
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006

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 or No .

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of November 1, 2006, the Registrant had outstanding 19,182,456 shares of common stock, \$0.01 par value.

ZAPATA CORPORATION

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements and Notes

ZAPATA CORPORATION
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Per Share Amounts)

	September 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 90,072	\$ 103,373
Accounts receivable, net	21,484	24,170
Inventory	59,734	46,860
Prepaid expenses and other current assets	3,553	2,314
Total current assets	<u>174,843</u>	<u>176,717</u>
Other assets, net	34,088	23,652
Property, plant and equipment, net	89,993	93,985
Total assets	<u>\$ 298,924</u>	<u>\$ 294,354</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 2,426	\$ 2,443
Accounts payable	2,396	3,989
Accrued and other current liabilities	28,242	15,850
Total current liabilities	<u>33,064</u>	<u>22,282</u>
Long-term debt	25,823	27,658
Pension liabilities	10,341	11,810
Other liabilities and deferred taxes	395	983
Total liabilities	<u>69,623</u>	<u>62,733</u>
Minority interest	63,198	59,937
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; 24,614,536 and 24,581,636 shares issued; and 19,182,456 and 19,149,556 shares outstanding, respectively	246	246
Capital in excess of par value	164,902	162,730
Retained earnings	37,377	45,127
Treasury stock, at cost, 5,432,080 shares	(31,668)	(31,668)
Accumulated other comprehensive loss	(4,754)	(4,751)
Total stockholders' equity	<u>166,103</u>	<u>171,684</u>
Total liabilities and stockholders' equity	<u>\$ 298,924</u>	<u>\$ 294,354</u>

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

ZAPATA CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenues	\$ 52,089	\$ 31,418	\$ 113,730	\$ 82,759
Cost of revenues	44,748	24,032	94,061	68,500
Gross profit	7,341	7,386	19,669	14,259
Operating expense:				
Selling, general and administrative	4,100	4,738	14,633	13,567
Loss resulting from natural disaster	918	13,183	1,351	13,183
Impairment of long-lived assets	11,082	—	11,082	—
Total operating expenses	16,100	17,921	27,066	26,750
Operating loss	(8,759)	(10,535)	(7,397)	(12,491)
Other income (expense):				
Interest income	1,092	334	3,250	1,035
Interest expense	(498)	(337)	(1,550)	(845)
Other, net	12	(59)	80	149
	606	(62)	1,780	339
Loss before income taxes and minority interest	(8,153)	(10,597)	(5,617)	(12,152)
Benefit for income taxes	3,074	4,684	1,991	5,087
Minority interest in net income of consolidated subsidiaries	(762)	2,583	(2,090)	2,264
Net loss from continuing operations	(5,841)	(3,330)	(5,716)	(4,801)
Discontinued operations:				
Loss before taxes and minority interest (including loss on disposal)	—	(8,846)	—	(3,130)
Benefit for income taxes	—	3,368	—	511
Minority interest	—	(353)	—	(1,199)
Net loss from discontinued operations	—	(5,831)	—	(3,818)
Net loss to common stockholders	<u>\$ (5,841)</u>	<u>\$ (9,161)</u>	<u>\$ (5,716)</u>	<u>\$ (8,619)</u>
Net loss per common share – basic and diluted				
Loss from continuing operations	\$ (0.30)	\$ (0.17)	\$ (0.30)	\$ (0.25)
Loss from discontinued operations, net of income taxes and minority interest	—	(0.31)	—	(0.20)
Loss per common share – basic and diluted	<u>\$ (0.30)</u>	<u>\$ (0.48)</u>	<u>\$ (0.30)</u>	<u>\$ (0.45)</u>
Weighted average common shares outstanding:				
Basic and diluted	<u>19,182</u>	<u>19,136</u>	<u>19,179</u>	<u>19,135</u>

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

ZAPATA CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended September 30,	
	2006	2005
Cash flows from operating activities:		
Net loss to common stockholders	\$ (5,716)	\$ (8,619)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	9,761	9,901
Involuntary conversion from natural disaster	897	8,333
Impairment of long-lived assets	11,082	—
Loss on sale of Safety Components International, Inc.	—	6,643
Loss on disposal of assets	29	136
Provisions for losses on receivables	13	23
Stock option modification expense	—	353
Stock-based compensation	210	—
Minority interest in net income of consolidated subsidiaries	2,090	(2,264)
Deferred income taxes	(2,212)	(4,530)
Changes in assets and liabilities:		
Accounts receivable	778	(11,794)
Inventories	(12,874)	(9,843)
Prepaid expenses and other current assets	(1,237)	(104)
Other assets	(9,340)	(428)
Accounts payable	(1,698)	(368)
Pension liabilities	(1,469)	578
Accrued liabilities and other current liabilities	12,392	4,470
Other liabilities	(11)	(78)
Discontinued operations	—	8,615
Total adjustments	8,411	9,643
Net cash provided by operating activities	2,695	1,024
Cash flows from investing activities:		
Proceeds from insurance company – hurricane	2,000	—
Proceeds from disposition of assets	—	364
Gain on involuntary conversion	—	(307)
Capital expenditures	(17,237)	(12,870)
Discontinued operations	—	(5,485)
Net cash used in investing activities	(15,237)	(18,298)
Cash flows from financing activities:		
Principal payments of long-term debt	(1,852)	(1,211)
Proceeds from stock option exercises	1,098	756
Discontinued operations	—	(2,062)
Net cash used in financing activities	(754)	(2,517)
Effect of exchange rate changes on cash and cash equivalents	(5)	(3,193)
Net decrease in cash and cash equivalents	(13,301)	(22,984)
Decrease in cash from discontinued operations	—	(2,074)
Cash and cash equivalents at beginning of period	103,373	63,249
Cash and cash equivalents at end of period	<u>\$ 90,072</u>	<u>\$ 38,191</u>

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

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. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The interim financial statements should be read in conjunction with the financial statements and the notes thereto included in Zapata’s 2005 Annual Report on Form 10-K filed with the Securities and Exchange Commission and with the information presented by Omega Protein Corporation and Zap.Com Corporation in their 2005 Annual Reports on Form 10-K. The results of operations for the three month and nine month period ended September 30, 2006 are not necessarily indicative of the results for any subsequent quarter or the entire fiscal year ending December 31, 2006.

Business Description

Zapata Corporation (“Zapata” or “the Company”) is a holding company which currently has one operating company, Omega Protein Corporation (“Omega Protein” or “Omega”), in which the Company had a 57% ownership interest at September 30, 2006. In addition, Zapata owns 98% of Zap.Com Corporation (“Zap.Com”), which is a public shell company. In December 2005, Zapata completed the sale of its 77% ownership interest Safety Components International, Inc. (“Safety Components” or “Safety”). Zapata trades on the New York Stock Exchange (“NYSE”) under the symbol “ZAP.”

On December 8, 2005, Zapata announced that the Board of Directors had authorized management to seek a buyer for its majority ownership interest in Omega Protein. On September 8, 2006, Zapata entered into a stock purchase agreement with its majority-owned subsidiary Omega Protein which provides for the repurchase of shares of Omega common stock held by Zapata. Under this agreement, Omega has agreed to repurchase 9,268,292 Omega shares from Zapata for a purchase price of \$5.125 per share, or \$47.5 million in the aggregate, in cash. In the agreement, Zapata also granted Omega a call option to acquire for an exercise price of \$4.50 per share, payable in cash, not less than all of the remaining 5,232,708 Omega shares which Zapata does not dispose of prior to the exercise of the option. The option is exercisable from the 270th day until the 390th day after the initial closing under the stock purchase agreement. Zapata’s Board of Directors has authorized management to seek purchasers for the remaining 5,232,708 Omega shares at a price of \$4.50 per share or higher. Lastly, Zapata may distribute to the Company’s stockholders a dividend consisting of all of or a portion of the remaining Omega shares. There is no assurance, however, that Zapata will be able to sell the remaining Omega shares either to third parties or to Omega pursuant to its call option or that Zapata will distribute the remaining Omega shares.

In connection with Omega’s repurchase of its shares from Zapata, Zapata has filed its definitive Information Statement relating to that transaction with the Securities and Exchange Commission (“SEC”) and commenced the mailing to its stockholders. The closing of the transaction is expected on or about November 27, 2006, subject to Omega’s receipt of bring-down fairness and solvency opinions from its financial advisor and additional customary closing conditions.

Omega Protein produces and markets a variety of products produced from menhaden (a herring-like species of fish found in commercial quantities in the U.S. coastal waters of the Atlantic Ocean and Gulf of Mexico), including 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.

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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 NYSE under the symbol "OME."

Zap.Com is a public shell company which has no business operations other than complying with its reporting requirements under the Exchange Act. 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. Zap.Com trades on the over-the-counter electronic bulletin board under the symbol "ZPCM."

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

Note 2. Significant Accounting Policies

Share-Based Payment

At September 30, 2006, Zapata had two share-based compensation plans and one special share-based compensation grant. In addition, Omega Protein had one share-based compensation plan and Zap.Com had one share-based compensation plan. These plans and special grant are described in more detail in Note 17. Prior to January 1, 2006, Zapata, Omega Protein and Zap.Com accounted for those plans under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and adopted the disclosure-only provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – an Amendment of FASB Statement No. 123." As a result, no stock-based employee compensation cost related to stock options was reflected in net income (other than compensation cost related to stock option modifications), as all options granted under those plans had an exercise price equal to or greater than the market value of the underlying common stock on the grant date. Accordingly, share-based compensation related to stock options was generally only included as a pro-forma disclosure in the financial statement footnotes.

Effective January 1, 2006, Zapata, Omega Protein and Zap.Com each adopted SFAS No. 123R, "Share-Based Payment," using the modified prospective application transition method. Under this transition method, compensation cost in 2006 includes the portion vesting in the period for (1) all share-based payments granted prior to, but not vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and (2) all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. As share-based compensation expense recognized in the Condensed Consolidated Statement of Operations for the three months and nine months ended September 30, 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. In the Company's pro forma information required under SFAS 123 for the periods prior to January 1, 2006, the Company accounted for forfeitures as they occurred. Under the modified prospective application transition method, no cumulative effect of change in accounting principle charge is required, and results for prior periods have not been restated. See below for the pro forma disclosures related to the three months and nine months ended September 30, 2005. SFAS No. 123R also requires excess tax benefits be reported as a financing cash inflow rather than an operating cash inflow.

Had compensation expense for the Company's consolidated stock option grants been recorded based on fair value at the grant date using the Black-Sholes option-pricing model, the Company's consolidated pro forma net loss and loss per share (basic and diluted) would have been as follows:

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	For the Three Months Ended September 30, 2005	For the Nine Months Ended September 30, 2005
Net loss from continuing operations, as reported	\$ (3,330)	\$ (4,801)
Add: Total 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	(22)	(284)
Omega Protein	(33)	(716)
Zap.Com	(1)	(4)
Pro forma expense	(56)	(1,004)
Pro forma net loss from continuing operations	(3,386)	(5,586)
Net loss from discontinued operations, as reported	(5,831)	(3,818)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax effects:	—	—
Pro forma net loss from discontinued operations	(5,831)	(3,818)
Total pro forma net loss	<u>\$ (9,217)</u>	<u>\$ (9,404)</u>
Loss per common share – basic and diluted — as reported		
Loss from continuing operations	\$ (0.17)	\$ (0.25)
Discontinued operations, net of income taxes and minority interest	(0.31)	(0.20)
Loss per common share – basic and diluted – as reported	<u>\$ (0.48)</u>	<u>\$ (0.45)</u>
Loss per common share – basic and diluted — pro forma		
Loss from continuing operations	\$ (0.17)	\$ (0.29)
Discontinued operations, net of income taxes and minority interest	(0.31)	(0.20)
Loss per common share – basic and diluted – pro forma	<u>\$ (0.48)</u>	<u>\$ (0.49)</u>

The condensed consolidated statement of operations for the three months and nine months ended September 30, 2006 included \$102,000 and \$210,000, respectively, of share-based compensation costs which are included in selling, general and administrative expenses. The total income tax benefit recognized in the income statement for share-based compensation arrangements was \$34,000 and \$69,000 for the three months and nine months ended September 30, 2006, respectively. As of September 30, 2006 there was \$266,000 of total unrecognized compensation cost related to nonvested share-based compensation that is expected to be recognized over a weighted average period of 2.6 years. Based on current grants, total share-based compensation cost for the remainder of fiscal year 2006 is expected to be \$73,000.

Zapata Corporate

Zapata Corporate had no share-based grants in the nine months ended September 30, 2006 and the year ended December 31, 2005. A summary of option activity under the Zapata Corporate Plans as of September 30, 2006, and changes during the nine months then ended is presented below:

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	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2006	1,339,372	\$ 5.56		
Granted	—	—		
Exercised	(32,900)	\$ 5.78		
Forfeited or expired	(69,408)	\$ 5.78		
Outstanding at September 30, 2006	<u>1,237,064</u>	\$ 5.54	2.6 years	<u>\$ 1,559</u>
Exercisable at September 30, 2006	<u>1,165,197</u>	\$ 5.46	2.4 years	<u>\$ 1,559</u>

The total intrinsic value of stock options exercised during the nine months ended September 30, 2006 was \$11,000.

A summary of the status of Zapata Corporate's nonvested shares as of September 30, 2006 and changes during the nine months ended September 30, 2006, is presented below:

Nonvested Shares	Shares (in thousands)	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2006	73,867	\$1.93
Granted	—	—
Vested	(2,000)	7.50
Forfeited	—	—
Nonvested at September 30, 2006	<u>71,867</u>	<u>\$1.92</u>

As of September 30, 2006, there was \$23,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Zapata Corporate Plans. That cost is expected to be recognized over a weighted –average period of 0.3 years. Based on current grants, total share-based compensation cost for the remainder of fiscal year 2006 is expected to be \$23,000.

Omega Protein

On February 27, 2006, Omega granted new options to an employee under its 2000 Long-Term Incentive Plan for the purchase of 10,000 shares of common stock at an exercise price of \$6.27 per share, which vest in equal one-third portions on 2007, 2008 and 2009. On May 18, 2006, Omega granted new options to an employee under its 2000 Long-Term for the purchase of 7,500 shares of common stock at an exercise price of \$5.93 per share, which vest in equal one-third portions on 2007, 2008, and 2009.

On April 13, 2006 the Omega Protein Board of Directors approved the establishment of the Omega Protein Corporation 2006 Incentive Plan which was subsequently approved by Omega's stockholders and became effective on June 7, 2006. On that date options were granted Omega's four independent Directors for the purchase of an aggregate of 40,000 shares of common stock at an exercise price of \$5.76 per share, which vest in six months and one day from the date of issuance. On July 26, 2006, Omega granted new options to an employee for the purchase of 15,000 shares of common stock at an exercise price of \$5.11 per share which vest in equal one-third portions on 2007, 2008 and 2009. These were the only options granted during the nine months ended September 30, 2006, under the 2006 Incentive Plan.

There were 214,366 stock option exercises during the nine months ended September 30, 2006. A summary of option activity under the plans for the nine months ended September 30, 2006 is as follows:

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	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value <u>(in thousands)</u>
Outstanding at January 1, 2006	4,748,852	\$ 7.35		
Granted	72,500	\$ 5.71		
Exercised	(214,366)	\$ 3.21		
Forfeited or expired	(8,334)	\$ 6.69		
Outstanding at September 30, 2006	<u>4,598,652</u>	\$ 7.52	4.0	<u>\$ 8,045</u>
Exercisable at September 30, 2006	<u>4,514,152</u>	\$ 7.56		<u>\$ 7,988</u>
Weighted-average fair value of options granted		\$ 2.70		

A summary of the status of Omega's nonvested shares as of September 30, 2006 and changes during the nine months ended September 30, 2006, is presented below:

Nonvested Shares	Shares (in thousands)	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2006	18,000	\$4.66
Granted	72,500	\$2.70
Vested	(2,666)	\$3.17
Forfeited	<u>(3,334)</u>	\$3.04
Nonvested at September 30, 2006	<u>84,500</u>	\$2.78

As of September 30, 2006, there was \$225,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Omega Plan. That cost is expected to be recognized over a weighted-average period of 3 years. Based on current grants, Omega's total share-based compensation cost for the remainder of fiscal year 2006 is expected to be approximately \$47,000.

The fair value of Omega's stock options is the estimated present value at grant date using the Black-Scholes option pricing model with the following weighted average assumptions for the nine months ended September 30, 2006: expected dividend yield of 0%; expected volatility of 46.90%; risk-free interest rate of 4.93%; and an expected term of 5 years. The expected dividend yield is based on Omega's annual dividend payout at grant date. Expected volatility is based on the historical volatility of Omega's stock for a period approximating the expected life. The risk-free interest rate is based on the U.S. treasury yield in effect at the time of grant and has a term equal to the expected life. The expected term of the options represents the period of time the options are expected to be outstanding.

In May 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. 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.

Zap.Com

Zap.Com had no share-based grants in the nine months ended September 30, 2006 and the year ended December 31, 2005. A summary of option activity under the Zap.Com Plan as of September 30, 2006, and changes during the nine months then ended is presented below:

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	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value <u>(in thousands)</u>
Outstanding at January 1, 2006	511,300	\$ 0.08		
Granted	—	—		
Exercised	—	—		
Forfeited or expired	—	—		
Outstanding at September 30, 2006	<u>511,300</u>	\$ 0.08	3.1	<u>\$ 51</u>
Exercisable at September 30, 2006	<u>170,431</u>	\$ 0.08	3.1	<u>\$ 17</u>

No Zap.Com options were exercised during the nine months ended September 30, 2006.

A summary of the status of Zap.Com's nonvested shares as of September 30, 2006 and changes during the nine months ended September 30, 2006, is presented below:

Nonvested Shares	Shares (in thousands)	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2006	340,869	\$0.08
Granted	—	—
Vested	—	—
Forfeited	—	—
Nonvested at September 30, 2006	<u>340,869</u>	\$0.08

As of September 30, 2006, there was \$15,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Zap.Com Plan. That cost is expected to be recognized over a weighted-average period of 1.1 years. No shares vested during the nine months ended September 30, 2006. Based on current outstanding grants, Zap.Com's total share-based compensation cost for the remainder of fiscal year 2006 is expected to be \$3,000.

Reclassification

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

Note 3. Discontinued Operations

Safety Components International, Inc. ("Safety Components" or "Safety") is an independent supplier of automotive airbag fabric and cushions and technical fabrics with operations in North America and Europe. Zapata originally purchased its majority interest in Safety in 2003 and accounted for the transaction under the purchase method of accounting. In the third quarter of 2005, Zapata's Board of Directors approved a plan to pursue a sale of all of the Company's shares of Safety 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 accounting rules. As used throughout this document, all amounts and disclosures related to Safety pertain to "Discontinued Operations." Zapata closed on the sale of Safety in December 2005.

Operating results of the Company's discontinued operations are described below.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2006 (unaudited)	2005 (unaudited)	2006 (unaudited)	2005 (unaudited)
Revenue from discontinued operations	\$—	\$50,562	\$—	\$168,182
Income before taxes and minority interest	—	1,748	—	7,464

[Table of Contents](#)**Note 4. Inventories**

Inventories are summarized as follows:

	<u>September 30, 2006</u>	<u>December 31, 2005</u>
	(in thousands)	
Fish meal	\$ 37,884	\$ 14,742
Fish oil	14,918	21,552
Fish solubles	780	672
Unallocated inventory cost pool (including off season costs)	281	5,926
Other materials and supplies	5,871	3,968
Total consolidated inventory	<u>\$ 59,734</u>	<u>\$ 46,860</u>

Omega Protein's inventory at September 30, 2006 and December 31, 2005 is stated at the lower of cost or market. The elements of unallocated inventory cost pool include plant and vessel related labor, utilities, rent, repairs and depreciation, to be allocated to inventories produced through the remainder of 2006.

Note 5. Other Assets

Other assets are summarized as follows:

	<u>September 30, 2006</u>	<u>December 31, 2005</u>
	(in thousands)	
Fishing nets, net of accumulated amortization of \$1,530 and \$1,347	\$ 1,065	\$ 639
Prepaid pension cost	15,453	15,780
Deferred tax assets	7,932	6,293
Insurance receivable, net of allowance for doubtful accounts	8,152	475
Other loan origination fees	974	—
Other	512	465
	<u>\$ 34,088</u>	<u>\$ 23,652</u>

Amortization expense for fishing nets amounted to approximately \$160,000, \$168,000, \$496,000 and \$513,000 for the three and nine months ended September 30, 2006 and 2005, respectively.

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 estimates, Omega believes its hurricane related insurance recoveries will total approximately \$12 million. Omega has received \$4 million in advances from its property insurance carriers as of September 30, 2006. In order to facilitate the insurance recovery process, on July 28, 2006, Omega filed a lawsuit against its property insurance carriers, Lexington Insurance Company and RSUI Indemnity Company, in U.S. District Court for the Western District of Louisiana, alleging breach of contract and bad faith based on the insurance carriers' failure to pay amounts due to Omega under its property insurance policies for damages sustained from Hurricanes Katrina and Rita in the third quarter of 2005. Omega seeks recovery in a jury trial of all available damages to which it is entitled by law, legal interest on those damages, the cost of the litigation and any other damages as the court deems appropriate. The total damages sought in the lawsuit are in excess of the amount Omega has remaining as a receivable relating to its initial recorded hurricane claim from its property insurance carriers. Omega believes the recorded receivable is fully collectible; however, an unfavorable outcome of the proceeding could have a material impact on Omega's financial position and result of operations.

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

Omega carries insurance for certain losses relating to its vessels and Jones Act liability for employees aboard its vessels

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(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, net of allowance for doubtful accounts. As of September 30, 2006 and December 31, 2005, the allowance for doubtful insurance receivable accounts was \$2.0 million.

Note 6. Debt

Long-term debt consisted of the following:

	<u>September 30, 2006</u>	<u>December 31, 2005</u>
	<u>(in thousands)</u>	
U.S. Government guaranteed obligations (Title XI loan) collateralized by a first lien on certain vessels and certain plant assets:		
Amounts due in installments through 2016, interest from 6.5% to 7.6%	\$ 27,921	\$ 29,737
Amounts due in installments through 2014, interest at Eurodollar rates of 6.0% and 4.5% at September 30, 2006 and December 31, 2005, respectively, plus 4.5%	328	359
Other debt at 6.3% at September 30, 2006 and December 31, 2005, respectively	—	5
Total Omega Protein debt	<u>28,249</u>	<u>30,101</u>
Less: current maturities	<u>(2,426)</u>	<u>(2,443)</u>
Total consolidated long-term debt	<u>\$ 25,823</u>	<u>\$ 27,658</u>

Omega’s 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.

In September 2004, the United States Department of Commerce Fisheries Finance Program (the “FFP”) approved Omega’s financing application in an amount not to exceed \$14 million (the “Approval Letter”). Borrowings under the Approval Letter are to be used to finance and/or refinance approximately 73% of the actual depreciable cost of 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 FFP are required to be evidenced by security agreements, undertakings, and other documents deemed in the sole discretion of the National Marine Fisheries Service as necessary to accomplish the intent and purpose of the Approval Letter. 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. Omega closed on the \$14 million FFP loan on October 17, 2005.

On December 1, 2005, pursuant to the Title XI program, the United States Department of Commerce approved a second financing application made by Omega in the amount of \$16.4 million (the “Second Approval Letter”). In May 2006, Omega submitted a \$6.5 million financing request under the Second Approval Letter. As of September 30, 2006, Omega had no borrowings outstanding under the Second Approval Letter.

Omega had a \$20 million revolving credit agreement with Bank of America, N.A., which was terminated on October 20, 2006 in connection with Omega’s refinancing of that facility and entry into a new \$65 million credit facility. See “Note 18 – Subsequent Event.” As of September 30, 2006, Omega had no borrowings outstanding under the former bank credit facility. At September 30, 2006 and December 31, 2005, Omega had outstanding letters of credit under the former bank credit facility totaling approximately \$3.1 million and \$8.0 million, respectively, issued in support of worker’s compensation insurance programs as of September 30, 2006 and December 31, 2005 and to purchase fish meal from a third party as of December 31, 2005.

[Table of Contents](#)**Note 7. Accrued and Other Current Liabilities**

Accrued and other current liabilities are summarized as follows:

	<u>September 30, 2006</u>	<u>December 31, 2005</u>
	(in thousands)	
Salary and benefits	\$ 10,019	\$ 4,318
Insurance	4,328	4,803
Trade creditors	9,480	3,243
Federal and state income taxes	1,855	1,844
Litigation reserves	410	410
Other	2,150	1,232
	<u>\$ 28,242</u>	<u>\$ 15,850</u>

Note 8. Earnings Per Share Information

The following table details the potential common shares excluded from the calculation of diluted earnings per share because the effect would be antidilutive to the net loss for the period or because the assumed proceeds were greater than the average market price for the period (in thousands, except per share amounts):

	<u>For the Three Months Ended</u>		<u>For the Nine Months Ended</u>	
	September 30,		September 30,	
	2006	2005	2006	2005
Potential common shares excluded from the calculation of diluted earnings per share:				
Stock options (in thousands)	1,237	1,339	1,237	1,339
Weighted average exercise price per share	\$ 5.54	\$ 5.51	\$ 5.54	\$ 5.51

Note 9. Comprehensive Income

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

	<u>For the Three Months Ended</u>		<u>For the Nine Months Ended</u>	
	September 30,		September 30,	
	2006	2005	2006	2005
	(in thousands)			
Net loss to common stockholders	\$ (5,841)	\$ (9,161)	\$ (5,716)	\$ (8,619)
Currency translation adjustment, net of tax effects	2	(1)	(3)	6
Amounts related to discontinued operations, net of tax effects	—	(580)	—	4,491
Total comprehensive loss	<u>\$ (5,839)</u>	<u>\$ (9,742)</u>	<u>\$ (5,719)</u>	<u>\$ (4,122)</u>

Note 10. Commitments and Contingencies**Litigation**

In 2004, two of the Company's predecessor subsidiaries were named as defendants in fourteen lawsuits filed in the Circuit Courts of Jones and Smith Counties in Mississippi. These fourteen lawsuits included approximately 583 individual plaintiffs, all alleging that they had suffered various illnesses from exposure to asbestos and seeking damages. The lawsuits assert claims of unseaworthiness, negligence, and strict liability, primarily based upon the status of the Company's predecessors as Jones Act employers. These cases include numerous defendants and, in general, the defendants are all alleged to have been the Jones Act employers of these plaintiffs and/or to have manufactured, distributed or utilized products containing asbestos.

Since these lawsuits involved multiple plaintiffs suing multiple defendants, the plaintiffs were ordered to prepare data sheets specifying the companies they were employed by and the asbestos-containing products to which they

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were allegedly exposed. Through this process, approximately 31 plaintiffs have identified the Company and/or its predecessor subsidiaries as their employer. Once the data sheet process is complete, we expect that the Company and/or its predecessor subsidiaries will be dismissed from any case where they have not been identified as an employer. Additionally, it is important to note that to date only minimal medical information regarding the alleged asbestos-related disease suffered by the plaintiffs has been provided. Accordingly, as to the remaining 31 plaintiffs, the Company is unable to estimate its potential exposure. The Company and predecessor subsidiaries maintained insurance which it believes will be available to respond to the majority of these claims. The Company intends to defend itself vigorously in all of these cases and, based on the information available to the Company at this time, the Company does not expect the outcome of these lawsuits to have a material adverse effect on its financial position, results of operations or cash flows; however, there can be no assurance as to the ultimate outcome of these lawsuits or additional similar lawsuits, if any, that may be filed.

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 consolidated 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.

Based upon the initial review of the environmental expert that the Company retained, the Company wrote to Weatherford's counsel on May 30, 2006. In this letter, the Company challenged any responsibility to indemnify Weatherford based in part on the possibility that Weatherford either a) failed to mitigate any existing on-site conditions post-closing or b) exacerbated any existing on-site conditions post-closing.

Given the above, while it is reasonably possible that some costs may be incurred related to this site, the Company presently 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.

Zapata and its subsidiaries are subject to various possible claims and lawsuits regarding environmental matters in addition to those discussed above. 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.

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.

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 supplied by the Company in connection with such transactions. These indemnification obligations were

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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.

Note 11. Related Party Transactions

Omega Protein

On December 8, 2005, Zapata announced that the Board of Directors had authorized management to seek a buyer for its majority ownership interest in Omega Protein. On September 8, 2006, Zapata entered into a stock purchase agreement with our majority-owned subsidiary Omega Protein which provides for the repurchase of shares of Omega common stock held by Zapata. Under this agreement, Omega has agreed to repurchase 9,268,292 Omega shares from Zapata for a purchase price of \$5.125 per share, or \$47.5 million in the aggregate, in cash. In the agreement, Zapata also granted Omega a call option to acquire for an exercise price of \$4.50 per share, payable in cash, not less than all of the remaining 5,232,708 Omega shares which Zapata does not dispose of prior to the exercise of the option. The option is exercisable from the 270th day until the 390th day after the initial closing under the stock purchase agreement. Zapata's Board of Directors has authorized management to seek purchasers for the remaining 5,232,708 Omega shares at a price of \$4.50 per share or higher. Lastly, Zapata may distribute to the Company's stockholders a dividend consisting of all of or a portion of the remaining Omega shares. There is no assurance, however, that Zapata will be able to sell the remaining Omega shares either to third parties or to Omega pursuant to its call option or that Zapata will distribute the remaining Omega shares.

In connection with Omega's repurchase of its shares from Zapata, Zapata has filed its definitive Information Statement relating to that transaction with the SEC and commenced the mailing to its stockholders. The closing of the transaction is expected on or about November 27, 2006, subject to Omega's receipt of bring-down fairness and solvency opinions from its financial advisor and additional customary closing conditions.

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 each of the three months ended September 30, 2006 and 2005, approximately \$3,000 and for the nine months ended September 30, 2006 and 2005, approximately \$10,000 and \$9,000, respectively, was recorded as contributed capital for these services.

Other

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 during the first quarter of 2005.

During 2002, the Company finalized the terms of a consulting agreement with its former Chairman of the Board of Directors, Malcolm Glazer. Subject to the terms of the agreement, the Company paid Malcolm Glazer \$122,500 per month until April 30, 2006. The agreement also provided for health and medical benefits for Mr. Glazer and his wife. Subsequent to the termination of the agreement on April 30, 2006, the Company continued to provide health and medical benefits for Mr. Glazer and his wife under the Company's Senior Executive Retiree Health Care Benefit Plan. These health insurance benefits are consistent with Zapata's existing benefits available to employees. During the second quarter of 2006, the Company recorded \$831,000 in selling, general and administrative expenses to reflect the total estimated liability for Mr. Glazer's participation in this plan. In October 2006, the Company was notified that Mr. Glazer and his wife elected not to participate in the Senior Executive Retiree Health Care Benefit Plan effective November 1, 2006. Accordingly, the Company reversed the charges recognized for these benefits in the quarter ended September 30, 2006.

Note 12. Recently Issued Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (“SFAS 157”). This Standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The adoption of SFAS 157 is not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R).” This standard requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur as a component of comprehensive income. The standard also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. The requirement to recognize the funded status of a defined benefit postretirement plan is effective as of the end of the fiscal year ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer’s fiscal year-end statement of financial position is effective for the fiscal years ending after December 15, 2008. The Company has determined that the adoption of SFAS No. 158 will have a material impact on its financial statements. For example, our actuarial valuation as of December 31, 2005 stated that approximately \$15.3 million of our \$15.8 million prepaid pension asset was comprised of unrecognized losses. Upon adoption of SFAS No. 158, we expect that a similar amount of previously unrecognized losses will be recognized as a reduction of our prepaid pension asset and recognized as a component of accumulated other comprehensive income.

In September 2006, the SEC staff issued Staff Accounting Bulletin (SAB) No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.” SAB No. 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements. This SAB establishes a “dual approach” methodology that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company’s financial statements (both the statement of operations and statement of financial position). The SEC has stated that SAB No. 108 should be applied no later than the annual financial statements for the first fiscal year ending after November 15, 2006, with earlier application encouraged. SAB No. 108 permits a company to elect either retrospective or prospective application. Prospective application requires recording a cumulative effect adjustment in the period of adoption, as well as detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose. The Company’s application of SAB No. 108 in the fourth quarter of 2006 is not expected to have any impact on its consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes.” The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements in accordance with Statement of Financial Accounting Standards No. 109, “Accounting for Income Taxes.” Specifically, the pronouncement prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. The interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact, if any, of this new pronouncement on its consolidated financial statements.

Note 13. Qualified Defined Benefit Plans

Zapata and Omega Protein have separate and independent noncontributory defined benefit plans covering certain U.S. employees. Both Zapata’s and Omega’s defined benefit pension plans continued to be frozen as of September 30, 2006. 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

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	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2006 (unaudited)	2005 (unaudited)	2006 (unaudited)	2005 (unaudited)
	(in thousands)			
Service cost	\$ 13	\$ 10	\$ 39	\$ 31
Interest cost	629	645	1,887	1,936
Expected return on plan assets	(714)	(734)	(2,142)	(2,201)
Amortization of transition assets and other deferrals	428	375	1,284	1,126
Net periodic benefit cost	<u>\$ 356</u>	<u>\$ 296</u>	<u>\$ 1,068</u>	<u>\$ 892</u>

Zapata's defined benefit pension plan was frozen on January 15, 2006. In accordance with ERISA rules and regulations, new employees after that date will not be able to participate in the pension plan and further benefits will no longer accrue for existing participants. Additionally, the freezing of the plan caused the Company to recognize a curtailment loss of approximately \$147,000 during the first quarter of 2006, which represents the balance of the unamortized prior service cost. Zapata made no contributions to either of its Pension Plan's during 2005 and does not plan to make any contributions to its pension plans during 2006.

Omega's defined benefit pension plan was frozen on July 31, 2002. As of September 30, 2006, Omega had made contributions to the pension plan totaling \$2.2 million. Omega expects to make contributions of \$400,000 to the pension plan during the remainder of 2006. No contributions to the pension plan were made during fiscal 2005.

Note 14. Impairment Loss

In September of 2006, the Company recorded an impairment charge of \$11.1 million to reduce the carrying value of the Company's investment in Omega Protein to fair value, through a reduction of Omega's long-lived assets, in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This charge was based on the \$5.109 per share value implied by the contemplated sale under the stock purchase agreement (the sale price of \$5.125 less the amount estimated for the call option value). The exact amount of the total impairment recognized will depend on a number of factors and will not be known until the conclusion of the sale of all of the Company's shares of Omega common stock. First, Omega's financial statements will continue to be consolidated with Zapata until the closing, which the Company believes will occur in November of 2006. Generally, the ultimate loss recognized on this transaction will increase (decrease) as Zapata consolidates net income (loss) related to Omega's operations. Second, the amount of the impairment on the remaining shares will be affected by the price at which Zapata ultimately agrees to sell the remaining shares. The Board of Directors has authorized management to seek purchasers for the remaining 5,232,708 shares at a price of \$4.50 per share or higher. If Zapata enters into an agreement to sell the remaining shares at a price above or below \$5.109 per share, the Company would record a gain on final disposal or additional impairments, respectively.

Subsequent to the closing of the transaction with Omega, and prior to the sale of any of the remaining shares, the Company will own approximately 33% of Omega's common stock and will account for the remaining investment in Omega under the equity method and will record the proportionate share of Omega's income (loss) as incurred. Additionally, the Company believes that the call option held by Omega over the remaining shares held by Zapata does not have material value and is not expected to have a material impact on the Company's financial statements.

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. For the three and nine-month periods ended September 30, 2006 and 2005, the following amounts have been recognized in Omega's statement of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(in thousands)			
Damaged fish meal inventory	\$ —	\$ 2,375	\$ —	\$ 2,375
Write-off of other materials and supplies	—	1,387	—	1,387
Write-off of unallocated inventory cost pool	—	12,978	—	12,978
Involuntary conversion of property and equipment	897	8,333	897	8,333
Clean-up costs incurred	21	110	454	110
Estimated insurance recoveries	—	(12,000)	—	(12,000)
Estimated damages in excess of insurance recoveries	<u>\$ 918</u>	<u>\$ 13,183</u>	<u>\$ 1,351</u>	<u>\$ 13,183</u>

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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 in the hurricanes.

Note 16. Industry Segment and Geographic Information

The following summarizes certain financial information of each segment for the three months and nine months ended September 30, 2006 and 2005:

	<u>Revenues</u>	<u>Operating Income (Loss)</u>	<u>Total Assets</u>	<u>Depreciation and Amortization</u>	<u>Interest (Expense) Income, net</u>	<u>Income Tax (Provision) Benefit</u>	<u>Capital Expenditures</u>
Three Months Ended							
September 30, 2006							
Corporate	\$ —	\$ (11,677)	\$ 94,486	\$ 3	\$ 970	\$ 3,787	\$ —
Omega Protein	52,089	2,956	202,720	3,396	(398)	(713)	3,770
Zap.Com	—	(38)	1,718	—	22	—	—
	<u>\$ 52,089</u>	<u>\$ (8,759)</u>	<u>\$ 298,924</u>	<u>\$ 3,399</u>	<u>\$ 594</u>	<u>\$ 3,074</u>	<u>\$ 3,770</u>

	<u>Revenues</u>	<u>Operating Income (Loss)</u>	<u>Total Assets</u>	<u>Depreciation and Amortization</u>	<u>Interest (Expense) Income, net</u>	<u>Income Tax (Provision) Benefit</u>	<u>Capital Expenditures</u>
Three Months Ended							
September 30, 2005							
Corporate	\$ —	\$ (1,286)	\$ 43,909	\$ 6	\$ 214	\$ 1,325	\$ —
Discontinued Operations	—	—	107,039	—	—	—	—
Omega Protei	31,418	(9,201)	188,728	3,214	(232)	3,359	1,558
Zap.com	—	(48)	1,784	—	15	—	—
	<u>\$ 31,418</u>	<u>\$ (10,535)</u>	<u>\$ 341,460</u>	<u>\$ 3,220</u>	<u>\$ (3)</u>	<u>\$ 4,684</u>	<u>\$ 1,558</u>

	<u>Revenues</u>	<u>Operating Income (Loss)</u>	<u>Total Assets</u>	<u>Depreciation and Amortization</u>	<u>Interest (Expense) Income, net</u>	<u>Income Tax (Provision) Benefit</u>	<u>Capital Expenditures</u>
Nine Months Ended							
September 30, 2006							
Corporate	\$ —	\$ (15,130)	\$ 94,486	\$ 13	\$ 2,681	\$ 3,666	\$ —
Omega Protein	113,730	7,845	202,720	9,748	(1,043)	(1,675)	17,237
Zap.Com	—	(112)	1,718	—	62	—	—
	<u>\$ 113,730</u>	<u>\$ (7,397)</u>	<u>\$ 298,924</u>	<u>\$ 9,761</u>	<u>\$ 1,700</u>	<u>\$ 1,991</u>	<u>\$ 17,237</u>

	<u>Revenues</u>	<u>Operating Income (Loss)</u>	<u>Total Assets</u>	<u>Depreciation and Amortization</u>	<u>Interest (Expense) Income, net</u>	<u>Income Tax (Provision) Benefit</u>	<u>Capital Expenditures</u>
Nine Months Ended							
September 30, 2005							
Corporate	\$ —	\$ (4,219)	\$ 43,909	\$ 26	\$ 560	\$ 2,020	\$ —
Discontinued Operations	—	—	107,039	—	—	—	—
Omega Protein	82,759	(8,159)	188,728	9,875	(407)	3,067	12,870
Zap.com	—	(113)	1,784	—	37	—	—
	<u>\$ 82,759</u>	<u>\$ (12,491)</u>	<u>\$ 341,460</u>	<u>\$ 9,901</u>	<u>\$ 190</u>	<u>\$ 5,087</u>	<u>\$ 12,870</u>

Note 17. Stock Option Plans

Zapata Corporate

Zapata's Amended and Restated Special Incentive Plan (the "1987 Plan"), which was stockholder approved, provides for the granting of stock options and the awarding of restricted stock. Under the 1987 Plan, options may be granted at prices equivalent to the market value of the common stock at the date of grant. Options become exercisable on dates as determined by the Zapata Board of Director's Compensation Committee, provided that the earliest such date cannot

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occur before six months after the date of grant. Unexercised options will expire on varying dates, up to a maximum of ten years from the date of grant. All options granted vest ratably over three years beginning on the first anniversary of the date of grant and have an exercise price equal to the fair market value of the stock at grant date. The 1987 Plan provided for the issuance of up to 480,000 shares of the common stock. During 1992, the stockholders approved an amendment to the 1987 Plan that provided for the automatic grant of a nonqualified stock option to directors of Zapata who are not employees of Zapata or any subsidiary of Zapata.

On December 5, 1996, the Company's stockholders approved a long-term incentive plan (the "1996 Plan"). The 1996 Plan provides for the granting of restricted stock, stock appreciation rights, stock options and other types of awards to key employees of the Company. Under the 1996 Plan, options may be granted by the Committee at prices equivalent to the market value of the common stock on the date of grant. Options become exercisable in one or more installments on such dates as the Committee may determine. Unexercised options will expire on varying dates up to a maximum of ten years from the date of grant. All options granted vest ratably over three years beginning on the first anniversary of the date of grant and have an exercise price equal to the fair market value of the stock at grant date. The 1996 Plan provides for the issuance of options to purchase up to 8.0 million shares of common stock.

In May 2002, the Stockholders approved a special share-based compensation grant of 8,000 stock options to each of the six non-employee directors of the Company. These grants had been approved by the Board of Directors and awarded by the Company in March of 2002. These grants are non-qualified options with a ten year life and are exercisable in cumulative one-third installments vesting annually beginning on the first anniversary of the date of grant.

Omega Protein

On January 26, 1998, the 1998 Long-Term Incentive Plan of Omega Protein Corporation (the "1998 Incentive Plan") was approved by Omega's Board. The 1998 Incentive Plan provides for the grant of any or all of the following types of awards: stock options, stock appreciation rights, stock awards and cash awards. These options generally vest ratably over three years from the date of grant and expire ten years from the date of grant.

On January 26, 1998, the Non-Management Director Stock Option Plan (the "Directors Plan") was approved by Omega's Board. The Directors Plan provides that the initial Chairman of the Board of Omega be granted options to purchase 568,200 shares of Common Stock and each other initial non-employee director of Omega will be granted options to purchase 14,200 shares of Common Stock at a price determined by Omega's Board.

On June 27, 2000, the 1998 Incentive Plan and the Director Plan were amended and restated in their entirety and renamed the 2000 Long-Term Incentive Plan ("2000 Incentive Plan"), and the 2000 Incentive Plan was approved by Omega's stockholders. Under the 2000 Incentive Plan, Omega is authorized to issue shares of Common Stock pursuant to "Awards" granted in various forms, including incentive stock options (intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended), non-qualified stock options, and other similar stock-based Awards. The substantive changes from the 1998 Incentive Plan and the Directors Plan in the amendment and restatement of the 2000 Incentive Plan were (a) the 2000 Incentive Plan allows annual option grant awards of 10,000 shares to each non-employee Director of Omega and (b) the 2000 Incentive Plan allows for the aggregate number of option shares available for issuance under the plan to equal 25% of the number of shares of Omega common stock outstanding at any time with an absolute maximum of no more than 15 million shares available for awards at any time. Reference is made to Omega's 2000 proxy statement for a complete summary of all the differences among the three plans.

On April 13, 2006 the Omega Protein Board of Directors approved the establishment of the Omega Protein Corporation 2006 Incentive Plan which was subsequently approved by Omega's stockholders and became effective on June 7, 2006.

Zap.Com

The Zap.Com 1999 Long-Term Incentive Plan (the "1999 Plan"), which was approved by stockholders, allows Zap.Com to provide awards to existing and future officers, employees, consultants and directors from time to time. The 1999 Plan is intended to promote the long-term financial interests and growth of Zap.Com by providing employees, officers, directors, and consultants of Zap.Com with appropriate incentives and rewards to enter into and continue in the employment of, or relationship with, Zap.Com and to acquire a proprietary interest in the long-term

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success of Zap.Com. Under the 1999 Plan, 3,000,000 shares of common stock are available for awards. The 1999 Plan provides for the grant of any or all of the following types of awards: stock options, stock appreciation rights, stock awards, cash awards, or other rights or interests. Allocations of awards are made by the Zap.Com Board of Directors at its sole discretion within the provisions of the 1999 Plan. Stock options granted under the 1999 Plan are non-qualified options with a five year life and are exercisable in cumulative one-third installments vesting annually beginning on the first anniversary of the date of grant.

Note 18. Subsequent Event

Zapata Corporate

During 2002, the Company finalized the terms of a consulting agreement with its former Chairman of the Board of Directors, Malcolm Glazer. Subject to the terms of the agreement, the Company paid Malcolm Glazer \$122,500 per month until April 30, 2006. The agreement also provided for health and medical benefits for Mr. Glazer and his wife. Subsequent to the termination of the agreement on April 30, 2006, the Company continued to provide health and medical benefits for Mr. Glazer and his wife under the Company's Senior Executive Retiree Health Care Benefit Plan. These health insurance benefits are consistent with Zapata's existing benefits available to employees. During the second quarter of 2006, the Company recorded \$831,000 in selling, general and administrative expenses to reflect the total estimated liability for Mr. Glazer's participation in this plan. In October 2006, the Company was notified that Mr. Glazer and his wife elected not to participate in the Senior Executive Retiree Health Care Benefit Plan effective November 1, 2006. Accordingly, the Company reversed the charges recognized for these benefits in the quarter ended September 30, 2006.

Omega Protein

On October 20, 2006, Omega, certain of its subsidiaries and Abelco Finance, LLC, an affiliate of Cerberus Capital Management, L.P. ("Abelco"), A3 Fund Management LLC, an affiliate of Abelco, and Wachovia Bank, National Association (collectively, the "Lenders") entered into the financing agreement (the "Financing Agreement") contemplated by the Commitment Letter pursuant to which the Lenders agreed to provide Omega with a senior secured financing facility (the "Financing Facility") in the maximum amount of \$65 million (i) to acquire from Zapata 9,268,292 shares of Omega common stock held by Zapata (the "Zapata Shares") for an aggregate purchase price of \$47.5 million, (ii) to fund Omega's ongoing working capital and other general corporate requirements and (iii) to pay the fees and expenses related to the financing. The Financing Facility consists of (a) a five year revolving credit facility (the "Revolving Credit Facility") of up to \$30 million outstanding at any time with monthly interest payments of LIBOR plus 3.25%, including a \$5 million subfacility for the issuance of letters of credit, and (b) a five year term loan facility of \$35 million with monthly interest payments of LIBOR plus 4.25% and annual principal payments beginning January 2008 of a defined excess cash flow. The Financing Facility replaced Omega's existing \$20 million former bank credit facility. On October 20, 2006, Omega drew down the \$35 million term loan and approximately \$13.6 million of revolving loans, and approximately \$3.3 million in letters of credit were issued pursuant to the letter of credit subfacility in order (i) to fund into escrow the purchase price for the Zapata Shares, (ii) to provide collateral for the letters of credit outstanding under the former bank credit facility and (iii) to pay fees and expenses related to the financing. The Financing Facility is secured by a first priority lien on all of Omega's assets, other than vessels, real estate and other assets pledged to secure loans made to Omega under the FFP, including a pending \$6.5 million loan from FFP.

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, Omega Protein Corporation ("Omega Protein" or "Omega") and Zap.Com Corporation ("Zap.Com"), such as those disclosed under the caption "Risk Factors" appearing in Part II, Item 1A 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

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forward-looking statements or to update the reasons actual results could differ from those projected in the forward-looking statements.

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 one operating company, Omega Protein Corporation (“Omega Protein” or “Omega”), in which the Company had a 57% ownership interest at September 30, 2006. In December 2005, Zapata completed the sale of its 77% ownership interest in Safety Components International, Inc. (“Safety Components” or “Safety”). Omega Protein trades on the New York Stock Exchange under the symbol “OME” and Safety Components trades on the over-the counter electronic bulletin board (“OTCBB”) under the symbol “SAFY.” 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 December 8, 2005, Zapata announced that the Board of Directors had authorized management to seek a buyer for its majority ownership interest in Omega Protein. On September 8, 2006, Zapata entered into a stock purchase agreement with its majority-owned subsidiary Omega Protein which provides for the repurchase of shares of Omega common stock held by Zapata. Under this agreement, Omega has agreed to repurchase 9,268,292 Omega shares from Zapata for a purchase price of \$5.125 per share, or \$47.5 million in the aggregate, in cash. In the agreement, Zapata also granted Omega a call option to acquire for an exercise price of \$4.50 per share, payable in cash, not less than all of the remaining 5,232,708 Omega shares which Zapata does not dispose of prior to the exercise of the option. The option is exercisable from the 270th day until the 390th day after the initial closing under the stock purchase agreement. Zapata’s Board of Directors has authorized management to seek purchasers for the remaining 5,232,708 Omega shares at a price of \$4.50 per share or higher. Lastly, Zapata may distribute to the Company’s stockholders a dividend consisting of all of or a portion of the remaining Omega shares. There is no assurance, however, that Zapata will be able to sell the remaining Omega shares either to third parties or to Omega pursuant to its call option or that Zapata will distribute the remaining Omega shares.

In connection with Omega’s repurchase of its shares from Zapata, Zapata has filed its definitive Information Statement relating to that transaction with the Securities and Exchange Commission (“SEC”) and commenced the mailing to its stockholders. The closing of the transaction is expected on or about November 27, 2006, subject to Omega’s receipt of bring-down fairness and solvency opinions from its financial advisor and additional customary closing conditions.

Zapata Corporate

In December 2002, the Board of Directors 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.

Zapata continues to evaluate strategic opportunities for the use of its capital resources, including but not limited to the acquisition of other operating businesses, funding start-up proposals and possible stock repurchases. There are no limits on the type of business or fields in which the Company may make acquisitions. While the Company focuses its attention in the United 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

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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.

As of the date of this report, Zapata is not a party to any agreements providing for the acquisition of an operating business, business combination or for the sale of any of its subsidiaries, other than under the agreement with Omega for the repurchase of the Company's Omega shares. There can be no assurance that any of these possible transactions will occur or that they will ultimately be advantageous to Zapata or enhance Zapata stockholder value.

Zap.Com

Zap.Com is a public shell company which has no business operations other than complying with its reporting requirements under the Exchange Act. 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.

Omega Protein

Business. Omega 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 solubles.

Omega produces and sells a variety of protein and oil products derived from menhaden, a species of wild herring-like fish found along the Gulf of Mexico and Atlantic coasts. The fish are not genetically modified or genetically enhanced. Omega processes several grades of fish meal (regular or "FAQ" meal and specialty meals), as well as fish oil 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 dietary supplements. Omega's fish solubles are sold primarily to livestock feed manufacturers, aquaculture feed manufacturers and for use as an organic fertilizer.

Although Omega has not completed its 2006 fishing season nor completed its final analysis, preliminary analysis indicates that 2006 oil yield results for production through September 30, 2006 have been the poorest in recent Company history. For illustrative purposes, Omega's oil yields for the 2006 fishing season to date are lower by 28% compared to those in the 2005 fishing season and are lower by 24% compared to Omega's 10 year oil yield average. The causes of lower fish oil yields are believed to relate to fish diet, weather and water temperature but are not generally well understood. The impact of these poor oil yields have resulted in significantly higher per unit inventory costs and few volumes available for future sale. These higher costs and fewer volumes available for sale will adversely impact future financial results for the fourth quarter of 2006 and first quarter of 2007, and to some extent, the second quarter of 2007.

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

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

Omega operates through two material subsidiaries: Omega Protein, Inc. and Omega Shipyard, Inc. Omega Protein, Inc. is Omega's principal operating subsidiary for its menhaden processing business and is the successor to a business conducted since 1913. Omega Shipyard, Inc. owns a drydock facility in Moss Point, Mississippi, which is used to provide shoreside maintenance for Omega's fishing fleet and, subject to outside demand and excess capacity, occasionally for third-party vessels. Revenues from shipyard work for third-party vessels for the three and nine-month periods ended September 30, 2006 and 2005 were not material. Omega also has a number of other immaterial direct and indirect subsidiaries.

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

Fishing. During the third quarter of 2006, 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

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2006 fishing season in the Gulf of Mexico, which runs from mid-April through October, Omega is operating 30 fishing and carry vessels and 28 spotter aircraft. The fishing area in the Gulf is generally located along the Gulf Coast, with a concentration off the Louisiana and Mississippi coasts. The fishing season along the Atlantic coast begins in early May and usually extends into December. During the 2006 season, Omega is operating 11 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.

Menhaden usually school in large, tight clusters and are commonly found in warm, shallow waters. Spotter aircraft locate the schools and direct the fishing vessels to them. The principal fishing vessels transport two 40-foot purse boats, each carrying several fishermen and one end of a 1,500-foot net. The purse boats encircle the school and capture the fish in the net. The fish are then pumped from the net into refrigerated holds of the fishing vessel or onto a carry vessel, and then are unloaded at Omega's processing plants. "Carry vessels" 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.

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, as well as interstate compacts, impose resource depletion restrictions on menhaden pursuant to fisheries management legislation or regulations and may impose additional legislation or regulations in the future. For example, in August 2005, the Management Board of the Atlantic States Marine Fisheries Commission ("ASMFC") approved an addendum to an existing Fishery Management Plan. The addendum would have established an annual cap for a five year period beginning in 2006 on the Company's menhaden landings from the Chesapeake Bay in an amount equal to the Company's average annual landings over a five year period from 2000 to 2004 (approximately 106,000 metric tons). The Commonwealth of Virginia has declined to adopt the ASMFC's recommended addendum but has instead put forth its own proposal whereby the Company's Chesapeake Bay menhaden harvest would be capped for a five year period at its most recent five-year average (2001 to 2005) of 109,020 metric tons per year. The Virginia proposal would also allow the Company a credit whereby any under-harvest in a particular year below the 109,020 metric ton cap would be added to increase the cap for the following year, up to a maximum of 122,740 metric tons per year. The Company has agreed to support the Commonwealth of Virginia's proposal in an effort to move forward constructively and avoid further contention on this issue. See the Company's 2005 10-K Item 1, "Business – Omega Protein – Regulation" and Item 1A, "Risk Factors – Laws or regulations that restrict or prohibit menhaden or purse seine fishing operations could adversely effect Omega's ability to operate." To date, Omega has not experienced any material adverse impact on its fish catch or results of operations as a result of these recommended restrictions.

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

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

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

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

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

Operations at the Moss Point and Abbeville fish processing facilities and the shipyard were re-established in mid-October 2005, but at reduced processing capabilities. These two facilities were returned to full operational status prior to the beginning of the Gulf fishing season in April 2006. Operations at the Cameron fish processing facility were re-established in June 2006, but at reduced processing capabilities. The Cameron plant became fully operational in September 2006.

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 an account receivable based on the preliminary discussions with 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, and the resolution of the lawsuit filed by Omega against its property insurance carriers described below. Such recoveries, if any, would be recognized in future periods once they are deemed probable. Omega does not maintain business interruption insurance in any material amounts due to its high cost and limited availability.

The direct impact of the two hurricanes upon Omega was a loss of physical inventories and physical damage to the plants. Omega estimated its total hurricane damages at approximately \$29.1 million, of which approximately \$12.0 million is expected to be recovered under insurance policies (\$4.0 million of which has been received as of September 30, 2006). Therefore, Omega has recognized a \$17.1 million loss as of September 30, 2006 due to estimated damages in excess of insurance recoveries. Of the damage estimate, approximately \$2.5 million was related to damaged fish meal inventory and approximately \$13.0 million was related to write-offs of inventory costs that had been allocated to future production that did not occur. Omega did not maintain business interruption insurance for these types of deferred inventory costs due to its high cost and limited availability. During the second quarter 2006, Omega salvaged additional fish meal that was previously recognized as a loss from natural disaster of approximately \$610,000. This meal was sold during the second quarter 2006 which resulted in Omega recognizing revenue without cost of revenues as the related costs were recorded as a loss in the third quarter 2005. See Omega's 2005 10-K "Item 8. Financial Statements and Supplementary Data – Note 12 Hurricane Losses" for additional information on the components of the hurricane related losses. A substantial portion of the amounts listed are based upon estimates and assumptions. Actual amounts, when available, could differ materially from those estimates and changes to those estimates could have a material effect on Omega's future financial statements.

In order to facilitate the insurance recovery process, on July 28, 2006, Omega filed a lawsuit against its property insurance carriers, Lexington Insurance Company and RSUI Indemnity Company, in U.S. District Court for the Western District of Louisiana, alleging breach of contract and bad faith based on the insurance carriers' failure to

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pay amounts due to Omega under its property insurance policies for damages sustained from Hurricanes Katrina and Rita in the third quarter of 2005. Omega seeks recovery in a jury trial of all available damages to which it is entitled by law, legal interest on those damages, the cost of the litigation and any other damages as the court deems appropriate.

Not included in the amounts listed are the replacement capital costs of property and equipment, which did not have any book basis and were destroyed in the hurricanes, and the costs of clean up incurred subsequent to September 30, 2006.

As of September 30, 2006, Omega's four active processing plants, assuming that no hurricane damages had occurred, would have had an aggregate annual capacity to process approximately 950,000 tons of fish. The previously described hurricane damages reduced the annual aggregate processing capacity to approximately 850,000 tons as of September 30, 2006. Operations at the Cameron fish processing facility were re-established in June 2006, but at reduced processing capabilities. The Cameron facility became fully operational in September 2006.

Because of the damages to Omega's Cameron, Louisiana facility caused by Hurricane Rita, Omega began its 2006 fishing season by operating its full contingent of 30 Gulf of Mexico fishing and carry vessels out of its two operating facilities in Abbeville, Louisiana and Moss Point, Mississippi. These activities substantially increased the number of vessels at the Abbeville and Moss Point plants to a level that Omega had not operated previously. Although these two facilities had adequate processing capacity, Omega's fishing efforts were diminished because increased unloading time due to the additional vessels which reduced the number of vessels on the fishing grounds during the most optimal fishing times. During June 2006, 10 vessels were shifted to the Cameron facility when it became operational.

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

Historically, approximately 35% to 40% of Omega's FAQ grade fish meal was sold on a two-to-twelve-month forward contract basis. The balance of FAQ grade fish meal and other products was substantially sold on a spot basis through purchase orders. In 2002, Omega began a similar forward sales program for its specialty grade meals and crude fish oil due to increasing demand for these products. During 2003, 2004 and 2005, approximately 50%, 43% and 70%, respectively, of Omega's specialty meals and crude fish oil had been sold on a forward contract basis. Prior to the beginning of Omega's 2006 fishing season, approximately 64% and 86% of Omega's 2006 forecasted fish meal and crude fish oil had either been sold or sold forward on a contract basis. The percentage of fish meal and crude fish oil sold on a forward contract basis will fluctuate from year to year based upon perceived market availability.

Omega's annual revenues are highly dependent on annual fish catch, production yields 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:

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	Three Months Ended September 30,				Nine Months Ended September 30,			
	2006		2005		2006		2005	
	Revenues	Percent	Revenues	Percent	Revenues	Percent	Revenues	Percent
Regular Grade	\$ 4.4	8.4%	\$ 5.6	17.8%	\$ 13.1	11.4%	\$ 15.4	18.5%
Special Select	23.4	44.9	14.6	46.5	49.3	43.4	36.4	44.0
Sea-Lac	2.9	5.6	5.3	16.9	7.4	6.5	14.4	17.4
Crude Oil	18.5	35.5	4.2	13.4	34.9	30.7	11.5	13.9
Refined Oil	2.1	4.0	1.3	4.1	6.7	5.9	3.7	4.5
Fish Solubles	0.6	1.2	0.4	1.3	1.9	1.7	1.4	1.7
Other	0.2	0.4	0.0	0.0	0.4	0.4	0.0	0.0
Total	\$ 52.1	100.0%	\$ 31.4	100.0%	\$ 113.7	100.0%	\$ 82.8	100.0%

Customers and Marketing. Most of Omega's marine protein products are sold directly to about 600 customers by Omega's agriproducts sales department, while a smaller amount is sold through independent sales agents. Product inventory was \$53.6 million on September 30, 2006 versus \$45.7 million as of September 30, 2005.

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. Fish oil sales primarily involve export markets where the fish oil is used for aquaculture feeds and is refined for use as a hydrogenated edible oil.

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

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

During the off season, Omega fills purchase orders from the inventory it has accumulated during the fishing season or in some cases, by re-selling meal purchased from other suppliers. Prices for 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 often significantly influenced by supply and demand in world markets for competing products, primarily other global sources of fish meal and oil, and also soybean meal for its fish meal products, and vegetable oils for its fish oil products when used as an alternative.

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

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

Part of Omega's business plan involves expanding its purchase and resale of other manufacturers' fish meal and fish oil products. During 2003, 2004 and 2005, 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. 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. During 2003, Omega purchased products totaling approximately 12,500 tons, or approximately 5% of total volume 2003 sales. During 2004, Omega purchased products totaling approximately 17,800 tons, or approximately 8% of total volume 2004 sales. During 2005, Omega purchased products totaling

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approximately 16,600 tons, or approximately 8% of total volume 2005 sales. For the nine months ended September 30, 2006, Omega purchased products totaling approximately 14,600 tons, the majority of which were sold during the second and third quarters of 2006.

Insurance. 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, annual aggregates 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. Over the last four years, Omega has elected to increase its deductibles and self-retentions in order to achieve lower insurance premium costs. These higher deductibles and self-retentions have resulted in greater costs to Omega in the case of Hurricanes Katrina and Rita and will expose Omega to greater risk of loss if additional future claims occur. In addition, Omega's cost of insurance for property damage has increased materially and will likely further increase materially in future years as insurers recoup losses paid and to be paid out in connection with the Katrina and Rita hurricanes by charging higher premiums. Omega does not maintain business interruption insurance in any material amount due to its high cost and limited availability.

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

Fish meal prices have historically borne a relationship to prevailing soybean meal prices (more weakly correlated in recent years), while prices for fish oil are generally influenced by prices for vegetable fats and oils, such as rape and palm oils. Thus, the prices for 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.

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 certain businesses to which Omega sells its products such as pet food manufacturers, aquaculture feed manufacturers, fertilizer companies and organic foods distributors), although historically, reviewed opportunities have been generally related in some manner to Omega's existing operations or which would have added new protein products to Omega's product lines. 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 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.

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 fiscal year) due to increased product availability, but prices during the fishing season tend to be

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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.

Safety Components

Safety Components International, Inc. ("Safety Components" or "Safety") is an independent supplier of automotive airbag fabric and cushions and technical fabrics with operations in North America and Europe. Zapata originally purchased its majority interest in Safety in 2003 and accounted for the transaction under the purchase method of accounting. In the third quarter of 2005, Zapata's Board of Directors approved a plan to pursue a sale of all of the Company's shares of Safety 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 accounting rules. As used throughout this document, all amounts and disclosures related to Safety pertain to "Discontinued Operations." Zapata closed on the sale of Safety in December 2005.

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.

	<u>Zapata Corporate</u>	<u>Omega Protein</u>	<u>Zap.com</u>	<u>Consolidated</u>
Three Months Ended September 30, 2006				
Revenues	\$ —	\$ 52,089	\$ —	\$ 52,089
Cost of revenues	—	44,748	—	44,748
Gross profit	—	7,341	—	7,341
Operating expense:				
Selling, general and administrative	595	3,467	38	4,100
Loss resulting from natural disaster, net	—	918	—	918
Impairment of long-lived assets	11,082	—	—	11,082
Operating (loss) income	<u>(11,677)</u>	<u>2,956</u>	<u>(38)</u>	<u>(8,759)</u>
Other income (expense)				
Interest income	970	100	22	1,092
Interest expense	—	(498)	—	(498)
Other, net	45	(33)	—	12
	1,015	(431)	22	606
(Loss) income before income taxes and minority interest	<u>(10,662)</u>	<u>2,525</u>	<u>(16)</u>	<u>(8,153)</u>
Benefit (provision) for income taxes	3,787	(713)	—	3,074
Minority interest in net loss (income) of consolidated subsidiaries(2)	—	(762)	—	(762)
Net (loss) income to common stockholders	<u>\$ (6,875)</u>	<u>\$ 1,050</u>	<u>\$ (16)</u>	<u>\$ (5,841)</u>
Diluted loss per share				<u>\$ (0.30)</u>

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	<u>Zapata Corporate</u>	<u>Discontinued Operations (1)</u>	<u>Omega Protein</u>	<u>Zap.Com</u>	<u>Consolidated</u>
Three Months Ended September 30, 2005					
Revenues	\$ —	—	\$ 31,418	\$ —	\$ 31,418
Cost of revenues	—	—	24,032	—	24,032
Gross profit	—	—	7,386	—	7,386
Operating expense:					
Selling, general and administrative	1,286	—	3,404	48	4,738
Loss resulting from natural disaster, net	—	—	13,183	—	13,183
Operating loss	<u>(1,286)</u>	<u>—</u>	<u>(9,201)</u>	<u>(48)</u>	<u>(10,535)</u>
Other income (expense)					
Interest income	214	—	105	15	334
Interest expense	—	—	(337)	—	(337)
Other, net	7	—	(66)	—	(59)
	221	—	(298)	15	(62)
Loss before income taxes and minority interest	(1,065)	—	(9,499)	(33)	(10,597)
Benefit for income taxes	1,325	—	3,359	—	4,684
Minority interest in net loss of consolidated subsidiaries(2)	—	—	2,581	2	2,583
Income (loss) from continuing operations	<u>260</u>	<u>—</u>	<u>(3,559)</u>	<u>(31)</u>	<u>(3,330)</u>
Discontinued operations:					
(Loss) income before taxes and minority interest (including loss on disposal)	(10,594)	1,748	—	—	(8,846)
Benefit (provision) for income taxes	3,378	(10)	—	—	3,368
Minority interest (2)	—	(353)	—	—	(353)
Net (loss) income from discontinued operations	<u>(7,216)</u>	<u>1,385</u>	<u>—</u>	<u>—</u>	<u>(5,831)</u>
Net (loss) income to common stockholders	<u>\$ (6,956)</u>	<u>\$ 1,385</u>	<u>\$ (3,559)</u>	<u>\$ (31)</u>	<u>\$ (9,161)</u>
Diluted loss per share					<u>\$ (0.48)</u>

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	<u>Zapata Corporate</u>	<u>Omega Protein</u>	<u>Zap.Com</u>	<u>Consolidated</u>
Nine Months Ended September 30, 2006				
Revenues	\$ —	\$ 113,730	\$ —	\$ 113,730
Cost of revenues	—	94,061	—	94,061
Gross profit	—	19,669	—	19,669
Operating expense:				
Selling, general and administrative	4,048	10,473	112	14,633
Loss resulting from natural disaster, net	—	1,351	—	1,351
Impairment of long-lived assets	11,082	—	—	11,082
Operating (loss) income	<u>(15,130)</u>	<u>7,845</u>	<u>(112)</u>	<u>(7,397)</u>
Other income (expense)				
Interest income	2,681	507	62	3,250
Interest expense	—	(1,550)	—	(1,550)
Other, net	239	(159)	—	80
	2,920	(1,202)	62	1,780
(Loss) income before income taxes and minority interest	(12,210)	6,643	(50)	(5,617)
Benefit (provision) for income taxes	3,666	(1,675)	—	1,991
Minority interest in net (income) loss of consolidated subsidiaries ⁽²⁾	—	(2,091)	1	(2,090)
Net (loss) income to common stockholders	<u>\$ (8,544)</u>	<u>\$ 2,877</u>	<u>\$ (49)</u>	<u>\$ (5,716)</u>
Diluted income per share				<u>\$ (0.30)</u>

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	<u>Zapata Corporate</u>	<u>Discontinued Operations (1)</u>	<u>Omega Protein</u>	<u>Zap.Com</u>	<u>Consolidated</u>
Nine Months Ended September 30, 2005					
Revenues	\$ —	\$ —	\$ 82,759	\$ —	\$ 82,759
Cost of revenues	<u>—</u>	<u>—</u>	<u>68,500</u>	<u>—</u>	<u>68,500</u>
Gross profit	—	—	14,259	—	14,259
Operating expense:					
Selling, general and administrative	4,219	—	9,235	113	13,567
Loss resulting from natural disaster, net	—	—	13,183	—	13,183
Operating (loss)	<u>(4,219)</u>	<u>—</u>	<u>(8,159)</u>	<u>(113)</u>	<u>(12,491)</u>
Other income (expense)					
Interest income	560	—	438	37	1,035
Interest expense	—	—	(845)	—	(845)
Other, net	<u>24</u>	<u>—</u>	<u>125</u>	<u>—</u>	<u>149</u>
	584	—	(282)	37	339
Loss before income taxes and Minority interest	(3,635)	—	(8,441)	(76)	(12,152)
Benefit for income taxes	2,020	—	3,067	—	5,087
Minority interest in net loss of consolidated subsidiaries(2)	—	—	2,262	2	2,264
Loss from continuing operations	<u>(1,615)</u>	<u>—</u>	<u>(3,112)</u>	<u>(74)</u>	<u>(4,801)</u>
Discontinued operations:					
(Loss) income before taxes and minority interest (including loss on disposal)	(10,594)	7,464	—	—	(3,130)
Benefit (provision) for income taxes	2,400	(1,889)	—	—	511
Minority interest (2)	—	(1,199)	—	—	(1,199)
Net (loss) income from discontinued operations	<u>(8,194)</u>	<u>4,376</u>	<u>—</u>	<u>—</u>	<u>(3,818)</u>
Net (loss) income to common stockholders	<u>\$ (9,809)</u>	<u>\$ 4,376</u>	<u>\$ (3,112)</u>	<u>\$ (74)</u>	<u>\$ (8,619)</u>
Diluted loss per share					<u>\$ (0.45)</u>

(1) Results of operations related to Safety Components have been disclosed within discontinued operations in accordance with SFAS No. 144. Due to the sale of Safety in December 2005, Safety's results of operations are excluded from Zapata's consolidated results for periods subsequent to the date of sale.

(2) Minority interest represents Zapata's minority stockholders' interest in the net income or loss of each segment.

For more information concerning segments, see Note 16 to the Company's Consolidated Financial Statements included in Item 1 of this Report.

Three Months Ended September 30, 2006 and 2005

Zapata reported a consolidated net loss of \$5.8 million or \$.30 per diluted share on consolidated revenues of \$52.1 million for the three months ended September 30, 2006 as compared to consolidated net loss of \$9.2 million or \$0.48 per diluted share on consolidated revenues of \$31.4 million for the three months ended September 30, 2005.

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

Revenues from continuing operations. Consolidated revenues increased \$20.7 million from \$31.4 million for the three months ended September 30, 2005 to \$52.1 million for the three months ended September 30, 2006. This increase was attributable to increased revenues at Omega Protein primarily resulting from a 213% increase in sales volumes of fish oil, partially offset by a 1% decline in fish meal sales volumes. Additionally, Omega experienced a 21% increase in sales prices of both fish meal and fish oil, a \$7.8 million increase in revenues due to increased sales prices and a \$12.7 million increase in revenues due to sales volumes of fish meal and fish oil.

Cost of revenues from continuing operations. Zapata's consolidated cost of revenues, including depreciation and amortization, for the three months ended September 30, 2006 was \$44.7 million, a \$20.7 million increase from \$24.0 million for the comparable quarter of the prior year. Omega's cost of revenues as a percentage of revenues increased 9% for the quarter ended September 30, 2006 due to higher costs arising from high energy prices, increased repair costs and decreased oil yields, partially offset by higher sales prices.

Selling, general and administrative from continuing operations. Consolidated selling, general, and administrative expenses decreased \$638,000 from \$4.7 million for the three months ended September 30, 2005 to \$4.1 million for the three months ended September 30, 2006. This decrease was primarily attributable to Zapata Corporate's decrease of \$691,000 which included the reversal of liabilities recorded in the second quarter of 2006 of \$831,000 related to health and medical benefits for Malcolm Glazer and his wife under the Company's Senior Executive Retiree Health Care Benefit Plan (See Note 11 to the Company's Condensed Consolidated Financial Statements included in Item 1 of this Report), partially offset by increased professional expenses associated with the Company's efforts to sell its Omega Protein common stock.

Loss resulting from natural disaster. For the quarter ended September 30, 2005, Omega Protein incurred a loss 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. For the quarter ended September 30, 2006, Omega recorded an additional \$918,000 loss representing costs in excess of the original involuntary conversion loss recorded previously.

Impairment of long-lived assets. In September of 2006, Zapata Corporate recorded an impairment charge of \$11.1 million to reduce the carrying value of the Company's investment in Omega Protein to fair value, through a reduction of Omega's long-lived assets, in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This charge was based on the \$5.109 per share value implied by the contemplated sale of Omega Protein under the stock purchase agreement (the sale price of \$5.125 less the amount estimated for the call option value). The ultimate amount of the impairment will not be known until the close of the transaction, which management believes will occur during November of 2006.

Interest income from continuing operations. Consolidated interest income increased \$758,000 from \$334,000 for the three months ended September 30, 2005 to \$1.1 million for the current quarter. This increase was primarily related to an increase of \$756,000 at Zapata Corporate resulting from higher interest rates on investment and an increase in cash balance available for investment after selling its common stock holdings in Safety Components.

Interest expense from continuing operations. Interest expense increased \$161,000 for the quarter ended September 30, 2006 as compared to the quarter ended September 30, 2005, primarily due to interest associated with the additional \$14.0 million in Fisheries Finance Program debt that Omega Protein obtained in October 2005.

Other income, net. For the three months ended September 30, 2006, the Company recognized consolidated other income of \$12,000 as compared to consolidated other expenses of \$59,000 for the comparable period of the prior year. This change resulted primarily from an increased other income at Zapata Corporate of \$38,000, and decreased other expenses at Omega of \$33,000 primarily the result of fees paid to its banking institutions.

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Minority interest from continuing operations. Minority interest from the consolidated statements of operations represents the minority stockholders' interest in the net income of the Company's subsidiaries (approximately 43% of Omega Protein and approximately 2% of Zap.Com). For the three months ended September 30, 2006, minority interest was a \$762,000 reduction to net income for the minority interest's share of Omega Protein and Zap.Com. For the three months ended September 30, 2005, minority interest was a \$2.6 million reduction of the net loss for the minority interest's share in the net loss of Omega Protein.

Income taxes from continuing operations. The Company recorded a consolidated benefit for income taxes of \$3.1 million for the three months ended September 30, 2006 as compared to a benefit of \$4.7 million for the comparable period of the prior year. The current period benefit resulted primarily from Zapata Corporate's adjustment of deferred tax liabilities related to the difference in the Company's book and tax basis in its investment in Omega Protein. The impairment loss recognized during the quarter ended September 30, 2006 reduced the Company's book basis in Omega Protein. Accordingly, the deferred tax liability was also reduced to reflect the reduction in the difference between the Company's book and tax basis in its investment in Omega Protein's common stock. The prior period benefit resulted primarily from Omega's recognition of tax benefits associated with hurricane related losses which occurred during the third quarter of 2005.

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. Generally, the provision or benefit will be equal to the sum of the Company's tax effected proportionate share of each subsidiary's net income or loss. For example, during periods where a subsidiary recognizes net income, the Company's consolidated provision for income taxes will include our subsidiary's tax provision in addition to a provision for the Company's tax effected proportionate share of the subsidiary's net income. 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.

Net income from discontinued operations. Pursuant to the Zapata Board of Directors' approval of the plan to sell the Company's shares of Safety Components and the subsequent sale of these shares to the WLR Recovery Funds, all operating results related to Safety have been reclassified and included in discontinued operations. For the three months ended September 30, 2005, net loss from discontinued operations was \$5.8 million.

Nine Months Ended September 30, 2006 and 2005

Zapata reported a consolidated net loss of \$5.7 million or \$0.30 per diluted share on consolidated revenues of \$113.7 million for the nine months ended September 30, 2006 as compared to a consolidated net loss of \$8.6 million or \$0.45 per diluted share on consolidated revenues of \$82.8 million for the nine months ended September 30, 2005.

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

Revenues from continuing operations. Consolidated revenues increased \$31.0 million from \$82.8 million for the nine months ended September 30, 2005 to \$113.7 million for the nine months ended September 30, 2006. This increase was attributable to increased revenues at Omega Protein, primarily resulting from a 145% increase in sales volumes of fish oil, partially offset by a 7% decline in fish meal sales volumes. Additionally, Omega experienced a 15% and 12% increase in sales prices of fish meal and fish oil, respectively. Omega experienced a \$12.9 million increase in revenues due to increased sales prices and a \$17.7 million increase in revenues due to sales volumes of fish meal and fish oil.

Cost of revenues from continuing operations. Zapata's consolidated cost of revenues, including depreciation and amortization, for the nine months ended September 30, 2006 was \$94.1 million, a \$25.6 million increase from \$68.5 million for the comparable period of the prior year. This increase was attributable to increased sales volumes at Omega Protein. Cost of revenues as a percentage of revenues held constant from the nine month period ended September 30, 2006 as compared to the comparable period of 2005.

Selling, general and administrative from continuing operations. Consolidated selling, general, and administrative expenses increased \$1.1 million from \$13.6 million for the nine months ended September 30, 2005 to \$14.6 million for

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the nine months ended September 30, 2006. This increase was primarily attributable to increased selling, general and administrative expenses at Omega Protein of \$1.2 million related to relocating the administrative offices from Louisiana to Texas, consulting costs and costs associated with the new Technical Center.

Loss resulting from natural disaster. For the nine month period ended September 30, 2005, Omega Protein incurred a loss 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. During the nine month period ended September 30, 2006, Omega Protein recorded additional losses of \$1.4 million representing costs in excess of the original involuntary conversion loss recorded at December 30, 2005.

Impairment of long-lived assets. In September of 2006, Zapata Corporate recorded an impairment charge of \$11.1 million to reduce the carrying value of the Company's investment in Omega Protein to fair value, through a reduction of Omega's long-lived assets, in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This charge was based on the \$5.109 per share value implied by the contemplated sale of Omega Protein under the stock purchase agreement (the sale price of \$5.125 less the amount estimated for the call option value). The ultimate amount of the impairment will not be known until the close of the transaction, which management believes will occur during November of 2006.

Interest income from continuing operations. Consolidated interest income increased \$2.2 million from \$1.0 million for the nine months ended September 30, 2005 to \$3.3 million for the current period. This increase was primarily related to an increase of \$2.1 million at Zapata Corporate resulting from higher interest rates on investment and an increase in cash balance available for investment after selling its common stock holdings in Safety Components. This increase combined with an increase of \$69,000 at Omega protein primarily due to improved rates of return on Omega's investments.

Interest expense from continuing operations. Interest expense increased \$705,000 for the period ended September 30, 2006 as compared to the period ended September 30, 2005, primarily due to interest associated with the additional \$14.0 million in debt that Omega Protein obtained in October 2005.

Other income, net. Other income decreased \$69,000 in the nine months ended September 30, 2006 as compared to the nine months ended September 30, 2005. The decrease was primarily due to an insurance gain Omega recognized during the nine months ended September 30, 2005.

Minority interest from continuing operations. Minority interest from the consolidated statements of operations represents the minority stockholders' interest in the net income of the Company's subsidiaries (approximately 43% of Omega Protein and approximately 2% of Zap.Com). For the nine months ended September 30, 2006, minority interest was a \$2.1 million reduction to the net income contributed from Omega, as compared to a \$2.3 million reduction to the net loss contributed from Omega for the nine months ended September 30, 2005.

Income taxes from continuing operations. The Company recorded a consolidated benefit for income taxes of \$2.0 million for the nine months ended September 30, 2006 as compared to a benefit of \$5.1 million for the comparable period of the prior year. The current period benefit resulted primarily from Zapata Corporate's adjustment of deferred tax liabilities related to the difference in the Company's book and tax basis in its investment in Omega Protein. The impairment loss recognized during the quarter ended September 30, 2006 reduced the Company's book basis in Omega Protein. Accordingly, the deferred tax liability was also reduced to reflect the reduction in the difference between the Company's book and tax basis in its investment in Omega Protein's common stock. The prior period benefit resulted primarily from Omega's recognition of tax benefits associated with hurricane related losses which occurred during the third quarter of 2005.

Net income from discontinued operations. Pursuant to the Zapata Board of Directors' approval of the plan to sell the Company's shares of Safety Components and the subsequent sale of these shares to the WLR Recovery Funds, all operating results related to Safety have been reclassified and included in discontinued operations. For the nine months ended September 30, 2005, net loss from discontinued operations was \$3.8 million.

Liquidity and Capital Resources

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Zapata, Omega Protein and Zap.Com are separate public companies. Accordingly, the capital resources and liquidity of Omega Protein and Zap.Com are legally independent of Zapata. The working capital and other assets of 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 their respective stockholders. Omega Protein's credit facilities currently prohibit any dividends from being declared or paid with respect to its outstanding 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, 2006, 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, 2005.

Zapata Corporate

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

Zapata Corporate's liquidity needs are primarily for operating expenses, litigation and insurance costs. Zapata Corporate may also invest a significant portion of its cash and cash equivalents in the acquisition of other operating businesses, funding of start-up proposals and possible stock repurchases.

As of September 30, 2006, 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, 2005.

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 or repurchases of Zapata stock. Zapata Corporate's investments consist of U.S. Government agency securities and cash equivalents. As of September 30, 2006, Zapata Corporate's cash and cash equivalents were \$74.8 million as compared to \$75.3 million as of December 31, 2005. This decline resulted primarily from cash used by Zapata Corporate's operations which exceeded interest income earned during the period.

In addition, the Company expects to receive approximately \$47.5 million for the sale of 9,268,292 Omega shares, as discussed above. Following this sale, Zapata will hold 5,232,708 Omega shares, or approximately 33% of Omega's outstanding common stock, 98% of Zap.Com's outstanding common stock and approximately \$123.0 million in cash and cash equivalents. Zapata has no plans to dissolve or liquidate. The Company's Board of Directors has authorized management to seek one or more buyers for the Company's remaining Omega shares and to pursue acquisitions or other strategic opportunities in an effort to position us to enhance stockholder value. Though the Company has no immediate plans for the use of the proceeds from the Omega transaction, the Company is likely to use some or all of the Company's cash and cash equivalents to fund, in whole or part, one or more acquisitions or related transactions. There are no limits on the types of businesses or fields in which the Company may invest. No businesses to acquire or develop have been identified at this time. The Company cannot predict what changes to its present business or operations would result from the sale of the Omega shares.

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

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Although the Stock Purchase Agreement between Zapata and Omega required that Omega, as promptly as practicable after the date of the Agreement, but no less than 20 business days thereafter, file a Registration Statement on Form S-3 for the resale of Zapata's remaining shares, both parties have agreed that Omega delay the filing of the Registration Statement until such time as the Company notifies Omega of a new deadline for the filing of the Registration Statement. Such notification shall precede the new deadline by at least 15 business days.

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, 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, 2006, 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, 2005.

Summary of Cash Flows

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

	<u>Zapata Corporate</u>	<u>Omega Protein</u>	<u>Zap.Com</u>	<u>Safety Components</u>	<u>Consolidated</u>
Nine Months Ended September 30, 2006					
Cash (used in) provided by					
Operating activities	\$ (627)	\$ 3,366	\$ (44)	\$ —	\$ 2,695
Investing activities	—	(15,237)	—	—	(15,237)
Financing activities	190	(944)	—	—	(754)
Effect of exchange rate changes on cash and cash equivalents	—	(5)	—	—	(5)
Net (decrease) increase in cash and cash equivalents	<u>\$ (437)</u>	<u>\$ (12,820)</u>	<u>\$ (44)</u>	<u>\$ —</u>	<u>\$ (13,301)</u>

	<u>Zapata Corporate</u>	<u>Omega Protein</u>	<u>Zap.Com</u>	<u>Safety Components</u>	<u>Consolidated</u>
Nine Months Ended September 30, 2005					
Cash (used in) provided by					
Operating activities	\$ (2,874)	\$ (8,891)	\$ (35)	\$ 12,824	\$ 1,024
Investing activities	—	(12,813)	—	(5,485)	(18,298)
Financing activities	23	(478)	—	(2,062)	(2,517)
Effect of exchange rate changes on cash and cash equivalents	—	10	—	(3,203)	(3,193)
Net decrease in cash and cash equivalents	<u>\$ (2,851)</u>	<u>\$ (22,172)</u>	<u>\$ (35)</u>	<u>\$ 2,074</u>	<u>\$ (22,984)</u>

Net cash provided by operating activities. Consolidated cash used in operating activities was \$2.7 million and \$1.0 million for the nine months ended September 30, 2006 and 2005, respectively. The increase in consolidated cash provided by operating activities resulted primarily from increased income at Omega, largely offset by the effects of ceasing to consolidate Safety's cash flow information since the completion of the sale in December of 2005.

Net cash used in investing activities. Consolidated cash used in investing activities was \$15.2 million and \$18.3 million for the nine months ended September 30, 2006 and 2005, respectively. The decrease resulted from ceasing to consolidate Safety's cash flow information since the completion of the sale in December of 2005, partially offset by an increase in cash used in investing activities at Omega Protein. Omega's investing activities for the nine months ended September 30, 2006 included an increase in capital expenditures, partially offset by the receipt of \$2.0 million in insurance proceeds related to Hurricanes Katrina and Rita. In addition to any future capital expenditures related to the replacement or repair of property and equipment due to Hurricanes Katrina and Rita, Omega Protein anticipates making

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approximately \$8.0 million in capital expenditures in 2006, which will be used to refurbish vessels, plant assets and to repair certain equipment.

Net cash used in financing activities. Consolidated cash used in financing activities was \$754,000 for the nine months ended September 30, 2006 as compared to \$2.5 million for the nine months ended September 30, 2005. This change resulted primarily from Zapata's sale of Safety Components and ceasing to consolidate Safety's cash flow information, partially offset by increased proceeds from stock option exercises at Omega Protein and Zapata Corporate.

Effect of exchange rate changes. For the nine months ended September 30, 2006, cash and cash equivalents included a \$5,000 effect of exchange rate changes as compared to \$3.2 million for the nine months ended September 30, 2005. This decrease is a result of ceasing to consolidate Safety's cash flow information since the sale in December of 2005.

Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). This Standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The adoption of SFAS 157 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)." This standard requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur as a component of comprehensive income. The standard also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. The requirement to recognize the funded status of a defined benefit postretirement plan is effective as of the end of the fiscal year ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for the fiscal years ending after December 15, 2008. The Company has determined that the adoption of SFAS No. 158 will have a material impact on its financial statements. For example, our actuarial valuation as of December 31, 2005 stated that approximately \$15.3 million of our \$15.8 million prepaid pension asset was comprised of unrecognized losses. Upon adoption of SFAS No. 158, we expect that a similar amount of previously unrecognized losses will be recognized as a reduction of our prepaid pension asset and recognized as a component of accumulated other comprehensive income.

In September 2006, the SEC staff issued Staff Accounting Bulletin (SAB) No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements. This SAB establishes a "dual approach" methodology that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company's financial statements (both the statement of operations and statement of financial position). The SEC has stated that SAB No. 108 should be applied no later than the annual financial statements for the first fiscal year ending after November 15, 2006, with earlier application encouraged. SAB No. 108 permits a company to elect either retrospective or prospective application. Prospective application requires recording a cumulative effect adjustment in the period of adoption, as well as detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose. The Company's application of SAB No. 108 in the fourth quarter of 2006 is not expected to have any impact on its consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Specifically, the pronouncement prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. The interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact, if any, of this new pronouncement on its consolidated financial statements.

Critical Accounting Policies and Estimates

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As of September 30, 2006, 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, 2005.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Equity Price Risk. As the Company considers its holdings of Omega Protein and Zap.Com common stock 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 \$90.1 million at September 30, 2006 as a hypothetical constant cash balance, an adverse change of 1% in interest rates would decrease interest income by approximately \$225,000 and \$676,000 during a three-month and nine-month period, respectively.

Market Risk. Omega Protein is exposed to minimal market risk associated with interest rate movements on its 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. 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

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and its Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this report, that the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) is accumulated and communicated to the Company's management, including its Chief Executive Officer and its Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

The Company's previously filed Form 10-Q for the period ended June 30, 2006 stated that the Company had not yet demonstrated an adequate period of operating effectiveness with respect to enhancements made to controls over the completeness and accuracy of its income tax accounting. Such enhancements were made in order to address a material weakness in our internal control over financial reporting which was initially disclosed in the Company's Form 10-K for the year ended December 31, 2005. This material weakness resulted in the restatement of the Company's consolidated financial statements for quarter ended September 30, 2005. As of the end of the period covered by this report, The Company's Chief Executive Officer and its Chief Financial Officer have concluded that the Company's ongoing remediation efforts (as described below) resulted in control enhancements which have operated for an adequate period of time to demonstrate operating effectiveness.

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This section of Item 4, "Evaluation of Disclosure Controls and Procedures," should be read in conjunction with both Item 4's contained in the Company's Form 10-Q's for the periods ended March 31 and June 30, 2006 in addition to Item 9A, "Controls and Procedures," included in the Company's Form 10-K for the year ended December 31, 2005.

Changes in Internal Control Over Financial Reporting

Management determined that, as of December 31, 2005, the Company did not maintain effective controls over the application and monitoring of its accounting for income taxes. Specifically, management 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 the accounting for income taxes. This control deficiency could have resulted 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 previously determined that this control deficiency constituted a material weakness in our internal control over financial reporting.

Management believes that, as of September 30, 2006, it has effectively executed its remediation plans that were established to address the material weakness in its internal controls surrounding the accounting for income taxes. As of the date of this filing, the following remedial actions have been undertaken:

- For the first, second, and third quarters of 2006, the Company engaged its outside tax advisors in discussions regarding the implementation and operation of control procedures designed to ensure the completeness and accuracy of the Company's quarterly tax provision. These discussions included a detailed review of the impact of the quarterly provision on the Company's deferred income tax accounts. This process has and should continue to improve the review and oversight process relating to the internal controls over the Company's accounting for income taxes.
- During the second quarter of 2006, the Company held training sessions on accounting for income taxes for its entire professional accounting staff. Ongoing training is expected to improve management's 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.

The aforementioned changes in the Company's internal control over financial reporting during the quarter ended September 30, 2006 materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

As of September 30, 2006, the Company's risk factors have not changed materially from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2005, except for the following.

We may not be successful in completing the sale of our Omega shares back to Omega or finding a buyer for our remaining shares in Omega

We entered into a stock purchase agreement with Omega, whereby Omega would repurchase 9,268,292 Omega shares from Zapata and would have an option to acquire all, but not less than all, of the remaining 5,232,708 Omega shares that we do not dispose of prior to the exercise of the option. The option is exercisable from the 270th day until the 390th day after the initial closing. We expect that the initial closing will occur in November 2006. However, the completion of the transaction is subject to several conditions, including but not limited to, that we receive confirmation of the solvency opinion from TM Capital as of the closing date and that there be no injunction or order

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restraining the closing of the transaction. Either party may terminate the sale transaction if these and other conditions have not been satisfied by December 7, 2006, or if before the closing there is an injunction or order restraining the closing of the transaction. As a result, there can be no assurance that the closing will occur or that it will not be delayed. There is also no assurance that, whether or not the Omega sale transaction closes, we will be able to sell the remaining Omega shares held by us to third parties or to Omega pursuant to its call option.

In addition, there can be no assurance that we will be able to sell our interest in Omega for an amount in excess of our carrying value. We reduced our carrying value in our shares after signing the stock purchase agreement with Omega. Should we sell our remaining interest in Omega for an amount less than our carrying value at that time, we would incur additional transaction losses, net of tax consequences.

Lastly, although we may distribute to our stockholders a dividend consisting of all of or a portion of the remaining Omega shares, there can be no assurance that we will do so.

Our portfolio of investments may cause us to be classified as an investment company.

Since a significant portion of our assets consist of securities, including equity and other interests in operating companies, we could become subject to the registration requirements of the Investment Company Act of 1940, or 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, owning, holding or trading in securities, or that fail certain statistical tests concerning a company's asset composition and sources of income. We intend to actively participate in the management of our operating companies, consistent with applicable laws, contractual arrangements and other requirements. Accordingly, we believe that we are primarily engaged in a business other than investing, reinvesting, owning, holding or trading in securities. Further, we endeavor to ensure that our holdings of investment securities constitute less than 40% of our total assets (excluding Government securities and cash) on an unconsolidated basis.

Following our planned sale of our Omega Protein shares, however, the composition of our assets may cause us to fall within the definition of an investment company. In such an event we intend to rely on a one-year temporary exclusion for companies that are in transition and that have a bona fide intent to be engaged primarily in a business other than investing in securities as soon as is reasonably possible, but in any event within one year. We will monitor and attempt to adjust the nature of assets and our interests in and involvement with operating companies in order to avoid being subject to the registration requirements of the Investment Company Act. There can be no assurance, however, that our business activities will not ultimately subject us to the Investment Company Act, or that we will qualify for any exemptions from such regulation. If we are required to register as an investment company under the Investment Company Act, we would become subject to regulations that would have a material adverse impact on our financial position, results of operations and cash flows.

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

As discussed above, on September 8, 2006, the Company entered into a stock purchase agreement with Omega, its majority-owned subsidiary. The stock purchase agreement, among other things, provides for Omega's repurchase from the Company of 9,268,292 Omega shares at a purchase price of \$5.125 per share, or \$47.5 million in the aggregate, payable in cash, and the grant by the Company to Omega of a call option to purchase all, but not less than all of the remaining Omega shares held by the Company on the date of exercise at a price of \$4.50 per share, payable in cash. The call option is exercisable by Omega beginning on the 270th day and ending on the 390th day after the sale of our 9,268,292 Omega shares has been completed, subject to certain conditions.

The Company's majority stockholder, The Malcolm I. Glazer Family Limited Partnership, which holds 9,813,112 shares of the Company's common stock, or approximately 51.2% of the Company's outstanding shares of

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common stock, provided a written consent to the Company dated September 8, 2006 that approved the proposed sale of the Company's Omega shares pursuant to the stock purchase agreement, the sale of the Company's 5,232,708 remaining shares in an alternative transaction approved by the Company's Board of Directors, and the sale of all of the Company's Omega shares in a "superior proposal" (as defined in the stock purchase agreement) as determined by the Company's Board of Directors.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

- 10.1* Stock Purchase Agreement dated September 8, 2006 between Zapata Corporation and Omega Protein Corporation (Appendix A to Zapata's Definitive Information Statement on Schedule 14C (File No. 1-4219) filed with the Securities and Exchange Commission on October 31, 2006).
- 10.2 Escrow Agreement dated September 8, 2006 among Zapata Corporation, Omega Protein Corporation and Manufacturers and Traders Trust Company.
- 10.3* Letter Agreement dated October 18, 2006 between Zapata Corporation and Omega Protein Corporation, amending the Stock Purchase Agreement between the parties dated as of September 8, 2006 (Exhibit 10.1 to Zapata's Current Report on Form 8-K (File No. 1-4219) filed September 24, 2006).
- 31.1 Certification of CEO Pursuant to Rule 13a-14 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 Pursuant to Rule 13a-14 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.

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

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: November 9, 2006

By: /s/ Leonard DiSalvo
(Vice President— Finance and Chief
Financial Officer)

ESCROW AGREEMENT

This **Escrow Agreement** (the “**Agreement**”) dated as of September 8, 2006, among **Omega Protein Corporation**, a Nevada corporation (“**Purchaser**”), with an address of 2101 CityWest Boulevard, Building 3, Suite 500, Houston, Texas 77042, **Zapata Corporation**, a Nevada corporation (the “**Seller**”), with an address of 100 Meridian Centre, Suite 350, Rochester, New York 14618 and Manufacturers and Traders Trust Company (the “**Escrow Agent**”). Capitalized terms used but not defined herein have the meanings assigned to them in the Purchase Agreement;

WHEREAS, the Purchaser and the Seller have entered into a Stock Purchase Agreement (the “**Purchase Agreement**”), on even date herewith, pursuant to which the Purchaser has agreed to repurchase from the Seller and the Seller has agreed to sell to the Purchaser 9,268,292 shares (the “**Shares**”) of common stock, par value \$0.01 per share of Purchaser on the terms and conditions therein; and

WHEREAS, in accordance with the provisions of Section 3.1 of the Purchase Agreement, (a) the Purchaser has agreed to deliver to the Escrow Agent the Purchase Price payable under the Purchase Agreement, and (b) the Seller has agreed to deliver to the Escrow Agent the certificates representing the Shares and stock powers duly endorsed to the Purchaser, in each case to be held by the Escrow Agent in accordance with the terms and provisions of this Agreement;

NOW THEREFORE, the parties hereto agree as follows:

Section 1. Escrow Agent. The Purchaser and the Seller hereby appoint and designate Manufacturers and Traders Trust Company, as Escrow Agent for the purposes set forth in this Agreement. (All references to the Escrow Agent, as that term is used in this Agreement, shall refer to the Escrow Agent solely in its capacity as an escrow agent under the terms of this Agreement, and not to it in any other capacity whatsoever whether as individual, agent, attorney, fiduciary, trustee or otherwise.) The Escrow Agent hereby accepts such appointment, and agrees to hold, invest, disburse and release all assets and property deposited with it hereunder (the “**Escrowed Property**”) in accordance with the terms hereof.

Section 2. Deposits.

(a) **Purchase Price.** Subject to the terms of the Purchase Agreement, within forty-five (45) days following the date hereof (or such later date as the Purchaser and the Seller parties may agree in writing), the Purchaser shall deposit with the Escrow Agent by wire transfer of immediately available funds an amount of U.S. \$47,500,000 to an escrow account designated by the Escrow Agent (the “**Escrowed Purchase Price**”).

(b) **Shares and Distributions.** Subject to the terms of the Purchase Agreement, within forty-five (45) days following the date hereof (or such later date as the Purchaser and the Seller may agree in writing), the Seller shall deliver to the Escrow Agent that certain share certificate of Omega Protein Corporation number OM0000230, registered in the name of the Seller dated September 6, 2006 (the “**Certificate**”) which represents the Shares, together with the relating stock powers duly endorsed in blank (the “**Escrowed Shares**”). If delivery of the Escrowed Shares shall be made other than by hand, the Seller shall ensure that the Certificate and the relating stock powers are delivered to Escrow Agent under separate cover. If during the term of this Escrow Agreement, a dividend or other distribution shall be made or issued upon or on account of any of the Escrowed Shares (an “**Escrowed Distribution**”), the Seller shall, immediately following receipt thereof, deliver such Escrowed Distribution to the Escrow Agent to be retained by the Escrow Agent with the Escrowed Shares and eventually distributed therewith in accordance with the terms hereof. As long as the Escrowed Shares are held in escrow in accordance with this Agreement, the Seller shall have the right to vote all Escrowed Shares and other rights as a stockholder with respect thereto.

(c) **Investment of Purchase Price.** The Escrow Agent shall invest and reinvest all funds received under this Agreement as directed in a written instruction (an “**Investment Direction Letter**”) signed jointly by the Purchaser and Seller in one of the following (the “**Permitted Investments**”):

- (i) MTB U.S. Government Money Market Fund, a AAA rated money market deposit

account of Manufacturers and Traders Trust Company;

(ii) United States Treasury Bills with a maturity of 30 days, or

(iii) as otherwise directed jointly in writing by the Purchaser and the Seller provided such investment can be accommodated by the Escrow Agent.

In the absence of an Investment Direction Letter, the Escrow Agent shall invest and reinvest all funds in (i) above. In addition, any residual cash which cannot be invested in (ii) or (iii) above and any cash awaiting investment in (ii) or (iii) above shall be invested in (i) above. All interest or other income received in respect of the Escrowed Purchase Price or the Escrowed Distributions shall be added thereto and reinvested by Escrow Agent in accordance herewith until the Escrowed Property is distributed in accordance with Section 4 hereof.

Section 3. Distribution of Interest and Other Income, Allocation of Taxes.

(a) At the time of the distribution in accordance with the terms of this Agreement, the Escrow Agent shall pay (i) to the Purchaser, in accordance with Section 4 hereof, all Accrued Interest since the date of its deposit with the Escrow Agent, and (ii) to the party receiving Escrowed Distributions, in accordance with Section 4 hereof, all interest or other income received in respect thereof since the date of its deposit with the Escrow Agent.

(b) All income accrued with respect to any interest or other income accrued in respect of the Escrowed Purchase Price shall be allocated by the Escrow Agent to the Purchaser, in accordance with Section 4 hereof.

(c) All income accrued with respect to any interest or other income accrued in respect of the Escrowed Distributions shall be allocated by the Escrow Agent to the party receiving such Escrowed Distributions, in accordance with Section 4 hereof.

(d) In the event there shall exist, at the end of any calendar year, any undistributed income accrued in respect of any Escrowed Property, Purchaser and Seller shall provide the Escrow Agent with joint instructions as to how such income should be attributed for 1099 reporting purposes.

Section 4. Distribution of Escrow.

(a) *General.* The Escrow Agent shall hold the Escrowed Property and shall not deliver any amounts thereof to any party other than (i) in accordance with Sections 4(b) and 4(c), (ii) pursuant to an Award (as defined below), or (iii) by depositing the Escrowed Property with a court of competent jurisdiction as provided in Section 5(f) below or successor escrow agent in accordance with Section 8 below. Immediately following the disbursement of the Escrowed Property in accordance with the terms and conditions of this Escrow Agreement, the Escrow Agent shall be released from all of its obligations hereunder.

(b) *Closing Conditions Satisfied.* Immediately following the satisfaction or waiver of the closing conditions by the party entitled to assert any such conditions in Article 8 of the Purchase Agreement and no later than two business days prior to the Closing Date, the Purchaser and the Seller shall deliver to the Escrow Agent a written notice (the "**Closing Notice**") signed by the Purchaser and the Seller certifying that the closing conditions under Article 8 of the Purchase Agreement have been satisfied or waived and providing the date which the parties agreed to be the Closing Date. On the Closing Date, the Escrow Agent shall deliver: (i) the Escrowed Purchase Price to the Seller by wire transfer of immediately available funds in accordance with written wire transfer instructions provided by the Seller, and (ii) the certificates representing the Shares, the stock powers duly endorsed to the Purchaser, the Escrowed Distributions together with interest and earnings thereon and all Accrued Interest on the Escrowed Purchase Price to the Purchaser at the address set forth in Section 9(b) and by wire transfer of immediately available funds in accordance with written wire transfer instructions provided by the Purchaser, as applicable.

(c) *Termination of Purchase Agreement.* If the Escrow Agent receives a written notice ("**Termination Notice**") from either the Purchaser or the Seller (a copy of which shall be simultaneously given to the other party) that it has terminated the Purchase Agreement pursuant to and in accordance with Article 10 thereof, and does not within ten (10) calendar days thereafter receive a written notice from the other party objecting to the

release of the Escrowed Property (“**Termination Objection Notice**”), a copy of which shall be simultaneously given to the other party), the Escrow Agent shall deliver on the eleventh calendar day following the Escrow Agent’s receipt of such Termination Notice, (i) the Escrowed Purchased Price together with the interest and other earnings thereon to the Purchaser by wire transfer of immediately available funds in accordance with written wire transfer instructions provided by the Purchaser and (ii) the Escrowed Shares to the Seller at the address set forth in Section 9(b) and the Escrowed Distributions together with interest and earnings thereon to the Seller by wire transfer of immediately available funds in accordance with written wire transfer instructions provided by the Seller. If within 10 days following its receipt of a Termination Notice, the Escrow Agent receives a Termination Objection Notice, the Escrow Agent shall continue to hold the Escrowed Property until Escrow Agent receives a Settlement Memorandum or an Award is granted, in each case in accordance with Section 4(e).

(d) Reliance by Escrow Agent. Subject to Escrow Agent’s normal procedures, including the confirmation procedures contained in Section 9(a), Escrow Agent shall be entitled to rely conclusively on: (i) any Closing Notice or Termination Notice received by it in accordance with Section 4(b) or 4(c); and (ii) any Termination Objection Notice received by it.

(e) Resolution of Dispute.

(i) In case there is delivered to the Escrow Agent a Termination Objection Notice, the Purchaser and the Seller shall endeavor to agree upon the rights of the respective parties with respect to the Escrowed Property. If the parties should so agree, a memorandum (a “**Settlement Memorandum**”) setting forth such agreement and containing instructions to the Escrow Agent shall be prepared, signed by both parties and furnished to the Escrow Agent. The Escrow Agent shall be entitled to rely conclusively on any such Settlement Memorandum. If the Parties are unable to so agree, then, upon a Final Determination (as defined below), the prevailing party shall submit such Final Determination to the Escrow Agent, together with an opinion of counsel for the presenting party reasonably satisfactory to the Escrow Agent to the effect that such decision is a Final Determination, and the Escrow Agent shall disburse the Escrowed Property as instructed in such Final Determination. The Escrow Agent shall act on such Final Determination (and opinion of counsel) without further question. In addition, notwithstanding any of the provisions herein to the contrary, the Escrow Agent shall disburse the Escrowed Property from time to time as the Purchaser and the Seller shall jointly notify the Escrow Agent in writing, promptly after receipt by the Escrow Agent of a joint written notice from the Purchaser and the Seller. A Final Determination” shall mean a final non-appealable judgment of a court of competent jurisdiction and shall be accompanied by an opinion of counsel for the presenting party reasonably satisfactory to the Escrow Agent to the effect that such judgment is a Final Determination.

(ii) If a dispute over the Escrow Agent’s duties with respect to the disposition of the Escrowed Property has not been finally resolved in accordance with procedure of Section 4(e)(i), any such dispute shall be settled by filing a demand for arbitration with the American Arbitration Association (“AAA”). Such dispute shall then be settled by one (1) arbitrator having reasonable experience in corporate finance transactions of the type provided for in this Agreement to be chosen by the AAA. The arbitration will be conducted on an expedited basis in accordance with the Commercial Rules of the AAA in effect on the date a demand for arbitration is filed with the AAA. The Arbitrator shall, within 10 business days of his designation, deliver a report to the Seller, the Purchaser and the Escrow Agent containing the Arbitrator’s conclusions regarding the final disbursement of the Escrowed Property (the “**Award**”), which Award shall contain detailed instructions to Escrow Agent as to the disbursement of such Escrowed Property. The Award shall be final, conclusive and binding on the parties. Judgment on the Award rendered by the arbitrator may be entered in any court having jurisdiction thereof. The place of arbitration shall be in Buffalo, New York.

Section 5. Rights, Obligations and Indemnification of Escrow Agent.

(a) The Escrow Agent shall neither be responsible for or under, nor chargeable with knowledge of, the terms and conditions of any other agreement, instrument or document executed between/among the parties hereto. This Agreement sets forth all of the obligations of the Escrow Agent, and no additional obligations shall be implied from the terms of this Agreement or any other agreement, instrument or document.

(b) The Escrow Agent may act in reliance upon any instructions, notice, certification, demand, consent, authorization, receipt, power of attorney or other writing delivered to it by any other party without being required to determine the authenticity or validity thereof or the correctness of any fact stated therein, the propriety or

validity of the service thereof, or the jurisdiction of the court issuing any judgment or order. The Escrow Agent may act in reliance upon any signature believed by it to be genuine, and may assume that such person has been properly authorized to do so.

(c) Each of the parties, jointly and severally, agrees to reimburse the Escrow Agent on demand for, and to indemnify and hold the Escrow Agent harmless against and with respect to, any and all loss, liability, damage or expense (including, but without limitation, attorneys' fees, costs and disbursements) that the Escrow Agent may suffer or incur in connection with this Agreement and its performance hereunder or in connection herewith, except to the extent such loss, liability, damage or expense arises from its willful misconduct or gross negligence as adjudicated by a court of competent jurisdiction.

(d) The Escrow Agent may consult with legal counsel of its selection in the event of any dispute or question as to the meaning or construction of any of the provisions hereof or its duties hereunder, and it shall incur no liability and shall be fully protected in acting in accordance with the opinion and instructions of such counsel. Purchaser agrees to reimburse the Escrow Agent on demand for such legal fees, disbursements and expenses.

(e) The Escrow Agent shall be under no duty to give the Escrowed Property by it hereunder any greater degree of care than it gives its own similar property.

(f) In the event of any disagreement between/among any of the parties to this Agreement, or between/among them or either or any of them and any other person, resulting in adverse claims or demands being made in connection with the subject matter of the Escrowed Property, or in the event that the Escrow Agent, in good faith, be in doubt as to what action it should take hereunder, the Escrow Agent may, at its option, refuse to comply with any claims or demands on it, or refuse to take any other action hereunder, so long as such disagreement continues or such doubt exists, and in any such event, the Escrow Agent shall not become liable in any way or to any person for its failure or refusal to act, and the Escrow Agent shall be entitled to continue so to refrain from acting until (i) the rights of all parties shall have been fully and finally adjudicated by a court of competent jurisdiction, or (ii) all differences shall have been adjusted and all doubt resolved by agreement among all of the interested persons, and the Escrow Agent shall have been notified thereof in writing signed by all such persons. The Escrow Agent shall have the option, after 30 calendar days' notice to the other parties of its intention to do so, to file an action in interpleader requiring the parties to answer and litigate any claims and rights among themselves. The rights of the Escrow Agent under this paragraph are cumulative of all other rights which it may have by law or otherwise.

Section 6. Tax Reporting. The Escrow Agent shall make payments of income earned on the Escrowed Property as provided herein. Each such payee shall provide to the Escrow Agent an appropriate W-9 form for tax identification number certification or a W-8 form for non-resident alien certification. The Escrow Agent shall be responsible only for income reporting to the Internal Revenue Service with respect to income earned on the escrowed property.

Section 7. Fees, Expenses and Charges. The Purchaser shall be solely liable for the fees, expenses and charges of the Escrow Agent in accordance Schedule A attached hereto, including reasonable fees, out-of-pocket expenses and charges of counsel engaged by it in connection with the execution of this Agreement and its services under this Agreement, which fees, out-of-pocket expenses and charges shall be payable on demand.

Section 8. Resignation of Escrow Agent, Successor. The Escrow Agent may, in its sole discretion, resign and terminate its position hereunder at any time following 30 calendar days' written notice to the parties to the Agreement. Any such resignation shall terminate all obligations and duties of the Escrow Agent hereunder. On the effective date of such resignation, the Escrow Agent shall deliver this Agreement together with any and all related instruments or documents to any successor Escrow Agent agreeable to the parties, subject to this Agreement. If a successor Escrow Agent has not been appointed prior to the expiration of 30 calendar days following the date of the notice of such resignation, the then acting Escrow Agent may petition any court of competent jurisdiction for the appointment of a successor Escrow Agent, or other appropriate relief. Any such resulting appointment shall be binding upon all of the parties to this Agreement.

Section 9. Miscellaneous.

(a) *Escrow Agent's Right to Confirm Instructions.* In the event funds transfer instructions are given

The Escrow Agent shall provide monthly account statements and transaction advices to all parties identified in this Section 9(b) unless instructed otherwise in writing by the party in question.

Notwithstanding any of the foregoing, any computation of a time period which is to begin after receipt of a notice by the Escrow Agent shall run from the date of receipt by it.

(c) No Waivers; Remedies. No failure or delay by the any party in exercising any right, power or privilege under this Agreement shall operate as a waiver of the right, power or privilege. A single or partial exercise of any right, power or privilege shall not preclude any other or further exercise of the right, power or privilege or the exercise of any other right, power or privilege. The rights and remedies provided in this Agreement shall be cumulative and not exclusive of any rights or remedies provided by law.

(d) Amendments, Etc. No amendment, modification, termination, or waiver of any provision of this Agreement and no consent to any departure by a party from any provision of this Agreement, shall be effective unless it shall be in writing and signed and delivered by the other parties, and then it shall be effective only in the specific instance and for the specific purpose for which it is given.

(e) Successors and Assigns; No Third Party Beneficiaries, Etc. All provisions hereof shall inure to the benefit of and be binding upon, the parties hereto and their successors and assigns. No other parties shall have any rights under or be entitled to enforce this Agreement.

(f) Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York without reference to conflicts of law principles. Any litigation between the parties involving the Escrow Agent's duties under this Agreement shall be adjudicated in a court located in either Erie County, New York. The parties hereby irrevocably consent to the jurisdiction and venue of such courts, including with respect to any interpleader proceeding or proceeding for the appointment of a successor escrow agent the Escrow Agent may commence pursuant to this Agreement.

(g) Counterparts and Facsimile Signatures. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if all signatures were on the same instrument. This Agreement may be executed by facsimile signature transmitted to any other party by electronic transmission. The parties shall be bound by a facsimile signature once transmitted to another party. The latter transmission of an originally executed copy of any such document shall not invalidate any signature previously given by electronic transmission.

(h) Severability of Provisions. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of the prohibition or unenforceability without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of the provision in any other jurisdiction.

(i) Entire Agreement. This Agreement contains the entire agreement between the Purchaser, the Seller and the Escrow Agent as to the subject matter hereof. Other than the Purchase Agreement and the Acquisition Documents, there are no other agreements, arrangements or undertakings, oral or written, between the parties hereto relating to the subject matter hereof or to the Purchase Agreement.

(j) Force Majeure. The Escrow Agent shall not incur any liability for not performing any act or fulfilling any obligation hereunder by reason of any occurrence beyond its control (including, but not limited to, any provision of any present or future law or regulation or any act of any governmental authority, any act of God or war or terrorism, or the unavailability of the Federal Reserve Bank wire services or any electronic communication facility).

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first written above.

OMEGA PROTEIN CORPORATION

By: /s/ Joseph L. von Rosenberg III

Name: Joseph L. von Rosenberg III

Title: President

ZAPATA CORPORATION

By: /s/ Avram A. Glazer

Name: Avram A. Glazer

Title: President and Chief Executive Officer

MANUFACTURES & TRADERS TRUST COMPANY

By: /s/ Joan Stapley

Name: Joan Stapley

Title: Assistant Vice President

**CERTIFICATION PURSUANT TO RULE 13A-14 OR 15D-14 OF THE SECURITIES
EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Avram A. Glazer, certify that:

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

Date: November 9, 2006

/s/ Avram A. Glazer
Avram A. Glazer
President and CEO

**CERTIFICATION PURSUANT TO RULE 13A-14 OR 15D-14 OF THE SECURITIES
EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Leonard DiSalvo, certify that:

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

Date: November 9, 2006

/s/ Leonard DiSalvo

Leonard DiSalvo

Vice President — Finance and CFO

**CERTIFICATION OF CEO PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Zapata Corporation (the "Company") on Form 10-Q for the period ending September 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Avram A. Glazer, as Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Avram A. Glazer

Avram A. Glazer

Chairman of the Board, President and Chief Executive Officer

November 9, 2006

This Certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

**CERTIFICATION OF CFO PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Zapata Corporation (the "Company") on Form 10-Q for the period ending September 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Leonard DiSalvo, as Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Leonard DiSalvo

Leonard DiSalvo

Vice President — Finance and Chief Financial Officer

November 9, 2006

This Certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.