

ZAPATA CORP
Form 10-Q
October 30, 2007

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

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

**For the quarterly period ended September 30, 2007
OR**

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

Commission file number: 1-4219

ZAPATA CORPORATION

(Exact name of Registrant as specified in its charter)

State of Nevada

(State or other jurisdiction of
incorporation or organization)

C-74-1339132

(I.R.S. Employer
Identification No.)

100 Meridian Centre, Suite 350

Rochester, NY

(Address of principal executive offices)

14618

(Zip Code)

(585) 242-2000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes or No .

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes or No .
As of October 26, 2007, the Registrant had outstanding 19,276,334 shares of common stock, \$0.01 par value.

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Table of Contents**PART I UNAUDITED FINANCIAL INFORMATION****Item 1. Unaudited Financial Statements and Notes****ZAPATA CORPORATION****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS****(In Thousands, Except Share and Per Share Amounts)**

	September 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 785	\$ 136,889
Short-term investments	145,337	15,199
Other receivables	648	279
Prepaid expenses and other current assets	128	346
Total current assets	146,898	152,713
Long-term investments	7,490	
Other assets, net	10,271	11,015
Property, plant and equipment, net		3
Total assets	\$ 164,659	\$ 163,731
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 123	\$ 417
Accrued expenses and other current liabilities	1,226	1,806
Total current liabilities	1,349	2,223
Pension liabilities	673	717
Other liabilities and deferred income taxes	1,470	1,489
Total liabilities	3,492	4,429
Commitments and contingencies		
Minority interest	34	34
Stockholders equity:		
Preferred stock, \$.01 par; 1,600,000 shares authorized; none issued or outstanding		
Preference stock, \$.01 par; 14,400,000 shares authorized; none issued or outstanding		
Common stock, \$.01 par, 132,000,000 shares authorized; 24,708,414 and 24,616,536 shares issued; 19,276,334 and 19,184,456 shares outstanding	247	246
Capital in excess of par value	164,245	164,454
Retained earnings	36,295	34,653

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Treasury stock, at cost, 5,432,080 shares	(31,668)	(31,668)
Accumulated other comprehensive loss	(7,986)	(8,417)
Total stockholders' equity	161,133	159,268
Total liabilities and stockholders' equity	\$ 164,659	\$ 163,731

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

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Revenues	\$	\$	\$	\$
Cost of revenues				
Gross profit				
Operating expense:				
Selling, general and administrative	866	633	2,536	4,160
Total operating expenses	866	633	2,536	4,160
Operating loss	(866)	(633)	(2,536)	(4,160)
Other income:				
Interest income	1,966	992	5,866	2,743
Other, net	52	45	86	239
	2,018	1,037	5,952	2,982
Income (loss) before income taxes and minority interest	1,152	404	3,416	(1,178)
(Provision) benefit for income taxes	(663)	(123)	(1,775)	412
Minority interest in net income of consolidated subsidiaries	1		1	1
Net income (loss) from continuing operations	490	281	1,642	(765)
Discontinued operations:				
Loss before taxes and minority interest (including loss on disposal)		(8,557)		(4,439)
Benefit for income taxes		3,197		1,579
Minority interest		(762)		(2,091)
Net loss from discontinued operations		(6,122)		(4,951)
Net income (loss) to common stockholders	\$ 490	\$ (5,841)	\$ 1,642	\$ (5,716)
Net income (loss) per common share:				
From continuing operations:				
Basic	\$.03	\$.02	\$.09	\$ (.04)

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Diluted	.03	.02	.08	(.04)
From discontinued operations:				
Basic	\$	\$ (.32)	\$	\$ (.26)
Diluted		(.32)		(.26)
Net income (loss) per common share:				
Basic	\$.03	\$ (.30)	\$.09	\$ (.30)
Diluted	\$.03	\$ (.30)	\$.08	\$ (.30)
Weighted average common shares outstanding:				
Basic	19,276	19,182	19,223	19,179
Diluted	19,395	19,410	19,425	19,179

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

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

	For the Nine Months Ended	
	September 30,	
	2007	2006
Cash flows from operating activities:		
Net income (loss)	\$ 1,642	\$ (5,716)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	3	13
Stock based compensation	13	113
Minority interest in net loss of consolidated subsidiaries	(1)	(1)
Taxes paid in connection with stock based compensation	(220)	
Deferred income taxes	1,132	(413)
Changes in assets and liabilities:		
Other receivables	(369)	150
Prepaid expenses and other current assets	218	255
Other assets	29	328
Accounts payable	(294)	(152)
Pension liabilities, long-term	(30)	(29)
Accrued liabilities and other current liabilities	(580)	(62)
Other liabilities	(19)	(2)
Discontinued operations		8,211
Net cash provided by operating activities	1,524	2,695
Cash flows from investing activities:		
Purchases of short-term investments	(281,075)	
Purchases of long-term investments	(7,490)	
Maturities of short-term investments	150,937	
Discontinued operations		(15,237)
Net cash used in investing activities	(137,628)	(15,237)
Cash flows from financing activities:		
Proceeds from stock option exercises		190
Discontinued operations		(944)
Net cash used in financing activities		(754)
Effect of exchange rate changes on cash and cash equivalents		(5)
Net decrease in cash and cash equivalents	(136,104)	(13,301)
Increase in cash from discontinued operations		12,819
Cash and cash equivalents at beginning of period	136,889	77,011
Cash and cash equivalents at end of period	\$ 785	\$ 76,529

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

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**ZAPATA CORPORATION
NOTES TO UNAUDITED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**

Note 1. Summary of Operations and Basis of Presentation

The unaudited condensed consolidated financial statements included herein have been prepared by Zapata Corporation (Zapata or the Company) pursuant to the rules and regulations of the Securities and Exchange Commission. The financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of such information. All such adjustments are of a normal recurring nature. Although Zapata believes that the disclosures are adequate to make the information presented not misleading, certain information and footnote disclosures, including a description of significant accounting policies normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to such rules and regulations. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The interim financial statements should be read in conjunction with the financial statements and the notes thereto included in Zapata's 2006 Annual Report on Form 10-K filed with the Securities and Exchange Commission and with the information presented by Zap.Com Corporation in their 2006 Annual Report on Form 10-K. The results of operations for the three month and nine month periods ended September 30, 2007 are not necessarily indicative of the results for any subsequent quarter or the entire fiscal year ending December 31, 2007.

Business Description

Zapata Corporation is a holding company which has approximately \$153.6 million in consolidated cash, cash equivalents and short and long-term investments at September 30, 2007 and currently owns 98% of Zap.Com Corporation (Zap.Com), a public shell company. On December 4, 2006, the Company completed the disposition of its 14,501,000 shares of Omega Protein Corporation (Omega Protein or Omega) common stock.

Zap.Com does not have any existing business operations other than complying with its reporting requirements under the Exchange Act. Zap.Com is searching for assets or businesses that it can acquire so that it can become an operating company and may also consider developing a new business suitable for its situation. Zap.Com trades on the over-the-counter electronic bulletin board under the symbol ZPCM.

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

Note 2. Significant Accounting Policies

Investments

At times the Company may purchase short-term or long-term investments comprised of U.S. Government securities with maturities greater than three months or one year. As the Company has both the intent and the ability to hold these securities to maturity, they are considered held-to-maturity investments. Investments are recorded at original cost plus accrued interest.

Share-Based Payment

Effective January 1, 2006, Zapata and Zap.Com each adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment, using the modified prospective application transition method. Under this transition method, compensation cost in 2006 includes the portion vesting in the period for (1) all share-based payments granted prior to, but not vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and (2) all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). Share-based compensation expense recognized in the Condensed Consolidated Statements of Operations is based on awards ultimately expected to vest, reduced for estimated forfeitures. Under the modified prospective application transition method, no cumulative effect of change in accounting principle charge was required, and results for prior periods were not restated. SFAS No. 123(R) also requires excess tax benefits be reported as a financing cash inflow rather than an operating cash inflow.

Table of Contents**Note 3. Discontinued Operations**

Omega Protein is the largest processor, marketer and distributor of fish meal and fish oil products in the United States. Omega produces and sells a variety of protein and oil products derived from menhaden, a species of wild herring-like fish found along the Gulf of Mexico and Atlantic coasts. During the fourth quarter of fiscal 2006, Zapata sold all of its Omega shares in two separate transactions. Based on the sale of Zapata's Omega shares, all amounts and disclosures throughout this document related to Omega have been classified as "Discontinued Operations" in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

Zapata's first sale of Omega shares closed on November 28, 2006, pursuant to a stock purchase agreement dated September 8, 2006 between Zapata, as seller, and Omega Protein, as purchaser, whereby Omega repurchased 9,268,292 Omega shares held by Zapata at a price of \$5.125 per share, or \$47.5 million in the aggregate. Zapata's second sale of Omega shares occurred on December 4, 2006, pursuant to a stock purchase agreement dated December 1, 2006 among Zapata and a group of institutional investors whereby Zapata sold its remaining 5,232,708 Omega shares at a purchase price of \$5.55 per share (less commission), or \$28.3 million in the aggregate. For the year ended December 31, 2006, Zapata recorded total transaction related losses of \$10.3 million (\$7.2 million net of tax adjustments) related to these transactions.

Operating results of discontinued operations are as follows:

	For the Three Months Ended September 30, (in thousands)		For the Nine Months Ended September 30, (in thousands)	
	2007	2006	2007	2006
Revenue from discontinued operations	\$	\$ 52,089	\$	\$ 113,730
Loss before taxes and minority interest		(8,557)		(4,439)

Note 4. Short-Term Investments

As of September 30, 2007, the Company had held-to-maturity investments with original maturities from eight to twelve months. Total amortized cost of short-term investments includes approximately \$518,000 and \$28,000 of interest receivable at September 30, 2007 and December 31, 2006, respectively.

	September 30, 2007 (in thousands)		
	Amortized Cost	Fair Market Value	Unrealized Gain (Loss)
Federal Home Loan Discount Note less than one year	\$ 138,165	\$ 138,280	\$ 115
Federal Home Loan Agency Note less than one year	3,816	3,748	(68)
Federal Home Loan Mortgage Corporation Discount Note less than one year	3,874	3,862	(12)
Total Short-Term Investments	\$ 145,855	\$ 145,890	\$ 35

Interest on the above investments ranged between 4.71% and 5.24% at September 30, 2007.

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		December 31, 2006 (in thousands)		
		Amortized	Fair	Unrealized
		Cost	Market	Loss
		Value		
		Loss		
Federal Farm Credit Discount Note	less than one year	\$ 15,227	\$ 15,199	\$ (28)

Interest on the above investment was 5.11% at December 31, 2006.

Note 5. Long-Term Investments

As of September 30, 2007, the Company had held-to-maturity investments with original maturities greater than one year. Total amortized cost of long-term investments at September 30, 2007 includes approximately \$131,000 of interest receivable. The Company did not have any long-term investments at December 31, 2006.

		September 30, 2007 (in thousands)		
		Amortized	Fair	Unrealized
		Cost	Market	Loss
		Value		
		Loss		
Federal Home Loan Agency Note	one to five years	\$ 3,784	\$ 3,765	\$ (19)
Federal Home Loan Mortgage Corporation Agency Note	one to five years	3,837	3,778	(59)
Total Long-Term Investments		\$ 7,621	\$ 7,543	\$ (78)

Interest on the above investments ranged between 5.16% and 5.21% at September 30, 2007.

Note 6. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities are summarized as follows:

	September	December 31,
	30,	2006
	2007	2006
	(in thousands)	
Federal and state income taxes	\$ 96	\$ 588
Insurance	577	624
Environmental reserves	100	100
Consulting agreement	113	113
Pension liabilities	103	103
Salary and benefits	59	79
Professional Services	70	74
Other	108	125
	\$ 1,226	\$ 1,806

Note 7. Earnings Per Share Information

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
Potential common shares excluded from the calculation of diluted earnings per share:				
Stock options	18	1,237	18	1,237
Weighted average exercise price per share	\$ 9.79	\$ 5.54	\$ 9.79	\$ 5.54
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Table of Contents**Note 8. Income Taxes**

The Company's consolidated effective tax rate for the three month and nine month periods ended September 30, 2007 was 58% and 52%, respectively, as compared to 30% and 35% from the comparable periods of the prior year. The higher effective tax rate was primarily the result of Zapata Corporate's recognition of a provision for income taxes to reflect an anticipated 15% tax on undistributed personal holding company income.

On January 1, 2007, the Company adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109 (FIN 48). There was no cumulative effect as a result of applying FIN 48 and no adjustment was made to the opening balance of retained earnings.

Unrecognized tax benefits were approximately \$732,000 as of January 1, 2007 and September 30, 2007, respectively, the reversal of which will reduce the Company's effective tax rate when recognized. The Company does not expect that the amount of unrecognized tax benefits will change significantly in the next 12 months.

Accrued interest expense and penalties, if any, related to the above unrecognized tax benefits are recorded as a component of income tax expense. As of January 1, 2007 and September 30, 2007, the amount of accrued interest expense was \$0 and \$139,000, respectively, with no accrual for penalties. The Company files federal and state consolidated income tax returns and is subject to income tax examinations for years after 2003.

Note 9. Comprehensive Income (Loss)

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
	(in thousands)			
Net income (loss)	\$ 490	\$ (5,841)	\$ 1,642	\$ (5,716)
Amortization of previously unrecognized pension amounts	144		431	
Amounts related to discontinued operations, net of tax effects		2		(3)
Total comprehensive income (loss)	\$ 634	\$ (5,839)	\$ 2,073	\$ (5,719)

Note 10. Commitments and Contingencies**Litigation**

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

Environmental Matters

During the third quarter of 2005, Zapata was notified by Weatherford International Inc. (Weatherford) of a claim for reimbursement of approximately \$200,000 in connection with the investigation and cleanup of purported environmental contamination at two properties formerly owned by a non-operating Zapata subsidiary. The claim was made under an indemnification provision given by Zapata to Weatherford in a 1995 asset purchase agreement and relates to alleged environmental contamination that purportedly existed on the properties prior to the date of the sale. Weatherford has also advised the Company that it anticipates that further remediation and cleanup may be required, although they have not provided any information regarding the cost of any such future clean up.

Zapata has challenged any responsibility to indemnify Weatherford. The Company believes that it has meritorious defenses to the claim, including that the alleged contamination occurred after the sale of the property, and intends to

vigorously defend against it.

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As it is probable that some costs could be incurred related to this site, the Company has accrued \$100,000 related to this claim. This reserve represents the lower end of a range of possible outcomes as no other amount within the range is considered more likely than any other. There can be no assurance however that the Company will not incur material costs and expenses in excess of our reserve in connection with any further investigation and remediation at the site. Zapata and its subsidiaries are subject to various possible claims and lawsuits regarding