in the separate component of equity. Any gains or losses due to fluctuations in currency rates between the U.S. dollar and the euro in future periods will be included in net income in Safety's consolidated statements of operations.

Safety has experienced, and expects to continue to experience, variability in net sales and net income from quarter to quarter. Therefore, the results of the interim periods presented herein are not necessarily indicative of the results expected for any other interim period or the full year.

### OMEGA PROTEIN

**BUSINESS.** Omega Protein is the largest U.S. producer of protein-rich meal and oil derived from marine sources. Omega'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

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

solubles.

FISHING. Omega's harvesting season generally extends from May through December on the mid-Atlantic coast and from April through October on the Gulf coast. During the off-season and the first few months of each fishing season, Omega fills purchase orders from the inventory it has accumulated during the previous fishing season or in some cases, by re-selling meal purchased from other suppliers.

On August 29, 2005, Omega's Moss Point, Mississippi fish processing facility and adjacent shipyard were severely damaged by Hurricane Katrina. On September 25, 2005, Omega'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.

Omega currently plans to re-open an additional Gulf of Mexico facility in late 2006 or early 2007, but is still evaluating whether the location of that facility will be Cameron, Louisiana or the Company's existing property at Morgan City, Louisiana. Omega currently estimates that its full contingent of 31 Gulf of Mexico fishing vessels will begin the 2006 fishing season and will be capable of unloading its fish catch at the Company's Moss Point and Abbeville fish processing facilities. Although these facilities have adequate processing capacity, Omega 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.

As of September 30, 2005, Omega 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 2005 fishing season in the Gulf of Mexico, which runs from mid-April through October, Omega is operating 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 2005 season, Omega is operating 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 Omega's shipyard.

Omega converted several of its fishing vessels to "carry vessels" that do not engage in active fishing but instead carry fish from Omega's offshore fishing vessels to its plants. Utilization of carry vessels increases the amount of time that certain of Omega's fishing vessels remain offshore fishing productive waters and therefore increases Omega'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.

26

The fish catch is processed into three general types of products; fish meal, fish oil and fish solubles at Omega's four operating meal and oil processing plants, two in Louisiana, one in Mississippi and one in Virginia.

Omega's Health and Science Center located in Virginia provides 100-metric tons per day of fish oil processing capacity. The food-grade facility allows Omega to further refine its fish oil into fish oils of special quality and food grade

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

oils that offer a long-chain Omega-3 content.

During 2004 and 2003, Omega experienced a poor fish catch (approximately 18% and 11%, respectively, below expectations and a similar reduction from 2002 actual results), combined with poor oil yields. The reduced fish catch was primarily attributable to adverse weather conditions and the poor oil yields were due to the reduced fat content of the fish. As a result of the poor fish catch and reduced yields, Omega experienced significantly higher per unit product costs (approximately 15% increase) during 2004 compared to 2003. The impact of higher cost inventories and fewer volumes available for sale was carried forward and has adversely affected Omega's earnings through the first and second quarters of 2005. During the third quarter of 2005, Omega suffered plant closures due to Hurricanes Katrina and Rita. The direct impact of the hurricanes upon Omega was loss of physical inventories and physical damage to three plants. The interruption of processing capabilities caused Omega 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 were substantial and are more fully described in Notes 4, 5 and 16 to the Unaudited Condensed Consolidated Financial Statements included in Item 1 of this Report.

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

Prices for Omega'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 significantly influenced by supply and demand in world markets for competing products, particularly other globally produced fish meal and fish oil, as well as other animal proteins and soybean meal for its fish meal products, and vegetable fats and oils for its fish oil products when used as an alternative to vegetable fats and oils. Pricing for Omega's products has been volatile in the past several years and is attributable mainly to the international availability, or the perceived international availability, of fish meal and fish oil inventories. In an effort to reduce price volatility and to generate higher, more consistent profit margins, in fiscal 2000 Omega embarked on a quality control program designed to increase its capability of producing higher quality fish meal products and, in conjunction therewith, enhanced its sales efforts to penetrate premium product markets. Since 2000, Omega's sales volumes of specialty meal products have increased approximately 41%. Future volumetric growth in specialty meal sales will be dependent upon increased harvesting efforts and market demand. Additionally, Omega is attempting to introduce its refined fish oil into the food market. Omega has made sales, which to date have not been material, of its refined fish oil, trademarked OmegaPure(R), to food manufacturers in the United States and Canada at prices that provide substantially improved margins over the margins that can be obtained from selling non-refined crude fish oil. Omega cannot estimate, however, the size of the actual domestic or international markets for Omega Pure(R) or how long it may take to develop these markets.

Part of Omega's business plan involves expanding its purchase and resale of other manufacturer's fish meal and fish oil products. Omega initially focused on the purchase and resale of Mexican fish meal and fish oil and revenues generated from these types of transactions. During 2003 and 2004, Omega's fish catch and resultant product inventories were reduced, primarily due to adverse weather conditions, and Omega further expanded its purchase and resales of other fish meals and oils (primarily Panamanian, Peruvian and Mexican fish meal and U.S.

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

menhaden oil). Although operating margins from these activities are less than the margins typically generated from Omega's base domestic production, these operations provide Omega with a source of fish meal and oil to sell into other markets where Omega has not historically had a presence. Omega purchased products totaling approximately 15,950 and 17,800 tons, or approximately 17% and 8% of total volume sales, for the six months ended June 30, 2005 and the fiscal year ended December 31, 2004, respectively. Omega did not purchase fish meal or fish oil products during the quarter ended September 30, 2005. As a result of Hurricanes Katrina and Rita and their impact on the Company's fishing efforts, the Company is currently negotiating the purchase of approximately 18,000 to 20,000 tons of fish meal from third parties to be delivered in early 2006, in order to meet the domestic spot buyers' demands. The Company

27

anticipates that the margins on these third party purchases and resales will be significantly less than the margins typically generated from its base domestic production.

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. Due to increasing customer demand for Omega's specialty meal and crude fish oil, approximately 43% and 50% of its specialty meals and crude fish oil had been sold on a forward contract basis during 2004 and 2003, respectively. The balance of FAQ grade fish meal, specialty meals, crude fish oil and other products was substantially sold on a spot basis. As of March 31, 2005, approximately 80% and 22% of Omega's fish meals and crude fish oil had either been sold or sold on a forward contract basis. The percentage of fish meals and crude fish oil sold on a forward contract basis fluctuate from year to year based upon perceived market availability. Subsequent to the temporary suspension of the Gulf of Mexico operations caused by Hurricanes Katrina and Rita, the Company reviewed the contract status of those customers that would possibly be impacted as a result of inventory shortages or reduced fish catch and determined that Omega would not be able to supply 100% of its volume commitments with its existing supplies of inventories or inventories or projected inventories to be produced from its Atlantic operations. The Company determined that approximately 80% of its volume commitments could be met. Accordingly, Omega reduced its volume commitments as permitted by its standard form purchase contracts and worked with its customer base to allocate available inventory.

Omega'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. Omega 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. Omega's fish meal products have a useable life of approximately one year from date of production. Practically, however Omega attempts to empty its warehouses of the previous season's products by the second or third month of the new fishing season. Omega'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 Omega's revenues by product (in millions) and the approximate percentage of total revenues represented thereby, for the indicated periods:

THREE MONTHS ENDED SEPTEMBER 30,

NINE M

Edgar Filing: ZAPATA CORP - Form 10-Q/A

	2005		2004		2005
	Revenues	Percent	Revenues	Percent	Revenues
Regular					
Grade	\$ 5.6	17.8%	\$ 6.9	16.6%	\$ 15.4
Special Select	14.6	46.5	19.0	45.8	36.4
Sea-Lac	5.3	16.9	4.9	11.8	14.4
Crude Oil	4.2	13.4	9.2	22.2	11.5
Refined Oil	1.3	4.1	1.1	2.6	3.7
Fish Solubles	0.4	1.3	0.4	1.0	1.4
Total	\$ 31.4	100.0%	\$ 41.5	100.0%	\$ 82.8

COMPETITION. 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, Omega competes with smaller domestic privately-owned menhaden fishing companies and international marine protein and oil producers, including Scandinavian herring processors and South American anchovy processors. Many of these competitors have greater financial resources and more extensive operations than Omega.

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 Omega'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. Omega 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 Omega's fish oil, as well as soybean and palm oil, from time to time.

28

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

In May 2005, Omega closed on the purchase of a previously reported 40-acre facility containing office and warehouse space located next to Omega's Moss Point, Mississippi facility. The purchase price was \$1.8 million. Omega estimates that it will spend approximately \$2.0 million during the remainder of 2005 for capital improvements to the property.

Omega'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 and state compacts impose resource depletion restrictions on menhaden pursuant to fisheries management legislation or regulations and may impose additional legislation or regulations in the future. On August 17, 2005, the Atlantic Menhaden Management Board (the "Management Board") of the Atlantic States Marine Fisheries Commission ("ASMFC") approved an addendum to the existing Interstate Fishery Management Plan for Atlantic Menhaden. The addendum, which has been submitted for approval by the ASMFC to

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

its member states for approval, would establish an annual cap on Omega's fishery landings from the Chesapeake Bay in an amount equal to Omega's average annual landings over the last five years (2000 - 2004). Omega estimates that this annual limitation would be approximately 106,000 metric tons. The cap would be implemented for a five-year period beginning in 2006.

The ASMFC's 2003 peer-reviewed stock assessment of the menhaden resource indicated that menhaden are not overfished and that overfishing is not occurring on a coast wide basis. However, the Management Board stated that because it believed that the Chesapeake Bay-wide status of the menhaden resource was unknown, it was implementing a precautionary cap to limit the expansion of menhaden processing landings from the Bay. The addendum also initiated a multi-year research program to determine the status of menhaden in the Bay and assess whether localized depletion is occurring. The proposed cap would not adversely affect Omega's ability to fish in Virginia waters outside the Chesapeake Bay or in any federal waters (waters beyond three miles from shore). Omega's Gulf of Mexico operations also remain unrestricted. Omega is currently reviewing the relevant authorities governing the ASMFC's actions and may elect to challenge the validity of the regulation if it is implemented by the ASMFC member states.

Omega 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 Omega would, if completed, result in its entering new lines of business (generally including pet food manufacturers, aquaculture feed manufacturers, other protein additive manufacturers fertilizer companies and organic foods distributors) although historically, reviewed opportunities have been generally related in some manner to Omega's existing operations. Although Omega 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.

Omega 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. Omega'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 and exclusions. Omega 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. Omega does not carry insurance against terrorist attacks, or against business interruption, in large part because of the high costs of such insurance.

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

The Company has experienced substantially higher costs for energy in recent years, particularly in 2005. The Company's business is 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 a material impact

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

on the Company's business, results of operations and financial condition.

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

### ZAP.COM

Zap.Com is a public shell company which does not have any existing business operations. From time to time, Zap.Com considers acquisitions that would result in it becoming an operating company. Zap.Com may also consider developing a new business suitable for its situation.

30

### CONSOLIDATED RESULTS OF OPERATIONS

The following tables summarize Zapata's consolidating results of operations (in thousands). Certain reclassifications of prior information have been made to conform to the current presentation.

	ZAPATA CORPORATE (RESTATED) -----	DISCONTINUED OPERATIONS (1) -----	OMEGA PROTEIN -----
THREE MONTHS ENDED SEPTEMBER 30, 2005			
Revenues	\$ --	\$ --	\$ 31,418
Cost of revenues	--	--	24,032
	-----	-----	-----
Gross profit	--	--	7,386
Operating expense:			
Selling, general and administrative	1,286	--	3,404
Loss resulting from natural disaster, net	--	--	13,183
	-----	-----	-----
Operating loss	(1,286)	--	(9,201)
	-----	-----	-----
Other income (expense)			
Interest income	214	--	105
Interest expense	--	--	(337)
Other, net	7	--	(66)
	-----	-----	-----
	221	--	(298)
Loss before income taxes and minority interest	(1,065)	--	(9,499)
Benefit for income taxes	1,325	--	3,359
Minority interest in net loss of consolidated subsidiaries(2)	--	--	2,581

Edgar Filing: ZAPATA CORP - Form 10-Q/A

Loss from continuing operations	260	--	(3,559)
Discontinued operations:			
(Loss) income before taxes and minority interest (including loss on disposal)	(10,594)	1,748	--
Provision for income taxes	3,378	(10)	--
Minority interest (2)	--	(353)	--
Net (loss) income from discontinued operations	(7,216)	1,385	--
Net (loss) income to common stockholders	\$ (6,956)	\$ 1,385	\$ (3,559)
Diluted loss per share			

31

	ZAPATA CORPORATE	DISCONTINUED OPERATIONS (1)	OMEGA PROTEIN
THREE MONTHS ENDED SEPTEMBER 30, 2004			
Revenues	\$ --	\$ --	\$ 41,501
Cost of revenues	--	--	36,376
Gross profit	--	--	5,125
Operating expense:			
Selling, general and administrative	1,277	--	2,422
Loss resulting from natural disaster, net	--	--	--
Operating (loss) income	(1,277)	--	2,703
Other income (expense)			
Interest income	94	--	144
Interest expense	--	--	(63)
Other, net	--	--	(57)
	94	--	24
(Loss) income before income taxes and minority interest	(1,183)	--	2,727
Provision for income taxes	57	--	(911)
Minority interest in net income (loss) of consolidated subsidiaries(2)	--	--	(735)
(Loss) income from continuing operations	(1,126)	--	1,081
Discontinued operations:			
Income before taxes and minority interest (including loss on disposal)	--	2,452	--



Edgar Filing: ZAPATA CORP - Form 10-Q/A

Provision for income taxes	(538)	(653)	--
Minority interest (2)	--	(401)	--
	-----	-----	-----
Net income from discontinued operations	(538)	1,398	--
	-----	-----	-----
Net (loss) income to common stockholders	\$ (1,664)	\$ 1,398	\$ 1,081
	=====	=====	=====
Diluted earnings per share			

32

	ZAPATA CORPORATE (RESTATED)	DISCONTINUED OPERATIONS (1)	OMEGA PROTEIN
	-----	-----	-----
NINE MONTHS ENDED SEPTEMBER 30, 2005			
Revenues	\$ --	\$ --	\$ 82,759
Cost of revenues	--	--	68,500
	-----	-----	-----
Gross profit	--	--	14,259
Operating expense:			
Selling, general and administrative	4,219	--	9,235
Loss resulting from natural disaster, net	--	--	13,183
	-----	-----	-----
Operating (loss) income	(4,219)	--	(8,159)
	-----	-----	-----
Other income (expense)			
Interest income	560	--	438
Interest expense	--	--	(845)
Other, net	24	--	125
	-----	-----	-----
	584	--	(282)
Loss before income taxes and Minority interest	(3,635)	--	(8,441)
Benefit for income taxes	2,020	--	3,067
Minority interest in net loss of consolidated subsidiaries(2)	--	--	2,262
	-----	-----	-----
Loss from continuing operations	(1,615)	--	(3,112)
Discontinued operations:			
(Loss ) income before taxes and minority interest (including loss on disposal)	(10,594)	7,464	--
Provision for income taxes	2,400	(1,889)	--
Minority interest (2)	--	(1,199)	--
	-----	-----	-----
Net (loss) income from discontinued operations	(8,194)	4,376	--

Edgar Filing: ZAPATA CORP - Form 10-Q/A

Net (loss) income to common stockholders	----- \$ (9,809) =====	----- \$ 4,376 =====	----- \$ (3,112) =====
Diluted loss per share			

33

	ZAPATA CORPORATE -----	DISCONTINUED OPERATIONS (1) -----	OMEGA PROTEIN -----
NINE MONTHS ENDED SEPTEMBER 30, 2004			
Revenues	\$ --	\$ --	\$ 93,013
Cost of revenues	--	--	78,821
Gross profit	----- --	----- --	----- 14,192
Operating expense:			
Selling, general and administrative	4,017	--	7,306
Loss resulting from natural disaster, net	--	--	--
Operating (loss) income	----- (4,017)	----- --	----- 6,886
Other income (expense)			
Interest income	239	--	424
Interest expense	--	--	(713)
Other, net	--	--	(160)
	----- 239	----- --	----- (449)
(Loss) income before income taxes and minority interest	(3,778)	--	6,437
Benefit for income taxes	512	--	(2,148)
Minority interest in net (loss) income of consolidated subsidiaries(2)	--	--	(1,740)
(Loss) income from continuing operations	----- (3,266)	----- --	----- 2,549
Discontinued operations:			
Income before taxes and minority interest (including loss on disposal)	--	13,046	--
Provision for income taxes	(2,448)	(4,572)	--
Minority interest (2)	--	(1,780)	--
Net income from discontinued operations	----- (2,448)	----- 6,694	----- --
Net (loss) income to common stockholders	----- \$ (5,714) =====	----- \$ 6,694 =====	----- \$ 2,549 =====

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

Diluted earnings per share

- (1) Results of operations related to Safety Components have been disclosed within discontinued operations in accordance with SFAS No. 144. Additionally, for the three and nine months ended September 30, 2005 and 2004, Safety's results of operations were adjusted for the continuing effects of certain purchase accounting adjustments. Net of tax effects, these adjustments reduced Zapata's consolidated net income by approximately \$112,000 and \$124,000 for the three months ended September 30, 2005 and 2004 and \$360,000 and \$373,000 for the nine months ended September 30, 2005 and 2004.
- (2) Minority interest represents Zapata's minority stockholders' interest in the net income (loss) of each segment.

For more information concerning segments, see Note 17 to the Company's Consolidated Financial Statements included in Item 1 of this Report.

THREE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004

Zapata reported a consolidated net loss of \$9.2 million or \$(.48) per diluted share on consolidated revenues of \$31.4 million for the three months ended September 30, 2005 as compared to consolidated net income of \$784,000 or \$0.04 per diluted share on consolidated revenues of \$41.5 million for the three months ended September 30, 2004. On a consolidated basis, the decrease in net income resulted from decreased net income at Omega Protein related to

34

hurricane losses, combined with a loss recorded for the pending sale of Zapata's shares of Safety Components common stock.

The following is a more detailed discussion of Zapata's consolidated operating results:

REVENUES FROM CONTINUING OPERATIONS. Consolidated revenues decreased \$10.1 million or 24% from \$41.5 million for the three months ended September 30, 2004 to \$31.4 million for the three months ended September 30, 2005, related to decreased revenues at Omega Protein. Omega's decrease was primarily due to a 19% and 43% decrease in meal and oil sales volumes of fish meal and fish oil, respectively. Omega experienced a \$10.7 million decrease in revenues due to reduced sales volumes offset by a \$1.6 million increase in revenues due to higher sales prices for fish meal and fish oil.

COST OF REVENUES FROM CONTINUING OPERATIONS. Zapata's consolidated cost of revenues for the three months ended September 30, 2005 was \$24.0 million, a \$12.4 million decrease from \$36.4 million for the comparable period of the prior year, attributable to decreased cost of revenue at Omega Protein. Omega's cost of revenues as a percentage of revenues decreased 11% to 76% for the quarter ended September 30, 2005, due to higher sales prices for the current quarter.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES FROM CONTINUING OPERATIONS. Consolidated selling, general, and administrative expenses increased \$1.0

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

million for the three months ended September 30, 2004 to \$4.7 million for the three months ended September 30, 2005. This increase was primarily attributable to Omega Protein's increased consulting expenditures relating to its governmental relations program and abandoned acquisition activity.

LOSS RESULTING FROM NATURAL DISASTER, NET. For the current quarter ended September 30, 2005, Omega incurred losses, net of insurance receivable, of \$13.2 million 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.

INTEREST INCOME FROM CONTINUING OPERATIONS. Consolidated interest income increased \$90,000 from \$244,000 for the three months ended September 30, 2004 to \$334,000 for the comparable period of the current year. This increase was attributable to increases of \$120,000 at Zapata Corporate resulting from higher interest rates on investment, partially offset by a decrease at Omega Protein of \$39,000 primarily resulting from reductions in cash balances available for investment.

INTEREST EXPENSE FROM CONTINUING OPERATIONS. Consolidated interest expense increased \$274,000 from \$63,000 for the three months ended September 30, 2004 to \$337,000 for the comparable period of 2005. This increase in interest expense is primarily due to Omega's capitalization of interest for construction projects for the third quarter ended September 30, 2004 of \$263,000.

INCOME TAXES FROM CONTINUING OPERATIONS. From continuing operations, the Company recorded a consolidated benefit for income taxes of \$4.7 million for the three months ended September 30, 2005 as compared to a provision for income taxes of \$854,000 for the comparable period of the prior year. On a consolidated basis, the change from a provision to a benefit for income taxes was primarily the result of the recognition of tax benefits associated with Omega's hurricane related losses which occurred during the third quarter of 2005.

Additionally, for all periods in which any of the Company's subsidiaries are consolidated for book purposes and not consolidated for tax purposes, Zapata will recognize a provision or benefit to reflect the increase or decrease in the difference between the Company's book and tax basis in each subsidiary. The provision or benefit will be equal to the sum of the Company's tax effected share of each subsidiary's net income or loss. Accordingly, the Company's effective tax rate for each period can vary significantly depending on the changes in the underlying difference between the Company's book and tax basis in its subsidiaries.

MINORITY INTEREST FROM CONTINUING OPERATIONS. Minority interest from the consolidated statements of operations represents the minority stockholders' interest in the net income or net loss of the Company's subsidiaries (approximately 42% of Omega Protein and approximately 2% of Zap.Com). Increases or decreases in Zapata's ownership of its subsidiary's common stock will result in corresponding decreases or increases in the minority stockholders' interest in the net income or loss of Zapata's subsidiaries. For example, should Zapata's ownership percentage of Omega Protein

continue to decline due to stock option exercises of its employees, minority interest would increase and Zapata would consolidate less of Omega's net income or loss recognized during future periods. For the three months ended September 30, 2005, minority interest was a \$2.3 million reduction of the net loss for the

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

minority interest's share in the net loss of Omega Protein, combined with the minority interest's share in the net loss of Zap.Com.

NET (LOSS) INCOME FROM DISCONTINUED OPERATIONS. Pursuant to the Zapata board of directors' approval of the plan to sell the Company's shares of Safety Components, all operating results related to Safety have been reclassified and included in discontinued operations. For the three months ended September 30, 2005, discontinued operations consisted of the operating results of Safety Components (net of income taxes and minority interest), less the \$6.6 million loss on disposal that was recorded by Zapata. The following discusses the elements of Safety's reported operating results included within discontinued operations. See Note 3 to the Company's Notes to Unaudited Financial Statements included in Item 1 of this Report.

Safety's net revenues decreased \$5.6 million, or 10%, to \$50.6 million for the quarter ended September 30, 2005 compared to the quarter ended September 30, 2004. Safety's North American operations' net revenues increased approximately \$108,000, or 0%, compared to the quarter ended September 30, 2004. Net revenues for Safety's European operations decreased \$5.7 million, or 19%, resulting from decreased overall demand in the automotive market and decisions by certain customers to curtail outsourcing and begin production of certain programs using their own facilities. The decrease in net revenues for Safety's European operations included the effect of approximately \$120,000 of unfavorable changes in foreign currency exchange rates compared to the quarter ended September 30, 2004.

Safety's cost of revenues decreased \$1.5 million, or 3%, to \$46.6 million for the quarter ended September 30, 2005 compared to the quarter ended September 30, 2004. The decrease was comprised of Safety's European operations' cost of revenues decreasing \$3.4 million, or 12%, partially offset by North American operations' cost of revenues increasing approximately \$1.6 million, or 9%, and costs of approximately \$325,000 related to the ongoing joint venture pre-production activities in South Africa and China, compared to the quarter ended September 30, 2004. The decrease in cost of revenues is attributable to the decrease in revenues volumes in the corresponding time periods. Cost of revenues as a percentage of net revenues increased to 92% for the quarter ended September 30, 2005 from 86% for the quarter ended September 30, 2004. The increase in cost of revenues as a percentage of net revenues is a result of the fixed cost component of cost of revenues which was not reduced in proportion to the decrease in net revenues in the corresponding time periods, as well as inflationary increases for raw materials and supplies as noted above, offset by a decrease in depreciation expense of approximately \$600,000 due to the maturation of the depreciable lives of certain property, plant and equipment.

Safety's selling, general and administrative expenses decreased \$2.0 million, or 35%, to \$3.6 million for the quarter ended September 30, 2005 compared to the quarter ended September 30, 2004. The decrease in selling, general and administrative expenses is attributable primarily to reduced professional services costs of approximately \$1.6 million, including \$550,000 for a whistleblower investigation in 2004, and reduced compensation, benefits and other costs of approximately \$600,000. During the quarter ended September 30, 2005, Safety incurred costs of approximately \$200,000 related to the ongoing joint venture pre-production activities in South Africa and China. Expenses from pre-production activities are expected to continue until commercial production begins at these joint venture facilities, which is expected to occur on a limited basis in the fourth quarter of 2005. Selling, general and administrative expenses as a percentage of net revenues decreased to 7% for the quarter ended September 30, 2005 from 10% for the quarter ended September 30, 2004 as a result of the above noted items.

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

Safety recognized equity in earnings from unconsolidated affiliate of \$1.2 million for the quarter ended September 30, 2005 compared to equity in earnings from unconsolidated affiliate of \$0 for the quarter ended September 30, 2004. Equity in earnings from unconsolidated affiliate was realized primarily from the receipt of approximately \$1.5 million representing Safety's share in a one-time license payment for the license of patent and related technology from NxGen in which Safety has a 49% ownership interest, offset by \$258,000 to record the investment at net book value.

Safety's other income was \$184,000 for the quarter ended September 30, 2005 compared to other income, net of \$412,000 for the quarter ended September 30, 2004. Other income, net was realized primarily from foreign transaction gains and losses resulting primarily from the revaluation of intercompany balances between Safety's European subsidiaries and the U.S. parent company impact other income, net. Net foreign transaction gains of

36

approximately \$200,000 during the quarter ended September 30, 2005 resulted from positive changes in foreign currency exchange rates of approximately 2% from those at June 30, 2005.

Safety's interest expense decreased \$61,000, or 28%, to \$157,000 for the quarter ended September 30, 2005 compared to the quarter ended September 30, 2004. The decrease is attributable to average outstanding debt decreasing to \$4.7 million from \$17.9 million, partially offset by the average weighted interest rate for all Company debt increasing to 5.45% from 3.78% for the quarter ended September 30, 2005 as compared to the quarter ended September 30, 2004. Because a substantial portion of Safety's debt carries interest rates based on the prime rate, such increase in Safety's average weighted interest rate is primarily attributable to increases totaling 200 basis points in the prime rate over the past 12 months.

### NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004

Zapata reported a consolidated net loss of \$8.6 million or \$(.45) per diluted share on consolidated revenues of \$82.8 million for the nine months ended September 30, 2005 as compared to consolidated net income of \$3.4 million or \$0.18 per diluted share on consolidated revenues of \$93.0 million for the nine months ended September 30, 2004. On a consolidated basis, the decrease in net income resulted from decreased net income at Omega Protein related to hurricane losses, combined with a loss recorded for the pending sale of Zapata's shares of Safety Components common stock.

The following is a more detailed discussion of Zapata's consolidated operating results:

**REVENUES FROM CONTINUING OPERATIONS.** Consolidated revenues decreased \$10.3 million or 11% from \$93.0 million for the nine months ended September 30, 2004 to \$82.8 million for the nine months ended September 30, 2005, relating to decreased revenues at Omega. Omega's decrease was primarily due to a 7% and 33% decrease in meal and oil sales volumes of fish meal and fish oil, respectively. Omega experienced a \$14.1 million decrease in revenues due to reduced sales volumes offset by a \$4.5 million increase in revenues due to higher sales prices for Omega's fish meal and fish oil.

**COST OF REVENUES FROM CONTINUING OPERATIONS.** Consolidated cost of revenues for the nine months ended September 30, 2005 was \$68.5 million, a \$10.3 million decrease from \$78.8 million for the comparable period of the prior year,

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

relating to a decrease at Omega Protein. Omega's cost of revenues as a percentage of revenues decreased 2% to 83% for the quarter ended September 30, 2005. The decrease in cost of sales as a percentage of revenues was due to higher sales prices for the current nine month period,

SELLING, GENERAL AND ADMINISTRATIVE FROM CONTINUING OPERATIONS. Consolidated selling, general, and administrative expenses increased \$2.1 million from \$11.5 million for the nine months ended September 30, 2004 to \$13.6 million for the nine months ended September 30, 2005. This increase was attributable to increases at Omega Protein and Zapata Corporate.

Zapata Corporate's selling, general and administrative expenses increased \$202,000 from \$4.0 million for the nine months ended September 30, 2004 as compared to \$4.2 million for the current nine month period. This increase resulted from a compensation charge of approximately \$353,000 recorded in the first quarter of 2005 related to a stock option modification, partially offset by a decrease in professional fees.

Omega's selling, general, and administrative expenses increased \$1.9 million from \$7.3 million for the nine months ended September 30, 2004 to \$9.1 million for nine months ended September 30, 2005. This increase was attributable primarily to increased consulting expenditures relating to Omega's governmental relations program and abandoned acquisition activity.

LOSS RESULTING FROM NATURAL DISASTER, NET. During the nine months ended September 30, 2005, Omega incurred losses, net of insurance receivable, of \$13.2 million 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.

INTEREST INCOME FROM CONTINUING OPERATIONS. Consolidated interest income increased \$357,000 from \$678,000 for the nine months ended September 30, 2004 to \$1.0 million for the comparable period of the current year. This increase was

37

due to an increase of \$321,000 at Zapata Corporate and \$14,000 at Omega Protein as a result of higher interest rates as compared to 2004.

INTEREST EXPENSE FROM CONTINUING OPERATIONS. Interest expense increased \$132,000 from \$713,000 for the nine months ended September 30, 2004 to \$845,000 for the comparable period of 2005. This increase in interest expense is primarily due to Omega's capitalization of interest for construction projects for the nine months ended September 30, 2004 of \$263,000.

OTHER EXPENSE FROM CONTINUING OPERATIONS, NET. Other expenses decreased \$309,000 to other income of \$149,000 for the nine months ended September 30, 2005 as compared to other expenses of \$160,000 for the comparable period of the prior year. On a consolidated basis, this decrease resulted primarily from Omega Protein's recognition of other income of \$125,000 for the nine months ended September 30, 2005 as compared to other expense of \$160,000 for the nine months ended September 30, 2004, due to the recognition of a gain associated with the involuntary conversion of a piece of equipment resulting from a fire.

INCOME TAXES FROM CONTINUING OPERATIONS. From continuing operations, the Company recorded a consolidated benefit for income taxes of \$5.1 million for the nine months ended September 30, 2005 as compared to a provision for income taxes of \$1.6 million for the comparable period of the prior year. On a consolidated basis, the change from a provision to a benefit for income taxes was primarily

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

the result of the recognition of tax benefits associated with Omega's hurricane related losses which occurred during the third quarter of 2005.

Additionally, for all periods in which any of the Company's subsidiaries are consolidated for book purposes and not consolidated for tax purposes, Zapata will recognize a provision or benefit to reflect the increase or decrease in the difference between the Company's book and tax basis in each subsidiary. The provision or benefit will be equal to the sum of the Company's tax effected share of each subsidiary's net income or loss. Accordingly, the Company's effective tax rate for each period can vary significantly depending on the changes in the underlying difference between the Company's book and tax basis in its subsidiaries.

MINORITY INTEREST FROM CONTINUING OPERATIONS. Minority interest from the consolidated statements of operations represents the minority stockholders' interest in the net income or net loss of the Company's subsidiaries (approximately 42% of Omega Protein and approximately 2% of Zap.Com). Increases or decreases in Zapata's ownership of its subsidiary's common stock will result in corresponding decreases or increases in the minority stockholders' interest in the net income or loss of Zapata's subsidiaries. For example, should Zapata's ownership percentage of Omega Protein continue to decline due to stock option exercises of its employees, minority interest would increase and Zapata would consolidate less of Omega's net income or loss recognized during future periods. For the nine months ended September 30, 2005, minority interest was a \$2.3 million reduction to the net loss for the minority interest's share in the net loss of Omega Protein, combined with the minority interest's share in the net loss of Zap.Com.

NET (LOSS) INCOME FROM DISCONTINUED OPERATIONS. Pursuant to the Zapata board of directors' approval of the plan to sell the Company's shares of Safety Components, all operating results related to Safety have been reclassified and included in discontinued operations. For the nine months ended September 30, 2005, discontinued operations consist of the operating results of Safety Components (net of income taxes and minority interest), less the \$6.6 million loss on disposal that was recorded by Zapata. The following discusses the elements of Safety's reported operating results included within discontinued operations. See Note 3 to the Company's Notes to Unaudited Financial Statements included in Item 1 of this Report.

Safety's net revenues decreased \$23.1 million, or 12.1%, to \$168.2 million for the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004. North American operations' net revenues decreased approximately \$6.1 million, or 6.9%, compared to the nine months ended September 30, 2004, with the decrease principally due to decreased demand in the North America automotive market and increased customer in-sourcing of production. Net revenues for European operations decreased \$17.0 million, or 17%, resulting from decreased overall demand in the automotive market and decisions by certain customers to curtail outsourcing and begin production of certain programs using their own facilities. The decrease in net revenues for European operations included the effect of approximately \$2.2 million of favorable changes in foreign currency exchange rates compared to the nine months ended September 30, 2004.

Safety's cost of revenues decreased \$13.4 million, or 8%, to \$148.9 million for the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004. The decrease was attributable to North American operations'



## Edgar Filing: ZAPATA CORP - Form 10-Q/A

cost of revenues decreasing approximately \$1.8 million, or 3%, and European operations' cost of revenues decreasing \$10.8 million, or 12%, and costs of approximately \$800,000 related to the ongoing joint venture pre-production activities in South Africa and China, compared to the nine months ended September 30, 2004. The decrease in cost of revenues is attributable to the decrease in net revenues in the corresponding time periods. Cost of revenues as a percentage of net revenues increased to 89% for the nine months ended September 30, 2005 from 85% for the nine months ended September 30, 2004. The increase in cost of revenues as a percentage of net revenues is a result of the fixed cost component of cost of revenues not being reduced in proportion to the decrease in net revenues in the corresponding time periods, as well as inflationary increases for raw materials and supplies as noted above, offset by a decrease in depreciation expense of approximately \$1.5 million due to the maturation of the depreciable lives of certain property, plant and equipment.

Safety's selling, general and administrative expenses decreased \$2.7 million, or 18%, to \$12.3 million for the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004. The decrease in selling, general and administrative expenses is attributable primarily to reduced professional services costs of approximately \$2.0 million, including \$550,000 for a whistleblower investigation in 2004 and reduced compensation, benefits and other costs of approximately \$900,000 partially offset by the one-time charge associated with the closure of Safety's U.K. facility of approximately \$300,000 recorded in the nine months ended September 30, 2004. Additionally in the first nine months of 2005, Safety incurred costs of approximately \$500,000 related to the ongoing joint venture pre-production activities in South Africa and China. Expenses from pre-production activities are expected to continue until commercial production begins at these joint venture facilities, which is expected to occur on a limited basis in the fourth quarter of 2005. Selling, general and administrative expenses as a percentage of net revenues decreased to 7% for the nine months ended September 30, 2005 from 8% for the nine months ended September 30, 2004 due to the items noted above.

Safety recognized equity in earnings from unconsolidated affiliate of \$1.2 million for the nine months ended September 30, 2005 compared to equity in earnings from unconsolidated affiliate of \$0 for the nine months ended September 30, 2004. Equity in earnings from unconsolidated affiliate was realized primarily from the receipt of approximately \$1.5 million representing Safety's share in a one-time license payment for the license of patent and related technology from NxGen in which Safety has a 49% ownership interest, offset by \$258,000 to record the investment at net book value.

Safety recognized other expense, net of \$290,000 for the nine months ended September 30, 2005 compared to other income, net of \$299,000 for the nine months ended September 30, 2004. Other income, net was realized primarily from foreign transaction gains and losses resulting primarily from the revaluation of intercompany balances between Safety's European subsidiaries and the U.S. parent company impact other income, net. Net foreign transaction losses of approximately \$300,000 during the nine months ended September 30, 2005 resulted from negative changes in foreign currency exchange rates of approximately 9.8% from those at December 31, 2004.

Safety's interest expense decreased \$159,000, or 25%, to \$490,000 for the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004. The decrease is attributable to average outstanding debt decreasing to \$6.2 million from \$17.3 million, offset by the average weighted interest rate for all Company debt increasing to 5.23% from 3.73% for the nine months ended September 30, 2005 as compared to the nine months ended September 30, 2004. Because a substantial portion of Safety's debt carries interest rates based on the prime rate, such increase in Safety's average weighted interest rate is primarily attributable to increases totaling 200 basis points in the prime rate over the past 12 months.

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

### LIQUIDITY AND CAPITAL RESOURCES

Zapata, Safety Components, Omega Protein and Zap.Com are separate public companies. Accordingly, the capital resources and liquidity of Safety Components, Omega Protein and Zap.Com are legally independent of Zapata. The working capital and other assets of Safety Components, Omega Protein and Zap.Com are dedicated to their respective operations and are not expected to be readily available for the general corporate purposes of Zapata, except for any dividends that may be declared and paid to the respective stockholders of Omega Protein or Zap.Com. Omega Protein's credit facility currently prohibits any dividends from being declared or paid with respect to its respective outstanding

39

capital stock, including the shares held by Zapata. For all periods presented in this Report, Zapata has not received any dividends from any of its consolidated subsidiaries.

As of September 30, 2005, the Company's consolidated contractual obligations and other commercial commitments have not changed materially from those set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

#### ZAPATA CORPORATE

Because Zapata does not guarantee or otherwise assume the liabilities of Safety Components, Omega Protein or Zap.Com or have any investment commitments to these majority-owned subsidiaries, it is useful to separately review the cash obligations of Zapata exclusive of its majority-owned subsidiaries ("Zapata Corporate").

Zapata Corporate's liquidity needs are primarily for operating expenses, litigation, insurance costs and possible Zapata stock repurchases. Zapata Corporate may also invest a significant portion of its cash and cash equivalents investments in the purchase of companies.

As of September 30, 2005, Zapata Corporate's contractual obligations and other commercial commitments have not changed materially from those set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

Zapata Corporate's current source of liquidity is its cash and cash equivalents and the interest income it earns on these funds. Zapata expects these assets to continue to be a source of liquidity except to the extent that they may be used to fund any acquisitions of companies, the minority interest of controlled subsidiaries, or repurchases of Zapata stock. Zapata Corporate's investments consist of U.S. Government agency securities and cash equivalents. As of September 30, 2005, Zapata Corporate's cash and cash equivalents were \$25.8 million as compared to \$28.7 million as of December 31, 2004. This decline resulted primarily from cash used by Zapata Corporate's operations.

Pursuant to the Company's stock purchase agreement with the WLR Recovery Funds, the Company expects to receive net proceeds of approximately \$49.9 million at the closing of the pending transaction. The Company has no immediate plans to use the proceeds from this transaction.

In addition to its cash, cash equivalents, and interest income, Zapata Corporate has a potential secondary source of liquidity from dividends declared by Omega Protein or Zap.Com, provided a consent is obtained from their lenders. Also, the sale of the Company's holdings of common stock in these subsidiaries could provide another secondary source of liquidity. These holdings constitute "restricted stock" under SEC Rule 144 and may only be sold in the public market

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

pursuant to an effective registration statement under the Securities Act of 1933 and under any required state securities laws or pursuant to an available exemption. These and other securities law restrictions could prevent or delay any sale by Zapata of these securities or reduce the amount of proceeds that might otherwise be realized therefrom. Currently, all of Zapata's equity securities holdings are eligible for sale under Rule 144. Zapata also has demand and piggyback registration rights for its Omega Protein and Zap.Com shares. The low trading volumes for Safety Components, Omega Protein and Zap.Com common stock may make it difficult for Zapata to sell any significant number of shares in the public market other than pursuant to an underwritten offering.

Zapata management believes that, based on current levels of operations and anticipated growth, cash flow from operations, together with other available sources of funds, will be adequate to fund its operational and capital requirements for at least the next twelve months. Depending on the size and terms of future acquisitions of operating companies or of the minority interest of controlled subsidiaries, Zapata may raise additional capital through the issuance of equity or debt. There is no assurance, however, that such capital will be available at the time, in the amounts necessary or with terms satisfactory to Zapata.

### OFF-BALANCE SHEET ARRANGEMENTS

As of September 30, 2005, the Company's off-balance sheet arrangements have not changed materially from those set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

40

### SUMMARY OF CASH FLOWS

The following table summarizes Zapata's consolidating cash flow information (in thousands):

	ZAPATA CORPORATE -----	DISCONTINUED OPERATIONS (1) -----	OMEGA PROTEIN -----
NINE MONTHS ENDED SEPTEMBER 30, 2005 (RESTATED)			
CASH (USED IN) PROVIDED BY			
Operating activities	\$ (2,874)	\$ 12,824	\$ (8,561)
Investing activities	--	(5,485)	(12,813)
Financing activities	23	(2,062)	(808)
Effect of exchange rate changes on cash and cash equivalents	--	(3,203)	10
	-----	-----	-----
Net (decrease) increase in cash and cash equivalents	\$ (2,851) =====	\$ 2,074 =====	\$ (22,172) =====
	ZAPATA CORPORATE -----	DISCONTINUED OPERATIONS (1) -----	OMEGA PROTEIN -----

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

NINE MONTHS ENDED SEPTEMBER 30, 2004

CASH (USED IN) PROVIDED BY			
Operating activities	\$ (2,349)	\$ 8,296	\$ 18,451
Investing activities	29,351	(4,706)	(19,343)
Financing activities	--	(860)	(550)
Effect of exchange rate changes on cash and cash equivalents	--	46	(12)
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	\$ 27,002	\$ 2,776	\$ (1,454)
	=====	=====	=====

- (1) Cash flow information related to Safety Components for the nine months ended September 30, 2005 and 2004 has been disclosed within discontinued operations in accordance with SFAS No. 144.

NET CASH PROVIDED BY OPERATING ACTIVITIES. Consolidated cash provided by operating activities was \$1.4 million for the nine months ended September 30, 2005 as compared to \$24.3 million for the comparable period of the prior year. This change was driven primarily from Omega's change from cash provided by operating activities of \$18.5 million for the nine months ended September 30, 2004 to cash used in operating activities of \$8.6 million for the comparable period of the current year. Omega's decrease in operating activities was primarily attributable to the change in activities relating to increased inventory. The amounts contributed by Omega Protein were partially offset by an increase in cash provided by operations related to Safety Components resulting principally from positive changes in working capital.

NET CASH USED IN INVESTING ACTIVITIES. Consolidated cash used in investing activities was \$18.3 million for the nine months ended September 30, 2005 as compared to cash provided by investing activities of \$5.3 million in the comparable period of the prior year. The change in cash (used in) provided by investing activities resulted primarily from activity at Zapata Corporate. Variations in Zapata Corporate's cash (used in) provided by investing activities typically result from the change in the mix of cash and cash equivalents and short-term investments during the period. All highly liquid investments with original maturities of three months or less are considered to be cash equivalents and all investments with original maturities of greater than three months are classified as either short or long-term investments. Zapata Corporate held long-term investments at December 31, 2003 which were sold during the nine months ended September 30, 2004, resulting in cash proceeds of \$29.4 million, as compared to no cash proceeds during the nine months ended September 30, 2005.

In addition to any future capital expenditures related to the hurricanes, Omega anticipates making approximately \$16.1 million in capital expenditures in 2005, which will be used to refurbish vessels, plant assets and to repair certain equipment. Safety expects to spend approximately \$6.3 million for the remainder of 2005 on capital expenditures primarily for equipment to support expected new contracts with customers and including approximately \$1.7 million to support its joint ventures in South Africa and China.

NET CASH USED IN FINANCING ACTIVITIES. Consolidated cash used in financing activities was \$2.9 million for the nine months ended September 30, 2005 as compared to \$1.4 million for comparable period of the prior year. This change was driven by Safety's cash used in financing of \$2.1 million in the current nine month period as compared to \$860,000 in the comparable period of the prior year, resulting from net repayments of Safety's credit facilities in the nine

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

months ended September 30, 2005. Net repayments of Safety's credit facilities in the nine months ended September 30, 2005 were funded by cash flows from operations.

The activities discussed above, combined with unfavorable effects of foreign exchange rates of \$3.2 million at Safety Components, resulted in a net decrease in cash and cash equivalents of approximately \$23.0 million for the nine months ended September 30, 2005.

### RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payment". SFAS No. 123R is a revision of SFAS No. 123, "Accounting for Stock Based Compensation", and supersedes APB 25. Among other items, SFAS 123R eliminates the use of APB 25 and the intrinsic value method of accounting, and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments, based on the grant date fair value of those awards, in the financial statements. On April 14, 2005, the Securities and Exchange Commission (SEC) announced that the effective date of SFAS 123R will be suspended until January 1, 2006, for calendar year companies. The Company currently expects to adopt SFAS 123R effective January 1, 2006, based on the new effective date announced by the SEC. The Company is in the process of reviewing the impact of the adoption of this statement and believes that the adoption of this standard may have a material effect on the Company's consolidated financial position and results of operations.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs," which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. SFAS No. 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is in the process of reviewing the impact, if any, that the adoption of this statement will have on the Company's financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets," which eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 will be effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company is in the process of reviewing the impact, if any, that the adoption of this statement will have on the Company's financial position, results of operations or cash flows.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Other than the following, as of September 30, 2005, the company's consolidated critical accounting policies and estimates have not changed materially from those set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

**HURRICANE LOSSES.** On August 29, 2005, Omega's Moss Point, Mississippi fish processing facility and adjacent shipyard were severely damaged by Hurricane Katrina. On September 25, 2005, Omega'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. Omega currently plans to re-open an additional Gulf of Mexico facility in late 2006 or early 2007, but is still evaluating whether the location of that facility will be Cameron, Louisiana or Omega's existing property at Morgan City, Louisiana.

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

The direct impact of the two hurricanes upon Omega was a loss of physical inventories and physical damage to the plants. The interruption of processing capabilities caused Omega 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 4, 5 and 15.

42

Omega 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 Omega has recorded insurance recoveries as accounts receivable based on preliminary discussions with its insurers and adjusters. Omega anticipates that further recoveries could be available, but such additional recoveries will require further analysis and discussions with Omega's insurance carriers. Such recoveries, if any, would be recognized in future periods once they are deemed probable. Omega does not maintain business interruption insurance.

DISCONTINUED OPERATIONS. The Company has adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This standard establishes a single accounting model for long-lived assets to be disposed of by sale, including discontinued operations to include a "component of an entity" (rather than a segment of a business). A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity that is classified as held for sale, or has been disposed of, is presented as a discontinued operation if the operations and cash flows of the component will be (or have been) eliminated from the ongoing operations of the entity and the entity will not have any significant continuing involvement in the operations of the component.

For example, on September 21, 2005, Zapata's Board of Directors approved a plan to pursue a sale with respect to the Company's holdings of 4,162,394 shares of Safety Components' common stock. Based on this approval, the Company determined that this subsidiary substantially met the criteria to report the pending sale as "Assets Held for Sale" and the subsidiary as "Discontinued Operations" in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Accordingly, assets classified as held for sale have been measured at the lower of the carrying amount or fair value less cost to sell.

### SIGNIFICANT FACTORS THAT COULD AFFECT FUTURE PERFORMANCE AND FORWARD-LOOKING STATEMENTS

1. Zapata believes that its results of operations, cash flows and financial condition could be negatively impacted by certain risks and uncertainties, including, without limitation, the risks and uncertainties identified in Zapata's other public reports and filings made with the SEC, press releases and public statements made by authorized officers of Zapata from time to time and those risks and uncertainties set forth below.

- Risks associated with the fact that a significant portion of Zapata's assets have consisted of securities, including equity and other interests in its operating companies. This could subject Zapata to the registration requirements of the Investment Company Act of 1940 (the "Investment Company Act"). The Investment Company Act requires registration of, and imposes substantial restrictions on, certain companies that engage, or propose to engage, primarily in the business of investing, reinvesting,

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

owning, holding or trading in securities, or that fail certain statistical tests concerning a company's asset composition and sources of income. Zapata intends to actively participate in the management of its operating companies, consistent with applicable laws, contractual arrangements and other requirements. Accordingly, Zapata believes that it is primarily engaged in a business other than investing, reinvesting, owning, holding or trading in securities. Further, Zapata endeavors to ensure that its holdings of investment securities constitute less than 40% of its total assets (excluding Government securities and cash) on an unconsolidated basis. Zapata intends to monitor and attempt to adjust the nature of its interests in and involvement with operating companies in order to avoid subjecting Zapata to the registration requirements of the Investment Company Act. There can be no assurance, however, that Zapata's business activities will not ultimately subject Zapata to the Investment Company Act. If Zapata were required to register as an investment company under the Investment Company Act, it would become subject to regulations that would have a material adverse impact on its financial position, results of operations and cash flows.

- Risks associated with the personal holding company penalty tax. Section 541 of the Internal Revenue Code of 1986, as amended (the "IRC"), subjects a corporation, which is a "personal holding company" as defined in the IRC, to a 15% penalty tax on "undistributed personal holding company income" in addition to the corporation's normal income tax. Generally, undistributed personal holding company income is based on taxable income, subject to certain adjustments, most notably a reduction for Federal incomes taxes. Personal holding company income is comprised primarily of passive investment income plus, under certain circumstances, personal service income. Zapata and its domestic subsidiaries (other than Safety and Omega) could become subject to the penalty tax if (i) 60% or more of its adjusted ordinary gross income is personal holding company income and (ii) 50% or more of its

43

outstanding common stock is owned, directly or indirectly, by five or fewer individuals at any time during the last half of the taxable year. The Company believes that five or fewer of Zapata's stockholders hold 50% or more of its outstanding common stock for purposes of IRC Section 541. However, as of December 31, 2004, Zapata and its domestic subsidiaries (other than Safety and Omega) had no undistributed personal holding company income and therefore has not recorded a personal holding company tax liability. There can be no assurance that Zapata will not be subject to this tax in the future that in turn may materially and adversely impact the Company's financial position, results of operations and cash flows.

- Risks associated with a change of ownership pursuant to Section 382 of the Internal Revenue Code. Such risks could significantly or possibly eliminate Zapata's utilization of its net operating losses and/or alternative minimum tax credits. An ownership change for this purpose is generally a change in the majority ownership of a company over a three year period.

- Risks associated with the ownership by the Malcolm I. Glazer Family Limited Partnership of approximately 51.3% of our outstanding common stock. Our majority stockholder will have the ability to effectively control our management and affairs. In addition, any action requiring a simple-majority stockholder vote can be determined solely by our majority stockholder. This includes the ability to elect all members of our Board of Directors and determine the outcome of certain corporate actions requiring majority stockholder approval, such as merger and acquisition

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

decisions, and the election of directors, or sale of all or substantially all of our assets. This level of ownership may also have a significant effect in delaying, deferring, or preventing a change in control of Zapata and may adversely affect the voting and other rights of other holders of our common stock.

- Risk that our earnings may be reduced in the future due to the potential impairment of our intangible assets. The Company's acquisition of Safety Components common stock resulted in the recognition of intangible assets. As required by applicable accounting rules, we evaluate the carrying value of our intangible assets whenever certain events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. If we determine through this process that the value of these assets has been impaired, we may be required to record impairment charges in our Statement of Operations. Such charges may be substantial.

- Risk that our subsidiaries' outstanding stock options could significantly dilute our ownership in these subsidiaries. Such dilution would cause the Company to consolidate proportionately less net income (or loss) recognized by our subsidiaries and would increase minority interest. Such dilution could also cause a loss of control (typically when ownership falls below 50%) which could lead to deconsolidation. Such investments would be subsequently accounted for under the equity method of accounting.

- Risk that the carrying value of the Company's prepaid pension asset could be significantly reduced. In the event that the Company decides to terminate its pension plan (the "Plan"), at the time of this decision, the Company would be required to incur a non-cash charge through earnings in an amount equal to the remaining balance of the Plan's unrecognized net losses and unrecognized prior service cost components of the Plan's prepaid pension asset. If not terminated, the Plan would continue to be subject to the additional minimum liability requirements of SFAS No. 87. Such requirements require the recognition of an additional pension liability in the amount of the unfunded accumulated benefit obligation in excess of accrued pension with an equal amount to be recognized net of the associated tax benefits in accumulated other comprehensive (loss) income. Accordingly, depending on market conditions, the Company may have to reverse its prepaid pension balance and record a pension liability through a non-cash charge to equity. As the Company has not determined if it will terminate the Plan, and due to the uncertainty of market conditions, the Company can provide no assurances as to the ultimate financial statement impact that Plan modifications or changes in market conditions may have.

- Risks related to the costs of defending litigation and the risk of unanticipated material adverse outcomes in such litigation or any other unfavorable outcomes or settlements. There can be no assurance that Zapata will prevail in any pending litigation and to the extent that the Company sustains losses growing out of any pending litigation which are not presently reserved or otherwise provided for or insured against, its business, results of operation and/or financial condition could be adversely affected.

- Risks associated with future acquisitions of operating companies. Any future acquisitions could be material in size and scope, and since the Company has not yet identified any additional assets, property or business that it may acquire or develop, potential investors in the Company will have virtually no substantive information about any such



## Edgar Filing: ZAPATA CORP - Form 10-Q/A

Company. In any event depending upon the size and structure of any future acquisitions, stockholders may not have the opportunity to vote on the transaction, or access to any information about any new business until such time as a transaction is completed and the Company files a report with the SEC disclosing the nature of such transaction and/or business. For example, during September and October, 2003, stockholders were informed through press releases and SEC filings that the Company had acquired a significant stake in Safety Components. Such transactions materially affect the Company's financial position, results of operations and cash flows. In the Safety Components acquisition, the Company utilized approximately \$47.8 million of its cash, cash equivalents and short-term investments and the acquisition contributed an additional \$63.5 million to the Company's consolidated revenues for the fourth quarter of 2003.

There is no assurance that the Company will be successful in identifying any suitable future acquisition opportunities. If the Company does identify any additional potential acquisition opportunities, there is no assurance that the acquisition will be consummated, and if the acquisition does occur, there is no assurance that it will be successful in enhancing the Company's business or will increase the Company's earnings or not materially adversely affect the Company's financial condition. The Company faces significant competition for acquisition opportunities, which may inhibit its ability to complete suitable transactions or increase the cost that must be paid. Future acquisitions could also divert substantial management time, result in short term reductions in earnings or special transactions or other charges and may be difficult to integrate with existing operations or assets. We may, in the future, issue additional shares of common stock or other securities in connection with one or more acquisitions, which may dilute our stockholders. Depending upon the size and number of any future acquisitions, the Company may also borrow money to fund its acquisitions. In that event, the Company's stockholders would be subject to the risks normally associated with leveraged transactions, including the inability to service the debt or the dedication of a significant amount of cash flow to service the debt, limitations on the Company's ability to secure future financing and the imposition of certain operating restrictions.

- Risks associated with the completion of our sale of Safety Components to the WLR Recovery Funds, including the possibility that the transaction will not close or that the closing may be delayed. Our stock purchase agreement with the WLR Recovery Funds provides that it may be terminated by either side if all of the other party's covenants have not been satisfied, subject to limited exceptions, on or before December 31, 2005, or if the waiting periods under the HSR Act have not expired or terminated on or before June 30, 2006 (or such later date as may have been agreed upon in writing). If the stock purchase agreement is terminated by the WLR Recovery Funds due to our failure to perform all our covenants by December 31, 2005 or to obtain stockholder approval by June 30, 2006, we would be required to pay a \$2,000,000 break-up fee and the WLR Recovery Funds expenses up to a maximum of \$500,000, plus limited interest expenses.

2. Risks associated with Safety Components that may impact Zapata include the following, any of which could have a material adverse impact on Safety's financial position, results of operations and cash flows:

- The impact of competitive products and pricing, dependence of revenues upon several major module suppliers; the degree to which Safety's customers satisfy their airbag cushion requirements internally or from external sources; worldwide economic conditions; the results of cost savings programs being implemented; domestic and international automotive industry trends, including the marketplace

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

for airbag related products; the ability of Safety Components to effectively control costs and to satisfy customers on timeliness and quality; approval by automobile manufacturers of airbag cushions currently in production; pricing pressures and labor strikes.

- Certain of Safety's consolidated net sales are generated outside the United States. Foreign operations and exports to foreign markets are subject to a number of special risks including, but not limited to, risks with respect to fluctuations in currency exchange rates, economic and political destabilization and other disruption of markets, restrictive actions by foreign governments (such as restrictions on transfer of funds, export duties and quotas, foreign customs and tariffs and unexpected changes in regulatory environments), changes in foreign laws regarding trade and investment, difficulty in obtaining distribution and support, nationalization, the laws and policies of the United States affecting trade, foreign investment and loans and foreign tax laws. There can be no assurance that one or a combination of these factors will not have a material adverse effect on Safety's ability to increase or maintain its foreign sales or on its future results of operations.

45

In addition, Safety has a significant portion of its manufacturing operations in foreign countries and purchases a portion of its raw materials from foreign suppliers. The production costs, profit margins and competitive position of Safety are affected by the strength of the currencies in countries where it manufactures or purchases goods relative to the strength of the currencies in countries where its products are sold.

Certain of Safety's operations generate net sales and incur expenses in foreign currencies. Safety's financial results from international operations may be affected by fluctuations in currency exchange rates. Future fluctuations in certain currency exchange rates could adversely affect Safety's financial results. Safety monitors its risk associated with the volatility of certain foreign currencies against its functional currency, the U.S. dollar. The impact of changes in the relationship of other currencies to the U.S. dollar in the fiscal year ended December 31, 2004 has resulted in the recognition of other income of approximately \$677,000. However, it is unknown what the effect of foreign currency rate fluctuations will have on Safety's financial position or results of operations in the future. In certain situations, Safety utilizes derivative financial instruments designated as cash flow hedges to reduce exposures to volatility of foreign currencies impacting the operation of its business.

- Our nominees on the Safety Components' Board of Directors do not comprise a majority of the board members. Therefore, we do not have the ability to directly influence the management of Safety Components and cannot be assured that the actions taken by the Safety Components Board of Directors will necessarily be consistent with Zapata's best interest.

3. Risks associated with Omega Protein that may impact Zapata include the following, any of which could have a material adverse impact on Omega's financial position, results of operations and cash flows:

RISKS RELATING TO OMEGA'S BUSINESS AND INDUSTRY:

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

- Omega is dependent on a single natural resource and may not be able to catch the amount of menhaden that it requires to operate profitably. Omega's primary raw material is menhaden. Omega's business is totally dependent on its annual menhaden harvest in ocean waters along the U.S. Atlantic and Gulf coasts. Omega'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 Omega has no control. These natural conditions, which include varying fish population, adverse weather conditions and disease, may prevent Omega from catching the amount of menhaden required to operate profitably.
- Omega's operations are geographically concentrated in the Gulf of Mexico where they are susceptible to regional adverse weather patterns such as hurricanes. Three of Omega'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 late summer/early fall hurricane season. In addition, Omega's Virginia facility has in the past also been adversely affected by hurricanes. For the first time in Omega's history, all three of Omega's Gulf 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 Omega's 2005 production capacity was impaired. These types of weather related disruptions may have a material adverse effect on Omega's business, results of operations and financial condition. In addition, Omega's costs of insurance for property damages will likely increase in future years as insurers attempt to recoup losses paid out in connection with the Katrina and Rita hurricanes.
- 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. The Company's business is 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 a material impact on the Company's business, results of operations and financial condition.
- Fluctuation in "oil yields" derived from Omega's fish catch could impact Omega'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 Omega has no control. The oil yield has at times materially

46

impacted the amount of fish oil that Omega has been able to produce from its available fish catch and it is possible that oil yields in the future could also impact Omega's ability to operate profitably.

- Laws or regulations that restrict or prohibit menhaden or purse seine fishing operations could adversely affect Omega'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 Omega's business, results of operations and financial condition. In

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

addition, the impact of a violation by Omega 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 Omega's business, results of operations and financial condition.

One example of potentially restrictive regulation involves a regulation adopted by a regional regulatory board in August 2005 and subsequently submitted for approval to its member states to limit for a five-year period the annual amount commercial menhaden catch in the Chesapeake Bay to the Bay's 5-year commercial processing average catch, or 106,000 metric tons.

- Omega's fish catch may be impacted by restrictions on its spotter aircraft. If Omega's spotter aircraft are prohibited or restricted from operating in their normal manner during Omega's fishing season, Omega'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 Omega's fish-spotting aircraft) for approximately nine days. This loss of spotter aircraft coverage severely hampered Omega'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 Omega's control, influence the prices that Omega receives for many of its products and may from time to time result in low prices for many of Omega's products. Prices for many of Omega's products are subject to, or influenced by, worldwide supply and demand relationships over which Omega 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 Omega's cost of production or cause Omega 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 Omega's business, results of operations and financial condition. More stringent regulations could result in: (i) Omega'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) Omega's withdrawal from marketing its products in those jurisdictions.

### RISKS RELATING TO OMEGA'S ONGOING OPERATIONS:

- Omega'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 Omega's Cameron, Louisiana facility caused by Hurricane Rita, Omega intends to operate its full contingent of 31 Gulf of Mexico fishing vessels during the 2006 fishing season out of its two operating facilities in Abbeville, Louisiana and Moss Point, Mississippi. This plan will substantially increase the number of vessels at these two plants to a level that Omega has not operated at previously. Although these facilities have adequate processing

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

capacity, Omega 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.

- Omega's strategy to expand into the food grade oils market may be unsuccessful. Omega's attempts to expand its fish oil sales into the market for refined, food grade fish oils for human consumption may not be successful. Omega's expectations regarding future demand for Omega-3 fatty acids may prove to be

47

incorrect or, if future demand does meet Omega's expectations, it is possible that purchasers could utilize Omega-3 sources other than Omega's products.

- Omega's quarterly operating results will fluctuate. Fluctuations in Omega's quarterly operating results will occur due to the seasonality of Omega's business, the unpredictability of Omega's fish catch and oil yields, and Omega's deferral of sales of inventory based on worldwide prices for competing products.
- Omega's business is subject to significant competition, and some competitors have significantly greater financial resources and more extensive and diversified operations than Omega. 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, Omega 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 Omega.
- Omega's foreign customers are subject to disruption typical to foreign countries. Omega'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 Omega, at any one time, could have

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

a significant amount of its revenues generated by sales in a particular country which would concentrate Omega's susceptibility to adverse events in that country.

- Omega may undertake acquisitions that are unsuccessful and Omega's inability to control the inherent risks of acquiring businesses could adversely affect its business, results of operations and financial condition. In the future Omega 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 Omega 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 Omega's business, results of operations and financial condition.
- Omega's failure to comply with federal U.S. citizenship ownership requirements may prevent it from harvesting menhaden in the U.S. jurisdictional waters. Omega'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 Omega be incorporated under the laws of the U.S. or a state, Omega's chief executive officer be a U.S. citizen, no more of Omega's directors be non-citizens than a minority of a number necessary to constitute a quorum and at least 75% of Omega's outstanding capital stock (including a majority of its voting capital stock) be owned by U.S. citizens. If Omega fails to observe any of these requirements, Omega will not be eligible to conduct its harvesting activities in U.S. jurisdictional waters. Such a loss of eligibility would have a material adverse effect on Omega's business, results of operations and financial condition.
- Omega may not be able to recruit, train and retain qualified marine personnel in sufficient numbers. Omega'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 Omega is not successful

48

in recruiting, training and retaining these employees in sufficient numbers, its productivity may suffer. If Omega were unable to secure a sufficient number of workers during periods of peak employment, the lack of personnel could have an adverse effect on Omega's business, results of operations and financial condition.

4. Risks associated with the foreign operations of our controlled subsidiaries that may impact Zapata include the following, (any of which could have a material adverse impact on any such subsidiary's financial position, results of operations and cash flows): the strength of local currencies of the countries in which its products are sold, changes in social, political and economic conditions inherent in foreign operations and international trade, including changes in the law and policies that govern foreign investment and international trade in such countries, changes in U.S laws and regulations relating to foreign investment and trade, changes in tax or other laws, partial or total expatriation, currency exchange rate fluctuations and restrictions on currency repatriation, the disruption of labor, political disturbances, insurrection or war and the effect of requirements of partial local ownership of operations in certain countries.

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

**EQUITY PRICE RISK.** As the Company considers its holdings in the common stock of its subsidiaries to be a potential source of secondary liquidity, the Company is subject to equity price risk to the extent of fluctuations in the market prices and trading volumes of these securities. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions. Furthermore, amounts realized in the sale of a particular security may be affected by the relative quantity of the security being sold.

**INTEREST RATE RISK.** Zapata Corporate and Zap.Com hold investment grade securities which may include a mix of U.S. Government or Government agency obligations, certificates of deposit, money market deposits and commercial paper rated A-1 or P-1. In addition, Omega Protein holds certificates of deposit and commercial quality grade investments rated A-2 P-2 or better with companies and financial institutions. As the majority of the Company's consolidated investment grade securities constitute short-term U.S. Government agency securities, the Company does not believe that the value of these instruments have a material exposure to interest rate risk. However, changes in interest rates do affect the investment income the Company earns on its cash equivalents and marketable securities and, therefore, impacts its cash flows and results of operations. Accordingly, there is inherent roll-over risk for the Company's investment grade securities as they mature and are renewed at current market rates. Using the Company's consolidated investment grade security balance of \$38.2 million at September 30, 2005 as a hypothetical constant cash balance; an adverse change of 1% in interest rates would decrease interest income by approximately \$96,000 and \$287,000 during a three-and nine-month period, respectively.

**MARKET RISK.** Both Safety and Omega are exposed to minimal market risk associated with interest rate movements on their borrowings. A one percent increase or decrease in the levels of interest rates on such borrowings would not result in a material change to the Company's results of operations.

**CURRENCY EXCHANGE RATES AND FORWARD CONTRACTS.** Safety's operations in Mexico, Germany, China, the United Kingdom and the Czech Republic expose Safety to currency exchange rate risks which are recorded in "(Loss) income from discontinued operations" on the consolidated statements of operations. Based on the amounts outstanding at September 30, 2005, a hypothetical increase or decrease of 1% in the value of the U.S. dollar against the foreign currencies corresponding to the countries in which Safety has operations would result in a reduction or addition of approximately \$125,000 in "(Loss) income from discontinued operations." Safety's joint venture in China uses the yuan as its functional currency. In mid-July, the government of China announced an end to the yuan's peg to the U.S. dollar and tied it to a basket of currencies, the initial steps in anticipated reforms aimed at letting the currency float freely. Although Safety currently is unable to measure the effect that currency reforms by the government of China will have on its financial position, results of operations and cash flows, Safety's China joint venture is intended to produce airbag cushions for the Chinese domestic market and Asian markets. Because raw material sources, production and sales related to Safety's China joint venture are expected to occur primarily within China, currency reforms by the government of China are not expected to have a material impact on Safety's financial position or results of operations. Safety monitors its risk associated with the volatility of certain foreign currencies against its functional currency, the U.S. dollar. Safety uses certain derivative financial instruments to reduce exposure to volatility of foreign currencies. However, the changes in the relationship of other currencies to the U.S. dollar could have a material adverse effect on the consolidated financial statements if there were a sustained decline of these currencies versus the U.S. dollar. Safety has

## Edgar Filing: ZAPATA CORP - Form 10-Q/A

formally documented all relationships between hedging instruments and hedged

49

items, as well as risk management objectives and strategies for undertaking various hedge transactions. Derivative financial instruments are not entered into for trading or speculative purposes.

Certain operating expenses at Safety's Mexican facilities are paid in Mexican pesos. To reduce exposure to fluctuations in the U.S. dollar and Mexican peso exchange rates, Safety entered into forward contracts on February 16, 2005 to buy Mexican pesos for periods and amounts consistent with the related, underlying forecasted cash outflows. These contracts were designated as hedges at inception and are monitored for effectiveness on a routine basis. At September 30, 2005, Safety had outstanding forward exchange contracts that mature between October 2005 and December 2005 to purchase Mexican pesos with an aggregate notional amount of approximately \$2.1 million. The fair values of these contracts at September 30, 2005 totaled approximately \$148,000 which is recorded as an asset on the balance sheet in "current assets related to discontinued operations." Changes in the derivatives' fair values are deferred and recorded in the balance sheet as a component of "accumulated other comprehensive income" ("AOCI"), until the underlying transaction is recorded in earnings. When the hedged item affects earnings, gains or losses are reclassified from AOCI to the consolidated statement of operations as cost of revenues.

Certain intercompany sales at Safety's Czech Republic facility are denominated and settled in Euros and certain of its operating expenses are paid in Czech Korunas. To reduce exposure to fluctuations in the Euro and Czech Koruna exchange rates, Safety entered into forward contracts on March 3, 2005 to buy Czech Korunas with Euros for periods and amounts consistent with the related, underlying forecasted cash outflows. These contracts were designated as hedges at inception and are monitored for effectiveness on a routine basis. At September 30, 2005, Safety had outstanding forward exchange contracts that mature between September 2005 and December 2005 to purchase Czech Korunas with an aggregate notional amount of approximately \$1.4 million. The fair values of these contracts at September 30, 2005 totaled approximately \$65,000 which is recorded as an asset on the balance sheet in "current assets related to discontinued operations." Changes in the derivatives' fair values are deferred and recorded in the balance sheet as a component of AOCI, until the underlying transaction is recorded in earnings. When the hedged item affects earnings, gains or losses are reclassified from AOCI to the consolidated statement of operations as cost of revenues.

Although Omega Protein sells products in foreign countries, all of Omega's revenues are billed and paid for in US dollars. As a result, Omega's management does not believe that it is exposed to any significant foreign country currency exchange risk, and Omega does not utilize market risk sensitive instruments to manage its exposure to this risk.

#### ITEM 4. CONTROLS AND PROCEDURES

##### DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports filed or submitted under the Securities Exchange Act of 1934, as amended ("Exchange Act"), is recorded, processed, summarized, and reported within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures are designed to ensure that information required to be disclosed by



## Edgar Filing: ZAPATA CORP - Form 10-Q/A

the Company in its Exchange Act reports is accumulated and communicated to the Company's management including its principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

As discussed in the Explanatory Note at the beginning of this report and in Note 18 of the Notes to Unaudited Condensed Consolidated Financial Statements, the Company has restated its financial statements for the three and nine month periods ended September 30, 2005 to correct errors in the Company's accounting for income taxes. In the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, filed on November 14, 2005, management concluded that the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) as of the end of the period covered by this report were effective. In connection with the restatement, the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") re-evaluated the effectiveness of the Company's disclosure controls and procedures in place as of the end of the period covered by this quarterly report pursuant to Rule 13a-15(b) of the Exchange Act. The Company's Chief Executive Officer and Chief Financial Officer have concluded that as a result of the material weakness as of September 30, 2005, the Company's disclosure controls and procedures were not effective.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

As of September 30, 2005, the Company did not maintain effective controls over the application and monitoring of its accounting for income taxes. Specifically, we did not have controls designed and in place to ensure the accuracy and completeness of financial information provided to the Company by third party tax advisors used in accounting for income taxes and the determination of current income taxes payable, deferred income tax assets and liabilities and the related income tax provision (benefit) and the review and evaluation of the application of generally accepted accounting principles relating to accounting for income taxes. This control deficiency resulted in the restatement of the Company's consolidated financial statements for the quarter ended September 30, 2005. Additionally, this control deficiency could result in a material misstatement of the aforementioned accounts that would result in a material misstatement to annual or interim financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.

### REMEDIATION PLAN

The Company is implementing enhancements to its internal control over financial reporting to provide reasonable assurance that errors and control deficiencies in its accounting for income taxes will not recur. These enhancements are expected to include improving our knowledge of accounting for income taxes which should enhance our ability to review and evaluate the tax financial information prepared by our outside tax advisors which supports the Company's quarterly tax provision. Additionally, the Company will engage our outside tax advisors in a more robust quarterly discussion which should improve the review and oversight process relating to the internal controls over the Company's accounting for income taxes.

### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

By letter dated November 2, 2004, a division employee, at the time a controller for the Safety's North American Automotive Group, filed a complaint with the U.S. Department of Labor, Occupational Safety & Health Administration ("OSHA"), pursuant to Section 806 of the Corporate and Criminal Fraud Accountability Act of 2002, Title VIII of the Sarbanes-Oxley Act of 2002 (the "Act"), alleging that a change in his duties in September 2004 resulted from his allegations of improprieties in the Company's operations in Mexico and California. Safety has reported that neither the internal investigations conducted by various levels of Safety's management nor the ensuing external investigation conducted by a forensic accounting firm engaged by the Audit Committee of Safety's Board of Directors following notification by management of the issues raised substantiated any of the allegations. Due to circumstances unrelated to the investigation or the complaint, Safety terminated the employee on December 15, 2004. By letter dated December 15, 2004, the employee amended his complaint to allege that his termination was also in retaliation for his allegations. By letter dated February 14, 2005, Safety was notified by OSHA that it had completed its investigation and found that there is no reasonable cause to believe that Safety violated the Act, and that the employee has 30 days from his receipt of such notification to file an objection and request a hearing before an Administrative Law Judge. The employee has subsequently requested a hearing before an Administrative Law Judge. The employee filed such objection, but Safety has not received a notice of request for a hearing. A lawsuit was commenced by the employee on November 4, 2005, in the United States District Court for the District of South Carolina challenging his termination based on similar allegations made in his administrative complaint.

ITEM 2. UNREGISTERED SALES OF 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.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibits

The exhibits indicated by an asterisk (\*) are incorporated by reference.

- 10.1 Stock Purchase Agreement, dated September 23, 2005, between Zapata, WLR Recovery Fund II, L.P. and WLR Recovery Fund III, L.P. (as amended by Amendment No. 1 and Joinder dated September 26, 2005) (Exhibits and schedules have been omitted pursuant to Item 601(b)(2))

Edgar Filing: ZAPATA CORP - Form 10-Q/A

of Regulation S-K, but a copy will be furnished supplementally to the Securities and Exchange Commission upon request) .

- 10.2 Escrow Agreement dated September 26, 2005 among WLR Recovery Fund II, L.P., WLR Recovery Fund III, L.P., Zapata Corporation and Citibank N.A., as escrow agent (Exhibits and schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K, but a copy will be furnished supplementally to the Securities and Exchange Commission upon request).

51

- 10.3 Summary of Agreement to make capital contribution by Zapata Corporation to Safety Components International, Inc.
- 31.1 Certification of CEO as required by Rule 13a-14(a) or 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of CFO as required by Rule 13a-14(a) or 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of CEO Pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of CFO Pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

52

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.

ZAPATA CORPORATION  
(REGISTRANT)

Dated: April 5, 2006

By: /s/ Leonard DiSalvo

-----  
(Vice President-- Finance and Chief  
Financial Officer)

53