



199819992000



To Our Stockholders:

Zapata Corporation experienced an exciting 1999. The highlight of the year was the long awaited and highly successful spin-off of our Internet subsidiary, Zap.Com, to Zapata's stockholders.

Zapata continues to remain financially strong. Each of our primary holdings - Zap.Com, Omega Protein, Zap Internet and Viskase - experienced different opportunities and challenges during the year. The management teams of these companies are aggressively positioning themselves for success in the 21st century. I am very optimistic about the future of the investments made by our company.



The newest addition to Zapata's family of holdings is Zap.Com. Zap.Com is actively building a branded Internet network. We are working to make the ZapNetwork a leading advertising and e-commerce platform by aggregating Internet users through a network of independent third party web sites. The ZapNetwork is targeting users who primarily frequent small to medium sized Web sites that are often overlooked by Internet advertisers. On member sites, Zap.Com will deploy the ZapBox, a proprietary Web application that gives users content they want such as news, sports, weather, stock market information, etc. - without requiring them to leave their favorite sites. Zap.Com will then seek to generate revenues from the network through advertising, e-commerce, sponsorships and other means.



The ZapBox empowers members of the ZapNetwork with "portal-like functionality".

Implementation of Zap.Com's business cannot happen fast enough, especially in the Internet industry. I believe we have gained significant ground in positioning ourself to build the ZapNetwork. Zap.Com is focused entirely on the future - a future in a global Internet marketplace whose limits are not yet visible.

We are working diligently to move forward in this new and exciting industry and will report on further significant developments as they occur.



Zapata owns 61% of Omega Protein, a slight increase over of the previous year resulting from a buy back of shares by Omega. Omega Protein is the leading producer of Omega-3 fish oil, fish meal and other marine protein products in the U.S. During 1998, the Company experienced the best year in its 85-year history, with net income rising 133% compared with the previous year. This excellent year was unfortunately followed by the largest soybean crop in U.S. history driving soybean prices to a 27-year low, devastating other protein and edible oil markets as well. As a result, fish meal prices fell 28% and fish oil prices fell 55% from the previous year's levels. This phenomenon drove disappointing results for the year.

Experience tells us that the downturn in the commodity cycle should not last - it's the nature of cycles for neither the highs nor the lows to be permanent, however there is no way of knowing when fish meal and fish oil prices will turn up again. Thus Omega Protein is reducing its operating costs with the goal of achieving positive results for 2000 as a whole even if its markets remain in their current weakened state. The Company's overall fish catch, fish meal and oil production are not, however, expected to be materially effected as a result of the more efficient operation of its remaining plants and vessels.

In addition to these actions, Omega Protein continues to move toward the marketing of its OmegaPure refined menhaden oil, which is rich in the Omega-3 fatty acids that are widely understood by the American public to be helpful in the prevention of heart disease and other ailments. OmegaPure is targeted towards the exciting and growing "functional foods" market - a segment made up of the rapidly growing numbers of people who seek to maintain and improve their health through dietary means.

Zap Internet

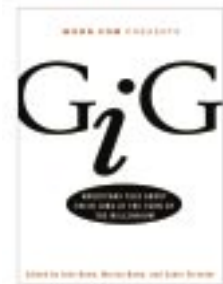
Zap Internet owns and operates the award winning and innovative Internet sites "Word" (www.word.com), "Charged" (www.charged.com), "Pixeltime" (www.pixeltime.com) and "SiSSYFiGHT 2000" (www.sissyfight.com).

According to The New York Times, Word is "a kind of hip, lo-fi New Yorker Magazine for a new generation". Word contains an eclectic mix of essays, new fiction, visual art, photographs, underground comics, animation, video, sound and music, weekly columns, quirky humor, contests, games, and online conversation. Word recently launched the online multiplayer game SiSSYFiGHT 2000 to rave reviews.



The New York Times called SiSSYFiGHT "fascinating" and noted its "cult following." Entertainment Weekly gave SiSSYFiGHT an "A," praising the game for its irreverent sense of humor, wide audience appeal, and "retro-cool Game Boy and Atari-inspired graphics." SiSSYFiGHT has also been favorably reviewed in such respected publications as Wired, Salon, Details, I.D. and Seventeen.

Word expanded its horizons by entering into a deal with Crown Publishers to publish GIG in May, 2000. GIG is an oral history of the contemporary workplace—a series of interviews with more than 120 people from across the United States, edited into monologues. The April 24th double issue of The New Yorker magazine excerpted six different GIG interviews. Details magazine contained a glowing review of the book stating GIG, "truly fascinates." Ira Glass, the popular host of National Public Radio's hit program, "This American Life," says, "I love this book!"



Charged.com is the web's premiere leisure magazine: the site has presented content--filmed and otherwise--in an innovative manner since its inception in 1996, when the first on-line films were screened on Charged. The Charged 60 Second Film Festival was announced in early 1999 as a response to the site's increasing use of filmed media in (and as) content.



In other film festivals, short films are considered the appetizer to the feature-film main course. The Charged 60 Second Film Festival serves up a smorgasbord of these simply projectable hors d'oeuvres, encouraging animators, filmmakers, and videographers to meet the challenge of getting their personal vision across in just one minute. The festival

itself, kicked off by a lavish party hosted by Miramax, launched this spring to critical and online acclaim. Sponsors for the 60 Second film Festival include Film.com (www.film.com), a RealNetworks company.



Zapata Corporation owns approximately 40% of the outstanding common stock of Viskase Companies, Inc. This company is engaged in the food packaging business specifically focused in two areas: 1) cellulosic casings used in the preparation and packaging of processed meat products and 2) heat shrinkable plastic bags and specialty films for packaging and preserving fresh and processed meat, poultry and cheese products. We own approximately 5.9 million shares of this company, the value of which does not show up on our balance sheet.

Viskase operates in a highly competitive industry; as a result, the management team at Viskase is continuously reviewing its operations to identify cost reduction opportunities and has set for itself the goal of being the lowest cost producer in the industry. Viskase took a major step in its repositioning in January, 2000 with the announcement that it plans to sell its plastic barrier and non-barrier shrink film business. This business includes production facilities in the U.S., Canada, Britain and Brazil. Proceeds of the sale, which management hopes to close by midyear, will be used to retire debt and enable the Company to focus on its best growth prospects.

Viskase's top priority is developing new and commercially important products through the application of its NUCELâ technology, a breakthrough in the efficient production of casings for meat products such as hot dogs and sausages.

Looking ahead, I believe there are significant emerging opportunities for all of Zapata's holdings. Zapata Corporation enters the new century with major stakes in diverse and exciting enterprises. In addition, Zapata continues to be financially strong and has significant holdings in cash. We are always looking for additional opportunities that will put this cash to use and enhance shareholder value. We are and will continue to be actively investigating new business opportunities.

We are grateful to our employees and those of Zap.Com, Omega Protein, Zap Internet and Viskase for all they have done. We are grateful to our stockholders for their confidence and patience.

Zapata looks forward to the future with the highest degree of optimism.

Sincerely,

A handwritten signature in black ink, appearing to read "Avram A. Glazer", with a stylized flourish at the end.

Avram A. Glazer

Chief Executive Officer

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the Fiscal year ended December 31, 1999
or

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

For the transition period from _____ to _____
Commission File Number: 1-4219

ZAPATA CORPORATION

(Exact name of registrant as specified in its charter)

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

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

100 Meridian Centre, Suite 350
Rochester, NY
(Address of principal executive offices)

14618
(Zip Code)

Registrant's Telephone Number, Including Area Code: (716) 242-2000

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class
Common Stock, \$0.01 par value

Name of Each Exchange on Which Registered
New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:
None.

On March 28, 2000, there were outstanding 23,888,928 shares of the Company's Common Stock, \$0.01 par value. On March 28, 2000, the aggregate market value of the Company's Common Stock held by non-affiliates of the Company was \$67,572,946, based on the closing price in consolidated trading on that day, for the Company's Common Stock. For the sole purpose of making this calculation, the term "non-affiliate" has been interpreted to exclude directors, corporate officers and 5% or greater stockholders. Such interpretation is not intended to be, and should not be construed as an admission by the Registrant or such directors, corporate officers or stockholders that such directors, corporate officers or stockholders are "affiliates" of the Registrant, as that term is defined in the Securities Act of 1933.

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Documents Incorporated By Reference:

Portions of the Registrant's definitive Proxy Statement for its 2000 Annual Meeting of Stockholders, which the Company plans to file with the Securities and Exchange Commission pursuant to regulations 14A, on or prior to April 30, 2000, are incorporated by reference in Part III (Items 10, 11, 12, and 13) of this Form 10-K.

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FORWARD-LOOKING STATEMENTS

CAUTIONARY STATEMENT FOR PURPOSES OF THE “SAFE HARBOR” PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. This document contains certain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and includes this statement for purposes of such safe harbor provisions. Forward-looking statements, which are based upon certain assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by use of the words “believes,” “expects,” “intends,” “anticipates,” “plans,” “seeks,” “estimates,” “projects” or similar expressions. The ability of the Company to predict results or the actual effect of future plans or strategies is inherently uncertain. Important factors which may cause actual results to differ materially

from the forward-looking statements contained herein or in other public statements by the Company are described under the caption “Part II — Item 7 — Management Discussion and Analysis of Financial Condition and Results of Operation-Significant Factors That Could Affect Future Performance and Forward-Looking Statements” appearing in this Report and other risks identified from time to time in the Company’s filings with the Securities and Exchange Commission (“SEC”), press releases and other communications. The Company assumes no obligation to update forward-looking statements.

All references herein to a Fiscal year for Zapata Corporation and Omega Protein Corporation are to a 12-month period ended September 30 for years prior to and including September 30, 1998, and December 31 for years subsequent to December 31, 1998. All references herein to a transition period for Zapata Corporation and Omega Protein Corporation are to a three-month period ending December 31, 1998.

PART I

Item 1. *Description of Business*

General

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 (Telephone: (716) 242-2000).

The principal business activities of Zapata Corporation ("Zapata" or the "Company") are its ownership interests in two majority owned consolidated subsidiaries, Omega Protein Corporation ("Omega Protein") (formerly known as Marine Genetics Corporation and Zapata Protein, Inc.), and Zap.Com Corporation ("Zap.Com"), both of which are publicly traded, and a significant equity investment in another publicly traded corporation, Viskase Corporation ("Viskase") (formerly known as Envirodyne Industries, Inc.). Omega Protein is engaged in the marine protein business and its stock is traded on the New York Stock Exchange ("NYSE") under the symbol "OME." Zap.Com Corporation is in the Internet industry and its stock is traded in the over-the-counter market on the NASD's electronic bulletin board under the symbol "ZPCM". Viskase is engaged in the food packaging business and its stock is traded in the over-the-counter market on the NASDAQ Small-Cap Market under the symbol "VCIC". Zapata also operates the Internet based magazines "Word" and "Charged" and, as of the date of this report, holds approximately \$101.4 million in cash, cash equivalents and short term investment.

Omega Protein Corporation

Omega Protein was a wholly-owned subsidiary of Zapata until 1998 when Omega Protein conducted its initial public offering. As of the date of this report, Zapata holds 14,501,000 shares of Omega Protein's common stock, or approximately 61% of Omega Protein's outstanding common stock.

Omega Protein's marine protein operations involve the production and sale of variety of protein products derived from menhaden, a species of fish found along the Gulf of Mexico and Atlantic coasts. Omega Protein is the largest processor, marketer and distributor of marine products (fish meal) and fats (fish oil) in the United States. Omega Protein processes several grades of fish meal (regular or

"FAQ" meal and specialty meals), as well as fish oil and fish solubles. Omega Protein's fish meal products are primarily used as a protein ingredient in animal feed for poultry, swine, cattle, aquaculture and household pets. Omega Protein's fish oil is primarily used as an ingredient in margarine and shortening. Omega Protein's fish solubles are sold primarily to livestock feed manufacturers and for use as an organic fertilizer.

Fishing. During Fiscal 1999, Omega Protein owned a fleet of 66 fishing vessels and 33 spotter aircraft for use in its fishing operations and also leased additional aircraft where necessary to facilitate operations. During the 1999 fishing season in the Gulf of Mexico, where the fishing season runs from mid-April through October, Omega Protein operated 40 fishing vessels and 32 spotter aircraft. The fishing area in the Gulf is generally located along the entire Gulf Coast. The fishing season along the Atlantic coast begins in early May and usually extends into December. Omega Protein operated 13 fishing vessels and 9 spotter aircraft along the Mid-Atlantic coast, concentrated primarily in and around the Chesapeake Bay. In 2000, Omega Protein converted 4 of its fishing vessels to "carry vessels" which will not engage in active fishing but will instead carry fish catch from its offshore fishing vessels to its plants. Omega Protein believes that this utilization will increase the amount of time that the bulk of its vessels remain offshore in productive areas and, therefore, increase Omega Protein's fish catch per vessel employed.

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, and then are unloaded at Omega Protein's processing plants.

Processing. During Fiscal 1999, Omega Protein operated five processing plants, three in Louisiana, one in Mississippi and one in Virginia, where the menhaden are processed into fish meal, fish oil and fish solubles. 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 then 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 then put through a centrifugal oil/water separation process. The separated fish oil is a finished product. The separated water and protein mixture is further processed through evaporators to remove 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.

Fish meal, the principal product made from menhaden, is sold primarily as a high-protein ingredient. It is used as a protein supplement in feed formulated for pigs and other livestock. Each use requires certain standards to be met regarding quality and protein content, which are determined by the freshness of the fish and by processing conditions such as speed and temperatures. Fish solubles are a liquid protein product used as an additive in fish meal and also marketed as an independent product to animal feed formulators and the fertilizer industry.

Fish oil from menhaden is widely used for human consumption as an edible fat in Europe. Refined and hydrogenated menhaden oils have a wide variety of applications as ingredients of margarine, cooking oil and solid cooking fats used in baked goods. In June 1997, the U.S. Food and Drug Administration approved the use of refined non-hydrogenated menhaden oil, a natural source of Omega-3 fatty acids, for human consumption in the United States. Ongoing scientific studies continue to link consumption of Omega-3-rich fish oil to a number of nutritional and health benefits.

Marketing. Most of Omega Protein's marine protein products are sold directly to about 300 customers by its marketing department, while a smaller amount is sold through independent sales agents.

Omega Protein's fish meal is sold primarily to domestic feed producers for utilization as a high-protein ingredient for the poultry, swine, aquaculture and pet food industries. Fish oil sales primarily involve export markets where the fish oil is refined for use as an edible oil. One Danish based customer for fish oil, Denofa A/S, accounted for approxi-

mately 9.0% of Omega Protein's consolidated revenues in Fiscal 1999.

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

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

Insurance. Omega Protein 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 and Harbor Workers' Act and Jones Act coverage. Assets are insured at replacement cost, market value or assessed earning power. Omega Protein's limits for liability coverage are statutory or \$50.0 million. The \$50.0 million limit is comprised of several excess liability policies which are subject to deductibles, underlying limits and exclusions. Omega Protein believes its insurance coverage to be in such form, against such risks, for such amounts and subject to such deductible as are prudent and normal for its operations.

Competition. Omega Protein 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 Protein's fish meal and fish solubles is from other protein sources such as soybean meal and other vegetable or animal protein products. Omega Protein believes, however, that these other sources are not complete substitutes because fish meal offers nutritional values not con-

tained in such sources. Vegetable fats and oils, such as soybean and palm oils, provide the primary market competition for fish oil. In addition, Omega Protein competes against domestic, privately owned menhaden fishing companies as well as domestic and international producers of fish meal and fish oil derived from species such as anchovy and horse mackerel.

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

Regulation. Omega Protein's operations are subject to federal, state and local laws and regulations relating to the location and periods in which fishing may be conducted as well as environmental and safety matters. At the state and local level, certain state and local government agencies have either enacted legislation and regulations or have the authority to enact with legislation and regulation to prohibit, restrict or regulate menhaden fishing within their jurisdictional waters. Omega Protein, through its operation of fishing vessels, is subject to the jurisdiction of the U.S. Coast Guard, the National Transportation Safety Board and the U.S. Customs Service. The U.S. Coast Guard and the National Transportation Safety Board set safety standards and are authorized to investigate vessel accidents and recommend improved safety standards. The U.S. Customs Service is authorized to inspect vessels at will.

Omega Protein's operations are also subject to federal, state and local laws and regulations relating to the protection of the environment, including the federal Water Pollution Control Act of 1972, which was significantly modified in 1977 to deal with toxic water pollutants and re-named as the Clean Water Act, and which imposes strict controls against the discharge of pollutants in reportable quantities and along with the Oil Pollution Act of 1990, imposes substantial liability for the costs of oil removed, remediation and damages. Omega Protein's marine protein operations also are subject to the federal Clean Air Act, as amended; the federal Resource

Comprehensive Environmental Response, Compensation, and Liability Act, which imposes liability, without the environment; and the federal Occupational Safety and Health Act ("OSHA"). The OSHA hazard communications standard, the Environmental Protection Agency community right-to-know regulations under Title III of the federal Superfund Amendment and Reauthorization Act and similar state statutes require Omega Protein to organize information about hazardous materials used or produced in its operations. Certain of this information must be provided to employees, state and local governmental authorities and local citizens. Numerous other environmental laws and regulations, along with similar state laws, also apply to the operations of Omega Protein, and all such laws and regulations are subject to change.

Omega Protein has made, and anticipates that it will make in the future, expenditures in the ordinary course of its business in connection with environmental matters. Such expenditures have not been material in the past and are not expected to be material in the future. However, there is no assurance that environmental laws and regulations enacted in the future will not adversely affect Omega Protein's operations.

Omega Protein's harvesting operations are subject to certain federal maritime laws and regulations which require, among other things, that Omega Protein be incorporated under the laws of the U.S. or a state, Omega Protein's chief executive officer be a U.S. citizen, no more of Omega Protein's directors be non-citizens than a minority of the number necessary to constitute a quorum and at least 75% of Omega Protein's outstanding capital stock (including a majority of Omega Protein's voting capital stock) be owned by U.S. citizens. If Omega Protein fails to observe any of these requirements, it will not be eligible to conduct its harvesting activities in U.S. jurisdictional waters. Such a loss of eligibility would have a material adverse affect on Omega Protein business, results of operations and financial conditions.

Omega Protein believes that during the past five years it has substantially complied with all material statutes and regulations applicable to its operations, the failure to comply with which would have had a material adverse impact on its operations.

Zap.Com Corporation

Zap.Com was a wholly-owned subsidiary of Zapata until November 1999 when Zapata distributed 477,742 shares of Zap.Com's common stock to Zapata stockholders. As of the date of this report, Zapata holds 48,972,258 shares of Zap.Com common stock, or approximately 98% of Zap.Com's outstanding common stock.

Zap.Com is a development stage company which was formed to engage in an Internet business through the development of the ZapNetwork. Zap.Com's goal is to build the Zap Network into a global network of independently owned Web sites that deploy Zap.Com's Web application, the ZapBox, on a perpetual basis through which Zap.Com will distribute user content, advertising and e-commerce. Zap.Com's goal is to make the Zap network a leading advertising and e-commerce platform by aggregating Internet users who frequent Web sites that are often overlooked.

Zap.Com's business model involves the acquisition by them of perpetual contractual rights to space on Web sites who join Zap.Com's ZapNetwork. These rights will entitle Zap.Com to have at all times the ZapBox, or any other Internet properties that Zap.Com acquires or develops, appear and be immediately and fully apparent and prominently displayed on the Web Site within a defined area. Zap.Com will have sole control and discretion over all aspects of the ZapBox or other Internet property deployed on the Web site. The Web site owner will retain control over all other aspects of the Web site.

Zap.Com expects that the main form of consideration to be paid to the owners of a Web site who join Zap.Com's network and grant it those rights will be shares of Zap.Com's common stock. Zap.Com believes that the ZapNetwork will be attractive to Web site owners because they will be able to:

- recognize direct value for their audience without giving up ownership or editorial control of their Web site,
- participate in Zap.Com's potential future appreciation, and
- have the opportunity for increasing the value of their remaining rights to their Web site as a result of the potential for increased traffic

and stickiness (i.e., user retention which the ZapBox may generate).

The ZapBox is Zap.Com's proprietary Web application that provides portal-like functionality and content wrapped around an Internet advertising banner. The ZapBox offers Internet users who prefer specialized sites that address their particular interests access to traditional portal-like information from within the specialized sites that they favor. Zap.Com believes that users of these specialized sites generally represent "unclaimed eyeballs" since access to these users has generally not been cost effective. By aggregating access to these users, Zap.Com believes the ZapNetwork will be attractive to Internet advertisers and businesses desiring to promote their business through a relationship with Zap.Com.

Zap.Com released ZapBox 1.0 in November 1999. ZapBox 1.0 offered search, feedback e-mail and animated graphical links to ZapNetwork sites and the Zap.Com homepage. Zap.Com released ZapBox 2.0 in January 2000. ZapBox 2.0 has ad serving capabilities and features additional functionality that offers users personalized access to timely news, weather, business, sports content and horoscopes. In addition, ZapBox 2.0 offers a rich media interactive demonstration of the ZapBox. Zap.Com is developing future releases of the ZapBox, which are expected to offer additional user functionality, and have ad targeting and e-commerce capabilities. Zap.Com has deployed ZapBox 1.0 and ZapBox 2.0 on three Web sites owned and operated by Zapata Corporation, www.word.com, www.charged.com and www.pixelttime.com, and Zap.Com's homepage at www.zap.com. Zapata has agreed to continue this arrangement at its discretion without legal or other financial obligations between the parties. This initial network has allowed Zap.Com to beta test the ZapBox releases and the technology that supports the ZapNetwork.

As of the date of this report, Zap.Com has commenced solicitation of Web Site owners to enroll Web Sites in the Zap Network, but does not yet, have any agreement, understanding or arrangement with any Web Site owners to join the Zap Network.

Zap.Com's business is supported by a systems platform provided and maintained by EMC, Inc. and ad serving technology provided by DoubleClick, Inc. Zap.Com relies on Auragen Communications, Inc. for software programming and development.

Zap.Com has also entered into contracts with iSyndicate, Inc. to provide content for the ZapBox and Direct Hit Technologies, Inc. to support the search function for the ZapBox. Zap.Com also intends to rely on a third party to provide it with sales representation and other third parties for various operational needs.

To date, Zap.Com's operations have consisted primarily of organizational and capital raising activities, research and analysis with respect to Internet industry opportunities, development of strategic relationships, the creation and launch of Zap.Com's homepage at www.zap.com and the first two releases of the ZapBox. As of the date of this report, Zap.Com have not generated any, nor does Zap.Com have any source of revenue.

Competition

Zap.Com believes that the principal competitive factors for companies seeking to create a network on the Internet are critical mass, functionality, brand name, the quality of the Web sites that belong to the network, loyalty, broad demographic user base, and strategic relationships.

Zap.Com believes that its ability to compete depends on many factors both within and beyond its control, including the following:

- the timing and market acceptance of Zap.Com's business model;
- the ability to recruit high quality Web sites with required levels of traffic to the ZapNetwork;
- the effectiveness of the ZapNetwork in terms of viewer traffic and reach and the targeting and measuring performance of the ZapBox;
- the number and types of strategic and commercial relationships established by Zap.Com, including e-commerce partnerships;
- the effectiveness of its sales and marketing efforts;
- the effectiveness of its customer service and support efforts; and
- the ease of use, performance, price and reliability of solutions developed by Zap.Com or its competitions.

Several companies offer competitive products or services through Web-based advertising networks, including those that focus on the cost per thousand model, such as DoubleClick and 24/7 Media. Recently, CMGI acquired several Internet advertising and marketing companies, including AdForce, AdKnowledge and Flycast. As a result of these transactions, CMGI now owns several companies, including AdSmart Network and Engage Technologies, that will compete with its network. Engage Technologies (which is majority owned by CMGI) has announced an agreement to acquire AdSmart and Flycast and other potential competitors include current and future Web search engine companies and general information services, high traffic Web sites and Internet service providers. These competitors include America Online, CNET, CNN/Time Warner, Excite@Home, Infoseek, Lycos, Microsoft, Yahoo! and Disney. Also, several competitive companies have developed applications similar to the ZapBox, such as Jotter, MyExcite and NetZero, which utilize Internet technologies to deliver advertising and access to content to Internet users who sign up for these services. These services provide non-Web site specific advertising opportunities to Internet advertisers. Zap.Com also expects to compete with traditional forms of media, like newspapers, magazines, radio and television, for advertisers and advertising revenues.

Regulation

Zap.Com faces a number of laws and regulations pertaining to the Internet. In addition, a number of legislative and regulatory proposals are under consideration by federal, state, local and foreign governments and agencies. Recently, the United States Congress enacted Internet legislation regarding children's privacy, copyrights, taxation, content, and jurisdiction. Zap.Com expects other laws or regulations may be adopted with respect to online content regulation, user privacy, pricing, and quality of products and services. Any new legislation or regulation, or the application or interpretation of existing laws, may decrease the growth in the use of the Internet, which could in turn decrease the demand for Zap.Com's service, increase Zap.Com's cost of doing business or otherwise have a material adverse effect on Zap.Com's prospects and revenues.

The Children's Online Privacy Protection Act of 1998 makes it unlawful for an operator of a Web site or online service directed to children under 13

to collect, use or distribute personal information from a child under 13 in a manner which violates regulations to be promulgated by the Federal Trade Commission. The FTC is in the process of issuing final regulations, which concern the scope of the Act's parental consent requirements. Content may be accessed on Web sites that belong to the ZapNetwork or on other Internet sites that are linked to the ZapNetwork or the Zap.Com home page. This content may be downloaded by users and subsequently transmitted to others over the Internet. By providing those links, Zap.Com is exposed to claims that it is liable for wrongful actions by the owners of these sites. Claims of this nature have been brought, sometimes successfully, against providers of Internet services. Zap.Com could also be exposed to liability with respect to third-party content that may be posted by users in chat rooms or bulletin boards which may be offered by Web sites which belong to the ZapNetwork or which are otherwise linked to the ZapNetwork. Also, there may be claims, alleging that Zap.Com, by directly or indirectly providing links to other Web sites, is liable for copyright or trademark infringement or the wrongful actions of third parties through their respective Web sites. The Digital Millennium Copyright Act of 1998 has established limited liability for online copyright infringement by online service providers for listing or linking to third party Web sites that include copyright-infringing materials, provided certain conditions are met.

A number of legislative proposals have been made at the federal, state and local level, and by various foreign governments, that would impose additional taxes on the sale of goods and services over the Internet and some states have taken measures to tax Internet-related activities. Although Congress placed a three-year moratorium on state and local taxes on Internet access or on discriminatory taxes on electronic commerce, existing state or local laws were expressly excepted from this moratorium. Further, once this moratorium is lifted, some type of federal and/or state taxes may be imposed upon Internet commerce. This legislation, or other attempts at regulating commerce over the Internet, may substantially impede the growth of commerce on the Internet and, as a result, adversely affect Zap.Com's opportunity to derive financial benefit from those activities.

Several federal and state statutes prohibit the transmission of indecent, obscene or offensive content over the Internet to particular groups of per-

sons. In addition, pending legislation seeks to ban Internet gambling and federal and state officials have taken action against businesses that operate Internet gambling activities. The enforcement of these statutes and initiatives, and any future enforcement activities, statutes and initiatives, may result in limitations on the type of content and advertisements available on Web sites that belong to the ZapNetwork. To the extent that one or more Web sites that belong to the ZapNetwork is adversely affected by such legislation and regulations, this could have a material adverse effect on Zap.Com's attractiveness to customers and could adversely affect revenues and operating results. Further, legislation regulating online content could dampen the growth in use of the Internet generally and decrease the acceptance of the Internet as an advertising and electronic commerce medium, which could adversely affect and impede the growth of its revenues.

It is possible that, although transmissions by Zap.Com over the Internet originate primarily in New York, the governments of other states and foreign countries might attempt to regulate Zap.Com's transmissions or prosecute Zap.Com for violations of their laws. These laws may be modified, or new laws enacted, in the future. Any of these developments could have a material adverse effect on Zap.Com's prospects, operating results and financial condition.

Viskase Companies, Inc.

Zapata holds 5,877,304 shares of Viskase's common stock or approximately 40% of Viskase's outstanding common stock. Viskase is engaged in the food packaging business. Through December 31, 1998, Zapata reported its investment in Viskase on an equity basis. In 1998, due to losses incurred by Viskase, Zapata's investment in Viskase was reduced to zero for financial reporting purposes. Accordingly, Viskase does not appear in Zapata's 1999 financial statements.

In September 1997 Viskase's Board of Directors retained Donaldson, Lufkin and Jenrette Securities Corporation to assist it in evaluating its strategic alternatives. Such alternatives included, among other things, sale of the entire company, sale of business units or recapitalization. In June 1998, Viskase sold its wholly owned subsidiary Sandusky, and in July 1998 Viskase sold its wholly owned subsidiary Clear Shield. In January, 2000, Viskase

announced that it intends to sell its plastic barrier and non-barrier shrink film business. The business being sold includes production facilities in the United States, Canada, United Kingdom and Brazil. Viskase has reported that proceeds from the sale will be used principally to retire debt. Viskase reported that it will attempt to close the sale by mid-year of 2000.

Employees

Zapata employed approximately 33 persons at December 31, 1999 and considers its relations with its employees to be good. Approximately 22 of these employees are dedicated to its Internet Webzines Word and Charged, and the balance perform management and administrative functions. Omega Protein reported that it employed approximately 1,348 persons at December 31, 1999. Approximately 175 employees of Omega Protein are represented by an affiliate of the United Food and Commercial Workers Union. During the past five years Omega has not experienced any strike or work stoppage which has had a material impact on its operations. Omega Protein considers its employee relations to be generally satisfactory.

Zap.Com has approximately eight employees. Avram Glazer, President and CEO, and Leonard DiSalvo, VP-Finance and Chief Financial Officer, Marisa Bowe, Vice President — Network Content, and Phil Jones, Director of Finance, currently devote a portion of their business time and attention to Zapata and a portion to Zap.Com. Zap.Com expects to hire additional employees to assist in the operation of its business. Although the competition for skilled employees in the Internet industry is intense, Zap.Com does not now foresee problems in hiring qualified employees to meet its needs.

Financial Information About Industry Segments

The Company operates within two industry segments. Information concerning revenues, operating results (before net interest expense, other income and income taxes), identifiable assets, depreciation, depletion and amortization and capital expenditures for the Company's continuing operations, for each segment is incorporated herein by reference from Note 19 to the Company's Consolidated Financial Statements included in Item 8 of this Report.

Item 2. *Properties*

Zapata leases approximately 3,444 square feet of office space in Rochester, New York, approximately 1,374 square feet of office space in New York City and approximately 3,792 square feet of office space in New York City for its Internet webzines "Word" and "Charged". Zapata Corporation also leases office space in Houston, Texas, which is subleased to Omega Protein for use as executive offices. The Company believes its administrative space is adequate for its current needs.

Zap.Com's headquarters are located in Rochester, New York, in space subleased to it by Zapata. Under the sublease arrangement, annual rental payments are allocated on a cost basis. Zap.Com expects to expand its facilities as its operations grow. Zap.Com believes that additional space will be available on commercially acceptable terms.

Omega Protein owns plants in Reedville, Virginia, Moss Point, Mississippi and Abbeville, Louisiana and the real estate on which they are located (except for a small leased parcel comprising a portion of the Abbeville facility). Omega Protein leases from unaffiliated third parties the real estate on which its Cameron, Louisiana and Morgan City, Louisiana plants are located. The Cameron plant lease provides for a 10-year term ending on June 30, 2002 (with two successive 10-year options) and annual rent of \$56,000. The Morgan City plant lease provides for a 5-year term beginning on November 25, 1997 at an annual rent of \$220,000. Omega Protein has an option under the Morgan City lease to purchase the plant for \$656,000 during the last month of the lease or earlier if all rent through the end of the term is paid.

As of December 31, 1999, Omega Protein reported that its five processing plants had an aggregate capacity to process approximately 950,000 tons of fish annually. Omega Protein's processing plants are located in coastal areas near Omega Protein's fishing fleet. Annual volume processed varies depending upon menhaden catch and demand. Each plant maintains a dedicated dock to unload fish, fish processing equipment and storage capacity. The Reedville, Virginia facility contains an oil refining plant and net making facility. Omega Protein periodically reviews possible application of new processing technologies in order to enhance productivity and reduce costs.

Omega Protein has a dry dock facility in Moss Point, Mississippi. Omega Protein uses this facility and other outside facilities to perform routine maintenance to its fishing fleet. Omega Protein also provides shoreside maintenance services to third party vessels if excess capacity exists.

Item 3. *Legal Proceedings*

On April 30, 1999, a state district court in Houston, Texas entered a judgment against Zapata in a lawsuit brought by a former employee which was commenced on April 1, 1998. The former employee claims that he was entitled to the value of options for approximately 240,000 shares of Zapata stock which he alleges should have been issued to him in 1998 pursuant to his employment agreement with Zapata. The judgment against Zapata was for approximately \$3.45 million, which includes pre-judgment interest. Zapata has secured a letter of credit and on July 29, 1999 perfected its appeal with the Court of Appeal, for the Fourteenth District of Texas at Houston. Briefs have been filed with the appellate court and the parties are awaiting scheduling for oral arguments. The Company continues to

believe that it has a meritorious defense to all or a substantial portion of the plaintiff's claim. However, there can be no assurance that the Company will be successful in appealing the judgment.

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

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

No matter was submitted to a vote of Zapata's stockholders during the fourth quarter of Fiscal 1999.

PART II

Item 5. *Market for the Registrant's Common Equity and Related Stockholder Matters*

Zapata's Common Stock is listed on the New York Stock Exchange. The high and low sales prices for the Common Stock, as reported in the consolidated transactions reporting system, for each

	Fiscal Quarter Ended								
	12/31/99	9/30/99	6/30/99	3/31/99	12/31/98	9/30/98	6/30/98	3/31/98	12/31/97
High sales price	\$6.25	\$8.38	\$12.44	\$16.00	\$16.25	\$22.81	\$15.38	\$14.38	\$7.75
Low sales price	\$4.50	\$4.94	\$ 7.38	\$ 8.38	\$ 6.13	\$ 9.63	\$ 9.31	\$ 6.31	\$6.63
Dividends declared	\$0.00	\$0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.07	\$ 0.07	\$ 0.07	\$0.07

On November 3, 1998 the Board of Directors discontinued the Company's quarterly dividend. The Company does not expect to declare cash dividends on its Common Stock in the foreseeable future. In deciding whether to declare dividends, the Company's Board of Directors will consider the Company's operating results, cash flow, financial condition, capital requirements, general business condition and such other factors as the Board deems relevant. The right to the holders of Common Stock to receive dividends or other payments with respect thereto in the future will be subject to the prior and superior rights of holders Zapata's Preferred Stock and Preference Stock then outstanding.

On July 6, 1998 Zapata's Board of Directors approved a new stock repurchase program pursuant to which Zapata may repurchase up to 5 million additional shares of its own outstanding Common Stock from time to time. 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. Subject to applicable securities laws, shares may be repurchased from time to time in the open market or private transactions. Purchases are subject to availability of shares at prices deemed appropriate by Zapata's management and other corporate considerations. Repurchased shares will be held as treasury shares available for general corporate purposes. To date, Zapata has not made any repurchases under this program and there

quarterly period for the last two Fiscal years and the Transition Period ended December 31, 1998, as well as the amounts per share of dividends declared during such periods, are shown in the following table.

can be no assurance that there will be any repurchases under this program. Zapata reserves the right to discontinue the repurchase program at any time.

As of March 28, 2000, there were approximately 3,694 holders of record of Common Stock. This number does not include the stockholders for whom shares are held in a "nominee" or "street" name.

Item 6. *Selected Financial Data*

The following table sets forth certain selected historic consolidated financial information for the Company for the periods and as of the dates presented and should be read in conjunction with the Company's Consolidated Financial Statements and the related notes thereto included in Item 8 of this Report and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 of this Report. The Company's financial statements were restated in Fiscal 1995 to reflect the Company's natural gas compression and natural gas gathering, processing and marketing operations as discontinued operations and again in Fiscal 1997 to reflect the Company's oil and gas operations as a discontinued operation. All amounts are in thousands, except for per share income (loss) from operations and cash dividends paid.

	For the Fiscal Year Ended December 31, 1999	For the Three Month Transition Period Ended December 31, 1998 (1)	For the Fiscal Year Ended September 30, 1998 (2) (3),	For the Fiscal Year Ended September 30, 1997 (4)	For the Fiscal Year Ended September 30, 1996	For the Fiscal Year Ended September 30, 1995
Income Statement Data:						
Revenues	\$ 93,666	\$ 25,759	\$133,555	\$117,564	\$ 93,609	\$ 94,959
Operating income (loss)	(33,886)	5,126	30,507	12,842	5,951 (5)	(9,878) (6)
Income (loss) from continuing operations	(20,332)	(4,444)	69,960	7,412	598	(4,322)
Per share income (loss) from continuing operations	(0.85)	(0.19)	3.04	0.27	0.02	(0.14)
Cash dividend paid	—	—	6,502	1,604	—	1,153
Common Stock, dividends declared, per share	—	—	0.07	0.07	—	—
Cash Flow Data:						
Capital expenditures	15,665	3,281	21,851	8,541	4,010	5,574
	December 31, 1999	December 31, 1998	September 30, 1998	September 30, 1997	September 30, 1996	September 30, 1995
Balance Sheet Data:						
Working capital	\$170,126	\$194,148	\$188,234	\$ 86,391	\$104,780	\$116,949
Property and equipment, net ...	91,052	86,308	84,972	40,997	36,702	36,125
Assets of discontinued operations	—	—	—	—	6,473	106,167
Total assets	299,814	318,240	334,006	190,951	232,966	238,957
Current maturities of long-term debt	1,146	997	1,413	1,034	16,108	16,148
Long-term debt	16,069	11,205	11,408	11,294	18,159	37,468
Stockholders' equity	198,245	215,092	215,547	143,405	152,313	145,290

- (1) On December 21, 1998, the Company's Board of Directors approved a change in the Company's fiscal year end from September 30 to December 31, which became effective January 1, 1999.
- (2) In November 1997, Omega Protein closed the American Protein acquisition and the Gulf Protein acquisition. See Note 2 to the Company's Consolidated Financial Statements included in Item 8 of this Report.
- (3) Zapata's former wholly-owned subsidiary, Omega Protein, completed its initial public offering on April 8, 1998 and listed its stock on the NYSE. Income from continuing operations includes \$86.7 million of pre-tax gain on Zapata's sale of Omega Protein stock in the offering and a charge of approximately \$5.0 million representing the minority interest in Omega Protein's net income subsequent to the offering. See Note 1 to the Company's Consolidated Financial Statements in Item 8 of this Report.
- (4) In September 1997, Omega Protein closed the Venture Milling Disposition. See Note 2 to the Company's Consolidated Financial Statements included in Item 8 of this Report.
- (5) Includes \$2.1 million of merger costs that were expensed when the proposed merger with Houlihan's Restaurant Group, Inc. was terminated.
- (6) Includes a non-recurring charge of \$12.3 million related to the write-down of Omega Protein's assets to estimated fair value.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following is a discussion of the Company's financial condition and results of operations. This discussion should be read in conjunction with the Company's Consolidated Financial Statements appearing under Item 8 of this Report. This discussion contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below in "Significant Factors That Could Affect Future Performance and Forward-Looking Statements," as well as those discussed in this section and elsewhere in this report.

General

Zapata holds common stock of Omega Protein, which markets a variety of products produced from menhaden (a fish found in commercial quantities), including regular grade and value added specialty fish meals, crude and refined fish oils and fish solubles, common stock of Viskase, which is primarily engaged in the business of selling food packaging products and disposable food service supplies, common stock of Zap.Com, a development stage Internet company which seeks to build a network of independently owned web sites through which it will distribute user content, advertising, and e-commerce. In addition, Zapata also operates the Web based magazines, Word and Charged, and holds approximately \$117.1 million in government backed securities, commercial paper, and certificates of deposit.

In late 1994 and early 1995, Zapata began to develop a plan that involved exiting the oil and gas business. In Fiscal 1995, Zapata completed the sale of its six natural gas producing properties in the Gulf of Mexico, representing the Company's domestic oil and gas producing operations. In consideration for those assets, Zapata received cash of \$4.0 million and recorded an \$8.9 million receivable representing (1) a production payment entitling Zapata to a share of revenues from certain properties and (2) a share of future proceeds from a revenue sharing agreement. In Fiscal 1996, Zapata sold its natural gas compression assets (the "Energy Industries Sale") for approximately \$131 million in cash resulting in a gain net of taxes of approxi-

mately \$12.6 million. In Fiscal 1996, Zapata also sold its natural gas gathering and processing assets (the "Cimarron Sale") for approximately \$23.7 million resulting in a loss net of taxes of approximately \$3.0 million. The Company's financial statements were restated in Fiscal 1997 to reflect the Company's oil and gas operations as a discontinued operation. On July 11, 1997, Zapata completed the sale of its Bolivian oil and gas interests to Tesoro Bolivia Petroleum Company ("Tesoro") for \$18.8 million cash and the assumption by Tesoro of certain liabilities (collectively, the "Bolivian Sale"). The Bolivian Sale completed Zapata's exit from the oil and gas business. In connection with the Bolivian Sale, Zapata established a \$4.0 million letter of credit in favor of Tesoro as security against the possibility of a Bolivian income tax liability incurred by Zapata as a result of the Bolivian Sale. Zapata's obligations with respect to the letter of credit terminated on January 8, 1998. The Bolivian Sale resulted in a gain net of taxes of approximately \$5.7 million.

As of the date of this report, Zapata holds 5,877,304 shares of Viskase common stock, or approximately 40% of its outstanding common stock. Zapata's investment in Viskase is accounted for using the equity method. Since historically Viskase's financial statements have not been available to Zapata on a basis that would permit concurrent reporting, Zapata has reported its equity in Viskase's results of operations on a three month delay basis. In the three month transition period ending December 31, 1998, Viskase reported a net loss of \$119.6 million which caused Zapata to write-off its investment in Viskase. See Note 8 of the consolidated financial statements included in Item 8 of this report for further discussion of the Viskase investment.

In 1998, Omega Protein, Zapata's then wholly owned subsidiary, completed its initial public offering raising \$144.6 million in net proceeds, of which \$76.6 million was paid directly to Zapata for shares it sold in the offering. As of the date of this report, Zapata holds 14,501,000 shares or approximately 61% of Omega Protein's outstanding common stock. Zapata reports Omega Protein's results of operations on a consolidated basis.

On December 21, 1998, Zapata's Board of Directors approved a change in Zapata's fiscal year end from September 30 to December 31, effective beginning January 1, 1999. A three month transition

period from October 1, 1998 through December 1, 1998 (the "Transition Period") precedes the start of the Fiscal 1999. "Fiscal 1998" and "Fiscal 1997" refer to respective fiscal years ended September 30. The Transition Period refers to the three months ended December 31, 1998 and "Fiscal 1999" refers to the twelve months ended December 31, 1999.

On April 13, 1999, the Zapata's stockholders approved the reincorporation of the Company as a Nevada corporation and a related Agreement and Plan of Merger. On April 30, 1999, the Company effected the merger by merging into a wholly-owned Nevada subsidiary. In connection with the reincorporation, the par value of the Company's common stock was changed from \$0.25 per share to \$0.01 per share. The change in the par value was effectuated by a reclassification between the common stock, at par value and capital in excess of par, respectively, on the balance sheet.

On November 12, 1999, Zapata distributed to its stockholders 477,742 shares of Zap.Com common stock, or one share of Zap.Com common stock for every 50 shares of Zapata common stock held by Zapata stockholders on the record date of November 5, 1999. As of the date of this report, Zapata holds 48,972,258 shares of Zap.Com, or approximately 98% of its outstanding common stock. Zapata reports Zap.Com's results on a consolidated basis.

In December 1999, Zapata entered into an agreement with Panaco, Inc. to sell a gas production royalty payment obligation for \$1.7 million in immediately available funds (the "Production Payment Receivable Sale"). This transaction closed in January 2000.

On March 3, 2000, the Securities and Exchange Commission declared effective a registration statement on Form S-1, filed by Zap.Com on December 30, 1999, covering the registration of 20,000,000 shares of Zap.Com common stock to be issued from time to time as payment for all or some portion of the purchase price for certain rights granted to Zap.Com with respect to one or more Web sites by Web site owners who join the ZapNetwork (the "Web Site Offering Shares"). This registration statement also covered the registration of up to an additional 30,000,000 shares of common stock of Zap.Com to be issued from time to time as payment for all or some portion of the purchase price for one or more acquisitions of companies, businesses or assets complementary to

Zap.Com's existing business (including future acquisitions of rights granted with respect to one or more Web sites) or which may be offered in connection with promotions or similar events or for sale or other distribution by persons who acquire such shares in the acquisitions or promotional events or by the donees of such persons or by other persons acquiring such shares.

Zap.Com has also registered or qualified or filed to register or qualify the Web Site Offering Shares in all states and has registered or applied for registration the Company and/or certain of its officers, as appropriate, under the applicable broker/dealer laws. As of the date of this report, Zap.Com may only sell Web Site Offering Shares to web site owners residing in the States of Colorado, Delaware, Florida, Georgia, Idaho, Illinois, Louisiana, Mississippi, Nevada, New York, Oregon, Rhode Island, South Carolina, Utah, Washington, Wisconsin and Wyoming. Zap.Com commenced soliciting web site owners in these states on March 14, 2000.

Results of Operations

Zapata Corporation Consolidated Results of Operation

Zapata experienced a consolidated loss from continuing operations in Fiscal 1999 as compared to consolidated income in Fiscal 1998. Zapata also experienced a consolidated loss during the Transition Period. The consolidated loss of \$20.3 million in Fiscal 1999 was primarily the result of an operating loss experienced by Omega Protein and start-up costs incurred by Zap.Com, offset by interest income, the Production Payment Receivable Sale and tax benefits. During the Transition Period, Zapata incurred a consolidated loss of \$4.4 million attributable to Zapata's remaining equity in the loss incurred by Viskase which was partially offset by positive earnings by Omega Protein.

Zapata reported income from continuing operations of \$70.0 million on revenues of \$133.6 in Fiscal 1998 as compared to \$7.4 million on revenues of \$117.6 million in Fiscal 1997. This increase was primarily due to a \$86.7 million pre-tax gain from Zapata's sale of Omega Protein shares in Omega Protein's initial public offering, a \$17.7 million Omega Protein operating income increase and a \$1.7 million net interest income increase. In Fiscal 1997, discontinued operations included the after-tax gain of \$5.7 million from the Bolivian Sale and net

income of \$2.3 million from the Zapata's discontinued oil and gas operations.

The following presents a more detailed discussion of the consolidated operating results:

Fiscal 1999-1998

Revenues. Fiscal 1999 revenues decreased \$39.9 million, or 29.9% from \$133.5 million in Fiscal 1998 to \$93.6 million in Fiscal 1999. This decrease in revenues was, attributable to lower selling prices of Omega Protein's fish meal and fish oil. Fish meal sales prices and fish oil prices declined 28.1% and 48.2%, respectively, as compared to Fiscal 1998. Sales volumes for Omega Protein's fish meal and fish oil increased 10.6% and 9.7% respectively during Fiscal 1999 as compared to Fiscal 1998. Omega Protein attributes the decrease in selling prices to low cyclical feed cost affecting the protein industry. Zap.Com does not presently have any source of revenue and its ability to generate revenue will depend on its ability to contract with Web Sites to join the ZapNetwork and to successfully market the ZapBox to potential customers. If Zap.Com is unable to attract a sufficient number of Web site owners to its network, it will not be able to commence sales and generate sufficient revenues to become profitable.

As of the date of this report, Zap.Com has commenced solicitation of Web site owners to enroll Web Sites in the ZapNetwork, but does not yet, have any agreement, understanding or arrangement with any Web site owners to join the Network.

Cost of revenues. Cost of revenues, including depreciation, amortization and an inventory write-down for Fiscal 1999 totaled \$105.7 million, a \$16.2 million increase from \$89.5 million in Fiscal 1998. The cost of revenues increase was primarily due to the cyclical market declines on the inventory values of Omega Protein's fish meal and fish oil resulting in an inventory write-down charge of \$18.2 million. Zap.Com recorded costs of revenues of approximately \$141,000, which was expended in the design and delivery of its Web application, the ZapBox. In 2000 and beyond, Zap.Com expects to record significant expenses associated with the development and deployment of the ZapBox. On a consolidated basis, these expenses are expected to significantly increase Zapata's cost of revenues.

The increase in cost of revenues as a percent of revenues was primarily due to decreases in Omega

Protein's selling prices for fish meal and fish oil of 28.1% and 48.2%, respectively, during Fiscal 1999 as compared to Fiscal 1998. Per ton cost of revenues were 10.6% lower in Fiscal 1999 as compared to Fiscal 1998, due mainly to lower inventoriable costs associated with the Fiscal 1999 fishing season. During Fiscal 1998, in August and September of 1998, its fishing operations were hampered by a series of hurricanes and tropical storms that disrupted fishing operations, resulting in higher cost inventory.

Gross profit. Gross profit decreased \$56.1 million or 127.3% from \$44.1 million in Fiscal 1998 to a gross loss of \$12.0 million in Fiscal 1999. As a percentage of revenues, the Company's gross profit margin decreased 45.8% in Fiscal 1999 as compared to Fiscal 1998. The decline in gross profit was primarily the result of a 28.1% and 48.2% decline in selling prices for Omega Protein's fish meal and fish oil and a \$18.2 million inventory write-down charged against operations pertaining to downward cyclical pricing pressures on its fishing product inventories in Fiscal 1999, resulting in a negative gross profit margin in Fiscal 1999 compared to Fiscal 1998. In 2000 and beyond, consolidated gross profit is expected to be negatively impacted by Zap.Com's results to the extent that Zap.Com is unable to generate significant revenues.

Product Development. Product development costs consisted of web site and software development costs incurred by Zap.Com and Zapata's webzines, www.word.com and www.charged.com, and its online interactive drawing site, www.pixelttime.com. Zap.Com incurred product development costs in connection with the design of its web site at www.zap.com and the preliminary design of its Web application, the ZapBox. Product development costs increased to \$2.9 million in Fiscal 1999 from \$1.3 million in Fiscal 1998.

Selling, general and administrative expenses. Consolidated selling, general and administrative expenses increased \$4.4 million, or 38.5% from \$12.3 million in Fiscal 1998 to \$16.7 million in Fiscal 1999. As a percentage of revenues, selling, general and administrative expenses were approximately 9.2% in Fiscal 1998 and 17.8% in Fiscal 1999. The dollar increase was due primarily to increased personnel and marketing costs associated with the Omega Protein's expanded emphasis on specialty meals and oils combined with severance payments made in its quarter ended December 31, 1999 associated with reductions in management and ad-

ministrative personnel. Additionally, general and legal costs associated with the start-up activities of Zap.Com, including the registration and distribution of its shares to Zapata stockholders, caused an increase in selling, general and administrative costs in Fiscal 1999. In 2000 and beyond, Zap.Com will record significant charges for consulting expenses associated with the issuance of warrants to American Internetwork Sports in November 1999. The ultimate expense recorded will be dependent on the then current fair value of these warrants, and therefore, may significantly fluctuate between periods. In addition, Zap.Com anticipates incurring significant expenses associated with the consideration to be paid Web Site owners who join the ZapNetwork. On a consolidated basis, these charges are expected to significantly increase future selling, general and administrative expenses.

Asset write-down. Omega Protein recorded an asset write-down of \$2.3 million, which was 2.4% of revenues, in Fiscal 1999 resulting from the discontinued utilization of certain in-line processing facilities at its Morgan City plant.

Operating (loss) income. As a result of the factors discussed above, Zapata's operating income decreased to a loss of \$33.9 million for Fiscal 1999, from operating income of \$30.5 million in Fiscal 1998.

Interest income, net. Consolidated net interest income remained consistent between Fiscal 1999 and Fiscal 1998. The decrease in the consolidated cash balances during the period was offset by higher rates of return achieved by the Company's investments. Zapata had generally invested in short term (generally 30 days) U.S. government securities and commercial paper grade A2P2 or better but took advantage of higher yields offered by longer term investments (generally 90 days) during Fiscal 1999. In addition, Omega paid less interest as a result of a decrease in its average outstanding borrowings during Fiscal 1999.

Equity in loss on unconsolidated affiliates. As a result of Zapata's equity share of Viskase's cumulative losses being greater than Zapata's original book value in its investment, Zapata did not record its equity in the results of Viskase during Fiscal 1999 and it will not do so until its share of Viskase's cumulative results is greater than zero. Zapata recorded a loss on its equity in Viskase of \$7.0 million in Fiscal 1998.

Other (expense) income, net. Other expense increased to \$3.2 million in Fiscal 1999 from \$295,000 in Fiscal 1998 primarily the result of the recording of a \$3.3 million expense to reserve against potential costs associated with a judgment against Zapata on a claim for breach of employment contract made by a former Zapata employee. Zapata has appealed the Court's decision in this lawsuit. See "Part I Item 3. Legal Proceedings."

Income taxes. Zapata recorded a tax benefit of \$5.8 million representing an effective tax rate of 22% after taking into account minority interest in Omega Protein's results. The effective tax rate reflects the benefit from the consolidated losses offset by an increase in valuation reserves for deferred tax benefits relating to Zapata's equity in the loss of Viskase.

Minority Interest. Minority interest reflects the outside ownership of Zapata's consolidated subsidiaries of approximately 39% in Omega Protein and the 2% in Zap.Com. In Fiscal 1999, minority interest was a \$5.8 million reduction of Zapata's share of the net losses incurred by Omega Protein and Zap.Com, respectively. Minority interest was recorded for Zap.Com's results since the November 12, 1999 distribution of Zap.Com shares by Zapata to Zapata shareholders. In Fiscal 1998, minority interest represented \$5.0 million reduction of Zapata's share of Omega Protein's net income for the period.

*Transition Period Ending December 31, 1998 —
Three Months Ended December 31, 1997*

Zapata experienced a net loss of \$4.4 million for the Transition Period, compared to net income of \$4.6 million for the three months ended December 31, 1997. The loss was primarily due to Zapata's recognition of its equity in the loss of Viskase which was partially offset by \$5.1 million in operating income and \$2.1 million in net interest income. Revenues totaled \$25.8 million during the Transition Period versus \$29.5 million during the 1997 quarter. This decline in revenue is wholly attributable to Omega Protein. Zapata's operating income for the Transition Period decreased to \$5.1 million from \$8.2 million for the corresponding 1997 quarter. Results reflect a decrease in oil sales by Omega Protein, and costs associated with the operations of Zapata's Word and Charged webzines.

The following presents a more detailed discussion of the consolidated operating results:

Revenues. For the Transition Period, consolidated revenues were \$25.8 million versus revenues of \$29.5 million in the quarter ended December 31, 1997. The decrease in revenue was attributable to a 33.0% lower fish oil inventory position carried by Omega Protein over from Fiscal 1998 as compared to Fiscal 1997.

Cost of revenues. Cost of revenues, including depreciation and amortization, for the Transition Period was \$17.6 million, a \$1.7 million decrease from \$19.3 million in the quarter ended December 31, 1997. As a percent of revenues, cost of sales was 68.1% in the Transition Period as compared to 65.4% in the quarter ended December 31, 1997. Omega Protein's per ton costs of sales were higher in the Transition Period as compared to the quarter ended December 31, 1997, due mainly to higher cost inventories carried forward into the 1998 quarter. During August and September of 1998, fishing operations were hampered by unusually inclement weather which resulted in higher cost inventory.

Product development. Product development costs were \$0.9 million or 3.6% of revenues during the Transition Period. Zapata took over the operations of the two webzines, www.word.com and www.charged.com in April 1998, and, prior to that date, had not incurred any product development costs.

Selling, general and administrative expenses. Selling, general and administrative expenses were \$2.2 million or 8.4% of revenues in the Transition Period versus \$2.0 million during the quarter ended December 31, 1997. Selling, general and administrative expenses at Omega Protein increased \$780,000 or 67.6% from \$1.2 million in the quarter ended December 31, 1997 to \$1.9 million in the Transition Period. The increase in expense was due primarily to increased personnel and related marketing costs associated with Omega Protein's efforts to enter the U.S. food market with its refined menhaden oil.

Operating income. was \$5.1 million or 19.9% revenue, in the transition period ended December 31, 1998 versus \$8.2 million or 27.7% of sales in the quarter ended December 31, 1997.

Interest income, net. was \$2.1 million during the Transition Period ended December 31, 1998 versus \$0.3 million during the quarter ended De-

cember 31, 1997 reflecting higher levels of consolidated cash as a result of the proceeds from Omega Protein's April 1998 initial public offering. Zapata's interest expense was lower in the current period as compared to the corresponding prior-year period, reflecting lower levels of indebtedness.

Equity in loss on unconsolidated affiliates. was \$11.8 million during the Transition Period ended December 31, 1998 due to Zapata's equity in the \$119.6 million loss incurred by Viskase in its quarter ending September 30, 1998, which included an unusual charge of \$148.6 for worldwide restructuring charges. Equity in loss on unconsolidated affiliates was \$1.1 million during the quarter ended December 31, 1997.

Income taxes. Zapata recorded a tax benefit of \$1.9 million representing an effective tax rate of 30% after taking into account minority interest in Omega Protein's results. The \$1.9 million benefit was primarily attributable to loss from operations including the equity loss on the investment in Viskase. A \$2.7 million provision was recorded in the quarter ended December 31, 1997, which was primarily attributable to income from operations that included a gain on the sale of certain real estate.

Minority Interest. Minority interest reflects the approximately 40% of Omega Protein not owned by Zapata. In the Transition Period, minority interest was \$1.7 million reduction of Zapata's share of Omega Protein's net income during the three month period. In the quarter ended December 31, 1997, Omega Protein was wholly owned by Zapata Corporation and therefore, there was no minority interest.

Fiscal 1998-1997

Revenues. Fiscal 1998 revenues increased \$16.0 million, or 13.6% from \$117.6 million in Fiscal 1997 to \$133.6 million in Fiscal 1998. The increase was attributable to increased sales volume of Omega Protein's specialty meals and oil, and an overall increase in the average selling price of all regular meal products. Increased sales volumes were due to Omega's acquisitions of American Protein and Gulf Protein, and additional new sales which were partially offset by the lost Venture Milling revenues (which totaled approximately \$32.0 million in fiscal 1997). Average selling prices for Omega Protein's marine protein products continued a trend of increasing in Fiscal 1998, reflecting the continuing emphasis on producing value-added products. Prices for fish meal and fish oil

products improved by 4% and 39%, respectively, in Fiscal 1998 as compared to Fiscal 1997. Sales volumes of fish meal increased approximately 31% in Fiscal 1998 as compared to Fiscal 1997 sales. Sales volume of fish oil increased approximately 56% in Fiscal 1998 as compared to Fiscal 1997 sales. The volume increases were primarily due to increased inventory levels carried forward from Fiscal 1997 and increased production due to the acquisitions.

Cost of revenues. Cost of revenues, including depreciation and amortization, for Fiscal 1998 was \$89.5 million or approximately 67% of revenues. This was a decrease of \$4.3 million from Fiscal 1997 which was \$93.8 million or 79.8% of revenues. The decrease in cost of revenues was due to a decrease in Omega Protein's inventorable oil costs. Omega's fish meal and fish oil sales resulted in a respective 31% and 36% volume increase in Fiscal 1998 over Fiscal 1997.

Gross profit. Gross profit increased \$20.3 million, or 85.5%, from \$23.8 million in Fiscal 1997 to \$44.1 million in Fiscal 1998, resulting from a 13.6% increase in revenues and an increase in gross profit margin from 20.2% to 33% in Fiscal 1998. Revenues increased due to the factor indicated above. Gross profit margins increased primarily due to an increase in Omega Protein's fish catch of 18.7% from the previous Fiscal year, combined with the divestiture of its high cost Venture Milling operations during late Fiscal 1997.

Product development. Product development costs were incurred in Fiscal 1998 for the design and development of Zapata's two webzines, which it took over in April 1998.

Selling, general and administrative expense. Selling, general and administrative expenses increased \$1.4 million or 12.8% from \$10.9 million in Fiscal 1997 to \$12.3 million in Fiscal 1998. As a percentage of revenues, selling, general and administrative expenses were approximately 9.3% and 9.2% in Fiscal 1997 and Fiscal 1998, respectively. The increase was due primarily to additional staffing necessary for the Omega Protein's expanded emphasis on specialty meals and oils, and costs incurred by Zapata to defend and conclude various legal matters.

Operating income. As a result of the factors discussed above, Zapata's operating income increased to \$30.5 million in Fiscal 1998 from

\$12.8 million in Fiscal 1997. As a percentage of revenues, operating income increased from 10.9% in Fiscal 1997 to 22.8% in Fiscal 1998.

Interest expense, net. In Fiscal 1998, the net interest income increased approximately \$3 million from Fiscal 1997 primarily to the higher level of the Company's cash and cash equivalent balances following the Omega Protein's initial public offering and lower average outstanding borrowings at Omega Protein during Fiscal 1998.

Income taxes. Zapata recorded a provision for income taxes of \$40.0 million in Fiscal 1998, reflecting the gain on the Omega Protein initial public offering. The \$4.4 million provision recorded in Fiscal 1997 reflected the positive operating results at Omega Protein.

Minority Interest. Minority reflects the approximately 40% ownership of Omega Protein purchased by non-affiliated investors of Omega Protein's initial public offering in April 1998. In Fiscal 1998, minority interest was \$5.0 million and reflected the minority interest in Omega Protein's net income since April 1998. In Fiscal 1997, Omega Protein was wholly-owned by Zapata and, therefore, there was no minority interest.

Liquidity and Capital Resources

From September 30, 1995 to December 31, 1999, Zapata's main source of liquidity was the Energy Industries Sale, the Cimmaron Sale, the Bolivian Sale, the operations and activities of Omega Protein and Omega Protein's 1998 public offering. At December 31, 1999, Zapata's main sources of liquidity were cash, cash equivalents and short-term investments which aggregated (on an unconsolidated basis) approximately \$93.9 million, as compared to \$109.9 million one year earlier. This decline in liquidity was due to the use of cash to fund Zapata's operations, settlement of certain litigation, and Zapata's investment in Zap.Com. In November 1999, Zapata invested \$9.1 million in its then wholly-owned subsidiary, Zap.Com, as a capital contribution for 49,450,000 shares of Zap.Com common stock, or 98% of Zap.Com's outstanding common stock. The investment consisted of \$8 million in cash and the forgiveness of \$1 million in inter-company debt. Zapata's operating and investment expenditures (on an unconsolidated basis) during Fiscal 1999 were partially offset by interest income of \$4.5 million earned during Fiscal 1999.

Prior to Omega Protein's 1998 initial public offering, Zapata, as the sole stockholder of Omega Protein caused cash to be moved between it and Omega Protein as each company had cash needs. As a result of the offering, Zapata and Omega Protein are now separate public companies. Similarly, since Zapata's distribution of Zap.Com shares to Zapata stockholders in November 1999, Zapata and Zap.Com are separate public companies. Accordingly, the capital resources and liquidity of Omega Protein and Zap.Com (which included cash and cash equivalents of \$15.7 million and \$44.8 million at Omega Protein at December 31, 1999 and December 31, 1998 and \$7.6 million at Zap.Com at December 31, 1999) 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 which may be declared and paid to their respective stockholders. For the foreseeable future, Zapata does not expect to receive cash dividends on its Omega Protein or Zap.Com shares.

Zapata's secondary source of liquidity is its publicly traded securities of Omega Protein, Zap.Com and Viskase. Zapata's holdings of Omega Protein and Zap.Com stock 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. Zapata's Viskase holdings may also be considered to be "restricted securities" under Rule 144. 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 and Zapata has registered with the SEC for resale 1,000,000 shares of Zap.Com common stock. As of the date of this report, it has not sold any of its Zap.Com shares and there is no assurance that it will or can sell these shares. Although Zap.Com is publicly traded, the market for its shares has to date been thin. Since trading began in Zap.Com's stock, the daily volume in its shares has ranged from 100 shares to 19,800 shares.

Zapata from time to time has other sources of liquidity. In Fiscal 1998, Zapata received net proceeds of approximately \$5.0 million in connection with the exercise of stock options by former officers and employees of Zapata. In January 2000, Zapata received approximately \$1.7 in immediately available funds in connection with the Production Payment Receivable Sale. Zapata anticipates that it will receive during Fiscal 2000 approximately \$3.2 million as a result of the carryback of net operating losses incurred during Fiscal 1999. As a result, Zapata's deferred tax assets will decline by this amount.

At December 31, 1999, Zapata had \$16.1 million in consolidated indebtedness, all of which was Omega Protein's indebtedness. Zapata's liquidity needs are primarily for operating expenses, litigation and insurance reserves, possible stock repurchases and possible acquisitions or investments. In addition, Zapata is committed to approximately \$650,000 under a services contract with Qwest Communications Inc. related to the acquisition of the "Word" and "Charged" webzines in April 1998. See "Part I — Item 3 — Legal Proceedings"; see "Part II — Item 5 — Market For Registrant's Common Equity and Related Stockholder Matters." In the event of future acquisitions or investments, Zapata may need to 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.

In the absence of unforeseen developments, Zapata believes that existing cash, cash equivalents, short-term investments and other sources of liquidity will be sufficient to fund Zapata's operating expenses and other operational requirements at least for the 12 months following the date of this report.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. SFAS 133 requires the recognition of all derivatives as either assets or liabilities in the statement of financial position and the measurement of those instruments at fair value. Zapata

is required to adopt this standard in the first quarter of fiscal year 2001 pursuant to SFAS No. 137 (issued in June 1999), which delays the adoption of SFAS 133 until that time. Zapata expects that the adoption of SFAS 133 will not have a material impact on the its financial position or its results of operations.

Year 2000

Many companies' computer systems, software products and control devices needed to be upgraded or replaced in order to operate properly in the Year 2000 and because of the inability to distinguish 21st century dates from the 20th century dates Zapata and its consolidated subsidiaries reported they were aware of the issues associated with the programming code in existing computer systems as the year 2000 approached.

As of the date of this report, Zapata has not experienced any Year 2000 problems nor does it expect any future Year 2000 problems in the year 2000. Both Omega Protein and Zap.Com Corporation have reported that they have not experienced any Year 2000 problems nor do they expect any future Year 2000 related problems in the year 2000.

Significant Factors That Could Affect Future Performance and Forward-Looking Statements

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

1. Risk associated with the future results of Omega Protein's performance, including: Omega Proteins' dependence on menhaden as its single natural resource; the effect on the prices for its products caused by worldwide supply and demand relationships for competing products, over which Omega Protein has no control and which tend to fluctuate to a significant extent over a course of a year and from year-to-year; the impact of violations of government regulations; the impact if Omega Protein cannot harvest menhaden in jurisdictional waters if Omega Protein violates restrictions on foreign ownership required for it to maintain its fishing licenses in U.S. jurisdictional waters; risk

associated with its attempts to exploit the domestic market for omega-3 fatty acids (including the unproven market for this product); fluctuation of quarterly results due to the seasonality of Omega Protein's business and Omega Protein's deferral of sales of inventory based on worldwide prices for competing products; the ability of Omega Protein to recruit and retain key officers and qualified personnel; risks associated with international operations, including, exchange rates; regulatory and changes in social, political and economic conditions; risks related to unanticipated material adverse outcomes in litigation; and those other risks identified from time to time in Omega Protein's registration statements, reports and other filings from time to time with the SEC, including, but not limited to, those risks identified under the caption "Significant Factors That May Affect Future Results" in Omega Protein's Annual Report on Form 10-K and in press releases issued by Omega Protein from time to time.

2. Risks associated with the future results of Viskase's performance, which are subject to those risks identified from time to time in registration statements, reports and other filings which it makes from time to time with the SEC and in press releases that it issues.

3. Risks associated with the future results of Zap.Com's performance, including: Zap.Com's limited operating history; risks inherent in establishing a new business in the Internet industry; Zap.Com's ability to successfully build the ZapNetwork; Zap.Com's lack of a present source of revenues; the extent of the losses and negative cash flows that Zap.Com anticipates; Zap.Com's unproven business model; Zap.Com's ability to successfully finalize development of future releases of its proprietary Web application, the ZapBox; risks associated with Zap.Com's dependence on the Internet; intense competition which Zap.Com faces; the extent to which a trading market develops in Zap.Com's stock; Zap.Com's ability to raise capital if necessary; Zap.Com's ability to maintain intellectual property protection for its proprietary products (including its ability to successfully obtain a patent for the ZapBox and related matters), to defend its existing intellectual property rights from challenges by third parties, and to avoid infringing intellectual property rights of third parties; unforeseen operating risks; Zap.Com's ability to secure and maintain agreements with third parties for various services and other functions; and the other risks factors set forth in Zap.Com's registration statements, reports

and other filings with the SEC, including Zap.Com's Registration Statement on Form S-1 filed with the SEC on December 30, 1999, as amended, and Zap.Com's press releases.

4. Risks associated with the fact that a significant portion of Zapata's assets consists of equity and other interests in its operating companies. Significant investments in entities that are not majority owned by Zapata could subject Zapata to the registration requirements of the Investment Company Act of 1940 (the "Investment Company Act"). The Investment Company Act requires registration of, and imposes substantial restrictions on, certain companies that engage, or propose to engage, primarily in the business of investing, reinvesting, owning, holding, or trading in securities, or that fail certain statistical tests concerning a company's asset composition and sources of income. Zapata intends to actively participate in the management of its operating companies, consistent with applicable laws, contractual arrangements and other requirements. Accordingly, Zapata believes that it is primarily engaged in a business other than investing, reinvesting, owning, holding or trading in securities. Further, Zapata endeavors to ensure that its holdings of investment securities constitutes less than 40% of its total assets (excluding Government securities and cash) on an unconsolidated basis. Zapata

intends to monitor and attempt to adjust the nature of its interests in and involvement with operating companies in order to avoid subjecting Zapata to the registration requirements of the Investment Company Act. There can be no assurance, however, that Zapata's business activities will not ultimately subject Zapata to the Investment Company Act. If Zapata were required to register as an investment company under the Investment Company Act, it would become subject to regulations that would have a material adverse impact on its business.

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

6. Risks related to future changes in accounting and reporting practices of Zapata and any of its equity investments which adversely affect Zapata's, results of operation, cash flows and financial condition.

**Item 7.A. *Quantitative and Qualitative Disclosure
About Market Risk***

Investment portfolio and interest rate sensitivity

Our investment policy with respect to our excess cash is to invest in financial instruments with a maturity of 120 days or less (with certain limited exceptions). We invest our excess cash only in investments that meet high credit quality standards, such as obligations of the U.S. government securities or any agency thereof guaranteed by the U.S. government, certificates of deposits, money market deposits, and commercial paper with a rating of A-1 or P-1. As of December 31, 1999, the Company held a total of \$117.0 million in marketable securities. The Company classified \$72.7 million of this amount within the cash and cash equivalents category and classified the remaining \$44.3 million as short-term investments.

Interest income earned on our fixed income investment portfolio is affected by changes in short-term interest rates. We are thus exposed to market

risk related to changes in market interest rates. To date, we have managed these risks by monitoring market rates and the duration of our non-equity investments.

The securities in our fixed income investment portfolio are subject to interest rate risk and will decline in value if market interest rates increase. If market interest rates were to increase immediately and uniformly by 10 percent from levels as of December 31, 1999, the decline in the fair value of the Company's fixed investment portfolio would be approximately \$575,000. Due to the short-term nature of its investments in fixed income securities, however, the Company has the ability to hold its fixed income investments until maturity. Therefore, the Company does not believe that it is exposed to significant changes in fair value of its fixed income investment portfolio.

The Company is exposed to equity price risks on the marketable portion of its equity securities.

Item 8. *Financial Statements and Supplementary Data*

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of Directors,
of Zapata Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity and cash flows presents fairly, in all material respects, the financial position of Zapata Corporation and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for the year ended December 31, 1999, the three month period ended December 31, 1998, and the two years ended September 30, 1998 in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

March 28, 2000
New Orleans, Louisiana

ZAPATA CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31, 1999	December 31, 1998
	(\$ in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 72,751	\$154,704
Short term investments	44,370	—
Receivables, net	21,793	9,811
Inventories, net	46,112	43,351
Production payment receivable, current	1,673	—
Prepaid expenses and other current assets	2,187	3,468
Total current assets	<u>188,886</u>	<u>211,334</u>
Investments and other assets:		
Production payment, noncurrent and other receivables	—	1,493
Other assets	19,876	19,105
Total investments and other assets	19,876	20,598
Property and equipment, net	91,052	86,308
Total assets	<u>\$299,814</u>	<u>\$318,240</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 1,146	\$ 997
Accounts payable	2,637	2,635
Accrued liabilities	14,977	13,554
Total current liabilities	<u>18,760</u>	<u>17,186</u>
Long-term debt	16,069	11,205
Other liabilities and deferred taxes	8,009	9,957
Minority interest	58,731	64,800
Total liabilities	<u>101,569</u>	<u>103,148</u>
Commitments and contingencies		
Stockholders' equity:		
Common Stock, (\$0.01 par), issued 30,679,028 on December 31, 1999; (\$0.25 par), issued: 30,667,178 shares on December 31, 1998	307	307
Capital in excess of par value	175,155	160,658
Reinvested earnings, from October 1, 1990 quasi-reorganization	65,377	85,795
Treasury stock, at cost, 6,790,100 shares at December 31, 1999 and 1998	(31,668)	(31,668)
Deferred consulting expense	(10,329)	—
Accumulated other comprehensive income	(597)	—
Total stockholders' equity	<u>198,245</u>	<u>215,092</u>
Total liabilities and stockholders' equity	<u>\$299,814</u>	<u>\$318,240</u>

ZAPATA CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 1999	Three Months Ended December 31, 1998	Years Ended September 30, 1998	1997
	(in thousands except per share amounts)			
Revenues	\$ 93,666	\$ 25,759	\$133,555	\$117,564
Cost of revenues	87,510	17,553	89,460	93,798
Inventory write-down	18,188	—	—	—
Gross profit	(12,032)	8,206	44,095	23,766
Operating Expenses:				
Product development	2,890	915	1,266	—
Selling, general and administrative	16,697	2,165	12,322	10,924
Impairment of long-lived assets	2,267	—	—	—
Total Operating Expenses:	21,854	3,080	13,588	10,924
Operating income (loss)	(33,886)	5,126	30,507	12,842
Other income (expense):				
Interest income, net	5,170	2,136	5,025	2,031
Gain on sale of Omega Protein	—	—	86,662	—
Equity in loss of unconsolidated affiliates	—	(11,836)	(7,009)	(2,845)
Other	(3,219)	(60)	(295)	(176)
	1,951	(9,760)	84,383	(990)
Income from continuing operations before income taxes	(31,935)	(4,634)	114,890	11,852
Benefit (provision) for income taxes	5,758	1,904	(39,965)	(4,440)
Minority interest in net income (loss) of consolidated subsidiary, net of taxes ...	5,845	(1,714)	(4,965)	—
Income from continuing operations	(20,332)	(4,444)	69,960	7,412
Discontinued operations:				
Income (loss) from discontinued operations, net of income taxes	—	—	—	2,332
Gain on disposition of discontinued operations, net of income taxes	—	—	—	5,681
Net income (loss)	(20,332)	(4,444)	69,960	15,425
Preferred and preference stock dividends	—	—	—	2
Net income to common stockholders	(20,332)	(4,444)	69,960	15,423
Other comprehensive income	(597)	—	—	—
Total comprehensive income	<u>\$ (20,929)</u>	<u>\$ (4,444)</u>	<u>\$ 69,960</u>	<u>\$ 15,423</u>

	Year Ended December 31, 1999	Three Months Ended December 31, 1998	Years Ended September 30,	
			1998	1997
	(in thousands except per share amounts)			
Per share data (basic):				
Income from continuing operations	\$ (0.85)	\$ (0.19)	\$ 3.04	\$ 0.27
Income from discontinued operations	<u>—</u>	<u>—</u>	<u>—</u>	<u>0.29</u>
Net income per share (basic)	<u>\$ (0.85)</u>	<u>\$ (0.19)</u>	<u>\$ 3.04</u>	<u>\$ 0.56</u>
Average common shares outstanding	<u>23,883</u>	<u>23,877</u>	<u>23,043</u>	<u>27,303</u>
Per share data (diluted):				
Income from continuing operations	\$ (0.85)	\$ (0.19)	\$ 2.94	\$ 0.27
Income from discontinued operations	<u>—</u>	<u>—</u>	<u>—</u>	<u>0.29</u>
Net income per share (diluted)	<u>\$ (0.85)</u>	<u>\$ (0.19)</u>	<u>\$ 2.94</u>	<u>\$ 0.56</u>
Average common shares and common share equivalents outstanding	<u>23,883</u>	<u>23,877</u>	<u>23,759</u>	<u>27,550</u>

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

ZAPATA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31 1999	Three Months Ended December 31 1998	Years Ended September 30, 1998	1997
	(in thousands)			
Cash flow provided by (used in) operating activities:				
Net income(loss)	\$(20,332)	\$ (4,444)	\$ 69,960	\$ 15,425
Adjustments to reconcile net income to net cash provided by (used in) operating activities				
Depreciation and amortization	9,071	1,966	6,385	3,744
Impairment of long-lived assets	2,267	—	—	—
Discontinued operations net gain on sales of assets	—	—	—	(5,681)
Gain on sales of Omega Protein stock and other assets	(694)	—	(86,865)	(219)
Equity in loss of unconsolidated affiliates	—	11,836	7,009	2,845
Restricted cash investments	—	—	4,337	(4,000)
Deferred income taxes	(5,758)	493	1,787	2,668
Warrants expense of Zap.Com	1,171	—	—	—
Minority interest in net income (loss) of consolidated subsidiaries, net of taxes	(5,845)	1,714	4,965	—
Changes in assets and liabilities:				
Receivables	(11,982)	2,993	(1,654)	(1,963)
Inventories, net of write-down	(2,761)	(2,567)	(2,336)	(9,291)
Prepaid expenses and other current assets ...	684	(1,597)	543	138
Accounts payable	33	(301)	993	(3,790)
Accrued liabilities	7,181	(8,024)	7,204	(3,292)
Other assets	(49)	(1,580)	(2,916)	4,824
Other liabilities	52	(4,642)	3,903	607
Decrease (increase) in net assets of discontinued operations	—	—	—	(3,587)
Total adjustments	(6,630)	291	(56,645)	(16,997)
Net cash provided by (used in) operating activities	(26,962)	(4,153)	13,315	(1,572)
Cash flow provided by (used in) investing activities:				
Proceeds from disposition of assets, net	6	—	1,006	19,513
Proceeds from production payment receivables	801	580	1,281	581
Asset acquisitions	—	—	(28,116)	—
Purchase of short-term investments	(44,370)	—	—	—
Capital expenditures	(15,665)	(3,281)	(21,851)	(8,541)
Net cash provided by (used in) investing activities	(59,228)	(2,701)	(47,680)	11,553

(Continued)

ZAPATA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

	Year Ended December 31 1999	Three Months Ended December 31 1998	Years Ended September 30, 1998	1997
	(in thousands)			
Cash flow provided by (used in) financing activities:				
Proceeds from Omega Protein Corporation Initial Public Offering	—	—	144,543	—
Proceeds from exercise of stock options	159	—	5,003	—
Borrowings	6,070	—	2,644	4,061
Principal payments of short- and long-term obligations	(1,057)	(583)	(3,283)	(26,071)
Preferred and preference stock redemptions	—	—	—	(199)
Common stock repurchases	—	—	(1,497)	(30,171)
Purchase of treasury shares by a consolidated subsidiary	(2,035)	—	—	—
Issuance of common stock by Zap.Com	1,100			
Dividend payments	—	—	(6,502)	(1,604)
Net cash provided by (used in) financing activities	4,237	(583)	140,908	(53,984)
Net increase (decrease) in cash and cash equivalents	(81,953)	(7,437)	106,543	(44,003)
Cash and cash equivalents at beginning of year ...	154,704	162,141	55,598	99,601
Cash and cash equivalents at end of year	<u>\$ 72,751</u>	<u>\$154,704</u>	<u>\$162,141</u>	<u>\$ 55,598</u>
Supplemental disclosure of non-cash operating activities				
Reclassification of deferred tax asset	\$ 2,000	\$ —	\$ 3,441	\$ 2,643
Resolution of pre-quasi-reorganization liability ...	—	—	—	4,930
Tax benefit of stock option exercises	—	3,989	—	—
	<u>\$ 2,000</u>	<u>\$ 3,989</u>	<u>\$ 3,441</u>	<u>\$ 7,573</u>

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

ZAPATA CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Preference Stock	Common Stock		Capital in Excess of Par Value	Accumulated Other Comprehensive Income	Reinvested Earnings	Treasury Stock	Deferred Consulting Expense
		Shares	Amount					
				(in thousands)				
Balance at September 30, 1996 ..	\$ 3	29,548	\$ 295	\$139,055	\$ —	\$12,960	\$ —	\$ —
Net Income	—	—	—	—	—	15,425	—	—
Cash dividends declared	—	—	—	—	—	—	—	—
Common Stock	—	—	—	—	—	(1,602)	—	—
Preference Stock	—	—	—	—	—	(2)	—	—
Common Stock Buyback (6.7 million shares)	—	—	—	—	—	—	(30,171)	—
Preference stock redemption ..	(3)	—	—	(196)	—	—	—	—
Resolution of pre-quasi- reorganization liability	—	—	—	4,930	—	—	—	—
Reclassification of deferred tax asset	—	—	—	2,643	—	—	—	—
Other	—	32	1	67	—	—	—	—
Balance at September 30, 1997 ..	—	29,580	296	146,499	—	26,781	(30,171)	—
Net Income	—	—	—	—	—	69,960	—	—
Cash dividends declared	—	—	—	—	—	(6,502)	—	—
Preferred stock redemption ...	—	—	—	—	—	—	—	—
Common Stock buyback (115,000 shares)	—	—	—	—	—	—	(1,497)	—
Reverse unrealized gain (net of taxes)	—	—	—	—	—	—	—	—
Reclassification of deferred tax asset	—	—	—	3,441	—	—	—	—
Exercise of Stock Options	—	1,087	11	6,729	—	—	—	—
Balance at September 30, 1998 ..	—	30,667	307	156,669	—	90,239	(31,668)	—
Net Income (loss)	—	—	—	—	—	(4,444)	—	—
Tax benefit of Stock option exercises	—	—	—	3,989	—	—	—	—
Balance at December 31, 1998 ..	—	30,667	307	160,658	—	85,795	(31,668)	—
Net Income (loss)	—	—	—	—	—	(20,332)	—	—
Other comprehensive income	—	—	—	—	(597)	—	—	—
Dividends — Zap.com common stock	—	—	—	—	—	(86)	—	—
Reclassification of deferred tax asset	—	—	—	2,000	—	—	—	—
Exercise of Stock Options	—	12	—	46	—	—	—	—
Warrants issued by subsidiary	—	—	—	11,500	—	—	—	(11,500)
Effect of subsidiary equity transactions	—	—	—	951	—	—	—	1,171
Balance at December 31, 1999 ..	\$ —	30,679	\$ 307	\$175,155	\$ (597)	\$65,377	\$ (31,668)	\$ (10,329)

ZAPATA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Consolidation

The consolidated financial statements include Zapata Corporation and its wholly and majority-owned domestic and foreign subsidiaries (collectively, "Zapata" or the "Company"). Investments in affiliated companies and joint ventures representing a 20% to 50% voting interest are accounted for using the equity method, while interests of less than 20% are accounted for using the cost method.

Zapata's principal business activities are its ownership interests in two significant majority owned consolidated subsidiaries, Omega Protein Corporation ("Omega Protein") (formerly known as Marine Genetics Corporation and Zapata Protein, Inc.), and Zap.Com Corporation ("Zap.Com"), both of which are publicly traded, and a significant equity investment in another publicly traded corporation, Viskase Corporation ("Viskase") (formerly known as Envirodyne Industries, Inc.). Omega Protein is engaged in the marine protein business and its stock is traded on the New York Stock Exchange ("NYSE") under the symbol "OME." Zap.Com engages in an Internet related business and trades in the over-the-counter market on the NASD's electronic bulletin board under the symbol "ZPCM." Viskase is engaged in the food packaging business and its stock is traded in the over-the-counter market on the Nasdaq SmallCap Market under the symbol "VCIC." Zapata also operates the Internet-based magazines "Word" and "Charged". As of December 31, 1999, Zapata held approximately \$72.8 million in cash and cash equivalents (including approximately \$16.0 million held by Omega Protein and \$7.6 million held by Zap.Com) in government backed securities, certificates of deposit and high quality commercial paper graded A2P2 or better, and approximately \$44 million in short-term investments in government backed securities.

Cash and Cash Equivalents

The Company considers short-term, highly liquid investments with original maturities of 90 days or less to be cash equivalents.

Short-Term Investments

As of December 31, 1999 Zapata holds approximately \$44 million in short-term investments in government backed securities. The company considers those investments with a maturity period greater than 90 days and less than 360 days to be short-term investments.

Inventories

Omega Protein's fishing season runs from mid-April to the end of October in the Gulf of Mexico and from the beginning of May to the end of December in the Atlantic. Government regulations preclude Omega Protein from fishing during the off-seasons. During the off-seasons, Omega Protein incurs costs (i.e., plant and vessel-related labor, utilities, rent and depreciation) that are directly related to Omega Protein's infrastructure that will be used in the upcoming fishing season. Costs that are incurred subsequent to a fish catch are deferred until the next season and are included with inventory. Fishing product inventories and materials, parts and supplies are stated at the lower of cost (average cost) or market.

Omega Protein's inventory cost system considers all costs, both variable and fixed, associated with an annual fish catch and its processing. Omega Protein's costing system allocates cost to inventory quantities on a per unit basis as calculated by a formula that considers total estimated inventoriable costs for a fishing season (including off-season costs) to total estimated fish catch and the relative fair market value of the individual products produced. Omega Protein adjusts the cost of sales, off-season costs and inventory balances at the end of each quarter based on revised estimates of total inventoriable costs and fish catch.

Investments in unconsolidated affiliates

In August 1995, Zapata acquired 4,189,298 common shares of Viskase, representing 31% of the then outstanding common stock of Viskase. In June and July 1996, Zapata purchased 1,688,006 additional shares of Viskase and, as a result of these transactions, Zapata currently owns approximately 40% of the outstanding shares of Viskase common stock. Zapata's investment in Viskase is accounted

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

for using the equity method of accounting. Since historically, Viskase's financial statements have not been available to Zapata on a basis that would permit concurrent reporting, Zapata reports its equity in Viskase's results of operations on a three month delay basis.

Property, equipment and depreciation

Property and equipment are recorded at cost except as adjusted by the quasi-reorganization as of October 1, 1990. As a result of the quasi-reorganization the carrying value of the assets utilized by the Company were reduced to estimated fair value as of October 1, 1990.

Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the assets. Estimated useful lives of assets acquired new, determined as of the date of acquisition, are as follows:

	<u>Useful Lives</u> <u>(Years)</u>
Fishing vessels and fish processing plants	15-20
Computers, furniture and fixtures	3-10
Internally developed software	3

Replacements and major improvements are capitalized; maintenance and repairs are charged to expense as incurred. Upon sale or retirement, the costs and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in the statement of operations. The Company periodically evaluates its long-lived assets for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In accordance with SFAS No. 121, the Company uses an estimate of the future undiscounted net cash flows of the related asset or asset grouping over the remaining life in measuring whether its operating assets are recoverable.

Comprehensive income

The Company adopted SFAS No. 130, "Reporting Comprehensive Income" ("Statement 130") in fiscal year 1999 which established standards for the reporting and display of compre-

hensive income and its components in a full set of comparative general-purpose financial statements. Statement 130 requires net unrealized holding gains, which prior to adoption were reported separately in stockholders' equity, to be included in other comprehensive income (expense). The adoption of Statement 130 resulted in revised and additional disclosures but had no effect on the financial position, results of operations, or liquidity of the Company.

Revenue recognition

Omega Protein recognizes revenue for the sale of its product when title to its products is transferred to the customer.

Income taxes

The Company utilizes the liability method to account for income taxes. This method requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of existing temporary differences between the financial reporting and tax reporting basis of assets and liabilities, and operating loss and tax credit carry-forwards for tax purposes. Prior to the completion of the Omega Protein initial public offering in April 1998, Omega Protein was included in Zapata's consolidated U.S. federal income tax return and its income tax effects reflect on a separate return basis for financial reporting basis. Subsequent to this offering, Omega Protein files a separate income tax return for itself and its wholly-owned subsidiaries. Zap.Com will continue to be included in Zapata's consolidated U.S. federal income tax return for as long as Zapata's ownership interest is above 80%.

Concentrations of credit risk

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

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

At December 31, 1999 and 1998, the Company had cash deposits concentrated primarily at four major banks and investment institutions in which the Company invests in government securities, bank notes, certificates of deposit, and commercial quality paper grade A2P2 rated or better. As a result of the foregoing, the Company believes that credit risk in such investments is minimal.

Quasi-reorganization

In connection with the comprehensive restructuring accomplished in 1991, the Company implemented, for accounting purposes, a “quasi-reorganization,” an elective accounting procedure that permits a company that has emerged from previous financial difficulty to restate its accounts and establish a fresh start in an accounting sense. After implementation of the accounting quasi-reorganization, the Company’s assets and liabilities were revalued and its deficit in reinvested earnings was charged to capital in excess of par value. The Company effected the accounting quasi-reorganization as of October 1, 1990. During Fiscal 1999 and 1998, the Company reclassified \$2.0 million and \$3.4 million, respectively, after-tax contingent liability to capital in excess of par value as a result of the resolution of certain liabilities that were established at the date of the quasi-reorganization.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

In March 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants (“AcSEC”), issued Statement of Position (“SOP”) 98-1, “Accounting for the Cost of Computer Software Developed or “Obtained for Internal Use”. SOP 98-1 requires the capitalization of various internal costs related to the

implementation of computer software obtained for internal use. The Company adopted the SOP during Fiscal 1999.

In June 1998, the FASB issued SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities.” SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. SFAS 133 requires the recognition of all derivatives as either assets or liabilities in the statement of financial position and the measurement of those instruments at fair value. The Company is required to adopt this standard in the first quarter of fiscal year 2001 pursuant to SFAS No. 137 (issued in June 1999), which delays the adoption of SFAS 133 until that time. The Company expects that the adoption of SFAS 133 will not have a material impact on the its financial position or its results of operations.

Reclassification

During 1999, reclassification of prior year information have been made to conform with the current year presentation. These reclassifications had no effect on net income or stockholders’ equity reported for prior periods.

Change of fiscal year

On December 21, 1998, the Company’s Board of Directors adopted a change in the Company’s fiscal year from September 30 to December 31. Accordingly, the Company had a transition period of three months that ended on December 31, 1998 (the “Transition Period”), followed by a full twelve-month fiscal year ending on December 31, 1999 (“Fiscal 1999”).

Note 2. Omega Protein Asset Acquisitions and Divestitures

On November 3, 1997, Omega Protein acquired the fishing and processing assets of America Protein, Inc. (“America Protein”) which operated ten fishing vessels and a menhaden processing plant in the Chesapeake Bay area, for \$14.5 million in cash (the “American Protein Acquisition”). American Protein’s facilities were located in close prox-

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

imity to Omega Protein's Reedville, Virginia facility. Shortly after completing this transaction, Omega Protein closed the American Protein processing plant and began integrating its assets into Omega Protein's existing operations.

On November 25, 1997, Omega Protein purchased the fishing and processing assets of Gulf Protein, Inc. ("Gulf Protein"), which included six fishing vessels, five spotter plans and the processing equipment located at the Gulf Protein plant near Morgan City, Louisiana, for \$13.6 million in cash and the assumption of \$883,000 in liabilities (the "Gulf Protein Acquisition"). Omega Protein accounted for this acquisition as a purchase; thus, the results of operations began being included in Omega Protein's Statement of Operations beginning November 25, 1997. In connection with the Gulf Protein Acquisition, Omega Protein also entered into a five year lease for the Gulf Protein plant at a \$220,000 annual rental rate. Due to the decline in the average per-ton prices for Omega Protein's products which occurred in Fiscal 1999, Omega Protein has elected to discontinue processing operations at its Morgan City plant for the 2000 fishing season, which starts in April 2000. Certain impaired in-line processing equipment requiring significant repairs will be removed from the Morgan City plant during Fiscal 2000 and salvaged. An impairment of long-lived assets in the amount of \$2.3 million has been recorded to reduce the cost of this impairment in-line equipment to its current salvage value. Omega Protein will reevaluate its remaining operations at this location on an annual basis thereafter.

These acquisitions were financed by a \$28.1 million intercompany loan from Zapata. The interest rate on this loan was 8.5% and was repayable in quarterly installments beginning May 1, 1998. The loan, which was to mature on August 1, 2002, was prepaid in May 1998 with a portion of the proceeds from the Omega Protein Offering.

On September 16, 1997, Omega Protein's wholly-owned subsidiary, Venture Milling Company, a Delaware corporation ("Venture Milling"), sold substantially all of its assets to an unrelated third party (the "Venture Milling Disposition"). Venture Milling was primarily in the business of blending different animal protein products (i.e., fish meal, blood meal and feather meal for sale to

producers of feed for broilers and other animals with low nutritional requirements). Omega Protein's net income for the 1997 and 1996 Fiscal years was not materially impacted by activity related to Venture Milling. The Venture Milling Disposition resulted in a \$531,000 pre-tax loss to Omega Protein in the fourth quarter of Fiscal 1997 and did not have a material impact on Omega Protein's balance sheet since Venture Milling leased most of the assets employed in its operations.

Note 3. Accounts Receivable

Accounts receivable as of December 31, 1999 and 1998 are summarized as follows:

	December 31, 1999	December 31, 1998
	(in thousands)	
Trade	\$ 8,717	\$ 8,230
Insurance	1,354	304
Employee	60	102
Income tax	9,950	"0"
Other	1,900	1,367
	<u>21,981</u>	<u>10,003</u>
Less: allowance for doubtful accounts	(188)	(192)
	<u>\$21,793</u>	<u>\$ 9,811</u>

Note 4. Inventory

Inventory as of December 31, 1999 and 1998 is summarized as follows:

	December 31, 1999	December 31, 1998
	(in thousands)	
Fish meal	\$24,195	\$19,025
Fish oil	8,445	12,456
Fish solubles	1,538	906
Off season cost	7,282	6,211
Materials and supplies ..	4,633	4,781
Other	121	74
Less: fish oil inventory reserve	(102)	(102)
Total inventory	<u>\$46,112</u>	<u>\$43,351</u>

During Fiscal 1999, Omega Protein provided \$18.2 million in write-downs of the value of its fish meal and fish oil product inventories. The inventory write-downs were made necessary due to market prices Omega Protein either has received or expects to receive for its products had declined to a level below its cost basis in those products. The resultant net basis of \$34.1 million for the fish meal, oil and

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

soluble products approximates current market value, less estimated selling costs, at December 31, 1999.

Note 5. Short-Term Investments

Short-term investments as of December 31, 1999 are summarized as follows:

	December 31, 1999 (in thousands)
SunTrust Bank:	
Federal Home Loan Discount Note	\$10,476
First Union Bank:	
Federal Home Loan Discount Note	33,595
Nations Bank:	
Time Deposit CD	299
	<u>\$44,370</u>

On September 20, 1999, Zapata invested \$10,475,705 at a rate of 5.45% in short-term notes with SunTrust Bank having a maturity date of January 18, 2000, as well as \$33,595,019 with First Union, also at 5.54%, to mature on January 18, 2000. Zapata also invested \$299,485 in a Time Deposit CD with Nations Bank at a rate of 4.5% due to mature on May 2, 2000. The CD is collateral for a letter of credit the Company must carry for certain insurance coverages.

Note 6. Other Assets

Other assets as of December 31, 1999 and 1998 are summarized as follows:

	December 31, 1999	December 31, 1998
	(in thousands)	
Fishing nets	\$ 1,258	\$ 1,263
Title XI loan origination fee	339	399
Note receivable	35	384
Deposits	116	116
Miscellaneous	701	1,420
Prepaid pension cost	16,232	14,336
Investments in unconsolidated affiliates	58	78
Insurance receivable	1,830	1,109
Valuation allowance for treasury shares Purchased by subsidiary at below book Value	(693)	—
	<u>\$19,876</u>	<u>\$19,105</u>

Omega Protein's amortization expense for fishing nets amounted to \$874,000 for the year ended December 31, 1999, \$195,000 for the three months ended December 31, 1998, \$879,000 for the year ended September 30, 1998 and \$965,000 for the year ended September 30, 1997.

Note 7. Property and Equipment, Net

Property and equipment, net as of December 31, 1999 and 1998 are summarized as follows:

	December 31, 1999	December 31, 1998
	(in thousands)	
Land	\$ 5,390	\$ 5,390
Plant assets	64,498	53,696
Fishing vessels	66,859	60,879
Furniture and fixtures ...	2,225	1,806
Capitalized Software costs	273	—
Other	4,572	7,240
	<u>143,817</u>	<u>129,011</u>
Less: accumulated depreciation and impairment	52,765	42,703
	<u>\$ 91,052</u>	<u>\$ 86,308</u>

During the Fiscal year 1999, Omega Protein wrote down approximately \$2.3 million of impaired long-lived assets. The \$2.3 million impairment of certain of Omega's Morgan City in-line processing equipment was recorded to reduce the value of the assets to their estimated salvage value. Omega Protein has temporarily closed the in-line processing facilities at the plant and management has concluded that the affected damaged equipment will not be repaired but instead will be permanently removed from service.

Note 8. Unconsolidated Affiliates

In August 1995, Zapata acquired 4,189,298 shares of Viskase common stock, representing 31% of the then outstanding common stock of Viskase, for \$18.8 million from a trust controlled by Malcolm Glazer, Chairman of the Board of Zapata and a then-director of Viskase. Zapata paid the purchase price by issuing to the seller a subordinated promissory note bearing interest at prime and maturing in August 1997, subject to prepayment at the Company's option. The Company prepaid approximately \$15.6 million on the promissory note in Fiscal 1995 and the remaining \$3.2 million in Fiscal 1996. In

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

June and July 1996, Zapata purchased 1,688,006 additional shares of Viskase common stock in brokerage and privately negotiated transactions for aggregate consideration of approximately \$7.0 million. As a result of these transactions, Zapata currently owns approximately 40% of the outstanding shares of Viskase common stock.

The difference between Zapata's share of Viskase's equity and Zapata's recorded investment in Viskase was to be amortized over 15 years. At September 30, 1998, the unamortized balance of this difference was \$21.1 million.

In Viskase's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, Viskase reported that it had incurred a net loss of \$119.6 million, including an unusual charge of \$148.6 million in connection with the restructuring of its worldwide operations and the write-down of excess reorganization value. The charge is primarily non-cash in nature. The charge includes \$6.0 million for cash severance and decommissioning and non-cash charges including \$40.1 million for Chicago plant write-offs, \$3.0 million for inventory and maintenance store charges, \$8.3 million of charges related to shutdown of certain foreign operations and \$91.2 million write-down of the corporations reorganization value. The excess reorganization value, which is similar to goodwill, was established at the time of Viskase's reorganization in 1993.

Since Zapata reports its equity in Viskase's results of operations on a three-month delayed basis, the impact of this loss was recorded in the transition period ending December 31, 1998. Because Zapata has not guaranteed any obligations and is not committed to provide any financial support to Viskase, Zapata only recorded its equity in Viskase's loss for Viskase's quarter ended September 24, 1998 to the extent that it reduced Zapata's net investment in Viskase to zero. Accordingly, Zapata recorded a pre-tax loss of \$11.8 million or \$.50 per share (diluted) during the transition period. Zapata will resume recording its equity in Viskase's earnings when its share of Viskase's net income equals the share of net losses not recognized during the period the equity method was suspended. In addition, due to Viskase's loss for their quarter ended September 24, 1998 resulting in a shareholders' deficit position and Zapata's subsequent reduction of the value of its investment in Viskase to zero, the Company discontinued recording the amortization of the excess of its equity in Viskase's net assets over its investment. At December 31, 1999, the fair value of Zapata's investment in Viskase was approximately \$16.5 million based on the closing price of Viskase on that day.

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Due to the significance of the Company's investment, the financial position and results of operations of Viskase are summarized below. The financial statement information presented below for Viskase is based upon its annual and interim reports for the corresponding periods presented (in millions, except per share amounts):

VISKASE COMPANIES, INC.

(in millions except per share amounts)

	September 30, 1999	September 24, 1998
Balance Sheet		
Current assets	\$157.8	\$191.3
Other	37.0	36.8
Property and equipment, net	314.3	370.3
Total assets	<u>\$509.1</u>	<u>\$598.4</u>
Current liabilities	\$121.8	\$238.8
Long-term debt	402.6	334.9
Deferred income taxes and other	68.9	70.3
Stockholders' equity	(84.2)	(45.6)
Total liabilities and stockholders' equity	<u>\$509.1</u>	<u>\$598.4</u>

	Twelve Months Ended		
	September 30, 1999	September 24, 1998	September 25, 1997
Income Statement			
Revenues	\$385.3	\$ 430.2	\$422.4
Loss before income taxes	(37.3)	(193.0)	(30.9)
Net loss	(37.2)	(137.5)	(10.5)
Net loss per share	(2.5)	(9.29)	(0.72)

A summary of equity in net income (loss) of and investments in unconsolidated affiliates is shown below:

	Equity in Net Loss	Investments Balance
	(in thousands)	
Transition period ended December 31, 1998:		
Viskase	\$(11,836)	\$ —
Omega Protein joint ventures	—	78
	<u>\$(11,836)</u>	<u>\$ 78</u>
Year ended September 30, 1998		
Viskase	\$ (7,009)	\$11,836
Omega Protein joint ventures	—	78
	<u>\$ (7,009)</u>	<u>\$11,914</u>

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 9. Debt

At December 31, 1999 and 1998, the Company's long-term debt consisted of the following:

	December 31, 1999	December 31, 1998
	(in thousands)	
U.S. government guaranteed obligations (Title IX loan) collateralized by a first lien on certain vessels and certain plant assets:		
Amounts due in installments through 2014, interest from 6.63% to 8.25%	\$15,564	\$10,872
Amounts due in installments through 2014, interest at Eurodollar rates plus 4.5%; 5.96% and 5.77% at December 31, 1999 and 1998, respectively	1,171	1,250
Other debt at 8.0% and 4.0% at December 31, 1999 and 1998, respectively	480	80
Total debt	17,215	12,202
Less current maturities	1,146	997
Long-term debt	<u>\$16,069</u>	<u>\$11,205</u>

At December 31, 1999 and 1998, the estimated fair value of debt obligations approximated book value.

On December 22, 1999 Omega Protein closed on its Fiscal 1999 Title XI application and received \$5.6 million of Title XI borrowings for qualified Title XI projects. Originally Omega Protein was authorized to receive up to \$20.6 million in loans under the Title XI program, and has used the entire amount authorized under such program. At December 31, 1999, Omega Protein was in compliance with all restrictive covenants contained in the Title XI borrowing agreements. In addition, the payment of cash dividends is limited by the terms of the Credit Facility which states that in any fiscal year of the Credit Facility, Omega Protein shall not pay or declare dividends in excess of fifty percent (50%) of its consolidated net income. At December 31, 1999, Omega Protein could not have declared and paid dividends within the limitations of the Credit Facility. Under the most restrictive of these covenants, Omega Protein was required to maintain a current ratio of at least 1.25:1 and maintain a debt to equity ratio of not more than 2:1. Covenants also limit capital expenditures and investments.

On August 11, 1998 Omega Protein entered into a two-year \$20.0 million revolving credit agreement with SunTrust Bank, South Florida, N.A. (the "Credit Facility"). Borrowings under this facility may be used for working capital and capital

expenditures. Interest accrues on borrowings that will be outstanding under the Credit Facility at Omega Protein's election, either (i) the bank's prime rate less 75 basis points, or (ii) LIBOR plus a margin based on Omega Protein's election, either (i) the bank's prime rate less 75 basis points, or (ii) LIBOR plus a margin based on Omega Protein's financial performance. The revolving credit agreement requires a per annum commitment fee of one-eighth of a percent (0.125%) on the average daily unused portion of the commitment of the Lender. The Credit Facility is collateralized by all of Omega Protein's trade receivables, inventory and specific computer equipment. Omega Protein and its subsidiaries are required to comply with certain financial covenants, including maintenance of a minimum tangible net worth, debt to tangible net worth ratio, funded debt to cash flow ratio and fixed charges ratio, and certain other covenants. As of December 31, 1999, Omega Protein had no borrowings outstanding under the Credit Facility. The credit facility expires on July 2, 2000.

Annual Maturities

The annual maturities of long-term debt for the five years ending December 31, 2004 are as follows (in thousands):

2000	2001	2002	2003	2004	Thereafter
\$1,146	\$1,225	\$1,203	\$1,172	\$1,251	\$11,218

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 10. Cash Flow and Earnings Per Share Information

For purposes of the statement of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

Net cash provided by operating activities reflects cash payments of interest and income taxes.

	Year Ended December 31, 1999	Three Months Ended December 31, 1998	Year Ended September 30, 1998	Year Ended September 30, 1997
	(in thousands)			
Cash Paid during the Fiscal year for:				
Interest	\$614	\$436	\$ 883	\$2,700
Income tax payments	705	—	27,810	4,000

During Fiscal 1997, Omega Protein completed the Venture Milling Disposition for cash proceeds of \$180,000. Cash of \$1,128,000 was included in the net assets acquired by the third party purchaser. Additionally, during Fiscal 1997, Omega Protein sold various other assets for cash proceeds of \$177,000. The following summarizes these transactions:

Cash received by Omega Protein for sale of assets	\$ 177,000
Cash received by Omega Protein for the sale of various assets of Venture Milling	180,000
Cash included with Venture Milling's net assets sold	(1,128,000)
Proceeds from the sale of assets, net	<u>\$ (771,000)</u>

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations (in thousands except per share data):

	For the Year Ended December 31, 1999			For the Three Months Ended December 31, 1998			For the Year Ended September 30, 1998			For the Year Ended September 30, 1997		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net Income (loss)	\$(20,332)	—	—	\$(4,444)	—	—	\$69,960	—	—	\$15,423	—	—
Basic EPS												
Net Income (loss) to common stockholders	(20,332)	23,883	\$(0.85)	(4,444)	23,877	\$(0.19)	69,960	23,043	\$3.04	15,423	27,303	\$0.56
Effect of Dilutive Stock Option Grants	—	—	—	—	—	—	—	716	—	—	247	—
Diluted EPS												
Net Income (loss) to common stockholders	<u>\$(20,332)</u>	<u>23,883</u>	<u>\$(0.85)</u>	<u>\$(4,444)</u>	<u>23,877</u>	<u>\$(0.19)</u>	<u>\$69,960</u>	<u>23,759</u>	<u>\$2.94</u>	<u>\$15,423</u>	<u>27,550</u>	<u>\$0.56</u>

Note 11. Preferred, Preference and Common Stock

Preference stock

Zapata has authorized 18 million shares of preference stock issuable in one or more series. Zapata redeemed the balance of its outstanding preference stock in September 1997 at the redemption price of \$80 per share.

Common stock

Zapata has authorized 165 million shares of Common Stock, of which 23,888,928 were issued and outstanding at December 31, 1999.

On April 13, 1999, the Company's stockholders approved the reincorporation of the Company as a Nevada corporation and a related Agreement and Plan of Merger. On April 30, 1999, the Company effected the merger by merging into a wholly-owned Nevada subsidiary. In connection with the reincorporation, the par value of the Company's common stock was changed from \$.25 per share to \$.01 per share. The change in the par value was effectuated by a reclassification between the common stock, at par value and capital in excess of par, respectively, on the balance sheet.

On May 30, 1997, pursuant to a repurchase program, Zapata repurchased 6.7 million shares of Common Stock in a privately negotiated transaction

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

at a price of \$4.52 per share, including commissions. As it is the Company's intent to use these shares for general corporate purposes, such shares are reflected in the financial statements as treasury stock, at cost. Prior to commencement of the stock repurchase program, Malcolm I. Glazer informed the board of directors that he did not intend to sell to the Company any of the approximately 10.4 million shares of Common Stock beneficially owned by him (currently approximately 45.5% of that outstanding) under the stock repurchase program. The Company entered into an agreement with Malcolm I. Glazer under which he represented that he did not intend to take any action or cause the Company to take any action to "go private" or otherwise cause its Common Stock to cease to be publicly traded, and that should that intent change in the future, no such transaction would be undertaken (with certain exceptions) except on terms approved by a special committee of independent directors and determined to be fair to the Company's stockholders from a financial point of view by a nationally recognized investment banking firm.

On July 6, 1998 Zapata's Board of Directors approved a new stock repurchase program whereby Zapata may repurchase up to 5 million additional shares of its own outstanding Common Stock from time to time. 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. Subject to applicable securities laws, shares may be repurchased from time to time in the open market or private transactions. Purchases are subject to availability of shares at prices deemed appropriate by the Zapata's management and other corporate considerations. Repurchased shares will be held as treasury shares available for general corporate purposes. To date, Zapata has not made any repurchases under this program. Zapata reserves the right to discontinue the repurchase program at any time.

Note 12. Accrued Liabilities

Accrued liabilities as of December 31, 1999 and 1998 are summarized as follows:

	December 31, 1999	December 31, 1998
Salary and benefits	\$ 4,900	\$ 3,051
Insurance	5,501	3,998
Taxes, other than income tax	8	868
Federal and state income taxes	271	1,674
Trade creditors	2,518	2,865
Others	1,779	1,098
	<u>\$14,977</u>	<u>\$13,554</u>

Note 13. Accumulated Other Comprehensive Loss

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

	Unrealized Gains (Loss) on Securities	Minimum Pension Liability Adjustment (in thousands)	Accumulated Comprehensive Loss
Balance at December 31, 1998	\$ -0-	\$ -0-	\$ -0-
Current-year change	(623.0)	25.7	(597.3)
Balance at December 31, 1999	<u>\$(623.0)</u>	<u>\$25.7</u>	<u>\$(597.3)</u>

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 14. Income Taxes

The Company utilizes the liability method to account for income taxes. This method requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of existing temporary differences between the financial reporting and tax reporting base of assets and liabilities, and operating loss and tax credit carryforwards for tax purposes. Due to the implementation of the

quasi-reorganization as of October 1, 1990, the Company was required to adjust capital in excess of par value for the recognition of deductible temporary differences and credit carryforward items which existed at the date of the quasi-reorganization. Future reductions, if any, in the deferred tax valuation allowance relating to tax attributes that existed at the time of the quasi-reorganization will also be allocated to capital in excess of par value.

Zapata and its domestic subsidiaries (other than Omega Protein) file a consolidated U.S. federal income tax return. The consolidated provision for income tax expense (benefit) from continuing operations consisted of the following:

	Year Ended December 31, 1999	Three Months Ended December 31, 1998	Year Ended September 30, 1998	Year Ended September 30, 1997
	(in thousands)			
Current:				
State	\$ (737)	\$ (199)	\$ (1,325)	\$ (448)
Federal	(5,391)	(2,259)	(27,867)	2,863
Deferred:				
State	343	236	(50)	—
Federal	27	4,126	(10,723)	(6,855)
Benefit (provision) for income taxes	<u>\$ 5,758</u>	<u>\$ 1,904</u>	<u>\$ (39,965)</u>	<u>\$ (4,440)</u>

For federal income tax purposes, Zapata has \$2.6 million of investment tax credit carryforwards expiring in Fiscal 2000 through 2001, and \$6.3 million of alternative minimum tax credit carryforwards. Investment tax credits are limited to a maximum of \$5.5 million as a result of a change of ownership as calculated for tax purposes. As a result of the change in ownership, the use of the Company's tax credit carryforwards is limited to a maximum of \$1.5 million per year. Investment tax credit

carryforwards are reflected in the balance sheet as a reduction of deferred taxes using the flowthrough method.

The following table reconciles the income tax provisions for Fiscal 1999, the Transition Period, Fiscal 1998 and Fiscal 1997 and 1996 computed using the U.S. statutory rate of 35% to the provisions from continuing operations as reflected in the financial statements.

	Year Ended December 31, 1999	Three Months Ended December 31, 1998	Year Ended September 30, 1998	Year Ended September 30, 1997
	(in thousands)			
Benefit (taxes) at statutory rate	\$ 11,188	\$ 1,622	\$ (40,212)	\$ (4,148)
Foreign sales corp exempt income	—	91	907	—
Valuation allowance for deferred tax assets ..	(6,431)	—	—	—
Other	279	88	234	156
State taxes, net of federal benefit	722	103	(894)	(448)
Benefit (provision) for income taxes	<u>\$ 5,758</u>	<u>\$ 1,904</u>	<u>\$ (39,965)</u>	<u>\$ (4,440)</u>

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Temporary differences and tax credit carryforwards that gave rise to significant portions of deferred tax assets and liabilities are as follows:

	<u>December 31,</u> <u>1999</u>	<u>December 31,</u> <u>1998</u>
	(in thousands)	
Deferred tax assets:		
Asset write-downs and accruals not yet deductible	\$ 10,499	\$ 2,539
Investment tax credit carryforwards	2,580	9,441
Alternative minimum tax credit carryforwards	8,767	6,525
Equity in loss of unconsolidated affiliates	8,553	8,553
Net operating loss carryforward	362	362
Other	<u>970</u>	<u>711</u>
Total deferred tax assets	31,731	28,131
Valuation allowance	<u>(10,827)</u>	<u>(14,679)</u>
Net deferred tax assets	<u>20,904</u>	<u>13,452</u>
Deferred tax liabilities:		
Property and equipment	(6,352)	(4,105)
Pension	(5,558)	(5,314)
Write up of subsidiary investment	(10,279)	(10,415)
Other	<u>91</u>	<u>(570)</u>
Total deferred tax liabilities	<u>(22,098)</u>	<u>(20,404)</u>
Net deferred tax asset (liability)	<u>\$ (1,194)</u>	<u>\$ (6,952)</u>

A valuation allowance is provided to reduce the deferred tax assets to a level which, more likely than not, will be realized. Primary factors considered by management to determine the size of the allowance include the estimated taxable income level for future years and the limitations on the use of such carryforwards and expiration dates. The valuation

allowance was decreased by approximately \$3.9 million in Fiscal 1999 from fiscal 1998 reflecting the expiration of investment tax credits and the related valuation allowances offset by an increase in the valuation allowance for the Company's equity in losses on unconsolidated affiliates.

Note 15. Commitments and Contingencies

Operating leases payable

Future minimum payments under non-cancelable operating lease obligations aggregate \$3,328,000, and for the five years ending December 31, 2004 are (in thousands):

<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
\$913	\$751	\$727	\$470	\$467

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Rental expenses for operating leases were \$971,000, \$379,000, \$606,000 and \$406,000 in Fiscal 1999, the Transition period ended December 31, 1998, Fiscal 1998, and Fiscal 1997, respectively.

Litigation

On April 30, 1999, a state district court in Houston, Texas entered a judgment against Zapata in a lawsuit brought by a former employee which was commenced on April 1, 1998. The former employee claims that he was entitled to the value of options for approximately 240,000 shares of Zapata stock which he alleges should have been issued to him in 1998 pursuant to his employment agreement with Zapata. The judgment against Zapata was for approximately \$3.45 million, which includes pre-judgment interest. Zapata has posted a bond and in July, 1999 filed a notice of appeal with the Court of Appeals for the 14th District at Houston, Texas, appealing the judgment. Briefs have been filed with the Appellate Court and the parties are awaiting scheduling for oral arguments. The Company continues to believe that it has a meritorious defense to all or a substantial portion of the plaintiff's claim. However, there can be no assurance that the Company will be successful in appealing the judgment.

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

Environmental Matters

Omega Protein is subject to various possible claims and lawsuits regarding environmental matters. Management believes that costs, if any,

related to these matters will not have a material adverse effect on the results of operations, cash flows or financial position of Omega Protein.

Note 16. Financial Instruments

Concentrations of Credit Risk

Financial Investments, which potentially subject the Company to significant concentrations of credit risk, consist principally of interest bearing investments and trade receivables.

The Company maintains cash and cash equivalents and short-term investments with various major financial institutions. The Company performs periodic evaluations of the relative credit standing of these financial institutions and limits the amount of credit exposure with any one institution.

As indicated in the industry segment information which appears in Note 17, the market for Omega Protein's services and products is primarily related to the marine protein operations whose customers consist primarily of domestic feed producers. Omega Protein performs ongoing credit evaluations of its customers and generally does not require material collateral. Omega Protein maintains reserves for potential credit losses, and such losses have historically been within management's expectations.

Note 17. Benefit Plans

Qualified Defined Benefit Plans

Zapata has two noncontributory defined benefit pension plans covering certain U.S. employees. Omega Protein has one noncontributory defined benefit pension plan. For both Companies' Plans, benefits are generally based on employees' years of service and compensation level. All of the costs of these plans are borne by Zapata and Omega. The plans have adopted an excess benefit formula integrated with covered compensation. Participants are 100% vested in the accrued benefit after five years of service. The following represents a presentation of consolidated data for the Zapata and Omega Protein Pension Plans.

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Components of consolidated net periodic benefit cost:

	Year Ended December 31, 1999	Three Months Ended December 31, 1998	Year Ended September 30, 1998
Service cost	\$ 677	\$ 158	\$ 550
Interest cost	2,629	650	2,613
Expected return on plan assets	(4,521)	(989)	(4,206)
Amortization of transition asset and other deferrals	<u>(681)</u>	<u>(16)</u>	<u>(706)</u>
Net pension cost (credit)	<u><u>\$ (1,896)</u></u>	<u><u>\$ (197)</u></u>	<u><u>\$ (1,749)</u></u>

The Company's funding policy is to make contributions as required by applicable regulations. No contributions to the plans have been required since 1984. The plans' funded status and amounts recognized in the Company's balance sheet at December 31, 1999 and 1998 and at September 30, 1998 are presented below:

	Year Ended December 31, 1999	Three Months Ended December 31, 1998	Year Ended September 30, 1998
Change in Benefit Obligation			
Benefit Obligation at beginning of year	\$40,196	\$39,991	\$36,357
Service Cost	677	158	550
Interest Cost	2,629	651	2,613
Actuarial (Gain)/Loss	(1,558)	19	3,353
Benefits Paid	<u>(635)</u>	<u>(623)</u>	<u>(2,882)</u>
Benefit Obligation at end of year	<u>41,309</u>	<u>40,196</u>	<u>39,991</u>
Change in Plan Assets			
Plan Assets at Fair Value at beginning of year	51,480	45,367	48,247
Actual Return on Plan Assets	3,368	6,736	2
Benefits Paid	<u>(635)</u>	<u>(623)</u>	<u>(2,882)</u>
Plan Assets at Fair Value at end of year	<u>54,213</u>	<u>51,480</u>	<u>45,367</u>
Reconciliation of Prepaid (Accrued) and Total Amount Recognized			
Funded Status of Plan	11,152	9,402	5,376
Unrecognized Prior Service Cost	641	760	790
Unrecognized Net Transition (Asset)	(2,303)	(3,141)	(3,350)
Unrecognized Net (Gain)/Loss	<u>5,266</u>	<u>5,433</u>	<u>11,323</u>
Prepaid/(Accrued) Pension Cost	14,757	12,454	14,139
Prepaid Benefit Cost	<u>16,232</u>	<u>14,336</u>	<u>14,139</u>
Net Amount Recognized	<u><u>\$16,232</u></u>	<u><u>\$14,336</u></u>	<u><u>\$14,139</u></u>
Weighted Average Assumptions at end of year			
Discount Rate	7.50%	6.75%	6.75%
Long-Term Rate of Return	9.00%	9.00%	9.00%
Salary Scale up to age 50	5.00%	5.00%	5.00%
Salary Scale over age 50	4.50%	4.50%	4.50%

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The unrecognized transition asset at October 1, 1987, was \$10.6 million, which is being amortized over 15 years. For Fiscal 1999, the Transition Period, and Fiscal 1988, the actuarial present value of the projected benefit obligation was based on a 4.75% weighted average annual increase in salary levels and a 7.50%, 6.75%, and 6.75% discount rate, respectively. Pension plan assets are invested in cash, common and preferred stocks, short-term investments and insurance contracts. The projected long-term rate of return on plan assets was 9.0% in Fiscal 1999, the Transition Period December 31, 1998 and Fiscal 1998, respectively. The unrecognized net loss of \$5.1 million at September 30, 1998 is expected to be reduced by future returns on plan assets and through decreases in future net pension credits.

Supplemental Retirement Plan

Effective April 1, 1992, Zapata adopted a supplemental pension plan, which provides supplemental retirement payments to certain senior executives of Zapata. The amounts of such payments equal the difference between the amounts received under the applicable pension plan, and the amounts that would otherwise be received if pension plan payments were not reduced as the result of the limitations upon compensation and benefits imposed by federal law. Effective December 1994, the supplemental pension plan was frozen.

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Components of net periodic benefit cost:

	Year Ended December 31, 1999	Three Months Ended December 31, 1998 (in thousands)	Year Ended September 30, 1998
Service cost — benefits earned during the year	\$ 60	\$ 15	\$ 66
Interest cost on projected benefit obligations			
Amortization of prior service cost	<u>4</u>	<u>1</u>	<u>1</u>
Net pension expense	<u>\$ 64</u>	<u>\$ 16</u>	<u>\$ 67</u>

No contributions to the plan have been required since the plan is unfunded. For Fiscal 1999, the Transition Period December 31, 1998 and Fiscal 1998, the actuarial present value of the projected benefit obligation was based on a 7.5%, 6.75%, and 6.75% discount rate, respectively. The plan's funded status and amounts recognized in the Company's balance sheet at December 31, 1999 and 1998 and at September 30, 1998 are presented below:

	Year Ended December 31, 1999	Three Months Ended December 31, 1998 (in thousands)	Year Ended September 30, 1998
Change in Benefit Obligation			
Benefit Obligation at beginning of year	\$ 941	\$ 954	\$ 931
Interest Cost	60	15	60
Actuarial (Gain)/Loss	(21)	(2)	67
Benefits Paid	<u>(104)</u>	<u>(26)</u>	<u>(104)</u>
Benefit Obligation at end of year	<u>876</u>	<u>941</u>	<u>954</u>
Change in Plan Assets			
Contributions	104	26	104
Benefits Paid	<u>(104)</u>	<u>(26)</u>	<u>(104)</u>
Plan Assets at Fair Value at end of year	<u>0</u>	<u>0</u>	<u>0</u>
Reconciliation of Prepaid (Accrued) and Total Amount Recognized			
Funded Status of Plan	(876)	(941)	(954)
Unrecognized Net (Gain)/Loss	<u>138</u>	<u>164</u>	<u>168</u>
Prepaid/(Accrued) Pension Cost	<u>(738)</u>	<u>(777)</u>	<u>(786)</u>
Accrued Benefit Liability	<u>(738)</u>	<u>(777)</u>	<u>(786)</u>
Accumulated Other Comprehensive Income	<u>(138)</u>	<u>(164)</u>	<u>(168)</u>
Net Amount Recognized	<u><u>\$(876)</u></u>	<u><u>\$(941)</u></u>	<u><u>\$(954)</u></u>
Weighted Average Assumptions at end of year			
Discount Rate	7.50%	6.75%	6.75%
Long-Term Rate of Return	9.00%	9.00%	9.00%
Salary Scale up to age 50	5.00%	5.00%	5.00%
Salary Scale over age 50	4.50%	4.50%	4.50%

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Qualified Defined Contribution Plan

The Company sponsors a defined contribution plan for certain eligible employees of the Company. Effective October 1, 1998, the Zapata Profit Sharing Plan merged with the Omega Protein 401(k) Retirement and Savings Plan, (the "Profit Sharing Plan"). The Company's contributions are calculated based on employee contributions and compensation. The Company's contribution to the Profit Sharing Plan totaled \$29,870, \$0, and \$50,132, in Fiscal 1999, the Transition Period December 31, 1998 and Fiscal 1998, respectively.

Stock Option Plans

Under the Company's 1981 Stock Incentive Plan (the "1981 Plan"), options may be granted at prices equivalent to the market value of the Company's Common Stock at the date of the grant. Options become exercisable in annual installments equal to one-third of the shares covered by the grant beginning one year from the grant date. Options not exercised in the period they become exercisable may be carried forward and exercised in subsequent periods. During 1986, the Company amended and restated the 1981 Plan to provide for the award of restricted shares of Common Stock. No shares of Common Stock are available for further grants of stock options or awards of restricted stock under the 1981 Plan.

Zapata's Amended and Restated Special Incentive Plan (the "1987 Plan") 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's Compensation Committee, provided that the earliest such date cannot 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. The awards of restricted stock have a restriction period of not less than six months and not more than five years. The 1987 Plan provided for the issuance of up to 600,000 shares of the Common Stock. During 1992, the stockholders approved an amendment to the 1987 Plan that provides for the automatic grant of a nonqualified stock option to directors of Zapata who

are not employees of Zapata or any subsidiary of Zapata. At December 31, 1999, stock options covering a total of 329,667 stock options had been exercised. No shares of common stock are available for future stock options or other awards under the Plan.

On December 6, 1990, the Company's stockholders approved another stock option plan (the "1990 Plan"). The 1990 Plan provides for the granting of nonqualified stock options to key employees of the Company. Under the 1990 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, provided that such date cannot occur prior to the expiration of one year of continued employment with the Company following the date of grant. Unexercised options will expire on varying dates up to a maximum of ten years from the date of grant. The 1990 Plan provides for the issuance of options to purchase up to 1,000,000 shares of Common Stock. At December 31, 1999, a total of 967,334 stock options had been exercised and a total of 32,666 shares of Common Stock were reserved for stock options outstanding under the 1990 Plan. No shares of common stock are available for future stock options or other awards under the Plan.

On December 5, 1996, the Company's stockholders approved a new stock option plan (the "1996 Plan"). The 1996 Plan provides for the granting of nonqualified stock options 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. The 1996 Plan provides for the issuance of options to purchase up to 5,000,000 shares of Common Stock. During 1999, the stockholders approved an amendment to the 1996 Plan which increased the number of shares available for options granted under the plan to 10,000,000 shares. At December 31 1999, stock options covering a total of 1,052,850 shares had been exercised and a total of 2,829,650 shares of

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Common Stock were reserved for the future granting of stock options under the 1996 Plan.

The Company has granted stock options under the 1981 Plan, the 1987 Plan, the 1990 Plan and the 1996 Plan (collectively, the “Plans”). The Company applies APB Opinion 25 and related Interpretations in accounting for the Plans. In 1995, the FASB issued SFAS 123 which, if fully adopted by the Company, would change the methods the Company applies in recognizing the cost of the Plans. Adoption of the cost recognition provisions of SFAS 123 is optional and the Company has decided not to elect these provisions of SFAS 123. However, pro forma disclosures as if the Company adopted the cost recognition provisions of SFAS 123 are presented below.

Under the Plans, the Company is authorized to issue shares of Common Stock pursuant to “Awards” granted in various forms, including incen-

tive 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 Company granted stock options in Fiscal 1997 under the Plans in the form of nonqualified stock options.

The company granted options under the 1996 Plan in Fiscal 1999. The Company did not grant any stock options in the Transition period ending December 31, 1998 or Fiscal 1998 ending September 30, 1998 to employees and directors. The stock options granted in Fiscal 1999 have contractual terms of 10 years. All of the options granted to the employees and directors have an exercise price equal to the fair market value of the stock at grant date. The options granted in Fiscal 1999 vest ratably over three years beginning on the first anniversary of the date of grant.

A summary of the status of the Company’s stock options as of December 31, 1999 and 1998 and September 30, 1998 and 1997 and the changes during the year ended on these dates is presented below:

	For the Year Ended December 31, 1999		For the Three Months December 31, 1998		For the Year Ended September 30, 1998		For the Year Ended September 30, 1997	
	# Shares of Underlying Options	Weighted Average Exercise Prices	# Shares of Underlying Options	Weighted Average Exercise Prices	# Shares of Underlying Options	Weighted Average Exercise Prices	# Shares of Underlying Options	Weighted Average Exercise Prices
Outstanding at beginning of year	1,252,897	\$4.65	1,252,897	\$4.65	2,330,300	\$4.62	165,700	\$4.13
Granted	15,000	9.00	—	—	—	—	2,223,500	4.62
Exercised	—	—	—	—	1,077,403	4.58	58,900	3.21
Forfeited	—	—	—	—	—	—	—	—
Outstanding at end of year	1,267,897	4.70	1,252,897	4.65	1,252,897	4.65	2,330,300	4.62
Exercisable at end of year	1,252,897	4.65	1,252,897	4.65	1,252,897	4.65	100,133	4.72

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for grants in Fiscal 1999: dividend yield of 0.00%, risk-free interest rate of 5.05%, an expected life of options of 3 years and a

volatility of 86.00%. The weighted-average fair value of options granted for Fiscal 1999 was \$5.00 per share; no options were granted in the Transition period ended December 31, 1998 and the Fiscal year ended September 30, 1998.

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Options outstanding and exercisable as of December 31, 1999 are summarized below:

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number Outstanding</u>	<u>Weighted Average Remaining Contr. Life</u>	<u>Weighted Average Exercise Price</u>	<u>Number Exercisable</u>	<u>Weighted Average Exercise Price</u>
\$3.125 to \$9.00	<u>1,267,897</u>	<u>7.76</u>	<u>\$4.70</u>	<u>1,252,897</u>	<u>\$4.65</u>

If the compensation cost for the Company's stock-based compensation plans had been determined consistent with SFAS 123, the Company's net income and net income per common share for Fiscal 1999 would approximate the pro forma amounts presented below (amounts in thousands, except per share amounts):

	<u>Year Ended December 31, 1999</u>		<u>Three Months Ended December 31, 1998</u>		<u>Year Ended September 30, 1998</u>		<u>Year Ended September 30, 1997</u>	
	<u>As Reported</u>	<u>Pro Forma</u>	<u>As Reported</u>	<u>Pro Forma</u>	<u>As Reported</u>	<u>Pro Forma</u>	<u>As Reported</u>	<u>Pro Forma</u>
SFAS 123 charge.....	\$ —	\$ 45	\$ —	\$ —	\$ —	\$ 2,344	\$ —	\$ 195
Net income (loss)	(20,332)	(20,377)	(4,444)	(4,444)	69,960	68,436	15,425	15,297
Basic net income (loss) per Common Share	(0.85)	(0.85)	(0.19)	(0.19)	3.04	2.97	0.56	0.56

The effects of applying SFAS 123 in this pro forma disclosure are not indicative of future amounts.

Note 18. Related Party Transactions

Certain administrative services, including treasury and taxation services, were provided to Omega Protein by Zapata and billed at their approximate cost. Omega Protein provided to Zapata payroll and certain administrative services billed at their approximate cost. During Fiscal 1999, the Transition Period, Fiscal 1998 and Fiscal 1997, fees for these services totaled \$97,000, \$68,000 \$156,000, and \$30,000, respectively. The cost of such services were based on the estimated percentage of time that employees spend working on the other party's matters as a percent of total time worked. Omega Protein's management deemed this allocation method to be reasonable.

Upon completion of Omega Protein's initial public offering, Omega Protein and Zapata entered into certain agreements that included the Separation, Sublease, Registration Rights, Tax Indemnity and Administrative Services Agreements. The Separation Agreement required Omega Protein to repay \$33.3 million of indebtedness and current payables

owed by Omega Protein to Zapata contemporaneously with the consummation of Omega Protein's Offering and prohibits Zapata from competing with Omega Protein for a period of five years. The Sublease Agreement provides for Omega Protein to lease its principal corporate offices in Houston, Texas from Zapata and provides Omega Protein to utilize certain shared office equipment for no additional charge. The Registration Rights Agreement sets forth the rights and responsibilities of each party concerning certain registration filings and provides for the sharing of fees and expenses related to such filings. The Tax Indemnity Agreement requires Omega Protein to be responsible for federal, state and local income taxes from its operations and the Administrative Services Agreement allows Omega Protein to provide certain administrative services to Zapata at Omega Protein's estimated cost.

During Fiscal 1997, Zapata forgave \$41.9 million of intercompany debt and Omega Protein recorded the amount as contributed capital.

The Company provided the services of its management and staff to its subsidiary, Zap.Com during its start-up period. The actual payroll and related fringe benefit costs for these employees of

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

approximately \$369,000 was allocated by the Company using a percentage of time analysis. Zap.Com's headquarters in Rochester, New York are located in space subleased to it by the Company. Under the sublease agreement, annual rental payments are allocated on a cost basis. Total rental payments from Zap.Com in 1999 were \$31,900.

As of and prior to November 12, 1999, Zap.Com had satisfied all of its startup and offering costs with borrowings from the Company. On November 12, 1999, Zapata contributed \$9,000,000 in cash to Zap.Com and forgave \$1,000,000 in intercompany debt from Zap.Com pursuant to the completion of the distribution of Zap.Com's shares to Zapata's shareholders.

Note 19. Industry Segment and Geographic Information

Zapata's continuing business is comprised of two industry segments operating in the U.S. —

marine protein and Internet. Zapata's majority owned subsidiary Omega Protein is engaged in menhaden fishing for the production and sale of fish meal and fish oil. Export sales of fish oil and fish meal were approximately \$38.6 million, \$7.9 million, \$55.4 million and \$21.5 million in Fiscal 1999, the Transition Period, and Fiscal 1998, and Fiscal 1997 respectively. Such sales were made primarily to European markets. In Fiscal 1999, the Transition Period, and Fiscal 1998, sales to one customer were approximately \$8.7 million, \$3.2 million and \$17.0 million, respectively.

Zapata's wholly-owned subsidiary Zap Internet produces two Internet webzines — www.word.com and www.charged.com, while Zapata's majority owned subsidiary, Zap.Com, is a development stage company with plans to build a network of independent Web sites. Zap Internet operates in New York City while Zap.Com operates in Rochester, NY.

	<u>Revenues</u>	<u>Operating Income (Loss)</u>	<u>Identifiable Assets</u> (in thousands)	<u>Depreciation Amortization</u>	<u>Capital Expenditures</u>
Year Ended December 31, 1999					
Omega Protein	\$ 93,636	\$(23,273)	\$176,148	\$ 8,995	\$ 15,145
Internet	30	(6,437)	8,730	49	342
Corporate	—	(1,909)	114,936	27	178
	<u>\$ 93,666</u>	<u>\$(33,886)</u>	<u>\$299,814</u>	<u>\$ 9,071</u>	<u>\$ 15,665</u>
Three Months Ended December 31, 1998					
Omega Protein	\$ 25,759	\$ 6,272	\$189,853	\$ 1,955	\$ 3,030
Internet	—	(927)	351	8	133
Corporate	—	(219)	128,036(1)	3	118
	<u>\$ 25,759</u>	<u>\$ 5,126</u>	<u>\$318,240</u>	<u>\$ 1,966</u>	<u>\$ 3,281</u>
Year Ended September 30, 1998					
Omega Protein	\$133,555	\$ 38,118	\$193,421	\$ 6,351	\$ 21,540
Internet	—	(1,269)	153	3	91
Corporate	—	(6,342)	140,432(1)	31	220
	<u>\$133,555</u>	<u>\$ 30,507</u>	<u>\$334,006</u>	<u>\$ 6,385</u>	<u>\$ 21,851</u>
Year Ended September 30, 1997					
Omega Protein	\$117,564	\$ 18,205	\$100,440	\$ 3,692	\$ 8,535
Corporate	—	(5,363)	90,511(3)	52	6
	<u>\$117,564</u>	<u>\$ 12,842</u>	<u>\$190,951</u>	<u>\$ 3,744</u>	<u>\$ 8,541</u>

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(1) Includes Zapata's investment in Viskase.

The following table shows the geographical distribution of revenues based on location of customers:

	For the Year Ended December 31, 1999		Three Months Ended December 31, 1998		For the Year Ended September 30, 1998		For the Year Ended September 30, 1997	
	Revenues	Percent	Revenues	Percent	Revenues	Percent	Revenues	Percentage
U.S.	\$55,069	58.8%	\$17,835	69.2%	\$ 78,106	58.5%	\$ 96,071	81.7%
Europe	19,215	20.5	3,259	12.7	29,101	21.8	7,294	6.2
Asia	7,942	8.5	2,462	9.6	—	—	—	—
Canada	3,443	3.7	1,201	4.7	8,729	6.5	6,381	5.4
Mexico	4,756	5.1	137	.5	4,214	3.2	3,223	2.7
Other.....	3,241	3.4	865	3.3	13,405	10.0	4,615	4.0
Total	<u>\$93,666</u>	<u>100.0%</u>	<u>\$25,759</u>	<u>100.0%</u>	<u>\$133,555</u>	<u>100.0%</u>	<u>\$117,564</u>	<u>100%</u>

Note 20. Quarterly Financial Data (unaudited)

Consolidated Quarterly Information

Fiscal 1999	Quarter Ended				Full Year
	March 31, 1999	June 30, 1999	September 30, 1999	December 31, 1999	
	(in thousands, except per share data)				
Revenues	\$22,162	\$18,225	\$ 23,692	\$ 29,587	\$ 93,666
Operating Income.....	\$ 2,631	\$(2,952)	\$(18,595)	\$(14,970)	\$(33,886)
Income from continuing operations	\$ (612)	\$ (885)	\$ (7,942)	\$(10,893)	\$(20,332)
Income from discontinued operations	\$ —	\$ —	\$ —	\$ —	\$ —
Net Income.....	\$ (612)	\$ (885)	\$ (7,942)	\$(10,893)	\$(20,332)
Per Share:					
Basic					
Income from continuing operations ..	\$ (0.03)	\$ (0.04)	\$ (0.33)	\$ (0.46)	\$ (0.85)
Net Income.....	\$ (0.03)	\$ (0.04)	\$ (0.33)	\$ (0.46)	\$ (0.85)
Diluted					
Income from continuing operations ..	\$ (0.03)	\$ (0.04)	\$ (0.33)	\$ (0.46)	\$ (0.85)
Net Income.....	\$ (0.03)	\$ (0.04)	\$ (0.33)	\$ (0.46)	\$ (0.85)

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Fiscal 1998	Quarter Ended				
	December 31, 1997	March 31, 1998	June 30, 1998	September 30, 1998	Full Year
	(in thousands, except per share data)				
Revenues	\$29,503	\$30,041	\$31,488	\$42,523	\$133,555
Operating Income	\$ 8,182	\$ 9,179	\$ 9,242	\$ 3,904	\$ 30,507
Income from continuing operations	\$ 4,588	\$ 6,470	\$58,140	\$ 762	\$ 69,960
Income from discontinued operations	\$ —	\$ —	\$ —	\$ —	\$ —
Net Income	\$ 4,588	\$ 6,470	\$58,140	\$ 762	\$ 69,960
Per Share:					
Basic					
Income from continuing operations ..	\$ 0.20	\$ 0.28	\$ 2.52	\$ 0.03	\$ 3.04
Income from discontinued operations	\$ —	\$ —	\$ —	\$ —	\$ —
Net Income	\$ 0.20	\$ 0.28	\$ 2.52	\$ 0.03	\$ 3.04
Diluted					
Income from continuing operations ..	\$ 0.19	\$ 0.27	\$ 2.40	\$ 0.03	\$ 2.94
Income from discontinued operations	\$ —	\$ —	\$ —	\$ —	\$ —
Net Income	\$ 0.19	\$ 0.27	\$ 2.40	\$ 0.03	\$ 2.94

Item 9. *Changes in and Disagreements With Accountants on Accounting and Financial Disclosure*

Not applicable.

PART III

Item 10. *Directors and Executive Officers of the Registrant.*

Pursuant to General Instruction G on Form 10-K, the information called for by Item 10 of Part III of Form 10-K is incorporated by reference to the information set forth in the Company's definitive proxy statement relating to its 2000 Annual Meeting of Stockholders (the "2000 Proxy Statement") to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), in response to Items 401 and 405 of Regulation S-K under the Securities Act of 1933, as amended, and the Exchange Act ("Regulation S-K").

Item 11. *Executive Compensation.*

Pursuant to General Instruction G of Form 10-K, the information called for by Item 11 of Part III of Form 10-K is incorporated by reference to the information set forth in the 2000 Proxy Statement in response to Item 402 of Regulation S-K, excluding the material concerning the report on executive compensation and the performance graph specified by paragraphs (k) and (l) of such Item

Item 12. *Security Ownership of Certain Beneficial Owners and Management.*

Pursuant to General Instruction G of Form 10-K, the information called for by Item 12 of Part III of Form 10-K is incorporated by reference to the information set forth in the 2000 Proxy Statement in response to Item 403 of Regulation S-K.

Item 13. *Certain Relationships and Related Transactions*

Pursuant to General Instruction G of Form 10-K, the information called for by Item 13 of Part III of Form 10-K is incorporated by reference to the information set forth in the 2000 Proxy Statement in response to Item 404 of Regulation S-K.

PART IV

Item 14. *Exhibits, Financial Statement Schedules, and Reports on Form 8-K*

(a) List of Documents Filed.

(1) *Financial Statements*

Consolidated financial statements, Zapata Corporation and subsidiary companies —

Report of PricewaterhouseCoopers LLP, independent accountants.

Consolidated balance sheets as of December 31, 1998 and 1999.

Consolidated statements of operations for the year ended December 31, 1999, the three month period ended December 31, 1998 and for the two years ended September 30, 1998.

Consolidated statements of cash flows for the year ended December 31, 1999, the three month period ended December 31, 1998 and for the two years ended September 30, 1998.

Consolidated statements of stockholders' equity for the year ended December 30, 1999, the three month period ended December 30, 1998 and for the two years ended September 30, 1998.

Notes to consolidated financial statements.

(2) Exhibits

The exhibit list attached to this report is incorporated herein in its entirety by reference as if fully set forth herein.

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

<u>Exhibit No.</u>	<u>Description of Exhibits</u>
3(a)*	Articles of Incorporation of Zapata filed with Secretary of State of Nevada May 14, 1999 (Exhibit 3.1 to Current Report on Form 8-K filed May 14, 1999) (File No. 1-4219)).
3(b)*	By-laws of Zapata(Exhibit 3.2 to Current Report on Form 8-K filed May 14, 1999) (File No. 1-4219)).
10(a)*†	Zapata 1990 Stock Option Plan (Exhibit 10(b) to Zapata's Annual Report on Form 10-K for the Fiscal year ended September 30, 1990 (File No. 1-4219)).
10(b)*†	First Amendment to Zapata 1990 Stock Option Plan (Exhibit 10(c) to Zapata's Registration Statement on Form S-1 (Registration No. 33-40286)).
10(c)*†	Zapata Supplemental Pension Plan effective as of April 1,1992 (Exhibit 10(b) to Zapata's Quarterly Report on Form 10-Q for the quarter ended March 31, 1992 (File No. 1-4219)).
10(d)*	Supplemental Agreement dated June 4, 1996 between Malcolm I. Glazer and Zapata (Exhibit 10.20 to Zapata's Registration Statement on Form S-4 (Reg. No. 333-06729)).
10(e)*†	1996 Long-Term Incentive Plan of Zapata (Appendix A to Zapata's Definitive Proxy Statement Dated November 13, 1996 (File No. 1-4219)).
10(f)	First Amendment to Zapata 1999 Long-Term Incentive Plan
10(g)*	Shareholders' Agreement dated May 30, 1997 by Malcolm I. Glazer and the Malcolm I. Glazer Family Limited Partnership in favor of Zapata (Exhibit 10(z) to Zapata's Quarterly Report on Form 10-Q for the Fiscal quarter ended June 30, 1997 (File No. 1-4219)).
10(h)*	Underwriting Agreement dated April 12, 1998 among Zapata, Omega Protein and Prudential Securities Incorporated and Deutsche Morgan Grenfell, Inc., as representatives of the underwriters named therein. (Exhibit 10.1 to Zapata's Current Report on Form 8-K filed April 21, 1998 (File No. 1-4219)).
10(i)*	Separation Agreement dated April 8, 1998 between Zapata and Omega Protein. (Exhibit 10.2 to Zapata's Current Report on Form 8-K filed April 21, 1998 (File No. 1-4219)).
10(j)*	Administrative Services Agreement dated April 8, 1998 between Zapata and Omega Protein. — (Exhibit 10.3 to Zapata's Current Report on Form 8-K filed April 21, 1998 (File No. 1-4219)).
10(k)*	Letter Agreement dated July 9, 1998, among Viskase, Inc. (f/k/a Envirodyne Industries, Inc.), Zapata, Malcolm Glazer and Avram Glazer (Exhibit 1 to Amendment No. 12 to Schedule 13D filed on July 22, 1998 by Zapata with respect to common stock of Viskase, Inc.).
10(l)*	Investment and Distribution Agreement between Zap.Com and Zapata (Exhibit No. 10.1 to Zap.Com's Registration Statement of Form S-1 (File No. 333-76135) originally filed with the Securities and Exchange Commission on April 12, 1999, as amended)
10(m)*	Services Agreement between Zap.Com and Zapata (Exhibit No. 10.2 to Zap.Com's Registration Statement of Form S-1 (File No. 333-76135) originally filed with the Securities and Exchange Commission on April 12, 1999, as amended)
10(n)*	Tax Sharing and Indemnity Agreement between Zap.Com and Zapata (Exhibit No. 10.3 to Zap.Com's Registration Statement of Form S-1 (File No. 333-76135) originally filed with the Securities and Exchange Commission on April 12, 1999, as amended)

<u>Exhibit No.</u>	<u>Description of Exhibits</u>
10(o)*	Registration Rights Agreement between Zap.Com and Zapata (Exhibit No. 10.4 to Zap.Com's Registration Statement of Form S-1 (File No. 333-76135) originally filed with the Securities and Exchange Commission on April 12, 1999, as amended)
21	Subsidiaries of the Registrant.
23	Consent of PricewaterhouseCoopers LLP
24	Powers of attorney.
27	Financial Data Schedule.

† Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to the requirements of Item 14(c) of Form 10-K.

(b) Current Reports on Form 8-K.

Zapata did not file any current reports during the fourth quarter of Fiscal 1999.

(c) Financial Statement Schedules.

Filed herewith as a financial statement schedule is the schedule supporting Zapata's consolidated financial statements listed under paragraph (a) of this Item, and the Independent Accountants' Report with respect thereto.

DIRECTORS AND OFFICERS

Malcolm I. Glazer
Chairman
Zapata Corporation and Private Investor
Palm Beach, Florida

Avram A. Glazer
President/Chief Executive Officer
Zapata Corporation
Rochester, New York

Bryan G. Glazer
Executive Vice President
Tampa Bay Buccaneers
Tampa, Florida

Edward S. Glazer
Executive Vice President
Tampa Bay Buccaneers
Tampa, Florida

Leonard DiSalvo
Chief Financial Officer
Zapata Corporation
Rochester, New York

Gordon E. Forth
Secretary
Zapata Corporation
Rochester, New York
Partner, Woods Oviatt Gilman, LLP

Warren F. Gfeller (1) (2)
Owner
Clayton-Hamilton Equities
Olathe, Kansas

Robert V. Leffler, Jr. (1) (2)
Owner
The Leffler Agency
Baltimore, Maryland

CORPORATE INFORMATION

Stock Exchange Listing

Common Stock
New York Stock Exchange
Ticker Symbol ZAP

Transfer Agent & Registrar

Common Stock
American Stock Transfer & Trust Company
New York, New York

Auditors

Pricewaterhouse Coopers LLP
Rochester, New York

(1) Audit Committee Member

(2) Compensation Committee Member

ZAPATA

CORPORATION