

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 1996

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 DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

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

1717 ST. JAMES PLACE, SUITE 550  
HOUSTON, TEXAS  
(Address of principal executive offices)

77056  
(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (713) 940-6100

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, \$0.25 par value.....	New York Stock Exchange
10 1/4% Subordinated Debentures due 1997.....	New York Stock Exchange
10 7/8% Subordinated Debentures due 2001.....	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

\$2 Noncumulative Convertible Preference Stock, \$1 par value.

On December 26, 1996, there were outstanding 29,548,707 shares of the Company's Common Stock, \$0.25 par value. The aggregate market value of the Company's voting stock held by nonaffiliates of the Company is \$66,781,269, based on the closing price in consolidated trading on December 26, 1996, for the Company's Common Stock and the value of the number of shares of Common Stock into which the Company's \$2 Noncumulative Convertible Preference Stock was convertible on such date.

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 X 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. X

DOCUMENTS INCORPORATED BY REFERENCE: NONE.

-----  
 -----

2

TABLE OF CONTENTS

	PAGE
	----
PART I	
Items 1 and 2. Business and Properties.....	1
General.....	1
Historical Contributions of Major Divisions.....	3
Marine Protein Operations.....	4
Oil and Gas Operations.....	6
Employees.....	9
Geographical Information.....	9
Executive Officers of the Registrant.....	9
Properties.....	10
Item 3. Legal Proceedings.....	10
Item 4. Submission of Matters to a Vote of Security Holders.....	12
PART II	
Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.....	13
Item 6. Selected Financial Data.....	14
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	15
Item 8. Financial Statements and Supplementary Data.....	22
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	58
PART III	
Item 10. Directors and Executive Officers of the Registrant.....	58

Item 11.	Executive Compensation.....	59
Item 12.	Security Ownership of Certain Beneficial Owners and Management.....	63
Item 13.	Certain Relationships and Related Transactions.....	63

PART IV

Item 14.	Exhibits, Financial Statement Schedules and Reports on Form 8-K.....	64
----------	--	----

PART I

ITEM 1 AND 2. BUSINESS AND PROPERTIES

GENERAL

Zapata Corporation is a Delaware corporation organized in 1954. As used herein, the term "Zapata" or the "Company" refers to Zapata Corporation or to Zapata Corporation and its consolidated subsidiaries, as applicable.

In fiscal 1993, Zapata began to redirect its operations into the natural gas services market. The Company acquired the common stock of Cimarron Gas Holding Company ("Cimarron") in fiscal 1993. Cimarron was engaged in the business of marketing and trading natural gas liquids, as well as gathering and processing natural gas and its constituent products. Cimarron was purchased to serve as the vehicle for Zapata's expansion into the gathering and processing segments of the natural gas services markets. Since being acquired, Cimarron purchased additional gathering and processing assets and expanded its operations. In November 1993, Zapata acquired the natural gas compression businesses of Energy Industries, Inc. and certain other affiliated companies (collectively, "Energy Industries"). Energy Industries was engaged in the business of renting, fabricating, selling, installing and servicing natural gas compressor packages, and served as the vehicle for the Company's expansion into the compression segment of the natural gas services markets.

In late 1994 and early 1995, the Company began to develop a strategic plan which involved repositioning the Company into the food packaging, food and food service equipment and supply (collectively, "food services") businesses and exiting the energy business. The strategic plan that was developed called for the divestiture of most of the Company's remaining energy operations, including Energy Industries, Cimarron and the Company's remaining domestic oil and gas assets, and the acquisition of, or joint ventures with, selected companies in the food services industry.

In September 1994, Zapata's Board of Directors announced that the Company would immediately undertake efforts to sell its U.S. natural gas producing properties. The six properties in the Gulf of Mexico, representing Zapata's domestic oil and gas producing operations, were sold in fiscal 1995. Zapata is also considering the disposition of its Bolivian oil and gas operations.

In September 1995, Zapata entered into an agreement (the "Purchase Agreement") to sell the assets of Energy Industries (the "Energy Industries Sale") to Weatherford Enterra, Inc. and its wholly owned subsidiary, Enterra Compression Company (collectively, "Weatherford Enterra"). Pursuant to the Purchase Agreement, Weatherford Enterra purchased from the Company all of the assets of Energy Industries for approximately \$131 million in cash. The Energy Industries Sale closed in December 1995 after receiving stockholder approval. The Energy Industries Sale resulted in an after-tax gain of approximately \$12.6 million.

During fiscal 1996, Zapata sold substantially all of the assets of Cimarron in two separate transactions with Conoco, Inc. ("Conoco") and Enogex Products Corporation ("Enogex"); Conoco purchased certain of the Texas-based assets and Enogex purchased certain of the Oklahoma-based assets. The aggregate cash consideration paid by Conoco and Enogex totaled approximately \$23 million. Subsequently, the Company sold Cimarron's remaining assets for an additional

\$700,000 (collectively with the sales to Conoco and Enogex, the "Cimarron Sales"). The Cimarron Sales resulted in an after-tax loss of approximately \$3 million. Additionally, Cimarron recognized an after-tax loss of approximately \$500,000 from operations for fiscal 1996.

In March 1995, the Company executed an agreement to sell its marine protein operations to an investor group. However, that agreement was terminated in April 1995 as a result of the purchaser's failure to meet its obligations to close. The Company has since decided to retain the marine protein operations.

In August 1995, the Company purchased 4,189,298 shares of the common stock of Envirodyne Industries, Inc. ("Envirodyne"), representing 31% of the then outstanding common stock of Envirodyne, for \$18.8 million from a trust controlled by Malcolm Glazer, Chairman of the Board of the Company and, through his beneficial ownership of a trust, a major stockholder of the Company. Mr. Glazer is also a director of Envirodyne. Such shares represented all of Mr. Glazer's ownership interest in Envirodyne. The Company

1

4

paid the purchase price by issuing a subordinated promissory note bearing interest at the prime rate and maturing in August 1997, subject to prepayment at the Company's option. The Company has since prepaid the promissory note. In June and July 1996, Zapata purchased 1,688,006 additional shares of Envirodyne common stock in brokerage and privately negotiated transactions for an aggregate consideration of approximately \$7.0 million. As a result of these purchases, Zapata currently owns approximately 40.6% of the outstanding shares of Envirodyne common stock. Envirodyne is a major supplier of food packaging products and food service supplies and is a leading worldwide producer of cellulosic casings used in the preparation of packaging of processed meat products. It is the world's second largest producer of heat shrinkable plastic bags and specialty films for packaging and preserving fresh and processed meat products, poultry and cheeses. Envirodyne is also a leading domestic producer of (i) disposable plastic cutlery, drinking straws, custom dining kits and related products and (ii) thermo-formed and injection-molded plastic containers and horticultural trays and inserts. The Company may consider the acquisition of additional shares of Envirodyne common stock or proposing a merger with, or acquisition of, Envirodyne in the future, although the Company currently has no plans or proposals to do so. Envirodyne has implemented a stockholder rights plan the terms of which would effectively preclude the Company from acquiring 41% or more of Envirodyne's common stock without approval of Envirodyne's board of directors. In addition, instruments governing certain debt of Envirodyne provide that acquisition of more than 50% of Envirodyne's common stock would give the holders of the debt the right to require Envirodyne to repurchase the debt at a premium.

On May 2, 1996, Zapata and Houlihan's Restaurant Group, Inc. ("Houlihan's") announced that they had entered into a letter of intent relating to Zapata's proposed acquisition of Houlihan's (the "Houlihan's Merger"). Zapata and Houlihan's subsequently entered into an Agreement and Plan of Merger dated as of June 4, 1996 (the "Houlihan's Merger Agreement") relating to the proposed acquisition. In view of Malcolm I. Glazer's significant ownership of common stock of both Zapata and Houlihan's, the transaction was negotiated by representatives of special committees of the respective boards of directors of both Zapata and Houlihan's. The proposed transaction was subject to, among other things, the approval of the transaction by the stockholders of both companies, registration of the Zapata shares issuable in the merger under the Securities Act of 1933 and receipt of a consent from Houlihan's primary lending bank or the refinancing of Houlihan's outstanding bank debt. On October 8, 1996, Zapata terminated the Houlihan's Merger Agreement pursuant to a provision of such agreement that gave either party the right to terminate the merger agreement if the Houlihan's Merger was not consummated before October 1, 1996. The termination followed a decision of the Court of Chancery of Delaware that the proposed transaction would require the approval of holders of 80% of Zapata's outstanding voting stock. The Company does not believe that a supermajority vote was required under the circumstances of the Houlihan's Merger and has appealed the decision of the Court of Chancery.

On December 30, 1996, the Company announced its intention to commence a tender offer to purchase for cash up to 15 million shares of Common Stock for a price of \$4.50 per share. The offer will be conditioned upon a minimum of 10 million shares of Common Stock being tendered and will be subject to the satisfaction of other customary conditions. Malcolm Glazer, Chairman of the

Board of the Company and, through his beneficial ownership of a trust, the owner of 10,395,384 shares of Common Stock intends to participate in the tender offer by tendering 3 million shares of Common Stock. The Company intends to use its available cash to purchase Common Stock pursuant to the tender offer.

HISTORICAL CONTRIBUTIONS OF MAJOR DIVISIONS

The following table summarizes historical 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, by major division, for the periods indicated. As a result of the decision to sell the natural gas compression and natural gas gathering, processing and marketing operations, the Company's financial statements were restated in 1995 to reflect these operations as discontinued operations, and therefore are not included below.

AS OF OR FOR THE YEAR ENDED SEPTEMBER 30, -----	REVENUES -----	OPERATING INCOME (LOSS) -----	IDENTIFIABLE ASSETS ----- (IN THOUSANDS)	DEPRECIATION, DEPLETION AND AMORTIZATION -----	CAPITAL EXPENDITURES -----
1996					
Marine protein.....	\$ 93,609	\$ 10,504	\$ 86,969	\$ 3,167	\$ 4,009
Oil and gas.....	2,069	(4,799) (1)	9,887	240	2,580
Corporate.....	--	(4,553) (2)	136,287 (7)	85	1
	-----	-----	-----	-----	-----
	\$ 95,678	\$ 1,152	\$233,143	\$ 3,492	\$ 6,590
	=====	=====	=====	=====	=====
1995					
Marine protein.....	\$ 94,959	\$ (6,437) (3)	\$ 85,012	\$14,977 (3)	\$ 5,573
Oil and gas.....	8,109	658	13,571	2,856	1,767
Corporate.....	--	(3,441)	38,914 (7)	115	1
	-----	-----	-----	-----	-----
	\$103,068	\$ (9,220)	\$137,497 (4)	\$17,948	\$ 7,341
	=====	=====	=====	=====	=====
1994					
Marine protein.....	\$ 96,614	\$ 5,445	\$ 87,565	\$ 4,535	\$ 3,671
Oil and gas.....	12,549	(28,285) (6)	20,062	33,770 (6)	11,792
Corporate.....	--	(8,767)	44,044 (5)	2,321	67
	-----	-----	-----	-----	-----
	\$109,163	\$ (31,607)	\$151,671 (4)	\$40,626	\$ 15,530
	=====	=====	=====	=====	=====

- (1) Includes a \$5.5 million write-down of a production payment receivable related to the sale of the Company's domestic oil and gas properties.
- (2) Includes \$2.1 million of merger costs that were expensed when the proposed merger with Houlihan's was terminated.
- (3) Includes a \$12.3 million provision for asset impairment to reduce the marine protein assets to their fair market value as a result of adopting Statement of Financial Accounting Standards No. 121.
- (4) Excludes net assets of discontinued operations of \$101.9 million and \$103.1 million in fiscal 1995 and 1994, respectively.
- (5) Includes Zapata's investment in Tidewater, Inc., which was sold through a series of transactions effected in fiscal 1995, 1994 and 1993.
- (6) Includes a \$29.2 million provision for oil and gas property valuation required as a result of low gas prices and a revision of estimated future costs.
- (7) Includes Zapata's investment in Envirodyne.

The net amounts of interest income (expense), other income (expense) and

income tax expense (benefit) from continuing operations are set forth below.

YEAR ENDED SEPTEMBER 30,	INTEREST INCOME (EXPENSE)	OTHER INCOME (EXPENSE)	INCOME TAX EXPENSE (BENEFIT)
-----	-----	-----	-----
	(IN THOUSANDS)		
1996.....	\$ 678	\$ (5,363) (1)	\$ (1,012)
1995.....	(1,789)	1,986 (2)	(3,179)
1994.....	(2,983)	40,595 (2)	2,030

(1) Includes equity loss from unconsolidated affiliates of \$4.5 million in fiscal 1996.

(2) Includes pretax gains of \$4.8 million and \$37.5 million in fiscal 1995 and 1994, respectively, from sales of Tidewater Inc. common stock.

3

6

#### MARINE PROTEIN OPERATIONS

The Company's marine protein operations involve the production and sale of a variety of protein and oil products from menhaden, a species of fish found along the Gulf of Mexico and Atlantic coasts. Because the magnitude of the fish catch depends on the availability of the natural resource, which is affected by various factors beyond the Company's control, and because the prices for the Company's products are established by worldwide supply and demand relationships over which the Company has no control, the Company cannot predict the profitability of this business segment in any given year.

Fishing. The Company owns a fleet of 50 fishing vessels and 27 spotter aircraft for use in its fishing operations and also leases aircraft where necessary to facilitate operations. During the 1996 fishing season in the Gulf of Mexico, where the fishing season runs from mid-April through October, the Company operated 32 fishing vessels and 26 spotter aircraft. The fishing area in the Gulf stretches from the south Texas coastline to the panhandle of western Florida, with a concentration off the Louisiana and Mississippi coasts. The fishing season on the Atlantic coast begins in early May and usually extends into December. The Company operated 9 fishing vessels and 8 spotter aircraft along the mid-Atlantic coast, concentrated in and around the Chesapeake Bay.

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 are steamers, which 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 steamer, and then are unloaded at the Company's processing plants.

Processing. The Company owns four processing plants -- two 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 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 also 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. The U.S. Food and Drug Administration has approved the use of fully hydrogenated menhaden oil and partially hydrogenated menhaden oil for human consumption in the United States and is considering a petition for use of refined unhydrogenated menhaden oil for human consumption in the United States.

In February 1996, the Company closed operations at its Dulac, Louisiana plant. The Company's decision was based on the anticipated capital expenditures and operating capital requirements necessary to maintain the long-term viability of the Dulac processing operation. The entire harvesting effort previously managed from this location, as well as a significant portion of the processing assets, were redeployed to other Company facilities. Therefore, the Company's harvesting efforts in future years are expected to remain comparable to recent years, and the Company's processing capabilities will not be significantly changed.

In August 1993, the Company acquired a 60% equity interest in Venture Milling Company ("Venture"), a Delaware corporation involved in the milling of animal feeds and protein-ingredient products for the poultry,

4

7

hog and dairy industries. In March 1996, the Company acquired the remaining 40% of Venture's equity. Venture leases and operates a feed mill in Seaford, Delaware. The Company consolidates the financial results of Venture. The Company's results of operations for the 1996, 1995 and 1994 fiscal years were not materially impacted by activity related to Venture.

The Company owns a 50% equity interest in a joint venture involved in the manufacturing and marketing of animal feed ingredients outside of the United States. While the Company's investment was made in 1995, initial operations commenced in late 1996 with no material impact on the Company's financial results. The investment is accounted for in the Company's financial statements using the equity method of accounting.

Marketing. Most of the Company's marine protein products are sold directly to about 300 customers by the Company's marketing department, while a smaller amount is sold through independent sales agents. Total product inventory (at the lower of average cost or market) was \$26,522,000 as of September 30, 1996 compared to \$22,947,000 on September 30, 1995. While the fishing season usually extends from April into December, sales from inventory continue throughout the year.

The Company's fish meal is primarily sold to domestic feed producers for utilization as a high-protein ingredient for the poultry industry. Fish oil sales primarily involve export markets where the fish oil is refined for use as an edible oil. One customer for fish oil, Unilever Raw Material B.V., accounted for approximately 11.9% of the Company's consolidated revenues in fiscal 1995, and lesser amounts in fiscal 1996 and 1994. Sales to Unilever Raw Material B.V. were approximately \$12.3 million in 1995.

Competition. The principal competition for the Company's fish meal and fish solubles is from other protein sources such as soybean meal and other vegetable or animal products. The Company believes, however, that these other sources are not complete substitutes because fish meal offers nutritional values not contained in such sources. Vegetable fats and oils, such as soybean and palm oils, provide the primary market competition for fish oil. In addition, the Company competes against domestic, privately owned menhaden fishing companies as well as international producers of fish meal and fish oil derived from species such as anchovy and mackerel.

Fish meal prices generally bear a direct 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 the Company's products are established by worldwide supply and demand relationships

over which the Company has no control and tend to fluctuate to a significant extent over the course of a year and from year to year.

Regulation. The Company's marine protein 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. The Company, 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.

The marine protein operations of the Company also are 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 oil and other water pollutants into navigable waters. The Clean Water Act provides penalties for any discharge of pollutants in reportable quantities and, along with the Oil Pollution Act of 1990, imposes substantial liability for the costs of oil removal, remediation and damages. The Company's marine protein operations also are subject to the federal Clean Air Act, as amended; the federal Resource Conservation and Recovery Act, which regulates treatment, storage and disposal of hazardous wastes; the federal Comprehensive Environmental Response, Compensation, and Liability Act, which imposes liability, without regard to fault, on certain classes of persons that contributed to the release of any "hazardous substance" into the environment; and the federal Occupational Safety and Health Act ("OSHA"). The OSHA hazard communications standard, the Environmental

5

8

Protection Agency community right-to-know regulations under Title III of the federal Superfund Amendment and Reauthorization Act and similar state statutes require the Company 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 marine protein operations of the Company, and all such laws and regulations are subject to change.

The Company 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 the Company's marine protein operations.

#### OIL AND GAS OPERATIONS

The Company's only significant remaining oil and gas exploration and production activity is the production of natural gas in Bolivia. During fiscal 1995, the Company sold its U.S. oil and gas properties in the Gulf of Mexico for \$4.0 million cash and an \$8.9 million receivable representing (i) a production payment entitling Zapata to a share of revenues from certain properties and (ii) a share of future proceeds from a revenue sharing agreement. In fiscal 1996, Zapata recorded a \$5.5 million write-down of the production payment receivable due to a reduction of the estimated gas reserves associated with the receivable as prepared by the purchaser's reserve engineers. The Company conducts oil and gas operations through its wholly owned subsidiary, Zapata Exploration Company ("Zapex").

The Company believes the value of the Bolivian operation would be enhanced by the construction of a proposed gas pipeline connecting Bolivia's gas producing regions to gas markets in Brazil. The governments of Bolivia and Brazil currently support this project and a multi-national group has been formed to construct and operate the pipeline. The project is progressing toward commencement of construction. Pipeline operations are currently projected to commence during the late 1990s. The Company is considering the sale of its Bolivian operations.

In 1987, the Company wrote off its remaining investment in its oil and gas



properties in Bolivia (held by a joint venture in which the Company has an approximate 25% interest), and all cash proceeds received by the Company thereafter that relate to periods prior to 1988 have been recognized as revenues. The write-off resulted from the failure of the Bolivian state-owned petroleum company to honor its commitment to pay the joint venture for gas deliveries on a timely basis and to remit past-due payments on an agreed schedule. The Bolivian properties continue to be operated by the joint venture, which began receiving payments with respect to current and past-due invoices on June 30, 1991. Based on the Bolivian oil and gas company's performance under renegotiated contracts and improved operating conditions, Zapata returned to the accrual method of accounting for its Bolivian oil and gas operations beginning in October 1993.

Since 1993, the Company committed to participate in the drilling of five exploratory wells in its Bolivian operation, two of which were drilled in 1994, one during 1995 and two during 1996.

The Company's oil and gas operations are subject to all of the risks and hazards typically associated with the exploration for, and production of, oil and gas, including blowouts, cratering, oil spills and fires, each of which could result in damage to or destruction of oil and gas wells, production facilities or other property or the environment or injury to persons. Although the Company maintains customary insurance coverage, it is not fully insured against such risks, either because such insurance is not available or because of high premium costs. In addition, the Company's investment in its Bolivian oil and gas properties is that of a minority interest owner. Accordingly, the majority owner has the right to determine the details of any exploration and development drilling program.

Zapata's Bolivian oil and gas operations are also subject to various political risks. For several decades, Bolivia experienced periods of slow or negative growth, high inflation, large devaluations of the Bolivian currency and imposition of exchange controls. Limited availability of foreign exchange required the Bolivian government to restructure its foreign currency denominated indebtedness. Since 1985, the Bolivian govern-

ment has pursued economic stabilization and reform policies which have significantly reduced inflation and budget deficits and which have eliminated exchange controls. There are currently no restrictions on the transfer of funds out of Bolivia. Since 1986, the exchange rate for Bolivian currency has been relatively stable. A recurrence of adverse economic conditions, high levels of inflation, the imposition of exchange controls or restrictions on payments to non-Bolivians could adversely affect Zapata's Bolivian operations. Foreign operations and investments may also be subject to laws and policies of the United States affecting foreign trade, investment and taxation which could affect the conduct or the profitability of Zapata's Bolivian operations.

Oil and Gas Reserves. The following table sets forth information as to the Company's proved and proved developed reserves of oil and natural gas as of September 30, 1996, 1995 and 1994:

	UNITED STATES		BOLIVIA	
	GAS (MMCF)	LIQUIDS (MBBL)	GAS (MMCF)	LIQUIDS (MBBL)
TOTAL PROVED RESERVES AS OF:				
September 30, 1996.....	--	--	30,615	743.5
September 30, 1995.....	--	--	29,552	683.5
September 30, 1994.....	34,736	366.8	27,317	744.4
TOTAL PROVED DEVELOPED RESERVES AS OF:				
September 30, 1996.....	--	--	30,615	743.5
September 30, 1995.....	--	--	29,552	683.5
September 30, 1994.....	27,386	221.3	27,317	744.4

As used herein, the term "Mcf" means thousand cubic feet, the term "MMcf" means million cubic feet, the term "Bbl" means barrel and the term "MBbl" means thousand barrels. Liquids include crude oil, condensate and natural gas liquids.

The reserve estimates presented herein were prepared by Huddleston & Co., Inc. ("Huddleston"), independent petroleum reserve engineers. Since September 30, 1996, no major favorable or adverse event has occurred which the Company believes significantly affects or changes estimated reserve quantities as of that date. Zapata is not a party to any contracts that include an obligation to provide a fixed and determinable quantity of oil and gas in the future. No estimates of the Company's proved net oil or gas reserves have been filed with or included in reports to any federal authority or agency other than the Securities and Exchange Commission since October 1, 1995.

There are numerous uncertainties inherent in estimating quantities of proved reserves, including many factors beyond the control of the producer. The reserve data set forth herein represent only estimates. Reserve engineering is a subjective process of estimating underground accumulations of crude oil and natural gas that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. As a result, estimates of different engineers often vary. In addition, results of drilling, testing and production subsequent to the date of an estimate may justify revision of such estimate. Accordingly, reserve estimates are often different from the quantities of crude oil and natural gas that are ultimately recovered. The meaningfulness of such estimates is highly dependent upon the accuracy of the assumptions upon which they were based.

Production and Sales. The following table sets forth the Company's production of oil and gas, net of all royalties, overriding royalties and other outstanding interests, for the three years ended September 30, 1996, 1995 and 1994. Natural gas production refers only to marketable production of gas on an "as sold" basis.

7

10

	UNITED STATES		BOLIVIA	
	GAS (MMCF)	LIQUIDS (MBBL)	GAS (MMCF)	LIQUIDS (MBBL)
PRODUCTION VOLUMES FOR THE YEAR ENDED:				
September 30, 1996.....	--	--	1,743	49.5
September 30, 1995.....	2,996	44.7	1,724	53.3
September 30, 1994.....	3,456	73.0	1,967	68.9

The following table shows the average sales prices received by the Company for its production for the three years ended September 30, 1996, 1995 and 1994:

	UNITED STATES		BOLIVIA	
	GAS (MCF)	LIQUIDS (BBL)	GAS (MCF)	LIQUIDS (BBL)
AVERAGE SALES PRICES FOR THE YEAR ENDED:				
September 30, 1996.....	\$ --	\$ --	\$1.25	\$ 18.15
September 30, 1995.....	1.54	15.21	1.28	18.98
September 30, 1994.....	2.08	14.67	1.34	12.64

The following table shows the average production (lifting) costs per unit of production of liquids and gas based on equivalent Mcf for the three years ended September 30, 1996, 1995 and 1994:

UNITED STATES	BOLIVIA
---------------	---------

AVERAGE PRODUCTION COSTS FOR THE YEAR ENDED:

September 30, 1996.....	\$ --	\$ .53
September 30, 1995.....	.96	.54
September 30, 1994.....	1.42	.22

Production (lifting) costs are costs incurred to operate, maintain and workover certain wells and related equipment and facilities. They do not include depreciation, depletion and amortization of capitalized acquisition, exploration and development costs, exploration expenses, general and administrative expenses, interest expense or income tax. Production costs for fiscal 1994 include the effects of \$600,000 in workover expense incurred as a part of the Wisdom gas field workover and recompletion programs completed in September 1994. Differences between sales prices and production (lifting) costs do not represent profit.

Productive Wells and Acreage. On September 30, 1996, the Company's Bolivian oil and gas properties consisted of working interests in 15 gross gas wells (3.90 net wells) capable of production. The Company does not operate any wells. The following table shows the number of producing wells and wells capable of production as of September 30, 1996:

	BOLIVIA GAS -----
PRODUCTIVE OIL AND GAS WELLS:	
Gross.....	15
Net.....	3.90

One or more completions in the same bore hole are counted as one well. Twelve gross (2.822 net) gas wells in Bolivia are dual completions. A "gross well" is a well in which the Company owns a working interest. A "net well" is deemed to exist when the sum of the fractional working interests owned by the Company in gross wells equals one.

The following table sets forth certain information with respect to the developed and undeveloped acreage of the Company as of September 30, 1996:

	DEVELOPED (1)		UNDEVELOPED (2)		TOTAL	
	GROSS (3)	NET (4)	GROSS (3)	NET (4)	GROSS (3)	NET (4)
ACREAGE						
Bolivia.....	7,760	1,988	872,178	236,892	879,938	238,880

-----

- (1) Developed acreage is acreage spaced or assignable to productive wells.
- (2) Undeveloped acreage is acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and gas, regardless of whether such acreage contains proved reserves.
- (3) A "gross acre" is an acre in which a working interest is owned. The number of gross acres represents the sum of acres in which a working interest is owned.
- (4) A "net acre" is deemed to exist when the sum of the fractional working interests in gross acres equals one. The number of net acres is the sum of the fractional working interests in gross acres expressed in whole numbers or fractions thereof.

Drilling Activity. Since September 30, 1993, the Company has participated in drilling five exploratory wells in its Bolivian operation that achieved total depth. The first and third wells, the Los Suris #2 and the Palo Marcado #3, were successful in discovering gas reserves. The second well, the San Antonio #1, has been temporarily abandoned. The fourth and fifth wells, the Palo Marcado #4 and Ibibobo #2 were successful in discovering gas reserves.

Marketing. The revenues generated by the Company's exploration and production operations are highly dependent upon the prices of, and demand for, natural gas, and, to a lesser extent, oil. For the last several years, prices of oil and gas have reflected the worldwide surplus of supply over demand. Currently, all of the Company's oil and gas production from its Bolivian properties is sold to Yacimientos Petroliferos Fiscales Bolivianos ("YPFB"), Bolivia's state-owned oil company.

Market conditions for oil and gas are the result of a number of factors outside the control of the Company, including changing economic conditions, seasonal weather conditions, loss of markets to alternative fuels, increased foreign production, government regulation and the failure or success of members of OPEC to agree to and maintain price and production controls.

EMPLOYEES

At September 30, 1996, the Company and its subsidiaries employed approximately 1,100 persons. Approximately 118 employees of the Company are represented by an affiliate of the United Food and Commercial Workers Union. The Company considers its employee relations to be generally satisfactory.

GEOGRAPHICAL INFORMATION

Certain geographical information with respect to the Company's business is set forth in Note 17 of Notes to Consolidated Financial Statements.

EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages and current offices of the executive officers of the Company, who are to serve until their successors are elected and qualified, are set forth below. Also indicated is the date when each such person commenced serving as an executive officer of the Company.

NAME AND AGE	OFFICE	DATE BECAME EXECUTIVE OFFICER
Robert A. Gardiner (48)	Vice President and Chief Financial Officer	January 1996
Avram A. Glazer (36)	President and Chief Executive Officer	March 1995
Malcolm I. Glazer (68)	Chairman of the Board of Directors	July 1994
Ronald C. Lassiter (64)	Chairman and Chief Executive Officer of Zapata Protein, Inc.	January 1983
Joseph L. von Rosenberg III (38)	Executive Vice President, General Counsel and Corporate Secretary	August 1994

A description of the business experience during the past five years for each of the executive officers of Zapata is set forth below. Unless otherwise noted, positions are with the Company.

Robert A. Gardiner has served as Chief Financial Officer since January 1996 and Vice President since January 1995. He served as Controller from November 1991 to January 1996. Mr. Gardiner has held various positions with Zapata and Zapata Protein, Inc. since 1979.

Avram A. Glazer, a director since July 1993, has served as President and Chief Executive Officer since March 1995. For the past five years, he has been employed by, and has worked on behalf of, Malcolm I. Glazer and a number of entities owned and controlled by Malcolm I. Glazer. He also serves as a director of Houlihan's Restaurant Group, Inc., Specialty Equipment Companies, Inc. and Envirodyne Industries, Inc. Avram A. Glazer is a son of Malcolm I. Glazer.

Malcolm I. Glazer, a director since July 1993, has served as Chairman of the Board of Directors since July 1994 and served as President and Chief Executive Officer from August 1994 until March 1995. Mr. Glazer has been a self-employed private investor whose diversified portfolio consists of ownership of the Tampa Bay Buccaneers National Football League franchise and investments in television broadcasting, restaurants, restaurant equipment, food services equipment, health care, banking, real estate, stocks, government securities and corporate bonds. He is a director and Chairman of the Board of Houlihan's Restaurant Group, Inc. and also is a director of Specialty Equipment Companies, Inc. and Envirodyne Industries, Inc. Malcolm I. Glazer is the father of Avram A. Glazer.

Ronald C. Lassiter has been a director since 1974. Mr. Lassiter served as Acting Chief Operating Officer of the Company from December 1994 to March 1995. He served as Chairman of the Board of Directors from December 1985 to July 1994, and was Chief Executive Officer from January 1983 to July 1994. From July 1994 until December 1994, he was Chairman and Chief Executive Officer of Zapata Protein, Inc., a subsidiary of the Company. In December 1994, Mr. Lassiter withdrew from an active management role with Zapata Protein, Inc. as a result of his participation in a group seeking to acquire that subsidiary. That proposed acquisition was not consummated, and Mr. Lassiter resumed his active management role as Chairman and Chief Executive Officer of Zapata Protein, Inc. pursuant to the consulting agreement described under "Employment Agreements." He has served in various positions with Zapata since 1970. Mr. Lassiter also serves as a director and Chairman of Daniel Industries, Inc.

Joseph L. von Rosenberg III has served as Executive Vice President since November 1995. He has served as General Counsel since August 1994 and Corporate Secretary since June 1993. From August 1994 through November 1995, Mr. von Rosenberg also held the position of Vice President of the Company. Prior to joining Zapata in June 1993, he served as General Counsel and Corporate Secretary of both The Permian Corporation and Simmons Corporation.

#### PROPERTIES

In addition to the properties discussed above with respect to each business segment, the Company leases office space in Houston, Texas for its executive offices pursuant to a lease. The Company believes its facilities are adequate and suitable for its current level of operations. The Company maintains customary compensation, liability, property and marine insurance for all of its operations.

#### ITEM 3. LEGAL PROCEEDINGS

On August 11, 1995, a derivative and class action was filed by Elly Harwin against Zapata and its then directors in the Court of Chancery of the State of Delaware, New Castle County. On January 18, 1996, a second derivative action was filed by Crandon Capital Partners against Zapata and its directors in the same court. On May 7, 1996, a third derivative action was filed by Elly Harwin and Crandon Capital Partners against Zapata and its directors in the same court. On October 4, 1996, a motion for leave to file an amended complaint for a consolidated derivative and class action (the "Harwin/Crandon Case") was filed by these same parties in the same court; Zapata does not oppose the motion. The consolidated complaint alleges that Zapata's directors engaged in conduct constituting breach of fiduciary duty and waste of Zapata's assets in

connection with Zapata's investment in Envirodyne, in connection with the decision to shift Zapata's business focus from energy to food services, and in connection with the proposed (but subsequently abandoned) Houlihan's Merger. The complaint alleges, among other things, that the purchase of Envirodyne common stock from Malcolm I. Glazer's affiliate was a wrongful expenditure of Zapata's funds and was designed to permit Malcolm I. Glazer to obtain personal financial advantage to the detriment of Zapata. The complaint also alleges that Zapata's Board of Directors is controlled by Malcolm I. Glazer and that Mr. Loar lacked independence from Malcolm I. Glazer because he was employed until his retirement (which occurred more than five years ago) by a corporation indirectly controlled by Malcolm I. Glazer, that Mr. Leffler lacks such independence because of his status as a paid consultant to Malcolm I. Glazer, that Avram A. Glazer lacks such independence because of familial relationship and that Mr. Lassiter lacks such independence by reason of an employment or consulting relationship with Zapata. The complaint seeks relief including, among other things, rescission of

Zapata's purchase of the shares of Envirodyne common stock from the Malcolm Glazer Trust; injunctive relief to void the election of Messrs. Leffler and Loar as directors at Zapata's Annual Meeting of Stockholders held on July 27, 1995 and to enjoin consummation of the Houlihan's Merger and any transaction in which Malcolm I. Glazer has an interest; and an award of unspecified compensatory damages and expenses, including attorneys' fees. Zapata believes that the complaint and the allegations contained therein are without merit and intends to defend the Harwin/Crandon Case vigorously.

On May 31, 1996, a fourth derivative and class action (the "Pasternak Case") was filed by Arnold Pasternak against Zapata and its directors in the Court of Chancery of the State of Delaware, New Castle County. The complaint alleged that Zapata's directors engaged in conduct constituting breach of fiduciary duty and waste of Zapata's assets in connection with the Houlihan's Merger. The complaint further alleged that the Houlihan's Merger consideration was unfair and excessive and that the Houlihan's Merger would result in voting power dilution, unfairly benefiting Malcolm I. Glazer. On July 11, 1996, the plaintiff filed an amended complaint. The amended complaint alleged that the Houlihan's Merger Agreement was in conflict with Article SEVENTH of Zapata's Restated Certificate of Incorporation, which provides that an affirmative vote or consent of a supermajority of 80% of outstanding voting stock is necessary under certain circumstances. The plaintiff filed a motion for a preliminary injunction requesting that the court preliminarily enjoin Zapata from consummating the Houlihan's Merger based on the contention that under Article SEVENTH the Houlihan's Merger would require the approval of holders of 80% of Zapata's outstanding voting stock. Zapata does not believe that a supermajority vote was required under the circumstances of the Houlihan's Merger, and its position is supported by an opinion of special Delaware counsel. A hearing concerning whether Article SEVENTH applies to the Houlihan's Merger Agreement and the Houlihan's Merger was held before the Court of Chancery on September 6, 1996 and, on September 24, 1996, the Court of Chancery decided that Article SEVENTH did apply to the Houlihan's Merger Agreement and the Houlihan's Merger. On October 3, 1996, Zapata filed a notice of appeal with the Supreme Court of the State of Delaware regarding the decision of the Court of Chancery. The plaintiff moved to dismiss Zapata's appeal as moot, in light of the termination of the Houlihan's Merger Agreement. On November 7, 1996, the Supreme Court of the State of Delaware denied the plaintiff's motion to dismiss Zapata's appeal. As of December 29, 1996, the Company's appeal had not yet been set for oral argument in the Supreme Court.

On November 19, 1995, a petition was filed in the 148th Judicial District Court of Nueces County, Texas by Peter M. Holt, a former director of the Company, and certain of his affiliates who sold their interests in Energy Industries to the Company in November 1993 (collectively, with Mr. Holt, the "Holt Affiliates"). The petition lists the Company, Malcolm I. Glazer and Avram A. Glazer as defendants and alleges several causes of action based on alleged misrepresentations on the part of the defendants concerning the Company's intent to follow a long-term development strategy focusing its efforts on the natural gas services business. The petition does not allege a breach of any provision of the purchase agreement to which the Company acquired Energy Industries from the Holt Affiliates, but alleges that various representatives of Zapata and Malcolm I. Glazer made representations to Mr. Holt regarding Zapata's intention to continue in the natural gas services industry. Among the remedies sought by the petition are the following requests: (i) the Company's repurchase of the approximately 2.7 million shares of Zapata common stock owned by the Holt Affiliates for \$15.6 million (which relief is no longer possible because the Holt Affiliates sold most of their common stock in March and April 1996); (ii) the disgorgement to the Holt Affiliates of Zapata's profit on the sale of Energy Industries; or

(iii) the money damages based on the alleged lower value of the Common Stock had the alleged misrepresentations not been made. The case has been set for trial beginning April 28, 1997. The Company believes that the petition and the allegations made therein are without merit and intends to defend the case vigorously.

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of its business. The Company maintains insurance coverage against potential claims in an amount which it believes to be adequate. In the opinion of management, uninsured losses, if any, resulting from these matters and from the matters discussed above 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

The Company held its 1996 Annual Meeting of Stockholders on December 5, 1996 (the "1996 Annual Meeting"). An aggregate of 29,551,334 shares of the Company's voting stock were outstanding and entitled to vote at the 1996 Annual Meeting as follows: 29,548,707 shares of Common Stock and 2,627 shares of \$2 Noncumulative Convertible Preference Stock (which vote together as a single class). At this meeting the stockholders voted on the following matters:

ELECTION OF CLASS I DIRECTORS

	FOR -----	WITHHOLD AUTHORITY -----
Malcolm I. Glazer.....	24,631,160	2,524,354
Ronald C. Lassiter.....	24,832,041	2,323,473

In addition to the two Class I Directors elected at the 1996 Annual Meeting, Avram A. Glazer continues to serve as a Class II Director for a term ending at the 1997 Annual Meeting of Stockholders, and Robert V. Leffler, Jr. continues to serve as a Class III Director for a term ending at the 1998 Annual Meeting of Stockholders.

1996 LONG-TERM INCENTIVE PLAN

FOR -----	AGAINST -----	ABSTAINED -----	BROKER NON-VOTE -----
20,405,891	3,277,426	55,076	3,416,862

The 1996 Long-Term Incentive Plan covers 5,000,000 shares of the Company's Common Stock.

STOCKHOLDER PROPOSAL ON CUMULATIVE VOTING

FOR -----	AGAINST -----	ABSTAINED -----	BROKER NON-VOTE -----
3,939,019	19,357,882	441,492	3,416,862

Mr. Martin Glotzer and Mr. John J. Gilbert, stockholders of the Company, presented a stockholder proposal to request the Board of Directors of the Company to take the steps necessary to provide for cumulative voting on the election of directors of the Company.

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. On April 27, 1994, Zapata's stockholders approved a one-for-five reverse stock split (the "Reverse Stock Split") effective May 3, 1994, which reduced the number of common shares outstanding from approximately 158.3 million to approximately 31.7 million. The number of authorized shares remained at 165.0 million and par value

of the Common Stock was unchanged. Unless the context otherwise requires, all references in this Report to Common Stock share and per share amounts reflect the Reverse Stock Split. The high and low sales prices for the Common Stock, as reported in the consolidated transactions reporting system, for each quarterly period for the last fiscal years are shown in the following table.

	SEPTEMBER 30, 1996	JUNE 30, 1996	MARCH 31, 1996	DECEMBER 31, 1995	SEPTEMBER 30, 1995	JUNE 30, 1995	MARCH 31, 1995	DECEMBER 31, 1994
High sales price...	\$3.88	\$ 3.88	\$3.75	\$ 4.50	\$4.63	\$ 4.38	\$4.13	\$ 4.50
Low sales price....	3.38	3.13	3.00	3.00	2.88	2.50	3.25	3.25

The Company announced in December 1994 that its Board of Directors had determined to discontinue indefinitely the payment of dividends on its Common Stock and \$2 Noncumulative Convertible Preference Stock ("Preference Stock"). No dividends were declared during the 1995 or 1996 fiscal years.

On December 30, 1996, the Company announced a tender offer to purchase for cash up to 15 million shares of Common Stock for a price of \$4.50 per share. The offer is conditioned upon a minimum of 10 million shares of Common Stock being tendered and will be subject to the satisfaction of other customary conditions. Malcolm Glazer, Chairman of the Board of the Company and, through his beneficial ownership of a trust, the owner of 10,395,384 shares of Common Stock will participate in the tender offer by tendering 3 million shares of Common Stock. The tender offer will be paid for with the Company's available cash.

The rights of holders of the Common Stock to receive dividends or other payments with respect thereto are subject to the prior and superior rights of holders of Zapata's Preferred Stock and Preference Stock, then outstanding. As of the date of this Report, Zapata had 2,627 shares of Preference Stock outstanding.

As of June 30, 1994, Zapata redeemed one-half of the approximately 45,000 outstanding shares of the Company's \$6 Cumulative Preferred Stock at \$100 per share. The Company redeemed the balance of its outstanding \$6 Cumulative Preferred Stock in January 1995.

On December 26, 1996, there were 9,227 holders of record of Common Stock.

#### ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain selected financial information for the periods presented and should be read in conjunction with the Consolidated Financial Statements of the Company and the related notes thereto and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Report. The Company's financial statements were restated in 1995 to reflect the Company's natural gas compression and natural gas gathering, processing and marketing operations as discontinued operations.

	YEAR ENDED SEPTEMBER 30,				
	1996	1995	1994	1993	1992
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
<b>INCOME STATEMENT DATA:</b>					
Revenues.....	\$ 95,678	\$103,068	\$109,163	\$ 78,754	\$106,413
Operating income (loss).....	1,152(1)	(9,220) (2)	(31,607) (3)	3,559	10,901
Income (loss) from continuing operations.....	(2,521)	(5,844)	3,975 (4)	14,634 (5)	2,431
Per share income (loss) from continuing operations.....	(0.08)	(0.19)	0.11	0.52	0.08
Cash dividend paid.....	--	1,153	1,566	2,933	--
Common Stock, dividends declared, per share.....	--	--	0.07	--	--
<b>CASH FLOW DATA:</b>					
Capital expenditures.....	6,590	7,341	15,530	2,812	11,595



SEPTEMBER 30,

	1996	1995	1994	1993	1992
	-----	-----	-----	-----	-----
	(IN THOUSANDS)				
BALANCE SHEET DATA:					
Working capital.....	\$ 99,327	\$113,536	\$139,526	\$136,493(6)	\$ 30,281
Property and equipment, net.....	42,155	39,238	48,642	86,372	97,768
Assets of discontinued operations.....	--	101,894	103,117	17,827	--
Total assets.....	233,143	239,391	254,788	322,073	304,339
Current maturities of long-term debt.....	16,108	16,148	531	330	19,652
Long-term debt.....	18,159	37,468	52,581	135,659	120,298
Stockholders' equity.....	152,313	145,290	154,542	146,264	124,880

- 
- (1) Includes a \$5.5 million write-down of a production payment receivable related to the sale of the Company's domestic oil and gas properties and \$2.1 million of merger costs that were expensed when the proposed merger with Houlihan's Restaurant Group, Inc. was terminated.
  - (2) Includes a \$12.3 million provision for asset impairment of the Company's marine protein assets.
  - (3) Includes a \$29.2 million oil and gas valuation provision.
  - (4) Includes a \$37.5 million pretax gain from the sale of 4.1 million shares of Tidewater common stock.
  - (5) Includes a \$32.9 million pretax gain from the sale of 3.5 million shares of Tidewater common stock and a \$5.7 million pretax loss resulting from the disposition of Zapata's investment in Arethusa (Offshore) Limited.
  - (6) Includes \$75.1 million of restricted cash primarily generated from the sale of Tidewater common stock in June 1993 which was subsequently used to fund the cash portion of the purchase price for the acquisition of Energy Industries.

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 Consolidated Financial Statements of the Company appearing under Item 8 herein.

Forward-looking statements in this Form 10-K, future filings by the Company with the Securities and Exchange Commission, the Company's press releases and oral statements by authorized officers of the Company are intended to be subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that all forward-looking statements involve risks and uncertainty, including without limitation, the risk of a significant natural disaster, the inability of the Company to insure against certain risks, the adequacy of its loss reserves, fluctuations in commodity prices that affect the prices for fish meal and fish oil, weather and other factors affecting fish catch levels, the inherent limitations in the ability to estimate oil and gas reserves, changing government regulations, political risks of operations in foreign countries, as well as general market conditions, competition and pricing. The Company believes that forward looking statements made by it are based on reasonable expectations. However, no assurances can be given that actual results will not differ materially from those contained in such forward looking statements. The words "estimate," "project," "anticipate," "expect," "predict," "believe" and similar expressions are intended to identify forward looking statements.

BACKGROUND

Zapata Corporation has undergone a significant transformation during the last several years. The Company previously was engaged in the operation of offshore drilling rigs, marine service and supply vessels, natural gas services and oil and gas operations. All of these operations have been divested in the last few years, with the exception of the Company's remaining interest in a Bolivian oil and gas operation.

In fiscal 1993, the Company began to redirect its operations into the natural gas services market. The Company acquired the common stock of Cimarron Gas Holding Company and its subsidiaries (collectively, "Cimarron") in fiscal 1993. Cimarron was engaged in the business of marketing and trading natural gas liquids, as well as gathering and processing natural gas and its constituent products. Cimarron was purchased to serve as the vehicle for Zapata's expansion into the gathering and processing segments of the natural gas services markets.

In November 1993, Zapata purchased the natural gas compression businesses of Energy Industries, Inc. and certain other affiliated companies (collectively, "Energy Industries"). Total consideration paid for the purchase of Energy Industries (the "Energy Industries Acquisition") was \$90.2 million. The purchase price consisted of \$74.5 million in cash and 2.7 million shares of the Common Stock valued at \$5.80 per share, which approximated the average trading price prior to closing of the acquisition. Energy Industries was purchased to serve as the vehicle for Zapata's expansion into the compression segment of the natural gas services markets.

In late 1994 and early 1995, the Company began to develop a strategic plan involving the repositioning of the Company into the food packaging, food and food service equipment and supply (collectively, "food services") businesses and exiting the energy business. The strategic plan that was developed called for the divestiture of most of the Company's remaining energy operations, including Energy Industries, Cimarron and the Company's remaining domestic oil and gas assets, and the acquisition of, or joint ventures with, selected companies in the food services industry.

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 fiscal 1995. Zapata received cash of \$4.0 million and recorded an \$8.9 million receivable representing (i) a production payment entitling Zapata to a share of revenues from certain properties and (ii) a share of future proceeds from a revenue sharing agreement. In fiscal 1996, Zapata recorded a \$5.5 million write-down of the production payment receivable due to a reduction of the estimated gas reserves associated with the receivable as prepared by the purchaser's reserve engineers. The Company is considering the disposition of its Bolivian oil and gas operations.

15

18

In September 1995, Zapata entered into an agreement (the "Purchase Agreement") to sell the assets of Energy Industries (the "Energy Industries Sale") to Weatherford Enterra, Inc. and its wholly owned subsidiary, Enterra Compression Company (collectively, "Weatherford Enterra"). Pursuant to the Purchase Agreement, Weatherford Enterra purchased from the Company all of the assets of Energy Industries and assumed certain liabilities of Energy Industries for approximately \$131 million in cash. The Energy Industries Sale closed on December 15, 1995 after receiving stockholder approval. The Energy Industries Sale resulted in an after-tax gain of approximately \$12.6 million. A portion of the proceeds from the Energy Industries Sale was used to repay approximately \$26 million of Energy Industries indebtedness and to pay expenses of approximately \$1.4 million.

During fiscal 1996, Zapata sold substantially all of the assets of Cimarron in two separate transactions with Conoco, Inc. ("Conoco") and Enogex Products Corporation ("Enogex"); Conoco purchased certain of the Texas-based assets and Enogex purchased certain of the Oklahoma-based assets. The aggregate cash consideration paid by Conoco and Enogex totaled approximately \$23 million. Subsequently, the Company sold Cimarron's remaining assets for an additional \$700,000 (collectively, with the sales to Conoco and Enogex, the "Cimarron Sales"). A portion of the proceeds from the Cimarron Sales was used to repay \$1.0 million of Cimarron's indebtedness and to pay approximately \$1.8 million in expenses associated with such sales. The Cimarron Sales resulted in an after-tax loss of approximately \$3 million. Additionally, Cimarron recognized an after-tax loss of approximately \$500,000 from operations for fiscal 1996.

In 1994, the Board of Directors determined that the interests of Zapata's stockholders would best be served by a sale of the marine protein operations. Based on preliminary offers to purchase the marine protein operations, the Company recorded an \$8.9 million after-tax book loss in fiscal 1994. On May 5, 1995, Zapata decided to retain the marine protein operations. Zapata had previously announced that an agreement to sell its marine protein operations had been reached, however, the acquisition group failed to close the transaction. As a result, the marine protein net assets, results of operations and cash flows were reclassified from discontinued operations to continuing operations, and the \$8.9 million after-tax book loss on disposition was reversed in fiscal 1995.

The completion of the Cimarron Sales substantially completes Zapata's exit from the energy business. The Company intends to use the net proceeds from these sales for general corporate purposes, including the purchase of Common Stock pursuant to the tender offer described below in "Liquidity and Capital Resources," further repayment of debt, and possible expansion into the food services industry. The Company currently is reviewing its business strategy and evaluating various options to determine those which are in the best interests of its stockholders.

Zapata acquired 4,189,298 shares or 31% of the then-outstanding shares of common stock of Envirodyne Industries, Inc. ("Envirodyne") for \$18.8 million in August 1995 from a trust controlled by Malcolm I. Glazer, Chairman of the Board of Zapata and a director of Envirodyne (the "Envirodyne Stock Purchase"). Zapata paid the purchase price by issuing to the seller a subordinated promissory note bearing interest at the prime rate and maturing in August 1997, subject to prepayment at the Company's option. The Company has since prepaid the entire principal amount of the promissory note. In June and July 1996, Zapata purchased 1,688,006 additional shares of Envirodyne common stock in brokerage and privately negotiated transactions for aggregate consideration of approximately \$7.0 million. As a result of these purchases, Zapata currently owns approximately 40.6% of the outstanding shares of Envirodyne common stock. Envirodyne is one of the world's major suppliers of food packaging products and food service supplies. This investment was the first step in the transformation of Zapata into the food-services businesses.

On May 2, 1996, Zapata and Houlihan's Restaurant Group, Inc. ("Houlihan's") announced that they had entered into a letter of intent relating to Zapata's proposed acquisition of Houlihan's (the "Houlihan's Merger"). Zapata and Houlihan's subsequently entered into an Agreement and Plan of Merger dated as of June 4, 1996 (the "Houlihan's Merger Agreement") relating to the proposed acquisition. In view of Malcolm I. Glazer's significant ownership of common stock of both Zapata and Houlihan's, the transaction was negotiated by representatives of special committees of the respective boards of directors of both Zapata and Houlihan's. The proposed transaction was subject to, among other things, the approval of the transaction

by the stockholders of both companies, registration of the Zapata shares issuable in the merger under the Securities Act of 1933 and receipt of a consent from Houlihan's primary lending bank or the refinancing of Houlihan's outstanding bank debt. On October 8, 1996, Zapata terminated the Houlihan's Merger Agreement pursuant to a provision of such agreement that gave either party the right to terminate the merger agreement if the Houlihan's Merger was not consummated before October 1, 1996. The termination followed a decision of the Court of the Chancery of Delaware that the proposed transaction would require the approval of holders of 80% of Zapata's outstanding voting stock. Zapata does not believe that a supermajority vote was required under the circumstances of the Houlihan's Merger, and its position is supported by an opinion of special Delaware counsel. A hearing concerning whether Article SEVENTH applies to the Houlihan's Merger Agreement and the Houlihan's Merger was held before the Court of Chancery on September 6, 1996 and, on September 24, 1996, the Court of Chancery decided that Article SEVENTH did apply to the Houlihan's Merger Agreement and the Houlihan's Merger. On October 3, 1996, Zapata filed a notice of appeal with the Supreme Court of the State of Delaware regarding the decision of the Court of Chancery. The plaintiff moved to dismiss Zapata's appeal as moot, in light of the termination of the Houlihan's Merger Agreement. On November 7, 1996, the Supreme Court of the State of Delaware denied the plaintiff's motion to dismiss Zapata's appeal. As of December 29, 1996, the Company's appeal had not yet been set for oral argument in the Supreme Court.

## LIQUIDITY AND CAPITAL RESOURCES

As a result of the Energy Industries Sale and the Cimarron Sales, Zapata's cash balance increased \$97.1 million during fiscal 1996 and totaled \$99.6 million at September 30, 1996. The Company's working capital decreased to \$99.3 million at September 30, 1996 from \$113.5 million at September 30, 1995 and long-term debt was reduced to \$18.2 million at September 30, 1996 from \$37.5 million at September 30, 1995.

Operating activities provided cash of \$1.5 million in fiscal 1996 as compared to \$11.4 million in fiscal 1995. This decrease was primarily attributable to a lower contribution from the Company's discontinued operating activities in fiscal 1996 that offset an increased contribution from the Company's marine protein operations. Likewise, cash flow from operating activities decreased to \$11.4 million in fiscal 1995 from \$14.0 million in fiscal 1994.

Net cash provided by investing activities increased substantially in fiscal 1996 to \$115.0 from \$12.8 million in fiscal 1995. The increase in fiscal 1996 was attributable to proceeds from the Energy Industries Sale and the Cimarron Sales that totaled \$128.6 million. In fiscal 1995, Zapata generated proceeds totaling \$24.0 million that includes \$12.7 million from the disposition of its remaining 673,077 shares of Tidewater common stock, \$4.0 million from the disposition of the Company's domestic oil and gas operations and \$5.5 million from a note receivable. Investment expenditures in fiscal 1996 include the acquisition of approximately 1.7 million shares of Envirodyne common stock for approximately \$7.0 million while investments in fiscal 1995 include a \$3.5 million investment in subordinated debt of an unaffiliated company. Capital expenditures totaled \$6.6 million in fiscal 1996 as compared to \$7.3 million in fiscal 1995. The Company's capital expenditures for fiscal 1997 are currently estimated to be approximately \$6.6 million.

Net cash provided by investing activities declined to \$12.8 million in fiscal 1995 from \$74.9 million in fiscal 1994 due primarily to proceeds of \$85.8 million generated in fiscal 1994 from the disposition of 4.1 million shares of the Company's Tidewater common stock. Capital expenditures decreased to \$7.3 million in fiscal 1995 from \$15.5 million in fiscal 1994 reflecting workover projects in certain U.S. oil and gas operations.

Financing activities consumed \$19.3 million in fiscal 1996 as compared to \$31.4 million in fiscal 1995. The higher use of cash in fiscal 1995 was primarily attributable to repurchases of the Company's preferred and common stock. Zapata redeemed the remaining balance of its outstanding \$6 Cumulative Preferred Stock at \$100 per share for \$2.3 million in 1995 and repurchased 2.25 million shares of Common Stock from Norex for \$4.00 per share. Debt payments in fiscal 1996 include a \$3.2 million prepayment of the remaining indebtedness incurred in connection with the Envirodyne Stock Purchase, a \$4.8 million repayment of the Company's remaining indebtedness owed to Norex and a \$10.0 million net repayment of a revolving credit facility. Fiscal 1995 debt payments include a \$15.6 million prepayment of indebtedness associated with the Envirodyne Stock Purchase and a \$12.7 million reduction of the Company's indebtedness to Norex.

17

20

Net cash used by financing activities in fiscal 1995 of \$31.4 million was significantly lower than the \$92.1 million used in fiscal 1994. The higher use of cash in fiscal 1994 was attributable to prepayments of Zapata's indebtedness to Norex that included payments of \$68.5 million in December 1993 and \$17.0 million in September 1994.

The Company has one working capital facility, a \$15.0 million working capital agreement (the "ING Loan Agreement") between International Nederlanden (U.S.) Capital Corporation and two subsidiaries of the Company, Zapata Protein, Inc. and Zapata Protein (USA), Inc. (collectively, "Zapata Protein"). The ING Loan Agreement provides a revolving credit facility for use in the marine protein operations that is due June 30, 1997 and bears interest at a variable interest rate that is adjusted periodically based on the prime interest rate. Pursuant to the ING Loan Agreement, Zapata Protein agreed to maintain certain financial covenants and to limit additional indebtedness, dividends, dispositions and acquisitions. The amount of restricted net assets for Zapata Protein at September 30, 1996 was approximately \$57.0 million. Zapata

Corporation has guaranteed up to \$10.0 million of the outstanding balance of debt related to the ING Loan Agreement. Pursuant to the ING Loan Agreement, Zapata Protein's ability to transfer funds to Zapata Corporation is limited to \$10.0 million. As of September 30, 1996, Zapata Protein had transferred to Zapata Corporation the maximum amount of \$10.0 million. As of September 30, 1996, the Company was in compliance with all provisions governing its outstanding indebtedness.

On December 30, 1996, the Company announced its intention to commence a tender offer to purchase for cash up to 15 million shares of Common Stock for a price of \$4.50 per share. The offer will be conditioned upon a minimum of 10 million shares of Common Stock being tendered and will be subject to the satisfaction of other customary conditions. Malcolm Glazer, Chairman of the Board of the Company and, through his beneficial ownership of a trust, the owner of 10,395,384 shares of Common Stock intends to participate in the tender offer by tendering 3 million shares of Common Stock. The Company intends to use its available cash to purchase Common Stock pursuant to the tender offer.

#### RESULTS OF OPERATIONS

##### Fiscal 1996-1995

Zapata's fiscal 1996 net income of \$7.0 million improved from the fiscal 1995 net income of \$4.2 million. The Company's net income includes income from discontinued operations of \$9.1 million and \$10.0 million in fiscal 1996 and 1995, respectively. In fiscal 1996, income from discontinued operations includes an after-tax gain of \$12.6 million from the Energy Industries Sale and a \$3.0 million after-tax loss from the Cimarron Sales, as well as a \$500,000 net loss from Cimarron's fiscal 1996 operations. Net income from discontinued operations in fiscal 1995 includes net income of \$1.1 million from the Company's discontinued Energy Industries and Cimarron operations. The results from discontinued operations include pretax allocations of interest on general corporate debt of \$260,000 and \$2.1 million in fiscal 1996 and 1995, respectively. The results from discontinued operations in fiscal 1995 also include net income of \$8.9 million reflecting the reversal of the estimated loss on the disposition of the marine protein operations that was recorded in fiscal 1994.

Revenues of \$95.7 million and a net loss from continuing operations of \$2.5 million in fiscal 1996 compared to revenues of \$103.1 million and a net loss from continuing operations of \$5.8 million in fiscal 1995. In fiscal 1996, the Company's operating income of \$1.2 million improved significantly from the fiscal 1995 operating loss of \$9.2 million due partially to improved operating results from the Company's marine protein operations. Zapata's fiscal 1996 operating income includes a \$5.5 million pretax write-down of a production payment receivable related to the sale of the Company's domestic oil and gas properties. The write-down was a result of a reduction in the estimated reserves associated with the production payment as prepared by the purchaser's reserve engineers. Additionally, the Company's fiscal 1996 operating results included \$2.1 million of merger costs that were expensed when Zapata terminated the Houlihan's Merger Agreement. The fiscal 1995 operating loss includes a \$12.3 million pretax provision for asset impairment of the Company's marine protein assets recorded as a result of adopting Statement of Financial Accounting Standards No. 121 ("SFAS 121").

18

21

##### Fiscal 1995-1994

Zapata's fiscal 1995 net income of \$4.2 million improved substantially from the fiscal 1994 net loss of \$8.3 million. The Company's discontinued operations contributed net income of \$1.1 million in fiscal 1995 and \$1.4 million in fiscal 1994. The discontinued operating results include pretax allocations of interest on general corporate debt of \$2.1 million and \$4.3 million in 1995 and 1994, respectively. Fiscal 1995 discontinued operations also include net income of \$8.9 million reflecting the reversal of the estimated loss on the disposition of the marine protein operations that was recorded in fiscal 1994. Additionally, the fiscal 1994 net loss includes an extraordinary aftertax expense of \$4.8 million related to the Company's prepayment of Norex indebtedness.

Revenues of \$103.1 million and a net loss from continuing operation of \$5.8 million in fiscal 1995 compared to revenues of \$109.2 million and net income from continuing operations of \$4.0 million in fiscal 1994. Zapata's fiscal 1995

and 1994 results include pretax gains of \$4.8 million and \$37.5 million respectively, from sales of Tidewater common stock. The Company recorded an operating loss of \$9.2 million in fiscal 1995 as compared to an operating loss of \$31.6 million in 1994. The fiscal 1995 operating loss includes the \$12.3 million pretax provision for asset impairment of the Company's marine protein assets, while the fiscal 1994 loss includes a pretax valuation provision of \$29.2 million associated with Company's oil and gas operations in the Gulf of Mexico. The 1994 operating loss also includes a \$2.4 million expense related to a reduction in staff at the Company's headquarters.

#### Marine Protein

Reflecting the Company's decision in fiscal 1995 to retain the marine protein operations, the net assets and results of marine protein's operations were reclassified from discontinued operations to continuing operations and the related \$8.9 million after-tax loss on disposition recorded in fiscal 1994 was reversed. As a result of adopting SFAS 121, in April 1995 the Company recorded a \$12.3 million pretax provision for asset impairment to reduce its marine protein assets to their estimated fair market value. The fair market value of the marine protein assets was determined based on the highest third-party competitive bid that had been received by the Company. SFAS 121 requires companies to write down assets to their estimated fair market value when assets are determined to be impaired.

Fiscal 1996 revenues of \$93.6 million and operating income of \$10.5 million compared to fiscal 1995 revenues of \$95.0 million and an operating loss of \$6.4 million. The improvement in the fiscal 1996 operating results was attributable to higher prices for the Company's fish meal and fish oil products that more than offset the effects of a lower fish catch and to the \$12.3 million provision for asset impairment recorded in fiscal 1995. Prices for the Company's fish meal and fish oil improved 22% in fiscal 1996 as compared to prices in fiscal 1995; in 1996 the average per-ton price of fish meal increased to \$427 and the average per-ton price of fish oil increased to \$390. However, sales volumes of fish meal and fish oil in fiscal 1996 were 28% and 34% lower, respectively, than the fiscal 1995 levels, reflecting the effects of a 14% drop in the fiscal 1996 fish catch as compared to the 1995 fish catch and to lower levels of inventories that were carried over to fiscal 1996 from the fiscal 1995 fishing season.

Fiscal 1995 revenues of \$95.0 million and operating loss of \$6.4 million compared unfavorably to fiscal 1994 revenues of \$96.6 million and operating income of \$5.4 million reflecting the effects of the provision for asset impairment and a lower fish catch in fiscal 1995. Fiscal 1995 sales volume of fish meal declined 11% from the fiscal 1994 level while the average per-ton price of \$350 was approximately 2% higher. The decline in fish meal sales volume was attributable to a 22% drop in the fiscal 1995 fish catch as compared to the fiscal 1994 fish catch. Sales volume of fish oil increased 4% in 1995 as compared to 1994 while the average per ton price of \$321 was 7% higher.

The price for fish meal generally bears a relationship to prevailing soybean meal prices, while prices for fish oil are usually based on prices for vegetable fats and oils, such as soybean and palm oils. Thus, the prices for the Company's products are significantly influenced by worldwide supply and demand relationships over which the Company has no control and tend to fluctuate to a significant extent over the course of a year and from year to year.

19

22

The Company's fish catch dropped in fiscal 1996 and fiscal 1995 after improving in fiscal 1994. The Company attributes the drop in fish catch during the fiscal 1996 and 1995 periods to adverse weather conditions that hampered the Company's fishing activities. The annual fish catch can vary from year to year depending on weather conditions and other factors outside the Company's control; the Company cannot predict future fish catch.

#### Oil and Gas Operations

In September 1994, Zapata's Board of Directors announced that the Company would immediately undertake efforts to sell its U.S. natural gas producing properties. The six properties in the Gulf of Mexico, representing Zapata's domestic oil and gas producing operations, were sold in fiscal 1995. Zapata received cash of \$4.0 million and recorded an \$8.9 million receivable representing a production payment entitling Zapata to a share of revenues from certain properties and other contract consideration. In fiscal 1996, Zapata

recorded a \$5.5 million pretax write-down of the production payment receivable due to a reduction of the estimated gas reserves associated with the receivable. Zapata's Bolivian oil and gas operation is the Company's only significant remaining oil and gas activity.

Revenues of \$2.1 million and an operating loss of \$4.8 million in fiscal 1996 compared to revenues of \$8.1 million and operating income of \$658,000 in fiscal 1995. Revenues declined in fiscal 1996 due primarily to the disposition of the Company's domestic oil and gas operations in fiscal 1995. The fiscal 1996 operating loss was due to the \$5.5 million write-down. The fiscal 1995 results include revenues of \$2.7 million and operating income of \$1.4 million from the Company's Bolivian operations.

Revenues of \$8.1 million and operating income of \$658,000 for fiscal 1995 compared to revenues of \$12.5 million and an operating loss of \$28.3 million in fiscal 1994. The decline in fiscal 1995 revenues reflects the sales of the Company's domestic oil and gas properties during the third and fourth quarters of fiscal 1995. Bolivian operations contributed revenues of \$2.7 million and operating income of \$1.4 million in fiscal 1995 as compared to revenues of \$4.1 million and operating income of \$3.5 million in 1994. The fiscal 1994 operating loss includes the \$29.2 million property valuation provision. The valuation provision was the result of several factors: lower natural gas prices, additional capitalized costs incurred in connection with several workover wells at the Company's Wisdom gas field and an increase in estimated future costs.

#### OTHER INCOME (EXPENSE)

##### Envirodyne

Effective October 1, 1995, Zapata changed its method of accounting for its equity interest in Envirodyne. Zapata began reporting its equity in Envirodyne's results of operations on a three-month delayed basis since Envirodyne's financial statements are not available to the Company on a basis that would permit concurrent reporting. The Company's equity loss for fiscal 1996 includes Zapata's equity interest in Envirodyne for Envirodyne's twelve-month period ending June 27, 1996 prorated to Zapata's August 1995 acquisition that is offset by the cumulative effect of change in accounting principle which includes the reversal of the Company's equity loss as reported in the fourth quarter of fiscal 1995. Therefore, for fiscal 1996, Zapata's other expense includes an equity loss of \$4.5 million based on Zapata's ownership interest in Envirodyne's results and the cumulative effect of change in accounting principle includes an offsetting \$719,000 (before taxes). For fiscal 1995, Zapata's reported equity loss of \$719,000 was based on 31% of Envirodyne's results for the three months ended September 28, 1995 prorated for the period from Zapata's August 1995 acquisition.

##### Tidewater

In fiscal 1995, the Company sold its remaining 673,077 shares of Tidewater common stock for a net price of \$18.87 per share or \$12.7 million resulting in a \$4.8 million pretax gain. In fiscal 1994, sales of the Company's Tidewater common stock generated pretax gains totaling \$37.5 million. In November 1993, Zapata completed the sale of 3.75 million shares of its Tidewater common stock for a net price of \$20.75 per share or \$77.8 million and in March 1994, Zapata sold 375,175 additional shares of its Tidewater stock for a

20

23

net price of \$21.34 per share or \$8.0 million. All gains from the sales of Tidewater common stock are reflected on the statement of operations as other income.

##### Other

Reflecting the reduction of Zapata's indebtedness and a higher cash balance in fiscal 1996, the Company recorded net interest income of \$678,000 in fiscal 1996 as compared to net interest expense of \$1.8 million in fiscal 1995. Other expense of \$892,000 in fiscal 1996 includes a \$499,000 loss related to an investment in subordinated debentures of Wherehouse Entertainment, Inc. ("Wherehouse Debentures"). The write-down is based on proceeds received by the Company upon the disposition of the investment in December 1996.

In fiscal 1995, net interest expense decreased to \$1.8 million from \$3.0

million in fiscal 1994 reflecting the Company's lower level of indebtedness. Other expense of \$2.1 million in fiscal 1995 includes a \$2.8 million loss related to the investment in Warehouse Debentures. This loss was partially offset by a \$453,000 gain from the sale of the Company's corporate aircraft and the receipt of \$595,000 from a note that was written down in previous years.

Other income of \$3.1 million in fiscal 1994 includes a \$2.8 million gain related to the settlement of a coal note receivable that had previously been written off, \$719,000 dividend income from Zapata's Tidewater common stock and a \$1.4 million expense related to a terminated pension plan.

#### TAXES

The Company's consolidated provisions for U.S. income tax for 1996 and 1995 reflect expenses resulting from pretax income from consolidated operations. The consolidated provision for 1994 reflects a benefit resulting from a pretax loss from consolidated operations.

#### EXTRAORDINARY ITEM

In connection with the Company's prepayments of Norex indebtedness in fiscal 1994, the Company incurred \$7.4 million of pretax expenses that have been reflected on the statement of operations as an extraordinary item.

#### RECENTLY ISSUED ACCOUNTING STANDARDS

In April 1995, Zapata adopted SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," which established accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used and for long-lived assets and certain identifiable intangibles to be disposed of. As a result of adopting SFAS 121 in April 1995 the Company recorded a \$12.3 million pretax provision for asset impairment to reduce its marine protein assets to their estimated fair market value. The fair market value of the marine protein assets was determined based upon the highest third-party competitive bid that had been received by the Company.

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation". The Company does not intend to adopt the recognition provisions of the statement but will adopt the disclosure requirements in fiscal year 1997.

21

24

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

##### REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of Directors,  
Zapata Corporation:

We have audited the accompanying consolidated balance sheet of Zapata Corporation as of September 30, 1996 and 1995 and the related consolidated statements of operations, cash flows and stockholders' equity for each of the three years in the period ended September 30, 1996. 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 in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Zapata Corporation as of September 30, 1996 and 1995 and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 1996, in conformity with generally accepted accounting principles.



As discussed in Notes 1 and 2, during 1996, the Company changed its method of accounting for its equity interest in an unconsolidated affiliate, reclassified the purchase of certain investments in the 1995 statement of cash flows and reclassified an expense in the 1994 statement of operations and statement of cash flows and, during 1995, the Company adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of".

COOPERS & LYBRAND L.L.P.

Houston, Texas  
December 23, 1996

22

25

ZAPATA CORPORATION  
CONSOLIDATED BALANCE SHEET

ASSETS

	SEPTEMBER 30, 1996	SEPTEMBER 30, 1995
	-----	-----
	(IN THOUSANDS)	

Current assets:		
Cash and cash equivalents.....	\$ 99,601	\$ 2,488
Restricted cash.....	337	--
Receivables.....	11,839	17,550
Inventories:		
Fish products.....	26,522	22,947
Materials, parts and supplies.....	3,397	3,358
Prepaid expenses and other current assets.....	2,852	2,400
Net assets of discontinued operations.....	--	101,894
	-----	-----
Total current assets.....	144,548	150,637
	-----	-----
Investments and other assets:		
Investments in unconsolidated affiliates.....	22,061	18,685
Production payment and other receivable.....	3,237	8,864
Deferred income taxes.....	5,641	6,247
Other assets.....	15,501	15,720
	-----	-----
Total investments and other assets.....	46,440	49,516
	-----	-----
Property and equipment:		
Marine protein.....	69,299	67,553
Oil and gas, full cost method.....	5,938	3,359
Corporate.....	3,349	3,363
	-----	-----
	78,586	74,275
Accumulated depreciation, depletion and amortization.....	(36,431)	(35,037)
	-----	-----
	42,155	39,238
	-----	-----
Total assets.....	\$ 233,143	\$ 239,391
	=====	=====
	LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:		
Current maturities of long-term debt.....	\$ 16,108	\$ 16,148
Accounts payable.....	5,697	2,356
Accrued liabilities:		
Compensation and employee benefits.....	7,614	9,102
Insurance.....	4,964	2,851
Other.....	10,838	6,644
	-----	-----
Total current liabilities.....	45,221	37,101
	-----	-----
Long-term debt.....	18,159	37,468
	-----	-----
Other liabilities.....	17,450	19,532
	-----	-----

Commitments and contingencies (Note 12)

Stockholders' equity:

\$2.00 noncumulative convertible preference stock (\$1.00 par), outstanding: 2,627 shares (1996 and 1995).....	3	3
Common Stock (\$0.25 par), outstanding: 29,548,707 shares (1996) and 29,548,407 shares (1995).....	7,387	7,387
Capital in excess of par value.....	131,963	131,962
Reinvested earnings, from October 1, 1990 (deficit balance prior to quasi-reorganization at September 30, 1990: \$296,850,000).	12,960	5,938
	-----	-----
Total stockholders' equity.....	152,313	145,290
	-----	-----
Total liabilities and stockholders' equity.....	\$ 233,143	\$ 239,391
	=====	=====

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

23

26

ZAPATA CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS

	YEARS ENDED SEPTEMBER 30,		
	1996	1995	1994
	-----		
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
	-----	-----	-----
Revenues.....	\$95,678	\$103,068	\$109,163
Expenses:			
Operating.....	76,328	86,739	88,148
Provision for asset write-downs.....	5,477	12,341	29,152
Depreciation, depletion and amortization.....	3,492	5,607	11,474
Merger expenses.....	2,066	--	--
Selling, general and administrative.....	7,163	7,601	11,996
	-----	-----	-----
	94,526	112,288	140,770
	-----	-----	-----
Operating income (loss).....	1,152	(9,220)	(31,607)
Other income (expense):			
Interest income.....	4,427	905	1,653
Interest expense.....	(3,749)	(2,694)	(4,636)
Gain on sale of Tidewater common stock.....	--	4,811	37,457
Equity in loss of unconsolidated affiliates.....	(4,471)	(719)	--
Other.....	(892)	(2,106)	3,138
	-----	-----	-----
	(4,685)	197	37,612
	-----	-----	-----
Income (loss) from continuing operations before income taxes...	(3,533)	(9,023)	6,005
Provision (benefit) for income taxes.....	(1,012)	(3,179)	2,030
	-----	-----	-----
Income (loss) from continuing operations.....	(2,521)	(5,844)	3,975
Discontinued operations (Notes 3, 5 and 6):			
Income (loss) from discontinued operations, net of income taxes.....	(42)	1,151	1,435
Gain on disposition of discontinued operations, net of income taxes.....	9,118	--	--
Reversal (recognition) of loss on disposition, net of income taxes.....	--	8,897	(8,897)
	-----	-----	-----
	9,076	10,048	(7,462)
	-----	-----	-----
Income (loss) before extraordinary item and cumulative effect of change in accounting principle.....	6,555	4,204	(3,487)
Extraordinary item, net of income tax (Note 8).....	--	--	(4,832)
Cumulative effect of change in accounting principle, net of income taxes.....	467	--	--
	-----	-----	-----

Net income (loss).....	7,022	4,204	(8,319)
Preferred and preference stock dividends.....	--	51	356
	-----	-----	-----
Net income (loss) to Common Stockholders.....	\$ 7,022	\$ 4,153	\$ (8,675)
	=====	=====	=====
Per share data:			
Income (loss) from continuing operations.....	\$ (0.08)	\$ (0.19)	\$ 0.11
Income (loss) from discontinued operations.....	0.30	0.33	(0.24)
Extraordinary item.....	--	--	(0.15)
Cumulative effect of change in accounting principle.....	0.02	--	--
	-----	-----	-----
Net income (loss) per share.....	\$ 0.24	\$ 0.14	\$ (0.28)
	=====	=====	=====

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

24

27

ZAPATA CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

	YEARS ENDED SEPTEMBER 30,		
	1996	1995	1994
	-----	-----	-----
	(IN THOUSANDS)		
Cash flow provided (used) by operating activities:			
Net income (loss).....	\$ 7,022	\$ 4,204	\$ (8,319)
	-----	-----	-----
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, amortization and asset write-downs.....	8,969	17,948	40,848
Write-down of investment in subordinated debentures.....	499	2,788	--
Extraordinary item, net of income taxes.....	--	--	4,832
Cumulative effect of change in accounting principle, net of income taxes.....	(467)	--	--
Recognition (reversal) of loss on disposition.....	--	(8,897)	8,897
Discontinued operations net gain on sales of assets.....	(9,118)	--	--
Gain on sale of other assets, net.....	--	(5,268)	(37,457)
Equity in loss of unconsolidated affiliates.....	4,471	719	--
Changes in assets and liabilities:			
Receivables.....	5,711	(446)	(7,008)
Inventories.....	(3,614)	11,439	(1,236)
Accounts payable and accrued liabilities.....	(2,402)	(9,347)	10,616
Deferred income taxes.....	(1,917)	(2,828)	(1,006)
Other assets and liabilities.....	(2,978)	(177)	242
Decrease (increase) in net assets of discontinued operations.....	(4,724)	1,223	3,592
	-----	-----	-----
Total adjustments.....	(5,570)	7,154	22,320
	-----	-----	-----
Net cash provided by operating activities.....	1,452	11,358	14,001
	-----	-----	-----
Cash flow provided (used) by investing activities:			
Proceeds from disposition of assets.....	128,969	18,546	88,533
Restricted cash investments.....	(337)	--	74,083
Proceeds from notes receivable.....	--	5,505	1,061
Investment in unconsolidated affiliates.....	(7,032)	(450)	--
Investment in subordinated debentures.....	--	(3,481)	--
Discontinued business acquisitions, net of cash acquired...	--	--	(73,222)
Capital expenditures.....	(6,590)	(7,341)	(15,530)
	-----	-----	-----
Net cash provided by investing activities.....	115,010	12,779	74,925
	-----	-----	-----
Cash flow provided (used) by financing activities:			
Borrowings.....	11,000	11,439	1,873
Principal payments of short- and long-term obligations.....	(30,349)	(29,889)	(86,040)
Debt prepayment premium.....	--	--	(4,148)
Preferred stock redemption.....	--	(2,255)	(2,245)
Common Stock repurchase and buyback.....	--	(9,508)	--
Dividend payments.....	--	(1,153)	(1,566)

Net cash used by financing activities.....	(19,349)	(31,366)	(92,126)
Net increase (decrease) in cash and cash equivalents.....	97,113	(7,229)	(3,200)
Cash and cash equivalents at beginning of year.....	2,488	9,717	12,917
Cash and cash equivalents at end of year.....	\$ 99,601	\$ 2,488	\$ 9,717

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

25

28

ZAPATA CORPORATION

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	PREFERRED STOCK	PREFERENCE STOCK	COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	REINVESTED EARNINGS	INVESTMENTS IN EQUITY SECURITIES
(IN THOUSANDS)						
Balance at September 30, 1993.....	\$ 4,500	\$3	\$36,176	\$ 92,906	\$ 12,679	\$ --
Net loss.....					(8,319)	
Cash dividends declared:						
Common Stock.....					(2,219)	
Preferred stock.....					(354)	
Preference stock.....					(2)	
Common Stock one-for-five reverse split.....			(31,657)	31,657		
Preferred stock redemption.....	(2,245)					
Unrealized gain (net of taxes).....						4,276
Reclassification of deferred tax asset.....				1,585		
Acquisition of Energy Industries (2.7 million shares).....			3,375	12,285		
Other.....			35	(139)		
Balance at September 30, 1994.....	2,255	3	7,929	138,294	1,785	4,276
Net income.....					4,204	
Preferred stock dividend declared.....					(51)	
Preferred stock redemption.....	(2,255)					
Common Stock buyback.....			(23)	(485)		
Repurchase Common Stock (2.25 million shares) from Norex.....			(563)	(8,438)		
Reverse unrealized gain (net of taxes).....						(4,276)
Reclassification of deferred tax asset.....				2,573		
Other.....			44	18		
Balance at September 30, 1995.....	--	3	7,387	131,962	5,938	--
Net income.....					7,022	
Other.....				1		
Balance at September 30, 1996.....	\$ --	\$3	\$ 7,387	\$131,963	\$ 12,960	\$ --

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

26

29

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The 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, except for investments in oil and gas properties. All investments in oil and gas properties and joint ventures are proportionately consolidated. All significant intercompany accounts and transactions are eliminated in consolidation. During 1996, the Company reclassified the purchase of certain investments of

approximately \$3.9 million previously presented in the 1995 statement of cash flows as cash used by operating activities to cash used by investing activities. In addition, during 1996, the Company reclassified expenses related to the early extinguishment of debt (see Note 8) of approximately \$4.8 million (net of income taxes of \$2.6 million) from other income (expense) to extraordinary item in the 1994 statement of operations. Other reclassifications of prior year information have been made to conform with the current year presentation. These reclassifications had no effect on net income (loss), total assets or stockholders' equity.

#### Inventories

Materials, parts and supplies are stated at average cost. Fish product inventories are stated at the lower of cost or market.

The marine protein operation allocates costs to production from its fish catch on a basis of total fish catch and total costs associated with each fishing season. The marine protein inventory is calculated on a standard cost basis each month and adjusted to an actual cost basis quarterly. The costs incurred during the off-season period of January through mid-April are deferred to the next fishing season (mid-April through December) and allocated to production as the fish catch is processed. The off-season deferred cost was approximately \$2.5 million and \$2.2 million at September 30, 1996 and 1995, respectively.

#### Investments in unconsolidated affiliates and equity securities

In fiscal 1994, the Company adopted Statement of Financial Accounting Standards No. 115 ("SFAS 115"), "Accounting for Certain Investments in Debt and Equity Securities," which addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities. At September 30, 1994, Zapata owned 673,077 shares of Tidewater Inc. ("Tidewater") common stock. These securities were considered available for sale and reported at fair value with any unrealized gain or loss recorded as a separate component of stockholders' equity (net of deferred income taxes). Cost of the Tidewater common stock was determined on the average cost method. In March 1995, Zapata sold its remaining shares of Tidewater common stock.

In August 1995, Zapata acquired 4,189,298 common shares of Envirodyne Industries, Inc. ("Envirodyne"), representing 31% of the then-outstanding common stock of Envirodyne. In June and July 1996, Zapata purchased 1,688,006 additional shares of Envirodyne and as a result of these transactions, Zapata currently owns approximately 40.6% of the outstanding shares of Envirodyne common stock. Zapata's investment in Envirodyne is accounted for using the equity method of accounting.

#### Investment in Debentures

In May 1995, Zapata acquired \$7,000,000 of 13% Warehouse Entertainment senior subordinated debentures due August 1, 2002 ("Warehouse Debentures") for \$3,238,750 plus accrued interest. As of September 30, 1995, Zapata's investment in the Warehouse Debentures had been written down to its estimated fair market value of \$910,000. The write-down was based on quoted prices of the Warehouse

### ZAPATA CORPORATION

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

##### NOTE 1. SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

Debentures and the financial condition of Warehouse Entertainment, Inc. which was operating as a debtor in possession under Chapter 11 of the U.S. Bankruptcy Code. As of September 30, 1996, Zapata's remaining investment had been written down to \$411,000 based on proceeds received by the Company upon the disposition of the investment in December 1996.

#### 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 in the marine protein operations was reduced to estimated fair value.

In April 1995, Zapata adopted Statement of Financial Accounting Standards No. 121 ("SFAS 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," which established accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used or to be disposed of. As a result of adopting SFAS 121, in April 1995 the Company recorded a \$12.3 million pretax provision for asset impairment to reduce its marine protein assets to their estimated fair market value. The fair market value of the marine protein assets was determined based upon the highest third-party competitive bid which had been received by the Company in connection with a contemplated sale of the marine protein operations in 1995. In accordance with SFAS 121, the Company periodically evaluates its long-lived assets, except for its oil and gas properties, for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Oil and gas properties are evaluated in accordance with the full cost ceiling test as described below.

Depreciation of property and equipment, other than that related to oil and gas operations, 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:

	USEFUL LIVES ----- (YEARS)
Fishing vessels and fish processing plants.....	15-20
Furniture and fixtures.....	3-10

Losses resulting from sales and retirements of property and equipment are included in operating income while gains are included in other income. Property and equipment no longer in service pending disposition are classified as other assets and recorded at estimated net realizable value.

Oil and gas operations

Under the full cost accounting method all costs associated with property acquisition and exploration for, and development of, oil and gas reserves are capitalized within cost centers established on a country-by-country basis. Capitalized costs within a cost center as well as the estimated future expenditures to develop proved reserves and estimated net costs of dismantlement and abandonment are amortized using the unit-of-production method based on estimated proved oil and gas reserves. All costs relating to production activities are charged to expense as incurred.

Capitalized oil and gas property costs, less accumulated depreciation, depletion and amortization and related deferred income taxes, are limited to an amount (the ceiling limitation) equal to the sum of (a) the present value (discounted at 10%) of estimated future net revenues from the projected production of proved oil and gas reserves, calculated at prices in effect as of the balance sheet date (with consideration of price changes only to the extent provided by fixed and determinable contractual arrangements), and (b) the lower

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

of cost or estimated fair value of unproved and unevaluated properties, less (c) income tax effects related to differences in the book and tax basis of the oil and gas properties.

Revenue recognition

The Company's marine protein operation recognizes revenue when its products

are shipped to the customer. The Company's oil and gas operation utilizes the sales method of accounting for sales of natural gas whereby revenues are recognized based on the amount of gas sold to purchasers. The amount of natural gas sold may differ from the amount to which the Company is entitled based on its working interests in the properties. The Company's reserve estimates are adjusted accordingly to reflect any imbalance positions.

All of the Company's oil and gas production from its Bolivian properties is sold to Yacimientos Petroliferos Fiscales Bolivianos ("YPFB"), Bolivia's state-owned oil company. The Bolivian oil and gas properties contributed revenues and operating income as follows (in millions):

	1996	1995	1994
	----	----	----
Revenues.....	\$2.1	\$2.7	\$4.1
Operating income.....	0.7	1.4	3.5

#### 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 carryforwards for tax purposes.

#### Earnings per share

Income per share is based on the weighted average number of common shares and common share equivalents outstanding during each year. Common share equivalents include the average shares issuable for convertible preference stock and stock options. Income used for purposes of this calculation has been reduced by accruals for preferred and preference stock dividends when and if declared.

Loss per share is based on the weighted average number of common shares outstanding during each year. No common share equivalents are incorporated in fiscal 1994 calculations because to do so would be antidilutive. Accrued preferred stock dividends are included because their effect is to increase the loss per share.

The average shares used in the per share calculations were 29,564,786 in fiscal 1996, 30,706,256 in fiscal 1995 and 31,377,498 in fiscal 1994.

#### 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. Capital in excess of par value may be adjusted in the future as a result of the resolution of pre-quasi reorganization liabilities.

### ZAPATA CORPORATION

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### NOTE 1. SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

##### Common Stock

On April 27, 1994, Zapata's stockholders approved a one-for-five reverse stock split of Zapata's outstanding common stock (the "Common Stock") effective May 3, 1994 which reduced the number of common shares outstanding from approximately 158.3 million to approximately 31.7 million. The number of

authorized shares remained at 165.0 million and the par value of the Common Stock was unchanged. All references to Common Stock, earnings per share, per share price and average number of common shares outstanding have been restated to reflect the reverse stock split.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires managements 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 Standards

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation" ("SFAS 123"). The Company does not intend to adopt the recognition provisions of the statement but will adopt the disclosure requirements in fiscal year 1997.

Other Income and Expense

Other expense of \$892,000 in fiscal 1996 includes a \$499,000 loss related to an investment in Warehouse Debentures.

Other expense of \$2.1 million in fiscal 1995 includes a \$2.8 million loss related to the investment in Warehouse Debentures. This loss was partially offset by a \$453,000 gain from the sale of the Company's corporate aircraft and the receipt of \$595,000 from a note that was written down in previous years.

Other income of \$3.1 million in fiscal 1994 includes a \$2.8 million gain related to the settlement of a coal note receivable that had previously been written off, \$719,000 dividend income from Zapata's Tidewater common stock and a \$1.4 million expense related to a terminated pension plan.

NOTE 2. CHANGE IN ACCOUNTING PRINCIPLE

Effective October 1, 1995, the Company changed its method of accounting for its equity interest in Envirodyne. Since Envirodyne's financial statements are not available to the Company on a basis that would permit concurrent reporting, the Company began reporting its equity in Envirodyne's results of operations on a three-month delayed basis. The Company's financial statements for the quarter ended December 31, 1995 did not include the Company's equity interest in Envirodyne for the corresponding period. The change reduced previously reported income from continuing operations by \$467,000 (\$719,000 before tax), or \$.02 per share, with a corresponding cumulative effect for the change in accounting principle of \$467,000 in the quarter ended December 31, 1995.

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 2. CHANGE IN ACCOUNTING PRINCIPLE -- (CONTINUED)

The following table reflects on a pro forma basis the effect of retroactively applying the new accounting principle (amounts in thousands, except per share amounts):

	YEARS ENDED SEPTEMBER 30,	
	1996	1995
Net income.....	\$6,555	\$4,671
Net income per share.....	\$ 0.22	\$ 0.15



Envirodyne's net loss reported in their Form 10-Q for the quarter ended September 26, 1996 but not yet recorded in Zapata's financial statements is \$3,924,000, of which Zapata's interest is approximately \$1,593,000. This loss, net of amortization of \$310,000, will be recorded by the Company in its results of operations for the quarter ending December 31, 1996.

NOTE 3. DISCONTINUED MARINE PROTEIN OPERATIONS SUBSEQUENTLY RETAINED

In July 1994, Zapata announced that it intended to separate its marine protein operations from its energy-related businesses. In September 1994, the Board of Directors determined that the interests of Zapata's stockholders would best be served by a sale of the marine protein operations. This determination resulted in the restatement of the 1993 and 1992 consolidated financial statements to present the net assets and operating results of the marine protein operations as a discontinued operation. Additionally, based on preliminary offers received in 1994 to purchase the marine protein operations, the Company recorded an \$8.9 million after-tax book loss in fiscal 1994 to reflect the estimated loss on disposition of the marine protein operations.

On May 5, 1995, the Board of Directors decided to retain the marine protein operations. Zapata had previously announced that an agreement to sell its marine protein operations had been reached. However, the acquisition group failed to close the transaction and as a result, the marine protein net assets and results of operations and cash flows for all periods were reclassified from discontinued operations to continuing operations. Additionally, the \$8.9 million after-tax book loss that was recorded in fiscal 1994 was reversed in fiscal 1995.

NOTE 4. DISPOSITION OF DOMESTIC OIL & GAS ASSETS

In September 1994, the Board of Directors determined that the Company would immediately undertake efforts to sell its U.S. natural gas producing properties. The six properties in the Gulf of Mexico, representing Zapata's domestic oil and gas producing operations, were sold during fiscal 1995. Zapata received cash of \$4.0 million and an \$8.9 million production payment and other receivable. No gain or loss was recorded from the sales in fiscal 1995. During fiscal 1996, the Company recorded a \$5.5 million write-down of the production payment receivable as a result of a reduction in the estimated oil and gas reserves associated with the production payment as prepared by the purchaser's reserve engineers.

The production payment and other receivable balance at September 30, 1996 consists of a \$637,000 production payment receivable and a \$2.6 million receivable related to future proceeds from a revenue sharing agreement. The Company will begin collecting the production payment receivable only after certain cumulative production volumes have been achieved; collection will cease upon the earlier of (i) receipt of \$13.5 million or (ii) when the designated oil and gas reserves have been depleted. The \$2.6 million receivable related to the revenue sharing agreement will be collected based on payments made by a third party for the use of a platform and related facilities. Receipts under the revenue sharing agreement began in November 1996 and will cease at the earlier of (i) the receipt of \$6.0 million or (ii) the cessation of payments made by a third

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 4. DISPOSITION OF DOMESTIC OIL & GAS ASSETS -- (CONTINUED)

party for usage of the platform and related facilities. The receivable's estimated fair market value of \$3.2 million is based on discounted expected cash flows and approximates book value at September 30, 1996.

NOTE 5. DISCONTINUED NATURAL GAS COMPRESSION OPERATIONS

Acquisition

In November 1993, Zapata purchased the natural gas compression business of Energy Industries, Inc. and certain other affiliated companies ("Energy Industries"), as well as certain real estate used by the business. Total consideration paid for the purchase of Energy Industries and certain real

estate, and for a related noncompetition agreement (collectively, the "Energy Industries Acquisition"), was \$90.2 million, consisting of \$74.5 million in cash and 2.7 million shares of Common Stock based on an assigned value of \$5.80 per share which approximated the average trading price prior to the closing of the acquisition. Additionally, the Company incurred approximately \$2.0 million in fees associated with the Energy Industries Acquisition. Zapata accounted for the acquisition using the purchase method of accounting and recorded \$19.3 million of goodwill in connection therewith. The goodwill was being amortized over 40 years.

The following assets and liabilities were acquired in connection with the Energy Industries Acquisition effective November 1, 1993 (in millions):

Cash.....	\$ 3.5
Receivables.....	9.3
Inventory.....	16.2
	-----
	29.0
Goodwill & other assets.....	19.7
Property & equipment, net.....	49.6
	-----
	\$98.3
	=====
Current liabilities.....	\$ 5.8
Long-term debt.....	.2
	-----
	\$ 6.0
	=====

#### Disposition

In late 1994 and early 1995, the Company began to develop a strategic plan which involves repositioning the Company in the food packaging, food and food service equipment and supply (collectively, "food services") businesses and exiting the energy business. The strategic plan that was developed called for the divestiture of most of the Company's remaining energy operations, including Energy Industries.

In September 1995, Zapata entered into an agreement (the "Purchase Agreement") to sell the assets of Energy Industries to Weatherford Enterra, Inc. and its wholly owned subsidiary, Enterra Compression Company (collectively, "Weatherford Enterra"). Pursuant to the Purchase Agreement, Weatherford Enterra purchased from the Company all of the assets of Energy Industries for approximately \$131 million in cash, and assumed certain liabilities of Energy Industries. A portion of the proceeds from the sale was used to repay indebtedness of Energy Industries totaling approximately \$26 million and to pay expenses of approximately \$1.4 million incurred in connection with the sale. The sale closed in December 1995 after receiving stockholder approval and resulted in an after-tax gain of approximately \$12.6 million.

#### ZAPATA CORPORATION

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### NOTE 5. DISCONTINUED NATURAL GAS COMPRESSION OPERATIONS -- (CONTINUED)

The consolidated financial statements were restated in fiscal 1995 to report the net assets and operating results of the Energy Industries operations as a discontinued operation. Summarized results of the Energy Industries discontinued operations are shown below (amounts in millions):

YEARS ENDED SEPTEMBER 30,		
1996	1995	1994
-----	-----	-----

FINANCIAL RESULTS

Revenues.....	\$13.1	\$66.6	\$72.5
Expenses.....	13.0	63.2	67.7
	----	----	----
Income (loss) before taxes.....	0.1	3.4	4.8
Income tax provision.....	0.1	1.4	1.9
	----	----	----
Net income*.....	\$ --	\$ 2.0	\$ 2.9
	=====	=====	=====

SEPTEMBER 30,  
1995

FINANCIAL POSITION

Current assets.....	\$ 32.1
Other assets.....	20.3
Property and equipment, net.....	61.5
	----
	113.9
	----
Debt.....	27.8
Other liabilities.....	5.6
	----
	33.4
	----
Net book value.....	\$ 80.5
	=====

\* Net income includes allocations of interest expense on general corporate debt of \$260,000 in 1996, \$1.7 million in 1995 and \$3.4 million in 1994. Interest expense was allocated to discontinued operations based on a ratio of net assets to be sold to the sum of total net assets of the Company plus general corporate debt.

NOTE 6. DISPOSITION OF DISCONTINUED NATURAL GAS GATHERING, PROCESSING AND MARKETING OPERATIONS

During fiscal 1995, the Company determined to dispose of its natural gas gathering, processing and marketing operations, which were conducted through a wholly owned subsidiary of the Company, Cimarron Gas Holding Company (together with its subsidiaries, "Cimarron"). On April 9, 1996, Zapata sold substantially all of the assets of Cimarron in two separate transactions with Conoco Inc. ("Conoco") and Enogex Products Corporation ("Enogex"); Conoco purchased certain of the Texas-based assets and Enogex purchased certain of the Oklahoma-based assets. The aggregate cash consideration paid by Conoco and Enogex totaled approximately \$23 million. Subsequently, the Company sold Cimarron's remaining assets for an additional \$700,000. A portion of the proceeds from the sales was used to repay \$1.0 million of Cimarron's debt and to pay approximately \$1.8 million for expenses associated with such sales. The sales resulted in an after-tax loss of approximately \$3 million. Additionally, Cimarron recognized an after-tax loss of approximately \$500,000 from operations for fiscal 1996.

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 6. DISPOSITION OF DISCONTINUED NATURAL GAS GATHERING, PROCESSING AND MARKETING OPERATIONS -- (CONTINUED)

The consolidated financial statements were restated in fiscal 1995 to report the net assets and operating results of Cimarron's operations as a discontinued operation. Summarized results and financial position of Cimarron's discontinued operations are shown below (amounts in millions):

	YEARS ENDED SEPTEMBER 30,		
	1996	1995	1994
FINANCIAL RESULTS			
Revenues.....	\$23.9	\$67.8	\$156.1
Expenses.....	24.7	69.1	158.4
Loss before taxes.....	(0.8)	(1.3)	(2.3)
Income tax benefit.....	(0.3)	(0.5)	(0.8)
Net loss*.....	\$ (0.5)	\$ (0.8)	\$ (1.5)

	SEPTEMBER 30, 1995
FINANCIAL POSITION	
Current assets.....	\$ 9.6
Other assets.....	6.7
Property and equipment, net.....	16.9
	-----
	33.2
Debt.....	2.2
Other liabilities and deferred income taxes.....	9.6
	-----
	11.8
Net book value.....	\$21.4
	=====

\* Net loss includes allocations of interest expense on general corporate debt of \$452,000 in 1995 and \$932,000 in 1994. Interest expense was allocated to discontinued operations based on a ratio of net assets to be sold to the sum of total net assets of the Company plus general corporate debt.

#### NOTE 7. UNCONSOLIDATED AFFILIATES

In August 1995, Zapata acquired 4,189,298 shares of Envirodyne common stock, representing 31% of the then outstanding common stock of Envirodyne, for \$18.8 million from a trust controlled by Malcolm Glazer, Chairman of the Board of Zapata and a director of Envirodyne. 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 June and July 1996, Zapata purchased 1,688,006 additional shares of Envirodyne 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 40.6% of the outstanding shares of Envirodyne common stock.

The difference between Zapata's share of Envirodyne's equity and Zapata's recorded investment in Envirodyne is being amortized over 15 years. At September 30, 1996, the unamortized balance of this difference was \$22.7 million. The aggregate market value of Zapata's shares of Envirodyne's common stock as of September 30, 1996 was \$23.5 million based on the closing price of \$4.00 per publicly traded share on that date.

Due to the significance of the Company's investment, the unaudited financial position and results of operations of Envirodyne are summarized below. The financial statement information presented below for Envirodyne is based upon its December 28, 1995 annual report and interim report for the quarter ended June 27, 1996 (unaudited, in millions, except per share amounts):

ENVIRODYNE INDUSTRIES, INC.

JUNE 27, 1996

BALANCE SHEET

Current assets.....	\$ 239.3
Other.....	179.6
Property and equipment, net.....	461.0
	-----
Total assets.....	\$ 879.9
	=====
Current liabilities.....	\$ 125.7
Long-term debt.....	522.7
Deferred income taxes and other.....	126.3
Stockholders' equity.....	105.2
	-----
Total liabilities and stockholders' equity.....	\$ 879.9
	=====

TWELVE MONTHS  
ENDED  
JUNE 27, 1996

INCOME STATEMENT

Revenues.....	\$ 654.7
	=====
Loss before income taxes.....	\$ (26.3)
	=====
Net loss.....	\$ (20.2)
	=====
Net loss per share.....	\$ (1.47)
	=====

In January 1992, Zapata exchanged its 34.7% interest in Zapata Gulf Marine Corporation ("Zapata Gulf") for approximately 8.3 million shares of Tidewater common stock. Initially, Zapata followed the equity method of accounting for its investment in Tidewater based on its percentage ownership and proxies that allowed the Company to have voting control of 20% of the total shares of Tidewater common stock outstanding. Effective January 1, 1993, Zapata changed from the equity to the cost method of accounting for its investment in Tidewater as a result of Zapata's decision to sell 3.5 million of its shares of Tidewater common stock. Zapata included Tidewater's dividends of approximately \$135,000 and \$719,000 in other income in fiscal 1995 and 1994, respectively.

In November 1993, Zapata sold 3.75 million shares of its Tidewater common stock through an underwritten public offering for a net price of \$20.75 per share, or \$77.8 million, resulting in a pretax gain of \$33.9 million. Additionally, in March 1994, Zapata sold 375,175 shares of its Tidewater common stock for a net price of \$21.34 per share, or \$8.0 million, resulting in a pretax gain of \$3.6 million. In March 1995, Zapata sold its remaining 673,077 shares of Tidewater common stock for a net price of \$18.87 per share, or \$12.7 million, resulting in a pretax gain of \$4.8 million. These gains are reflected on the statement of operations as other income.

NOTE 7. UNCONSOLIDATED AFFILIATES -- (CONTINUED)

In fiscal 1995, the Company's marine protein division invested \$450,000 to obtain a 50% share in a joint venture to manufacture and market animal feed ingredients overseas. The joint venture began operations in late 1996. This investment is accounted for using the equity method of accounting.

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

	EQUITY IN NET LOSS	INVESTMENTS AS OF SEPTEMBER 30
	-----	-----
	(IN THOUSANDS)	
1996		
Envirodyne.....	\$ (4,456)	\$ 21,530
Marine protein joint venture.....	(15)	531
	-----	-----
	\$ (4,471)	\$ 22,061
	=====	=====
1995		
Envirodyne.....	\$ (719)	\$ 18,235
Marine protein joint venture.....	--	450
	-----	-----
	\$ (719)	\$ 18,685
	=====	=====
1994		
Tidewater.....	\$ --	\$ 14,471
	=====	=====

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 8. DEBT

At September 30, 1996 and 1995, Zapata's consolidated debt consisted of the following:

	1996	1995
	-----	-----
	(IN THOUSANDS)	
Senior Debt:		
Norex unsecured notes due in 1996 at 8.5%.....	\$ --	\$ 4,796
ING Bank revolving credit facility for marine protein due June 30, 1997 interest at prime plus 1%, 9.75% at September 30, 1995 collateralized by certain current assets.....	--	10,000
U.S. government guaranteed obligations:		
Amounts due in installments through 2009, interest from 6.63% to 6.85%.....	7,267	7,626
Amounts due in installments through 2014, interest at Eurodollar rates plus .45%, 6.08% and 6.33% at September 30, 1996 and 1995, respectively.....	1,429	1,528
Other debt at 5.6% and 8.1% at September 30, 1996 and 1995, respectively.....	78	992
	-----	-----
	8,774	24,942
	-----	-----
Subordinated debt:		
10 1/4% debentures due 1997.....	15,621	15,621
10 7/8% debentures due 2001.....	9,872	9,872
Malcolm Glazer unsecured subordinated promissory note at prime, 8.75% at September 30, 1995.....	--	3,181
	-----	-----

	25,493	28,674
	-----	-----
Total debt.....	34,267	53,616
	-----	-----
Less current maturities.....	16,108	16,148
	-----	-----
Long-term debt.....	\$18,159	\$37,468
	=====	=====

The fair value of the Company's debt obligations are estimated based upon quoted market prices for the same or similar issues or on current rates offered to the Company for debt of the same remaining maturities. The fair value of total debt at September 30, 1996 and 1995 approximated book value.

On May 17, 1993, Zapata completed certain financial transactions with Norex Drilling Ltd. ("Norex Drilling"), a wholly owned subsidiary of Norex America, Inc. ("Norex America" and, collectively with Norex Drilling and other affiliates, "Norex"), through which Zapata raised \$111.4 million from the issuance of debt and equity (the "Norex Agreement"). The Norex Agreement enabled Zapata to refinance its then-outstanding senior debt and substantially reduce the amount of required debt service payments for the following two years. An officer of Norex was elected to the Zapata Board of Directors in July 1993 and was an executive officer of Zapata from July 1994 to December 1994.

In December 1993, \$73.7 million of the proceeds from the sale of 3.75 million shares of Zapata's Tidewater common stock were used to prepay \$68.5 million of the Company's indebtedness to Norex, along with accrued interest, and to pay a \$3.5 million prepayment premium. Also, Zapata wrote off \$3.3 million of previously deferred expenses related to the origination of such indebtedness. In September 1994, Zapata repaid an additional \$14.1 million of its indebtedness to Norex and a required prepayment penalty of \$655,000 with proceeds from the initial drawdown of \$15 million from a \$30 million bank credit facility provided by Texas Commerce Bank National Association (the "TCB Loan Agreement"). The \$4.8 million (net of income tax benefit of \$2.6 million) of prepayment and deferred expenses associated with the prepayments of Norex indebtedness in fiscal 1994 is reflected on the statement of operations as an extraordinary item. In April 1995,

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 8. DEBT -- (CONTINUED)

Zapata used proceeds of \$12.7 million from the sale of its remaining 673,077 shares of Tidewater common stock to further reduce the Company's indebtedness due to Norex. In March 1996, Zapata repaid the remaining \$4.8 million due to Norex.

In 1995, two of the Company's subsidiaries, Zapata Protein, Inc. and Zapata Protein (USA), Inc. (collectively "Zapata Protein") entered into a loan agreement with Internationale Nederlanden (U.S.) Capital Corporation ("ING Loan Agreement"). The ING Loan Agreement provides Zapata Protein with a \$15 million revolving credit facility that is due June 30, 1997. The ING Loan Agreement bears interest at a variable interest rate that is adjusted periodically based on prime interest rate plus 1%. Pursuant to the ING Loan Agreement, Zapata Protein agreed to maintain certain financial covenants and to limit additional indebtedness, dividends, dispositions and acquisitions. Zapata Corporation has guaranteed up to \$10.0 million of the outstanding balance of debt related to the ING Loan Agreement. The amount of restricted net assets for Zapata Protein at September 30, 1996 was approximately \$57.0 million. Pursuant to the ING Loan Agreement, Zapata Protein's ability to transfer funds to Zapata Corporation is limited to \$10.0 million. As of September 30, 1996, Zapata Protein had transferred the maximum amount of \$10.0 million to Zapata Corporation. Effective September 30, 1996, the Company was in compliance with all provisions governing its outstanding indebtedness.

In August 1995, Zapata acquired 4,189,298 shares of Envirodyne common stock for \$18.8 million from a trust controlled by Malcolm Glazer, Chairman of the Board of Zapata and a director of Envirodyne. 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 of the promissory note in fiscal 1995 and prepaid the remaining \$3.2 million balance in fiscal 1996.

Annual maturities

The annual maturities of long-term debt for the five years ending September 30, 2001 are as follows (in thousands):

1997	1998	1999	2000	2001
\$16,108	\$513	\$537	\$555	\$10,453

NOTE 9. CASH FLOW 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.

	1996	1995	1994
	(IN THOUSANDS)		
Cash paid during the fiscal year for:			
Interest.....	\$3,888	\$6,609	\$7,142
Income tax payments.....	6,276	544	4,507

In fiscal 1994, interest expense of \$1.3 million associated with certain notes related to the Norex indebtedness was deferred to the maturity date of such notes.

During fiscal 1995, the Company exchanged certain other assets held for sale for property and equipment and also exercised an option to purchase certain real estate resulting in the reclassification of a deposit from

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 9. CASH FLOW INFORMATION -- (CONTINUED)

other assets to property and equipment. These transactions resulted in the reclassification of approximately \$2.0 million from other assets to property and equipment.

In connection with the sale of Energy Industries' and Cimarron's assets during fiscal 1996, Zapata has retained certain assets and liabilities related to those operations. As a result, the Company reclassified liabilities totaling approximately \$2.6 million from net assets of discontinued operations to continuing operations. Additionally, a portion of the Energy Industries' asset sale proceeds was paid directly to certain lenders to repay indebtedness totaling approximately \$26 million; the Company received net proceeds of \$105 million from the sale.

NOTE 10. PREFERRED, PREFERENCE AND COMMON STOCK

Preferred stock

Zapata has authorized two million shares of preferred stock issuable in one or more series. In 1994, Zapata redeemed one-half of the approximately 45,000 outstanding shares of the Company's preferred stock and redeemed the balance of



its outstanding preferred stock in January 1995. The preferred stock was redeemed at \$100 a share. Quarterly dividends of \$2.25 per share were declared and paid in fiscal 1995 and 1994.

#### Preference stock

Zapata has authorized 18 million shares of preference stock issuable in one or more series. The 2,627 outstanding shares are entitled to vote on all matters submitted to stockholders, are redeemable at \$80.00 per share and \$30.00 per share in liquidation. The stated quarterly dividend, which is noncumulative, is \$.50 per share. Dividends were paid July 1, 1994 and October 1, 1994, the first such quarterly dividends since the second quarter of 1986. Each outstanding share is convertible at any time into 2.1 shares of Common Stock. The Company announced in December 1994 that its Board of Directors had determined to discontinue the payment of dividends on its preference stock.

#### Common stock

Zapata has authorized 165 million shares of Common Stock, of which 29,548,707 were issued and outstanding at September 30, 1996. Zapata had authorized 165 million shares of Common Stock, of which 29,548,407 were issued and outstanding at September 30, 1995.

On December 30, 1996, the Company announced its intention to commence a tender offer to purchase for cash up to 15 million shares of Common Stock for a price of \$4.50 per share. The offer will be conditioned upon a minimum of 10 million shares of Common Stock being tendered and will be subject to the satisfaction of other customary conditions. Malcolm Glazer, Chairman of the Board of the Company and, through his beneficial ownership of a trust, the owner of 10,395,384 shares of Common Stock intends to participate in the tender offer by tendering 3 million shares of Common Stock. The Company intends to use its available cash to purchase Common Stock pursuant to the tender offer.

In April 1995, Zapata repurchased 2.25 million shares of Common Stock from Norex for \$4.00 per share. The shares repurchased by Zapata represented 7% of the Company's then-outstanding Common Stock. Following the repurchase of these shares, Zapata had approximately 29.5 million shares of Common Stock outstanding.

On April 27, 1994, Zapata's stockholders approved a one-for-five reverse stock split of the Company's outstanding Common Stock effective May 3, 1994 that reduced the number of shares of Common Stock outstanding from approximately 158.3 million to approximately 31.7 million. The number of authorized shares remained at 165 million and par value of the Common Stock was unchanged.

39

42

## ZAPATA CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### NOTE 10. PREFERRED, PREFERENCE AND COMMON STOCK -- (CONTINUED)

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. All shares of Common Stock awarded to participants as restricted stock are subject to certain conditions. At the time of each award, the Compensation Committee of the Board of Directors (the "Committee") establishes a restricted period of not less than one and not more than five years within which the shares covered by the award cannot be sold, assigned, transferred, pledged or otherwise encumbered. Except for such transfer restrictions, the participant as the owner of such shares has all the rights of a holder of Common Stock, including the right to receive dividends paid on such shares and the right to vote the shares. The total of restricted shares issued and shares issued upon the exercise of options granted under the 1981 Plan cannot exceed 140,000, which was the number of shares authorized for issuance prior to the amendment and restatement. No shares of Common Stock are available for further grants of stock options or awards of restricted stock

under the 1981 Plan. During 1996, no options to purchase shares under the 1981 Plan were exercised. At September 30, 1996, options to purchase 12,000 shares under the 1981 Plan at \$3.13 were outstanding and exercisable.

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 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 September 30, 1996, a total of 264,434 stock options had been exercised and a total of 223,666 shares of Common Stock were reserved for the future granting of stock options or the awarding of restricted stock under the 1987 Plan. During 1996, options to purchase 100 shares under the 1987 Plan at \$3.13 were exercised and options to purchase 20,000 shares at \$7.19 were cancelled. At September 30, 1996, 111,900 options were outstanding and exercisable under the 1987 Plan at prices ranging from \$3.13 to \$7.19.

On December 6, 1990, the Company's stockholders approved a new 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 September 30, 1996, a total of 925,534 stock options had been exercised and a total of 32,666 shares of Common Stock were reserved for the future granting of stock options under the 1990 Plan. During 1996, options to purchase 200 shares under the 1990 Plan at \$3.13 were exercised. At September 30, 1996, a total of 41,800 options at a price of \$3.13 were outstanding and exercisable under the 1990 Plan. No options were granted in 1996 under the 1990 Plan.

40

43

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 11. 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 file a consolidated U.S. federal income tax return. The provision for income tax expense (benefit) from continuing operations consisted of the following:

1996	1995	1994
-----	-----	-----

(IN THOUSANDS)

Current			
State.....	\$ 348	\$ 268	\$ 507
U.S.....	542	--	8,005
Deferred			
State.....	--	(300)	150
U.S.....	(1,902)	(3,147)	(6,632)
	-----	-----	-----
	\$ (1,012)	\$ (3,179)	\$ 2,030
	=====	=====	=====

Income tax expense (benefit) was allocated to operations as follows:

	1996	1995	1994
	-----	-----	-----
	(IN THOUSANDS)		
Continuing operations			
Domestic operations.....	\$ (1,249)	\$ (3,676)	\$ 790
Foreign operations.....	237	497	1,240
	-----	-----	-----
Total continuing operations.....	(1,012)	(3,179)	2,030
Discontinued operations.....	10,197	4,579	(2,564)
Extraordinary item.....	--	--	(2,602)
Cumulative effect of a change in accounting principle.....	252	--	--
	-----	-----	-----
Total.....	\$ 9,437	\$ 1,400	\$ (3,136)
	=====	=====	=====

41

44

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 11. INCOME TAXES -- (CONTINUED)

The provision for deferred taxes results from timing differences in the recognition of revenues and expenses for tax and financial reporting purposes. The sources and income tax effects of these differences were as follows:

	1996	1995	1994
	-----	-----	-----
	(IN THOUSANDS)		
Tax depreciation over (under) book depreciation.....	\$ 420	\$ (4,292)	\$ (1,145)
Tax deduction related to oil and gas exploration and production over (under) book expenses.....	(1,298)	2,825	(6,277)
Tax gain in excess of book gain on stock sale.....	--	(1,650)	(10,116)
Equity loss in unconsolidated affiliates.....	(1,560)	(252)	--
Changes to tax carryforwards and other.....	536	(78)	8,266
Charge off uncollectible note.....	--	--	2,790
	-----	-----	-----
	\$ (1,902)	\$ (3,447)	\$ (6,482)
	=====	=====	=====

For federal income tax purposes, Zapata has \$12.6 million of investment tax credit carryforwards expiring in fiscal 1999 through 2001, and \$6.3 million of alternative minimum tax credit carryforwards. The use of the investment tax credits will be limited to a maximum of \$7.1 million as a result of a change of ownership as calculated for tax purposes. Investment tax credit carryforwards are reflected in the balance sheet as a reduction of deferred taxes using the flow-through method.

The following table reconciles the income tax provisions for fiscal 1996, 1995 and 1994 computed using the U.S. statutory rate of 35% to the provisions from continuing operations as reflected in the financial statements.

	1996	1995	1994
	-----	-----	-----
	(IN THOUSANDS)		
Taxes at statutory rate.....	\$ (1,237)	\$ (3,158)	\$ 2,102
Amortization of intangibles not deductible for tax.....	11	11	10
Other.....	(134)	33	(563)
Dividend income not recognized for tax purposes.....	--	(33)	(176)
State taxes.....	348	(32)	657
	-----	-----	-----
	\$ (1,012)	\$ (3,179)	\$ 2,030
	=====	=====	=====

42

45

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 11. INCOME TAXES -- (CONTINUED)

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

	SEPTEMBER 30,	
	1996	1995
	-----	-----
	(IN THOUSANDS)	
Deferred Tax Assets:		
Asset write-downs not yet deductible.....	\$ 5,006	\$ 4,956
Net operating loss carryforwards.....	--	4,246
Investment tax credit carryforwards.....	12,557	17,490
Alternative minimum tax credit carryforwards.....	6,331	10,927
Equity in loss of unconsolidated affiliates.....	1,560	252
Other.....	2,934	2,152
	-----	-----
Total deferred tax assets.....	28,388	40,023
Valuation allowance.....	(16,857)	(16,857)
	-----	-----
Net deferred tax assets.....	11,531	23,166
	-----	-----
Deferred Tax Liabilities:		
Property and equipment.....	(483)	(9,628)
Pension.....	(4,001)	(3,554)
Other.....	(1,406)	(3,737)
	-----	-----
Total deferred tax liabilities.....	(5,890)	(16,919)
	-----	-----
Net deferred tax asset.....	\$ 5,641	\$ 6,247
	=====	=====

The valuation allowance results from managements estimates of tax carryforwards that may not be ultimately utilized given current facts and circumstances.

NOTE 12. COMMITMENTS AND CONTINGENCIES

Operating leases payable

Future minimum payments under non-cancelable operating lease obligations aggregate \$5.0 million. The total future minimum rental payments have not been reduced by \$3.6 million of sublease rentals to be received in the future under noncancelable subleases. Future minimum payments, net of sublease rentals, for the five years ending September 30, 2001 are:

1997      1998      1999      2000      2001

	----	----	----	----	----
Lease obligations.....	\$371	\$363	\$249	\$192	\$72

Rental expenses for operating leases were \$602,000, \$1.8 million and \$2.3 million in fiscal 1996, 1995 and 1994, respectively.

Litigation

On August 11, 1995, a derivative and class action was filed by Elly Harwin against Zapata and its then directors in the Court of Chancery of the State of Delaware, New Castle County. On January 18, 1996, a second derivative action was filed by Crandon Capital Partners against Zapata and its directors in the same court. On May 7, 1996, a third derivative action was filed by Elly Harwin and Crandon Capital Partners against Zapata and its directors in the same court. On October 4, 1996, a motion for leave to file an amended complaint for a consolidated derivative and class action (the "Harwin/Crandon Case") was filed by these

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 12. COMMITMENTS AND CONTINGENCIES -- (CONTINUED)

same parties in the same court; Zapata does not oppose the motion. The consolidated complaint alleges that Zapata's directors engaged in conduct constituting breach of fiduciary duty and waste of Zapata's assets in connection with Zapata's investment in Envirodyne, in connection with the decision to shift Zapata's business focus from energy to food services, and in connection with a proposed (but subsequently abandoned) merger of Houlihan's Restaurant Group, Inc. ("Houlihan's") with a wholly owned subsidiary of Zapata (the "Houlihan's Merger"). The complaint alleges, among other things, that the purchase of Envirodyne common stock from Malcolm I. Glazer's affiliate was a wrongful expenditure of Zapata's funds and was designed to permit Malcolm I. Glazer to obtain personal financial advantage to the detriment of Zapata. The complaint also alleges that Zapata's Board of Directors is controlled by Malcolm I. Glazer and that Mr. Loar lacked independence from Malcolm I. Glazer because he was employed until his retirement (which occurred more than five years ago) by a corporation indirectly controlled by Malcolm I. Glazer, that Mr. Leffler lacks such independence because of his status as a paid consultant to Malcolm I. Glazer, that Avram A. Glazer lacks such independence because of familial relationship and that Mr. Lassiter lacks such independence by reason of an employment or consulting relationship with Zapata. The complaint seeks relief including, among other things, rescission of Zapata's purchase of the shares of Envirodyne common stock from the Malcolm Glazer Trust; injunctive relief to void the election of Messrs. Leffler and Loar as directors at Zapata's Annual Meeting of Stockholders held on July 27, 1995 and to enjoin consummation of the Houlihan's Merger and any transaction in which Malcolm I. Glazer has an interest; and an award of unspecified compensatory damages and expenses, including attorneys' fees. Zapata believes that the complaint and the allegations contained therein are without merit and intends to defend the Harwin/Crandon Case vigorously.

On May 31, 1996, a fourth derivative and class action (the "Pasternak Case") was filed by Arnold Pasternak against Zapata and its directors in the Court of Chancery of the State of Delaware, New Castle County. The complaint alleged that Zapata's directors engaged in conduct constituting breach of fiduciary duty and waste of Zapata's assets in connection with the Houlihan's Merger. The complaint further alleged that the Houlihan's Merger consideration was unfair and excessive and that the Houlihan's Merger would result in voting power dilution, unfairly benefiting Malcolm I. Glazer. On July 11, 1996, the plaintiff filed an amended complaint. The amended complaint alleged that the Agreement and Plan of Merger dated as of June 4, 1996 relating to the Houlihan's Merger (the "Houlihan's Merger Agreement") was in conflict with Article SEVENTH of Zapata's Restated Certificate of Incorporation, which provides that an affirmative vote or consent of a supermajority of 80% of outstanding voting stock is necessary under certain circumstances. The plaintiff filed a motion for a preliminary injunction requesting that the court preliminarily enjoin Zapata from consummating the Houlihan's Merger based on the contention that under Article SEVENTH the Houlihan's Merger would require the approval of holders of 80% of Zapata's outstanding voting stock. Zapata does not believe that a

supermajority vote was required under the circumstances of the Houlihan's Merger, and its position is supported by an opinion of special Delaware counsel. A hearing concerning whether Article SEVENTH applies to the Houlihan's Merger Agreement and the Houlihan's Merger was held before the Court of Chancery on September 6, 1996 and, on September 24, 1996, the Court of Chancery decided that Article SEVENTH did apply to the Houlihan's Merger Agreement and the Houlihan's Merger. On October 3, 1996, Zapata filed a notice of appeal with the Supreme Court of the State of Delaware regarding the decision of the Court of Chancery. The plaintiff moved to dismiss Zapata's appeal as moot, in light of the termination of the Houlihan's Merger Agreement. On November 7, 1996, the Supreme Court of the State of Delaware denied the plaintiff's motion to dismiss Zapata's appeal. As of December 29, 1996, the Company's appeal had not yet been set for oral argument in the Supreme Court.

On November 19, 1995, a petition was filed in the 148th Judicial District Court of Nueces County, Texas by Peter M. Holt, a former director of the Company, and certain of his affiliates who sold their interests in Energy Industries to the Company in November 1993 (collectively, with Mr. Holt, the "Holt Affiliates"). The petition lists the Company, Malcolm I. Glazer and Avram A. Glazer as defendants and alleges several causes

44

47

#### ZAPATA CORPORATION

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

##### NOTE 12. COMMITMENTS AND CONTINGENCIES -- (CONTINUED)

of action based on alleged misrepresentations on the part of the defendants concerning the Company's intent to follow a long-term development strategy focusing its efforts on the natural gas services business. The petition does not allege a breach of any provision of the purchase agreement to which the Company acquired Energy Industries from the Holt Affiliates, but alleges that various representatives of Zapata and Malcolm I. Glazer made representations to Mr. Holt regarding Zapata's intention to continue in the natural gas services industry. Among the remedies sought by the petition are the following requests: (i) the Company's repurchase of the approximately 2.7 million shares of Zapata common stock owned by the Holt Affiliates for \$15.6 million (which relief is no longer possible because the Holt Affiliates sold most of their common stock in March and April 1996); (ii) the disgorgement to the Holt Affiliates of Zapata's profit to be made on the sale of Energy Industries; or (iii) the money damages based on the alleged lower value of the Common Stock had the alleged misrepresentations not been made. The case has been set for trial beginning April 28, 1997. The Company believes that the petition and the allegations made therein are without merit and intends to defend the case vigorously.

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of its business. The Company maintains insurance coverage against potential claims in an amount which it believes to be adequate. In the opinion of management, uninsured losses, if any, resulting from these matters and from the matters discussed above will not have a material adverse effect on Zapata's results of operations, cash flows or financial position.

##### NOTE 13. FINANCIAL INSTRUMENTS

###### Concentrations of Credit Risk

As indicated in the industry segment information which appears in Note 17, the market for the Company's services and products is primarily related to the marine protein operations whose customers consist primarily of domestic feed producers. 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 been within management's expectations.

At September 30, 1996 and 1995 the Company had cash deposits concentrated primarily in three major banks. In addition, the Company had certificates of deposits, commercial paper and Eurodollar time deposits with a variety of companies and financial institutions with strong credit ratings. As a result of the foregoing, the Company believes that credit risk in such instruments is minimal.

NOTE 14. BENEFIT PLANS

Qualified Defined Benefit Plans

Zapata has two noncontributory defined benefit pension plans covering certain U.S. employees. Plan benefits are generally based on employees' years of service and compensation level. All of the costs of these plans are borne by Zapata. 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.

45

48

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 14. BENEFIT PLANS -- (CONTINUED)

Net pension credits for fiscal 1996, 1995 and 1994 included the following components:

	1996 -----	1995 -----	1994 -----
	(IN THOUSANDS)		
Service cost -- benefits earned during the year.....	\$ 610	\$ 567	\$ 692
Interest cost on projected benefit obligations.....	2,430	2,354	2,278
Actual gain on plan assets.....	(3,854)	(6,452)	(2,730)
Amortization of transition assets and other deferrals.....	(462)	2,864	(546)
	-----	-----	-----
Net pension credit.....	\$ (1,276)	\$ (667)	\$ (306)
	=====	=====	=====

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 September 30, 1996 and 1995 are presented below:

	1996 -----	1995 -----
	(IN THOUSANDS)	
Fair value of plan assets.....	\$43,695	\$43,242
Actuarial present value of benefit obligations:		
Vested benefits.....	33,635	33,664
Nonvested benefits.....	440	348
	-----	-----
Accumulated benefit obligation.....	34,075	34,012
Additional benefits based on projected salary increases.....	1,994	1,741
	-----	-----
Projected benefit obligations.....	36,069	35,753
	-----	-----
Excess of plan assets over projected benefit obligations.....	7,626	7,489
Unrecognized transition asset.....	(5,024)	(5,861)
Unrecognized prior service cost.....	1,034	123
Unrecognized net loss.....	7,795	8,404
	-----	-----
Prepaid pension cost.....	\$11,431	\$10,155
	=====	=====

The unrecognized transition asset at October 1, 1987, was \$10.6 million, which is being amortized over 15 years. For 1996 and 1995 the actuarial present value of the projected benefit obligation was based on a 4.75% weighted average annual increase in salary levels and a 7.5% discount rate. 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 1996 and 1995. The unrecognized net loss of \$7.8 million at September 30, 1996 is expected to be reduced by future returns on plan assets and through decreases in future net pension credits.

In 1986, Zapata terminated the Dredging Pension Plan (the "Dredging Plan") in connection with the sale of the assets of its dredging operations. Annuities were purchased with Executive Life Insurance Co. ("Executive Life") for terminated participants of the Dredging Plan. Subsequently Executive Life experienced financial difficulties resulting in a reduction of payments to the former participants of the Dredging Plan. The Company negotiated a settlement with the U.S. Department of Labor whereby the Zapata Corporation Pension Plan would assume the liability associated with the reduction in benefits of the Dredging Plan participants. The accumulated benefit obligation that was assumed by the plan was approximately \$2.3 million, of which \$1.4 million was expensed in the fiscal 1994 statement of operations as other expense.

Supplemental Retirement Plan

Effective April 1, 1992, Zapata adopted a supplemental pension plan, which provides supplemental retirement payments to senior executives of Zapata. The amounts of such payments equals the difference

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 14. BENEFIT PLANS -- (CONTINUED)

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.

For 1994, the actuarial present value of the projected benefit obligation was based on weighted-average annual increase in salary levels of 2.1%. For fiscal 1996, 1995 and 1994 the discount rate was 7.5%.

Net pension expense for fiscal 1996, 1995 and 1994 included the following components:

	1996	1995	1994
	---	---	----
	(IN THOUSANDS)		
Service cost -- benefits earned during the year.....	\$--	\$--	\$ 68
Interest cost on projected benefit obligations.....	67	67	72
Amortization of prior service cost.....	--	--	487
	---	---	----
Net pension expense.....	\$67	\$67	\$627
	===	===	=====

No contributions to the plan have been required since the plan is unfunded. The plan's funded status and amounts recognized in the Company's balance sheet at September 30, 1996 and 1995 are presented below:

	1996	1995
	-----	-----
	(IN THOUSANDS)	
Fair value of plan assets.....	\$ --	\$ --
	-----	-----
Actuarial present value of benefit obligations:		
Vested benefits.....	943	950
Nonvested benefits.....	--	--
	-----	-----
Accumulated benefit obligation.....	943	950
Additional benefits based on projected salary increases.....	--	--



Projected benefit obligation.....	943	950
Excess of projected benefit obligations over plan assets.....	(943)	(950)
Unrecognized net loss.....	--	--
Unrecognized prior service costs.....	--	--
Additional minimum liability.....	--	--
Unfunded accrued liability.....	\$ (943)	\$ (950)

Qualified Defined Contribution Plan

The Company sponsors a defined contribution plan, the Zapata Profit Sharing Plan (the "Plan"), for certain eligible employees of the Company. Effective October 1, 1994, the Company merged a defined contribution plan of Zapata Protein with and into the Plan. The Company's contributions are calculated based on employee contributions and compensation. The Company's combined contributions to these plans totaled \$494,347, \$673,298 and \$577,903 in fiscal 1996, 1995 and 1994, respectively.

NOTE 15. RELATED PARTY TRANSACTIONS

In August 1995, Zapata acquired 4,189,298 shares of the outstanding common stock of Envirodyne for \$18.8 million from a trust controlled by Malcolm Glazer, Chairman of the Board of Zapata and a director of Envirodyne. 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 has since prepaid the promissory note.

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 15. RELATED PARTY TRANSACTIONS -- (CONTINUED)

During fiscal 1996, Zapata and Houlihan's entered into the Houlihan's Merger Agreement. In view of Malcolm I. Glazer's significant ownership of common stock of both Zapata and Houlihan's, the transaction was negotiated by representatives of special committees of the respective board of directors of both Zapata and Houlihan's. On October 8, 1996, Zapata terminated the Houlihan's Merger Agreement pursuant to a provision of such agreement that gave either party the right to terminate the merger agreement if the Houlihan's Merger was not consummated before October 1, 1996. The termination followed a decision of the Court of the Chancery of Delaware that an 80% supermajority vote of Zapata's stockholders was required for approval of the proposed transaction. Zapata recorded \$2.1 million of merger expenses in connection with the proposed transaction.

During fiscal 1995 and 1994, Zapata made purchases totalling \$10.4 million and \$7.3 million from a company owned by a shareholder and former director of Zapata.

Zapata received \$7,000 and \$317,000 in fiscal 1995 and 1994, respectively, from a former director of the Company for use of the Company's executive aircraft under an arrangement which provided for full recovery of expenses associated with such use.

During fiscal 1995 and 1994, Zapata received \$24,000 and \$104,000, respectively, from Norex in accordance with an administrative services arrangement pursuant to which Zapata provided office space and certain administrative services to Norex. See Note 8 and Note 10 for discussions of additional transactions with Norex.

NOTE 16. OIL AND GAS OPERATIONS (UNAUDITED)

The following information concerning Zapata's oil and gas operations has been prepared in accordance with Statement of Financial Accounting Standards No. 69, "Disclosures about Oil and Gas Producing Activities" ("SFAS No. 69"), and applicable Securities and Exchange Commission (the "SEC") regulations.

In September 1994, Zapata's Board of Directors announced that the Company

would immediately undertake efforts to sell its U.S. natural gas producing properties. The six properties in the Gulf of Mexico, representing Zapata's domestic oil and gas producing operations, were sold during fiscal 1995. The Company is considering the disposition of its Bolivian oil and gas operations.

The information concerning capitalized costs of oil and gas properties, costs incurred in property acquisition, exploration and development, and operating results from oil and gas producing activities is taken from Zapata's accounting records with the exception of income taxes. Income tax provisions are calculated using statutory tax rates and reflect permanent differences and tax credits and allowances relating to oil and gas operations that are reflected in the Company's consolidated income tax provision for each period. The pretax income from oil and gas producing activities does not agree with the oil and gas operations operating income in the industry segment information in Note 17 due to the exclusion of certain nonoperating expenses from the information shown as required by SFAS No. 69.

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 16. OIL AND GAS OPERATIONS (UNAUDITED) -- (CONTINUED)  
CAPITALIZED COSTS OF OIL AND GAS PROPERTIES

	UNITED STATES	BOLIVIA	TOTAL
	-----	-----	-----
	(IN THOUSANDS)		
1996			
Capitalized costs			
Evaluated properties.....	\$ --	\$ 5,938	\$ 5,938
Accumulated depreciation, depletion and amortization...	--	(485)	(485)
	-----	-----	-----
Net capitalized costs.....	\$ --	\$ 5,453	\$ 5,453
	=====	=====	=====
1995			
Capitalized costs			
Evaluated properties.....	\$ --	\$ 3,359	\$ 3,359
Accumulated depreciation, depletion and amortization...	--	(245)	(245)
	-----	-----	-----
Net capitalized costs.....	\$ --	\$ 3,114	\$ 3,114
	=====	=====	=====
1994			
Capitalized costs			
Evaluated properties.....	\$ 74,872	\$ 2,194	\$ 77,066
Accumulated depreciation, depletion and amortization...	(60,794)	(55)	(60,849)
	-----	-----	-----
Net capitalized costs.....	\$ 14,078	\$ 2,139	\$ 16,217
	=====	=====	=====

COSTS INCURRED IN PROPERTY ACQUISITION,  
EXPLORATION AND DEVELOPMENT ACTIVITIES

	UNITED STATES	BOLIVIA	TOTAL
	-----	-----	-----
	(IN THOUSANDS)		
1996			
Expenditures:			
Development.....	\$ --	\$ 2,580	\$ 2,580
	=====	=====	=====
1995			
Expenditures:			
Acquisition of unproved properties.....	\$ --	\$ 103	\$ 103
Development.....	335	1,061	1,396
Sale of proved properties.....	(11,732)	--	(11,732)

	-----	-----	-----
	\$ (11,397)	\$ 1,164	\$ (10,233)
	=====	=====	=====
1994			
Expenditures:			
Development.....	\$ 9,598	\$ 2,194	\$ 11,792
	=====	=====	=====

49

52

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 16. OIL AND GAS OPERATIONS (UNAUDITED) -- (CONTINUED)  
RESULTS OF OPERATIONS FOR OIL AND GAS PRODUCING ACTIVITIES

	UNITED STATES	BOLIVIA	TOTAL
	-----	-----	-----
	(IN THOUSANDS)		
1996			
Revenues.....	\$ 42	\$ 2,027	\$ 2,069
Production costs.....	--	1,080	1,080
Depreciation, depletion and amortization.....	--	240	240
	-----	-----	-----
Income before income taxes*.....	42	707	749
Income taxes.....	14	241	255
	-----	-----	-----
Net income (loss)*.....	\$ 28	\$ 466	\$ 494
	=====	=====	=====
1995			
Revenues.....	\$ 5,400	\$ 2,709	\$ 8,109
Production costs.....	3,156	1,097	4,253
Depreciation, depletion and amortization.....	2,666	190	2,856
	-----	-----	-----
Income before income taxes*.....	(422)	1,422	1,000
Income taxes.....	(143)	483	340
	-----	-----	-----
Net income (loss)*.....	\$ (279)	\$ 939	\$ 660
	=====	=====	=====
1994			
Revenues.....	\$ 8,432	\$ 4,117	\$ 12,549
Production costs.....	5,750	518	6,268
Depreciation, depletion and amortization.....	33,715	55	33,770
	-----	-----	-----
Income before income taxes*.....	(31,033)	3,544	(27,489)
Income taxes.....	(10,551)	1,205	(9,346)
	-----	-----	-----
Net income (loss)*.....	\$ (20,482)	\$ 2,339	\$ (18,143)
	=====	=====	=====

\* Before deducting selling, general, administrative and interest expenses.

Oil and gas reserves

During fiscal 1995, the Company sold its U.S. oil and gas properties in the Gulf of Mexico.

The following table contains estimates of proved oil and gas reserves attributable to Zapata's interest in oil and gas properties, which were prepared primarily by independent petroleum reserve engineers (Huddleston & Co., Inc.). Proved reserves are the estimated quantities of natural gas and liquids (crude oil and condensate) which, based on analysis of geological and engineering data, appear with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Reservoirs are considered proved if economic productivity is supported by actual production or conclusive formation testing. Proved developed reserves are reserves that can be expected to be

recovered through existing wells with existing equipment and operating methods.

It should be stressed that these reserve quantities are estimates and may be subject to substantial upward or downward revisions as indicated by past experience. The estimates are based on the most current and reliable information available; however, additional information obtained through future production experience and additional development of existing reservoirs may significantly alter previous estimates of proved reserves.

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 16. OIL AND GAS OPERATIONS (UNAUDITED) -- (CONTINUED)

Future changes in the level of hydrocarbon prices relative to the costs to develop and produce reserves can also result in substantial revisions to proved reserve estimates.

These estimates relate only to those reserves which meet the SEC's definition of proved reserves and do not consider probable reserves and the likelihood of their recovery which, if considered, could result in substantial increases in reported reserves. Future secondary recovery efforts could also yield additional reserves.

NATURAL GAS AND LIQUIDS RESERVES

	UNITED STATES		BOLIVIA		TOTAL	
	LIQUIDS	GAS	LIQUIDS	GAS	LIQUIDS	GAS
	(LIQUIDS IN MILLIONS OF BARRELS, GAS IN BILLIONS OF CUBIC FEET)					
Proved reserves as of						
September 30, 1993.....	.4	40.8	.7	22.5	1.1	63.3
Revisions of previous estimates.....	.1	(2.8)	.1	6.7	.2	3.9
Production.....	(.1)	(3.3)	(.1)	(1.9)	(.2)	(5.2)
	---	-----	---	----	---	-----
Proved reserves as of						
September 30, 1994.....	.4	34.7	.7	27.3	1.1	62.0
Revisions of previous estimates.....	--	--	--	3.9	--	3.9
Production.....	(.1)	(3.0)	--	(1.7)	(.1)	(4.7)
Sale of reserves in place.....	(.3)	(31.7)	--	--	(.3)	(31.7)
	---	-----	---	----	---	-----
Proved reserves as of						
September 30, 1995.....	--	--	.7	29.5	.7	29.5
Extensions and discoveries.....	--	--	--	2.1	--	2.1
Revisions of previous estimates.....	--	--	--	.7	--	.7
Production.....	--	--	--	(1.7)	--	(1.7)
	---	-----	---	----	---	-----
Proved reserves as of September 30, 1996.....	---	-----	---	----	---	-----
	===	=====	===	=====	===	=====
Proved developed reserves as of						
September 30, 1994.....	.2	27.4	.7	27.3	.9	54.7
September 30, 1995.....	--	--	.7	29.5	.7	29.5
September 30, 1996.....	--	--	.7	30.6	.7	30.6

Standardized measure of discounted future net cash flows

The information presented below concerning the net present value of after-tax cash flows for Zapata's oil and gas producing operations is required by SFAS No. 69 in an attempt to make comparable information concerning oil and gas producing operations available for financial statement users. The information is based on proved reserves as of September 30 for each fiscal year and has been prepared in the following manner:

1. Estimates were made of the future periods in which proved reserves would be produced based on year-end economic conditions.
2. The estimated future production streams of proved reserves have

been priced using year-end prices with the exception that future prices of gas have been increased for fixed and determinable escalation provisions in existing contracts.

51

54

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 16. OIL AND GAS OPERATIONS (UNAUDITED) -- (CONTINUED)

3. The resulting future gross cash inflows have been reduced by the estimated future costs to develop and produce the proved reserves at year-end cost levels.

4. Income tax payments have been computed at statutory rates based on the net future cash inflows, the remaining tax basis in oil and gas properties and permanent differences between book and tax income and tax credits or other tax benefits available related to the oil and gas operations.

5. The resulting after-tax future net cash flows are discounted to present value amounts by applying a 10% annual discount factor.

Effective April 1, 1984, the Company changed from accrual to cash basis revenue recognition for sales from its Bolivia properties in light of economic and political conditions in Bolivia. Based on the Bolivian oil and gas company's performance under renegotiated contracts and improved operating conditions, Zapata returned to the accrual method of accounting for its Bolivian oil and gas operations in fiscal 1994. Zapata participated in drilling two exploratory wells in its Bolivian operation in 1996, one exploratory well in 1995 and two exploratory wells in 1994.

The net present value of future cash flows, computed as prescribed by SFAS No. 69, should not be construed as the fair value of Zapata's oil and gas operations. The computation is based on assumptions that in some cases may not be realistic and estimates that are subject to substantial uncertainties. Since the discounted cash flows are based on proved reserves as defined by the SEC, they are subject to the same uncertainties and limitations inherent in the reserve estimates, which include among others, no consideration of probable reserves and stable hydrocarbon prices at year-end levels. The use of a 10% discount factor by all companies does not provide a basis for quantifying differences in risk with respect to oil and gas operations among different companies. The computations also ignore the impact future exploration and development activities may have on profitability.

52

55

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 16. OIL AND GAS OPERATIONS (UNAUDITED) -- (CONTINUED)

STANDARDIZED MEASURE OF DISCOUNTED  
FUTURE NET CASH FLOWS RELATING TO PROVED RESERVES

	UNITED STATES	BOLIVIA	TOTAL
	-----	-----	-----
	(IN THOUSANDS)		
1996			
Estimated future cash flows			
Revenues from hydrocarbon sales.....	\$ --	\$49,960	\$49,960
Production costs.....	--	22,317	22,317
Development costs.....	--	1,425	1,425
	-----	-----	-----
Future net cash flows before income taxes.....	--	26,218	26,218
Estimated income tax payments.....	--	7,408	7,408
	-----	-----	-----

Future net cash flows.....	--	18,810	18,810
10% discount.....	--	8,593	8,593
		-----	-----
Standardized measure of discounted future net cash flows.....	\$ --	\$10,217	\$10,217
	=====	=====	=====
1995			
Estimated future cash flows			
Revenues from hydrocarbon sales.....	\$ --	\$46,512	\$46,512
Production costs.....	--	18,621	18,621
Development costs.....	--	775	775
		-----	-----
Future net cash flows before income taxes.....	--	27,116	27,116
Estimated income tax payments.....	--	8,356	8,356
		-----	-----
Future net cash flows.....	--	18,760	18,760
10% discount.....	--	8,359	8,359
		-----	-----
Standardized measure of discounted future net cash flows.....	\$ --	\$10,401	\$10,401
	=====	=====	=====
1994			
Estimated future cash flows			
Revenues from hydrocarbon sales.....	\$51,380	\$44,473	\$95,853
Production costs.....	19,132	12,010	31,142
Development costs.....	7,899	825	8,724
Dismantlement and abandonment.....	7,924	--	7,924
		-----	-----
Future net cash flows before income taxes.....	16,425	31,638	48,063
Estimated income tax payments.....	941	10,165	11,106
		-----	-----
Future net cash flows.....	15,484	21,473	36,957
10% discount.....	1,570	10,142	11,712
		-----	-----
Standardized measure of discounted future net cash flows.....	\$13,914	\$11,331	\$25,245
	=====	=====	=====

53

56

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 16. OIL AND GAS OPERATIONS (UNAUDITED) -- (CONTINUED)  
 CHANGES IN STANDARDIZED MEASURE OF DISCOUNTED  
 FUTURE NET CASH FLOWS RELATING TO PROVED RESERVES

	1996	1995	1994
	-----	-----	-----
	(IN THOUSANDS)		
Standardized measure, beginning of year -- U.S.....	\$ --	\$13,914	\$37,902
Standardized measure, beginning of year -- Bolivia.....	10,401	11,331	10,312
Change in sales prices, net of production costs.....	(1,058)	(4,267)	(24,990)
Costs incurred or transferred into the amortization pool during the period that reduced estimated future development costs.....	775	825	4,975
Changes in estimated future development and abandonment costs.....	(759)	9,493	(4,638)
Sales, net of production costs.....	(947)	(3,856)	(6,281)
Net change due to extensions, discoveries and improved recovery.....	1,067	--	--
Revisions of quantity estimates.....	387	2,020	3,243
Sales of reserves in-place.....	--	(29,399)	--
Accretion of discount.....	1,445	3,032	4,283
Net change in income taxes.....	1,068	1,023	(149)
Changes in production rates and other.....	(2,162)	6,285	588
	-----	-----	-----
Standardized measure, end of year.....	\$10,217	\$10,401	\$25,245
	=====	=====	=====

NOTE 17. INDUSTRY SEGMENT AND GEOGRAPHIC INFORMATION

Zapata's continuing businesses are comprised of two industry segments operating in the U.S. and one foreign country. The marine protein segment is

engaged in menhaden fishing for the production of fish meal and fish oil in the U.S. The oil and gas segment was engaged in the production of crude oil and natural gas in the U.S. and Bolivia. In fiscal 1995, the Company sold its domestic oil and gas properties; the Bolivian operations were retained. Export sales of fish oil and fish meal were approximately \$20.9 million, \$26.7 million and \$25.8 million in fiscal 1996, 1995 and 1994, respectively. Such sales were made primarily to European markets. In fiscal 1995, net sales to one customer by the marine protein segment were approximately \$12.3 million; in 1996 and 1994 no sales to any one customer exceeded 10% of consolidated sales. Based on Envirodyne's December 28, 1995 annual report, Envirodyne's operations are primarily in North/South America and Europe. Envirodyne is a supplier of food packaging products and food service supplies.

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 17. INDUSTRY SEGMENT AND GEOGRAPHIC INFORMATION -- (CONTINUED)  
INDUSTRY SEGMENT INFORMATION

YEAR ENDED SEPTEMBER 30	REVENUES	OPERATING INCOME (LOSS)	IDENTIFIABLE ASSETS	DEPRECIATION DEPLETION AND AMORTIZATION	CAPITAL EXPENDITURES
(IN THOUSANDS)					
1996					
Marine protein.....	\$ 93,609	\$ 10,504	\$ 86,969	\$ 3,167	\$ 4,009
Oil and gas.....	2,069	(4,799) (1)	9,887	240	2,580
Corporate.....	--	(4,553) (2)	136,287 (7)	85	1
	<u>\$ 95,678</u>	<u>\$ 1,152</u>	<u>\$233,143</u>	<u>\$ 3,492</u>	<u>\$ 6,590</u>
1995					
Marine protein.....	\$ 94,959	\$ (6,437) (3)	\$ 85,012	\$14,977 (3)	\$ 5,573
Oil and gas.....	8,109	658	13,571	2,856	1,767
Corporate.....	--	(3,441)	38,914 (7)	115	1
	<u>\$103,068</u>	<u>\$ (9,220)</u>	<u>\$137,497 (4)</u>	<u>\$17,948</u>	<u>\$ 7,341</u>
1994					
Marine protein.....	\$ 96,614	\$ 5,445	\$ 87,565	\$ 4,535	\$ 3,671
Oil and gas.....	12,549	(28,285) (6)	20,062	33,770 (6)	11,792
Corporate.....	--	(8,767)	44,044 (5)	2,321	67
	<u>\$109,163</u>	<u>\$ (31,607)</u>	<u>\$151,671 (4)</u>	<u>40,626</u>	<u>\$ 15,530</u>

- (1) Includes a \$5.5 million write-down of a production payment receivable related to the sale of the Company's domestic oil and gas properties.
- (2) Includes \$2.1 million of merger costs that were expensed when the proposed merger with Houlihan's was terminated.
- (3) Includes a \$12.3 million provision for asset impairment to reduce the marine protein assets to their fair market value as a result of adopting SFAS 121.
- (4) Excludes net assets of discontinued operations of \$101.9 million and \$103.1 million in fiscal 1995 and 1994, respectively.
- (5) Includes Zapata's investment in Tidewater. See Note 7.
- (6) Includes a \$29.2 million provision for oil and gas property valuation required as a result of low gas prices and a revision of estimated future costs.
- (7) Includes Zapata's investment in Envirodyne. See Note 7.

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 18. QUARTERLY FINANCIAL DATA (UNAUDITED)

CONSOLIDATED QUARTERLY INFORMATION

	THREE MONTHS ENDED			
	DEC. 31	MAR. 31	JUN. 30	SEP. 30
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
FISCAL 1996				
Revenues.....	\$23,942	\$14,800	\$ 21,531	\$35,405
Operating income (loss).....	\$ 2,367	\$ 1,425	\$ 3,471	\$(6,111) (2)
Other expense net.....	(1,324) (1)	(1,147)	(1,564)	(650)
Provision (benefit) for income taxes.....	421	155	726	(2,314)
Income (loss) from continuing operations.....	622	123	1,181	(4,447)
Income (loss) from discontinued operations.....	13,186	(4,110)	--	--
Cumulative effect of change in accounting principle, net.....	467 (1)	--	--	--
Net income (loss).....	\$14,275	\$(3,987)	\$ 1,181	\$(4,447)
Per share:				
Income (loss) from continuing operations.....	\$ 0.03	\$ --	\$ 0.04	\$ (0.15)
Income (loss) from discontinued operations.....	0.43	(0.13)	--	--
Cumulative effect of change in accounting principle.....	0.02	--	--	--
Net income (loss).....	\$ 0.48	\$ (0.13)	\$ 0.04	\$ (0.15)
FISCAL 1995				
Revenues.....	\$22,357	\$22,237	\$ 24,199	\$34,275
Operating income (loss).....	\$ 311	\$ (202)	\$(11,129) (4)	\$ 1,800
Other income (expense), net.....	145	4,434 (3)	(382)	(4,000) (6)
Provision (benefit) for income taxes.....	181	1,518	(3,964)	(914)
Income (loss) from continuing operations.....	275	2,714	(7,547)	(1,286)
Income from discontinued operations.....	473	217	405	56
Reversal of reserve for loss on disposition, net of income taxes.....	--	--	8,897 (5)	--
Net income (loss).....	\$ 748	\$ 2,931	\$ 1,755	\$(1,230)
Per share:				
Income (loss) from continuing operations.....	\$ 0.01	\$ 0.08	\$ (0.25)	\$ (0.04)
Income from discontinued operations.....	0.01	0.01	0.31	--
Net income (loss).....	\$ 0.02	\$ 0.09	\$ 0.06	\$ (0.04)

(1) Effective October 1, 1995, Zapata changed its method of accounting for its investment in Envirodyne to a three-month lag basis. See note 2.

(2) Includes a \$5.5 million pretax write-down of a receivable associated with the disposition of the Company's domestic oil and gas assets and \$2.1 million of merger costs that were expensed when the proposed merger with Houlihan's was terminated.

(3) Includes a pretax gain of \$4.8 million from the sale of 673,077 shares of Tidewater common stock.

(4) Includes a \$12.3 million pretax provision for asset impairment to reduce the marine protein assets to their estimated fair market value that was recorded in the third and fourth fiscal quarters.

(5) Includes the reversal of an \$8.9 million after-tax loss due to the decision to retain Zapata Protein.



(6) Includes a \$2.8 million pretax write-down of an investment in Warehouse Entertainment, Inc. debentures.

ZAPATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 19. SUBSEQUENT EVENT (UNAUDITED)

On December 30, 1996, the Company announced its intention to commence a tender offer to purchase for cash up to 15 million shares of Common Stock for a price of \$4.50 per share. The offer will be conditioned upon a minimum of 10 million shares of Common Stock being tendered and will be subject to the satisfaction of other customary conditions. Malcolm Glazer, Chairman of the Board of the Company and, through his beneficial ownership of a trust, the owner of 10,395,384 shares of Common Stock intends to participate in the tender offer by tendering 3 million shares of Common Stock. The Company intends to use its available cash to purchase Common Stock pursuant to the tender offer.

The following pro forma information for Zapata gives effect to the tender offer assuming (i) 10 million shares and (ii) 15 million shares of Common Stock are tendered for \$4.50 per share. The pro forma information for the twelve months ended September 30, 1996 includes the historical results of Zapata adjusted for the tender offer assuming the tender offer had been consummated on October 1, 1995. The Company's income statement is not significantly effected by the tender offer; the Company's pro forma revenues, income from continuing operations and net income do not change. The pro forma balance sheet information includes the historical results of Zapata adjusted for the tender offer assuming the tender offer had been consummated on September 30, 1996.

The supplemental pro forma amounts presented below may not be indicative of the results that would have actually resulted if the transaction had occurred on the date indicated or that may be obtained in the future (amounts in thousands, except per share amounts).

	10 MILLION SHARES PURCHASED -----	15 MILLION SHARES PURCHASED -----
TWELVE MONTHS ENDED SEPTEMBER 30, 1996		
Loss per share from continuing operations.....	\$ (0.13)	\$ (0.17)
AS OF SEPTEMBER 30, 1996		
Cash.....	\$ 54,601	\$32,101
Stockholders' equity.....	107,313	84,813

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

The information set forth under "Items 1. and 2. Business and Properties -- Executive Officers of the Registrant" is incorporated herein by reference.

Set forth below is information respecting the directors of the Company. Each director is elected for a term of three years and serves until his successor is elected and qualified. Ages given are as of December 16, 1996.

Malcolm I. Glazer, a director since 1993, has served as Chairman of the Board of Directors since July 1994, and served as President and Chief Executive Officer of Zapata from August 1994 until March 1995. He also has been a self-employed private investor for more than the past five years. His diversified portfolio consists of ownership of the Tampa Bay Buccaneers National Football League franchise and investments in television broadcasting, restaurants, food services equipment, health care, banking, real estate, stocks, government securities and corporate bonds. He is a director and Chairman of the Board of Houlihan's Restaurant Group, Inc. and also is a director of Specialty Equipment Companies, Inc. and Envirodyne Industries, Inc. He is 68 years of age. His current term of office as a director expires in 1999.

Avram A. Glazer, a director since 1993, has served as President and Chief Executive Officer of the Company since March 1995. For the past five years, he has been employed by, and has worked on behalf of, Malcolm I. Glazer and a number of entities owned and controlled by Malcolm I. Glazer. He also serves as a director of Envirodyne Industries, Inc., Houlihan's Restaurant Group, Inc. and Specialty Equipment Companies, Inc. He is 36 years of age and his current term of office as a director expires in 1997. Avram A. Glazer is a son of Malcolm I. Glazer.

Ronald C. Lassiter, a director since 1974, has been the Chairman and Chief Executive Officer of Zapata Protein, Inc. (a wholly owned subsidiary of the Company) since January 1993. He served as Acting Chief Operating Officer of Zapata from December 1994 to March 1995, Chairman of the Board of Directors of Zapata from December 1985 to July 1994, Chief Executive Officer of Zapata from January 1983 to July 1994, and various other positions with Zapata since 1970. Mr. Lassiter is also a director and Chairman of Daniel Industries, Inc. He is 64 years of age. His current term of office as a director expires in 1999.

Robert V. Leffler, Jr. has served as a director since May 1995. For more than the past five years, he has operated the Leffler Agency, an advertising and marketing/public relations firm in Baltimore, Maryland that specializes in sports, rental real estate and medical areas. Among the clients of the Leffler Agency are the Tampa Bay Buccaneers, owned by Malcolm I. Glazer. Mr. Leffler is 51 years of age and serves on the Audit Committee of the Company's Board of Directors. His current term of office as a director expires in 1998.

#### Section 16(a) Beneficial Ownership Reporting Compliance

Based solely upon a review of copies of Forms 3 and 4 and amendments thereto furnished to the Company during the fiscal year ended September 30, 1996 and Forms 5 and amendments thereto with respect to such year and certain written representations that no Form 5 is required, the Company is not aware of any failure on the part of any person subject to Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), with respect to the Company during fiscal 1996 to file on a timely basis any form or report required by Section 16(a) of the Exchange Act during such fiscal year or prior fiscal years.

58

61

#### ITEM 11. EXECUTIVE COMPENSATION.

The following table sets forth information regarding compensation with respect to the fiscal years ended September 30, 1996, 1995 and 1994 for services in all capacities rendered to the Company and its subsidiaries by the Company's chief executive officer and the other most highly compensated executive officers of the Company with annual salary and bonus compensation in excess of \$100,000 who were serving as executive officers on September 30, 1996 (the "Named Officers").

#### SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION		
		SALARY	BONUS	ALL OTHER COMPENSATION (1)
Avram A. Glazer	1996	\$300,000	--	--

President and Chief Executive Officer(2)	1995	183,240	--	
Ronald C. Lassiter	1996	215,900	\$73,600	--
Chairman and Chief Executive Officer	1995	197,000	--	--
of Zapata Protein, Inc.(3)	1994	344,859	--	--
Joseph L. von Rosenberg III	1996	129,687	50,000 (4)	\$ 9,281
Executive Vice President, General	1995	117,750	25,000	--
Counsel and Corporate Secretary	1994	91,000	--	--
Robert A. Gardiner	1996	100,695	25,000	6,722
Vice President and Chief Financial Officer	1995	85,785	15,000	5,464
	1994	77,953	5,000	1,738

- - - - -

- (1) The amounts indicated represent Zapata's contributions to its profit-sharing plan.
- (2) In March 1995, Mr. A. Glazer was elected as President and Chief Executive Officer of Zapata. In addition to regular salary, the amount shown in the "Salary" column includes director and board committee fees for the portion of the 1995 fiscal year during which Mr. A. Glazer was not an executive officer.
- (3) Amounts in the "Salary" column include amounts paid to Mr. Lassiter under the consulting agreement between Zapata and Mr. Lassiter described below under "--Employment Agreements." Amounts in the "Salary" column also include director and board committee fees of \$40,900 and \$20,000 for fiscal years 1996 and 1995, respectively.
- (4) Mr. von Rosenberg's employment agreement provides that he will receive a bonus of at least \$50,000 for the 1996 calendar year. See "--Employment Agreements."

While the officers of Zapata receive benefits in the form of certain perquisites, none of the Named Officers has received perquisites which exceed in value the lesser of \$50,000 or 10% of such officer's salary and bonus for any of the fiscal years shown in the Summary Compensation Table.

#### FISCAL YEAR-END OPTION VALUES

NAME	NUMBER OF	VALUE OF
	SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END EXERCISABLE/UNEXERCISABLE	UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END EXERCISABLE/UNEXERCISABLE
Avram A. Glazer.....	20,000/0	0/0
Ronald C. Lassiter.....	0/0	0/0
Joseph L. von Rosenberg III.....	20,000/0	0/0
Robert A. Gardiner.....	6,000/0	\$ 3,375/0

On September 30, 1996, the closing price per share of Common Stock on the NYSE was \$3.625. No options were exercised by or granted to any of the Named Officers in fiscal 1996.

#### PENSION PLAN INFORMATION

Effective January 15, 1995, Zapata amended its Pension Plan to provide that highly compensated employees (those having covered annual compensation in excess of \$66,000) will not earn additional benefits under the plan after that date. In addition, Zapata terminated its Supplemental Pension Plan except with respect to benefits already accrued. Named Officers who are participants in the Pension Plan include Messrs. Lassiter, von Rosenberg and Gardiner. Mr. Lassiter retired for purposes of the Pension Plan effective August 1, 1994 and receives annual benefits of \$87,860 under the Pension Plan and \$101,512 under the Supplemental Pension Plan. Upon retirement, the estimated annual benefits payable under the Pension Plan to Mr. von Rosenberg and Mr. Gardiner are \$2,410 and \$18,400, respectively (assuming payments commence at age 65 on a single life annuity

basis).

#### EMPLOYMENT AGREEMENTS

Effective as of March 15, 1991, Zapata entered into an employment agreement with Mr. Lassiter. The agreement provided for continuation of salary for a three-year period following termination of employment under certain circumstances occurring within two years after a change of control. A "change of control" for purposes of this provision occurred in July 1992. As a result of the change in Mr. Lassiter's responsibilities in July 1994, Mr. Lassiter terminated his employment under this provision of his contract. Subsequently, Mr. Lassiter entered into a consulting agreement (the "Lassiter Consulting Agreement") with Zapata under which he agreed to serve as Chairman and Chief Executive Officer of Zapata Protein, Inc. for the same aggregate compensation he would have been entitled to receive under the termination provisions of the employment agreement, with the payment schedule deferred over a more extended period of time so long as Mr. Lassiter continues to serve under the Lassiter Consulting Agreement. The payments to Mr. Lassiter under the provisions of the Lassiter Consulting Agreement are included in the "Salary" column of the Summary Compensation Table.

Effective as of June 1, 1996, Zapata entered into an employment agreement with Mr. von Rosenberg. The agreement provides for a base salary of \$165,000 per year. The base salary is subject to review at least annually, provided that it may not be decreased without Mr. von Rosenberg's consent. Under the agreement, Mr. von Rosenberg is entitled to receive a bonus of at least \$50,000 for the 1996 calendar year. Prior to any change in control of Zapata, the agreement provides for a payment to Mr. von Rosenberg of 150% of his base salary in the event of termination of his employment with Zapata (i) by Mr. von Rosenberg for Good Reason (as defined in the employment agreement) or (ii) by Zapata without Cause (as defined in the employment agreement). Following any change in control of Zapata, Mr. von Rosenberg generally would be entitled to an amount equal to 2.99 times his average annual compensation for the five-calendar-year period immediately preceding the change in control in the event of termination of his employment with Zapata (i) by Mr. von Rosenberg for Good Reason within one year after the change in control or (ii) by Zapata without Cause. The agreement terminates on November 30, 1997 but will be renewed automatically for each subsequent 18-month period, except as the parties may otherwise agree.

#### COMPENSATION OF DIRECTORS

During the fiscal year ended September 30, 1996, those members of the Board of Directors who were not employees of the Company were paid an annual retainer of \$20,000 (paid on a quarterly basis, plus \$1,000 for each committee of the Board of Directors on which a member of the Board of Directors served. Those directors who also are employees of the Company do not receive any additional compensation for their services as directors.

Pursuant to Zapata's Amended and Restated Special Incentive Plan, each nonemployee director of Zapata automatically receives, following initial appointment or election to the Board of Directors, a grant of options to purchase 20,000 shares of Common Stock at the fair market value on the date of the grant. Each such option is exercisable in three equal annual installments after the date of the grant.

As members of the Special Committee, Mr. Lassiter, Chairman of the Special Committee, was paid \$20,000 and Messrs. Leffler and W. George Loar (a director until his death in September 1996) were paid

\$15,000 each for their work in connection with a proposed merger of Houlihan's with a wholly owned subsidiary of Zapata. That transaction was terminated by Zapata in October 1996. Zapata also entered into indemnification agreements with the members of the Special Committee containing provisions for comprehensive indemnification and advancement of expenses to the fullest extent permitted by applicable law.

Peter M. Holt served as a director of Zapata until his resignation in November 1995. In November 1993, Mr. Holt and Zapata entered into a three-year consulting agreement (the "Holt Consulting Agreement") pursuant to which Zapata agreed to pay Mr. Holt an annual consulting fee of \$200,000 for the first year, \$150,000 for the second year and \$130,000 for the third year. Pursuant to the

Holt Consulting Agreement, during the first eighteen months of its term, Mr. Holt served in the capacity of Chairman and Chief Executive Officer of the divisions or subsidiaries of the Company engaged in the natural gas compression business. The Holt Consulting Agreement provided that, commencing in May 1995 and for the remaining 18 months of the term of the Holt Consulting Agreement, Mr. Holt would serve as Chairman of such divisions and subsidiaries. Mr. Holt also served as Chief Executive Officer of such divisions and subsidiaries. The Company's remaining obligations under the Holt Consulting Agreement terminated in November 1995 upon Mr. Holt's resignation from the Board of Directors of the Company and from all of his management and board positions with affiliates of the Company.

#### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

For the fiscal year ended September 30, 1996, the Compensation Committee was initially comprised of Avram A. Glazer, Ronald C. Lassiter, Robert V. Leffler, Jr. and Peter M. Holt (Mr. Holt resigned as a director in November 1995). Mr. A. Glazer served on the Compensation Committee until his resignation from the committee in January 1996. Messrs. Lassiter and Leffler served on the Compensation Committee until the Board of Directors assumed the responsibilities of the Compensation Committee effective May 1996. Messrs. A. Glazer and Lassiter were officers of Zapata (or one or more of its subsidiaries) during the fiscal year ended September 30, 1996.

In November 1993, Zapata purchased the natural gas compression business of Energy Industries for an aggregate of \$74 million in cash and 2,700,000 shares of Common Stock. At the time of the acquisition, Mr. Holt was the chief executive officer of Energy Industries, as well as its majority shareholder. In fiscal 1995, Zapata made indemnification claims against Mr. Holt and the other sellers aggregating approximately \$7 million under the purchase agreement relating to Zapata's acquisition of Energy Industries. As of November 13, 1996, such claims remained unresolved. In connection with the acquisition of Energy Industries, Zapata entered into a three-year noncompetition agreement and the Holt Consulting Agreement. These agreements were not affected by the Energy Industries Sale. However, as a result of Mr. Holt's resignation in November 1995, Zapata's obligations under the Holt Consulting Agreement were terminated.

During fiscal 1995, Energy Industries purchased Caterpillar engines and parts from Holt Company of Texas, a corporation owned by Mr. Holt, for consideration totaling \$10.4 million. Zapata believes that such payments are comparable to those that would have been made to nonaffiliated entities for comparable products.

On February 14, 1995, Zapata entered into a stock purchase agreement with ZP Acquisition Corp. ("ZP") for the sale of Zapata Protein, Inc. Ronald C. Lassiter held an ownership interest in ZP, which committed to buy all of the issued and outstanding shares of Zapata Protein, Inc. for \$56 million. ZP and its guarantors failed to close the transaction and perform their obligations under the purchase agreement and related guaranty agreement. Zapata has filed a lawsuit in the District Court of Harris County, Texas, number 95-26579, styled Zapata Corporation v. ZP Acquisition Corp., et al., seeking to recover all damages arising from the failure to close the Zapata Protein transaction. Zapata has considered from time to time other transactions that would involve its marine protein operations, including the acquisition of related businesses that would be combined with the marine protein operations and the sale or spin-off to its stockholders of those operations. Ronald C. Lassiter, a director of Zapata and Chairman of the Special Committee, is Chairman and Chief Executive Officer of Zapata Protein, Inc. and could leave Zapata and continue with the marine protein operations in case of their disposition by Zapata.

In August 1995, Zapata purchased 4,189,298 shares of the common stock of Envirodyne for \$18.8 million from the Malcolm Glazer Trust established U/A dated as of March 23, 1990. Such shares represented all of Malcolm I. Glazer's ownership interest in Envirodyne. Zapata paid the purchase price by issuing a subordinated promissory note in a principal amount of \$18.8 million, bearing interest at the prime rate and maturing in August 1997, subject to prepayment at Zapata's option. This transaction was approved by a special committee of Zapata's Board of Directors comprised of Messrs. Lassiter, Leffler and Loar. Zapata prepaid the entire principal amount of the promissory note during the last quarter of fiscal 1995 and first quarter of fiscal 1996.

In September 1995, the Board of Directors established the Special Committee for the purpose of investigating the legal and financial considerations of one or more merger or acquisition transactions involving Zapata and Houlihan's and Specialty. Malcolm I. Glazer and members of his family beneficially own approximately 73% and 45% of the outstanding common stock of Houlihan's and Specialty, respectively, and Malcolm I. Glazer, Avram A. Glazer and other members of their family serve as directors of both of those companies. Subsequently, the Special Committee's authority was expanded to include taking action to approve the issuance of Common Stock and related matters in connection with the Houlihan's Merger. Prior to formation of the Special Committee, Zapata's management and board of directors developed a consensus to pursue the redirection of Zapata's business into the food services industry. The proposed redirection resulted from the perception of management and the Board of Directors that prospects for growth and increased profitability in the gas services industry were limited and that the food services industry included undervalued companies with good growth potential. Zapata's plan to pursue entry into the food services business did not result from a comprehensive assessment of all possible business opportunities, but was developed in the context of Malcolm I. Glazer's interests in Houlihan's and other businesses in the food services industry and with the recognition that companies in which Malcolm I. Glazer had interests would be considered for acquisition in connection with the redirection of Zapata's business. In connection with the Houlihan's Merger, the members of the Special Committee were granted a proxy to vote the approximately 35.2% of the outstanding shares of Common Stock beneficially owned by Malcolm I. Glazer on the Houlihan's Merger in the same manner as the votes cast on the matter by holders of a majority of the shares of Common Stock not beneficially owned by Malcolm I. Glazer present and voting on the matter. On October 8, 1996, Zapata announced that it terminated the Houlihan's Merger Agreement due in part to a court ruling in the Pasternak Case that consummation of the Houlihan's Merger would require the approval of holders of 80% of the outstanding voting stock of Zapata.

On May 6, 1996, Darcie Glazer became employed by Zapata as an investment analyst. She is the daughter of Malcolm I. Glazer. Ms. Glazer's office is in New York City in space which Zapata does not bear any costs of providing. She receives an annual salary of \$95,000 and other standard employee benefits.

Following the death of W. George Loar in September 1996, the composition of the Board of Directors may be deemed not to meet the requirements of the NYSE. Zapata's Board of Directors is in the process of attempting to identify suitable independent candidates for membership on the Board of Directors and expects that additional independent directors will be included as nominees by the Board of Directors for Zapata's 1997 Annual Meeting.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table indicates the number of shares of Common Stock or \$2 Preference Stock owned beneficially as of December 10, 1996, by (i) each person known to Zapata to beneficially own more than 5% of the outstanding shares of either Common Stock or \$2 Preference Stock, (ii) each director, (iii) the Named Officers and (iv) all directors and executive officers as a group. Except to the extent indicated in the footnotes to the following table, each of the persons or entities listed therein has sole voting and sole investment power with respect to the shares which are deemed beneficially owned by such person or entity.

TITLE OF CLASS	BENEFICIAL OWNER	AMOUNT OF SHARES BENEFICIALLY OWNED	
		SHARES	PERCENT OF CLASS
Common Stock.....	Avram A. Glazer(1)	20,000	*
	Malcolm I. Glazer(1)	10,415,384	35.25%
	1482 South Ocean Boulevard Palm Beach, Florida 33480		
	Ronald C. Lassiter	78,477	*
	Robert V. Leffler, Jr.(1)	6,666	*
	Joseph L. von Rosenberg III(1)	20,000	*
	Robert A. Gardiner(1)	6,000	*

	Ryback Management Corporation(2) 7711 Carondelet Avenue, Box 16900 St. Louis, Missouri 63105	4,635,000	15.69%
	Pioneering Management Corporation(3) 60 State Street Boston, Massachusetts 02109-1820 Directors and executive officers as a group (6 persons)	2,083,100	7.05%
\$2 Preference Stock.....	Larry A. Reiten Route 1, Box 297 Bayfield, Wisconsin 54814-9701	10,546,527 150	35.69% 5.70%

\* Represents ownership of less than 1.0%.

- (1) Includes 20,000, 20,000, 6,666, 20,000, and 6,000 shares issuable under options, exercisable within 60 days of December 16, 1996, held by Messrs. A. Glazer, M. Glazer, Leffler, von Rosenberg and Gardiner, respectively.
- (2) As reported on Form 13G dated September 25, 1996 and filed with the Commission. Consists of 2,336,400 and 2,298,600 shares beneficially owned by Linder Growth Fund and Linder Dividend Fund, respectively.
- (3) As reported on Form 13G dated January 26, 1996 and filed with the Commission.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

For information concerning certain transactions and relationships of Peter M. Holt, Ronald C. Lassiter, and Malcolm I. Glazer with the Company, see Item 11. "Executive Compensation -- Compensation Committee Interlocks and Insider Participation," above.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(A) LIST OF DOCUMENTS FILED.

	PAGE
	----
(1) Consolidated financial statements, Zapata Corporation and subsidiary companies --	
Report of Coopers & Lybrand L.L.P., independent accountants.....	22
Consolidated balance sheet -- September 30, 1996 and 1995.....	23
Consolidated statement of operations for the years ended September 30, 1996, 1995 and 1994.....	24
Consolidated statement of cash flows for the years ended September 30, 1996, 1995 and 1994.....	25
Consolidated statement of stockholders' equity for the years ended September 30, 1996, 1995 and 1994.....	26
Notes to consolidated financial statements.....	27
(2) Supplemental Schedule:	
Report of Coopers & Lybrand L.L.P., independent accountants.....	67
I -- Zapata Corporation (parent company financial statements) as of September 30, 1996 and 1995 and for each of the three years in the period ended September 30, 1996.....	68

All schedules, except those listed above, have been omitted since the information required to be submitted has been included in the financial statements or notes or has been omitted as not applicable or not required.

(3) Exhibits

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

## EXHIBIT NO.

## DESCRIPTION OF EXHIBITS

- 3(a)\* -- Restated Certificate of Incorporation of Zapata filed with Secretary of State of Delaware May 3, 1994 (Exhibit 3(a) to Current Report on Form 8-K dated April 27, 1994 (File No. 1-4219)).
- 3(b)\* -- Certificate of Designation, Preferences and Rights of \$1 Preference Stock (Exhibit 3(c) to Zapata's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1993 (File No. 1-4219)).
- 3(c)\* -- Certificate of Designation, Preferences and Rights of \$100 Preference Stock (Exhibit 3(d) to Zapata's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1993 (File No. 1-4219)).
- 3(d) -- By-laws of Zapata, as amended effective November 11, 1996. Certain instruments respecting long-term debt of Zapata and its subsidiaries have been omitted pursuant to Regulation S-K, Item 601. Zapata hereby agrees to furnish a copy of any such instrument to the Commission upon request.
- 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 Special Incentive Plan, as amended and restated effective February 6, 1992 (Exhibit 10(a) to Zapata's Quarterly Report on Form 10-Q for the quarter ended March 31, 1992 (File No. 1-4219)).

64

67

## EXHIBIT NO.

## DESCRIPTION OF EXHIBITS

- 10(d)\*\* -- Zapata 1981 Stock Incentive Plan, as amended and restated effective February 12, 1986 (Exhibit 19(a) to Zapata's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1986 (File No. 1-4219)).
- 10(e)\*\* -- 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(f)\*\* -- Zapata Annual Incentive Plan effective January 1, 1991 (Exhibit 10(h) to Zapata's Registration Statement on Form S-1 (Registration No. 33-40286)).
- 10(g)\*\* -- Cimarron Gas Companies, Inc. Incentive Appreciation Plan, effective as of September 30, 1992 (Exhibit 2(c) to Zapata's Current Report on Form 8-K dated November 24, 1992 (File No. 1-4219)).
- 10(h)\*\* -- Noncompetition Agreement dated as of November 9, 1993 by and among Zapata and Peter M. Holt and Benjamin D. Holt, Jr. (Exhibit 10(q) to Zapata's Annual Report on Form 10-K for the fiscal year ended September 30, 1994 (File No. 1-4219)).
- 10(i)\*\* -- Termination Agreement between Cimarron Gas Companies, Inc. and James C. Jewett dated as of January 24, 1994 (Exhibit 10(a) to Zapata's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 1993 (File No. 1-4219)).
- 10(j)\*\* -- Consulting Agreement dated as of July 1, 1994 between Zapata Corporation and Thomas H. Bowersox (Exhibit 10(w) to Zapata's Annual Report on Form 10-K for the fiscal year ended September 30, 1994 (File No. 1-4219)).
- 10(k)\*\* -- Consulting Agreement between Ronald C. Lassiter and Zapata dated as of July 15, 1994 (Exhibit 10(a) to Zapata's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1994 (File No. 1-4219)).
- 10(l)\*\* -- Employment Agreement between Lamar C. McIntyre and Zapata dated as of October 1, 1994 (Exhibit 10(v) to Zapata's Annual Report on Form 10-K for the fiscal year ended September 30, 1994 (File No. 1-4219)).
- 10(m)\*\* -- Purchase Agreement dated as of April 10, 1995 by and between Norex America, Inc. and Zapata relating to 2,250,000 shares of Zapata Common Stock (Exhibit 10(c) to Zapata's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1995 (File No. 1-4219)).
- 10(n)\*\* -- Assignment and Assumption of Consulting Agreement effective as of July 1, 1995 by and between Zapata and Zapata Protein, Inc. (Exhibit 10(b) to Zapata's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1995 (File No. 1-4219)).



- 10(o)\* -- Stock Purchase Agreement dated as of August 7, 1995 between Zapata Corporation and Malcolm I. Glazer (Exhibit 10(o) to Zapata's Annual Report on Form 10-K for the fiscal year ended September 30, 1995 (File No. 1-4219)).
- 10(p)\*\* -- Mutual Release Agreement dated as of December 1, 1995 by and among Zapata Corporation, Cimarron Gas Holding Company, Robert W. Jackson and the Robert W. Jackson Trust.
- 10(q)\* -- Purchase and Sale Agreement dated March 26, 1996 by and among Cimarron Gas Holding Company, Conoco Inc. and Enogex Products Corporation (Exhibit 2.1 to Zapata's Current Report on Form 8-K dated April 9, 1996 (File No. 1-4219)).
- 10(r)\* -- Amendment and Clarification of Purchase and Sale Agreement, Waiver and Closing Agreement dated April 9, 1996 (Exhibit 2.2 to Zapata's Current Report on Form 8-K dated April 9, 1996 (File No. 1-4219)).

65

68

EXHIBIT NO.	DESCRIPTION OF EXHIBITS
10(s)*	-- Agreement and Plan of Merger dated as of June 4, 1996 among Zapata, Zapata Acquisition Corp. and Houlihan's (Exhibit 2.1 to Zapata's Registration Statement on Form S-4 (Reg. No. 333-06729)).
10(t)*	-- Standstill Agreement dated April 30, 1996 between Zapata and Malcolm I. Glazer (Exhibit 10.18 to Zapata's Registration Statement on Form S-4 (Reg. No. 333-06729)).
10(u)*	-- Irrevocable proxy dated June 4, 1996 granted by Malcolm I. Glazer to members of a Special Committee of the Board of Directors of Zapata (Exhibit 10.19 to Zapata's Registration Statement on Form S-4 (Reg. No. 333-06729)).
10(v)*	-- 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(w)**	-- 1996 Long-Term Incentive Plan of Zapata (Exhibit 10.21 to Zapata's Registration Statement on Form S-4 (Reg. No. 333-06729)).
10(x)+	-- Employment Agreement between Joseph L. von Rosenberg III and Zapata effective as of June 1, 1996.
21	-- Subsidiaries of the Registrant.
23(a)	-- Consent of Huddleston & Co., Inc.
23(b)	-- Consent of Coopers & Lybrand L.L.P.
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) REPORTS ON FORM 8-K.

Current Report on Form 8-K dated September 8, 1996 reporting (Item 5) (1) that W. George Loar, a director of the Company, died on September 8, 1996; and (2) that on September 24, 1996, the Delaware Court of Chancery issued an opinion, in connection with a lawsuit brought by a stockholder, holding that Zapata's proposed acquisition of Houlihan's Restaurant Group, Inc. was subject to a supermajority voting requirement in Zapata's certificate of incorporation.

(C) FINANCIAL STATEMENT SCHEDULE.

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.

66

69

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of Directors,  
Zapata Corporation

Our report on the consolidated financial statements of Zapata Corporation is included on page 22 of this Form 10-K. In connection with our audits of such financial statements, we have also audited the related financial statement schedule listed in Item 14(a)(2) of this Form 10-K.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included herein.

As discussed in Notes 1 and 2, during 1996, the Company changed its method of accounting for its equity interest in an unconsolidated affiliate, reclassified the purchase of certain investments and revised a mathematical error in the 1995 statement of cash flows, and reclassified an expense in the 1994 statement of operations and statement of cash flows and, during 1995, the Company adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of".

COOPERS & LYBRAND L.L.P.

Houston, Texas  
December 23, 1996

67

70

SCHEDULE I

ZAPATA CORPORATION  
(PARENT COMPANY ONLY)  
CONDENSED BALANCE SHEET

	SEPTEMBER 30,	
	1996	1995
	(IN THOUSANDS)	
Current assets:		
Cash and cash equivalents.....	\$ 95,220	\$ 1,418
Restricted cash.....	260	--
Receivables.....	240	1,361
Prepaid expenses and other current assets.....	1,753	1,961
	-----	-----
Total current assets.....	97,473	4,740
	-----	-----
Investments and other assets:		
Investments in and advances to subsidiaries*.....	58,444	155,135
Investments in unconsolidated affiliates.....	21,530	18,235
Other assets.....	14,954	14,881
	-----	-----
Total investments and other assets.....	94,928	188,251
	-----	-----
Property and equipment:		
Cost.....	3,349	3,363
Accumulated depreciation, depletion and amortization.....	(3,158)	(3,080)
	-----	-----
	191	283
	-----	-----
Total assets.....	\$192,592	\$193,274
	=====	=====
Current liabilities:		
Notes payable.....	\$ --	\$ 792
Current maturities of long-term debt.....	15,621	4,795
Accrued liabilities.....	2,159	1,597
Accrued interest.....	512	513
Income taxes payable.....	552	16
	-----	-----
Total current liabilities.....	18,844	7,713
	-----	-----

Long-term debt.....	9,872	28,674
Other liabilities.....	11,563	11,597
Stockholders' equity.....	152,313	145,290
Total liabilities and stockholders' equity.....	\$192,592	\$193,274
	=====	=====

\* Eliminated in consolidation

This condensed statement should be read in conjunction with the Consolidated Financial Statements and Notes thereto which are included in Item 8 herein.

68

71

SCHEDULE I

(CONTINUED)

ZAPATA CORPORATION  
(PARENT COMPANY ONLY)

CONDENSED STATEMENT OF OPERATIONS

	SEPTEMBER 30,		
	1996	1995	1994
	(IN THOUSANDS)		
Expenses:			
Depreciation.....	\$ 85	\$ 115	\$ 2,321
Merger expenses.....	2,066	--	--
General and administrative.....	1,459	1,693	4,127
	3,610	1,808	6,448
Operating loss.....	(3,610)	(1,808)	(6,448)
Other income (expense):			
Interest income.....	4,165	468	841
Interest expense.....	(2,700)	(1,586)	(3,949)
Gain on sale of Tidewater common stock.....	--	4,811	37,457
Equity in income (loss) of consolidated subsidiaries.....	11,168	1,967	(23,897)
Equity in loss of unconsolidated affiliates.....	(4,456)	(719)	--
Other.....	(505)	2,303	3,005
	7,672	7,244	13,457
Income (loss) before income taxes.....	4,062	5,436	7,009
Provision (benefit) for income taxes.....	(2,493)	1,232	10,496
Net income (loss) before extraordinary item and cumulative effect of change in accounting principle.....	6,555	4,204	(3,487)
Extraordinary item, net of income taxes.....	--	--	(4,832)
Cumulative effect of change in accounting principle, net of income taxes.....	467	--	--
Net income (loss).....	\$ 7,022	\$ 4,204	\$ (8,319)
	=====	=====	=====

This condensed statement should be read in conjunction with the Consolidated Financial Statements and Notes thereto which are included in Item 8 herein.

69

72

(CONTINUED)

ZAPATA CORPORATION  
(PARENT COMPANY ONLY)

CONDENSED STATEMENT OF CASH FLOWS

	SEPTEMBER 30,		
	1996	1995	1994
	(IN THOUSANDS)		
Cash flow provided (used) by operating activities:			
Net income.....	\$ 7,022	\$ 4,204	\$ (8,319)
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Depreciation.....	85	115	2,321
Write-down of investment in subordinated debentures...	499	2,788	--
Extraordinary item, net of income taxes.....	--	--	4,832
Cumulative effect of change in accounting principle, net of income taxes.....	(467)	--	--
Gain on sale of other assets, net.....	--	(5,268)	(37,457)
Equity in (income) loss of subsidiaries.....	(11,168)	(1,967)	23,897
Equity in loss of unconsolidated affiliates.....	4,456	719	--
Changes in assets and liabilities:			
Receivables.....	1,121	(661)	(700)
Accounts payable and accrued liabilities.....	1,097	(444)	(991)
Deferred income taxes.....	354	1,443	(1,535)
Other assets and liabilities.....	(995)	(4,868)	2,558
Total adjustments.....	(5,018)	(8,143)	(7,075)
Net cash provided (used) by operating activities.....	2,004	(3,939)	(15,394)
Cash flow provided (used) by investing activities:			
Proceeds from disposition of assets.....	--	14,481	85,853
Restricted cash investments.....	(260)	--	74,083
Advances from subsidiaries.....	107,859	24,061	23,137
Investment in unconsolidated affiliates.....	(7,032)	--	--
Investment in subordinated debentures.....	--	(3,481)	--
Capital expenditures.....	(1)	(1)	(67)
Discontinued business acquisitions, net of cash acquired.....	--	--	(73,222)
Net cash provided by investing activities.....	100,566	35,060	109,784
Cash flow provided (used) by financing activities:			
Borrowings.....	--	1,592	--
Principal payments of long-term obligations.....	(8,768)	(29,475)	(85,524)
Debt prepayment premium.....	--	--	(4,148)
Common Stock repurchase and buyback.....	--	(9,508)	--
Preferred stock redemption.....	--	(2,255)	(2,245)
Dividend payments.....	--	(1,153)	(1,566)
Net cash used by financing activities.....	(8,768)	(40,799)	(93,483)
Net increase (decrease) in cash and cash equivalents.....	93,802	(9,678)	907
Cash and cash equivalents at beginning of year.....	1,418	11,096	10,189
Cash and cash equivalents at end of year.....	\$ 95,220	\$ 1,418	\$ 11,096

This condensed statement should be read in conjunction with the Consolidated Financial Statements and Notes thereto which are included in Item 8 herein.

(CONTINUED)

ZAPATA CORPORATION  
(PARENT COMPANY ONLY)

These notes to condensed financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto which are included in Item 8 hereto.

NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE 1. CHANGE IN ACCOUNTING PRINCIPLE

Effective October 1, 1995, the Company changed its method of accounting for its equity interest in Envirodyne Industries, Inc. ("Envirodyne"). Since Envirodyne's financial statements are not available to the Company on a basis that would permit concurrent reporting, the Company began reporting its equity in Envirodyne's results of operations on a three-month delayed basis. The Company's financial statements for the quarter ended December 31, 1995 did not include the Company's equity interest in Envirodyne for the corresponding period. The change reduced previously reported income from continuing operations by \$467,000 (\$719,000 before tax), or \$.02 per share, with a corresponding cumulative effect for the change in accounting principle of \$467,000 in the quarter ended December 31, 1995.

The following table reflects on a pro forma basis the effect of retroactively applying the new accounting principle (amounts in thousands).

	YEARS ENDED SEPTEMBER 30,	
	1996	1995
Net income.....	\$6,555	\$4,671

Envirodyne's net loss for the quarter ended September 26, 1996 reported in their Form 10-Q but not yet recorded in Zapata's financial statements is \$3,924,000, of which Zapata's interest is \$1,593,000. This loss, net of amortization of \$310,000, will be recorded by the Company in its results of operations for the quarter ending December 31, 1996.

NOTE 2. RECLASSIFICATIONS AND REVISION

During 1996, the Company reclassified the purchase of investments of approximately \$3.5 million previously presented as cash used by operating activities to cash used by investing activities and made a revision for a mathematical error to increase cash used by operating activities and cash provided by investing activities by approximately \$3.9 million in the 1995 statement of cash flows. In addition, during 1996, the Company reclassified expenses related to the early extinguishment of debt of approximately \$4.8 million net of income taxes of \$2.6 million from other income (expense) to extraordinary item in the 1994 statement of operations. Other reclassifications of prior year information have been made to conform with current year presentation. These reclassifications had no effect on net income (loss), total assets or stockholders' equity.

NOTE 3. LONG-TERM OBLIGATION

Zapata Corporation leases office space in accordance with an agreement that expires in August 2002. Such office space has been fully subleased. In accordance with the lease agreement, annual payments are approximately \$480,000 until August 31, 1997 and approximately \$629,000 thereafter; however, the lease payments are fully offset by the sublease receipts.

NOTE 4. ANNUAL MATURITIES OF LONG-TERM DEBT

The annual maturities of long-term debt for the five years ending September 30, 2001 are as follows (in thousands):

1997	1998	1999	2000	2001
\$15,621	\$ --	\$ --	\$ --	\$9,872

NOTE 5. ADOPTION OF NEW ACCOUNTING PRINCIPLE

In April 1995, Zapata adopted Statement of Financial Accounting Standards No. 121 ("SFAS 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," which established accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used or to be disposed of. In accordance with SFAS 121, 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.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

ZAPATA CORPORATION  
(Registrant)

By: /s/ Joseph L. Von Rosenberg  
III

(Joseph L. von Rosenberg III  
Executive Vice President, General  
Counsel and  
Corporate Secretary)

December 30, 1996

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
Avram A. Glazer* (Avram A. Glazer)	President and Chief Executive Officer (Principal Executive Officer) and Director	December 30, 1996
/s/ Robert A. Gardiner (Robert A. Gardiner)	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	December 30, 1996
Malcolm I. Glazer* (Malcolm I. Glazer)		
Ronald C. Lassiter* (Ronald C. Lassiter)	Directors of the Registrant	December 30, 1996
Robert V. Leffler, Jr.* (Robert V. Leffler, Jr.)		

\*By: /s/ Joseph L. von Rosenberg

(Joseph L. von Rosenberg III  
Attorney-in-Fact)

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

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION OF EXHIBITS
3(a)*	-- Restated Certificate of Incorporation of Zapata filed with Secretary of State of Delaware May 3, 1994 (Exhibit 3(a) to Current Report on Form 8-K dated April 27, 1994 (File No. 1-4219)).
3(b)*	-- Certificate of Designation, Preferences and Rights of \$1 Preference Stock (Exhibit 3(c) to Zapata's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1993 (File No. 1-4219)).
3(c)*	-- Certificate of Designation, Preferences and Rights of \$100 Preference Stock (Exhibit 3(d) to Zapata's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1993 (File No. 1-4219)).
3(d)	-- By-laws of Zapata, as amended effective November 11, 1996. Certain instruments respecting long-term debt of Zapata and its subsidiaries have been omitted pursuant to Regulation S-K, Item 601. Zapata hereby agrees to furnish a copy of any such instrument to the Commission upon request.
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 Special Incentive Plan, as amended and restated effective February 6, 1992 (Exhibit 10(a) to Zapata's Quarterly Report on Form 10-Q for the quarter ended March 31, 1992 (File No. 1-4219)).
10(d)*+	-- Zapata 1981 Stock Incentive Plan, as amended and restated effective February 12, 1986 (Exhibit 19(a) to Zapata's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1986 (File No. 1-4219)).
10(e)*+	-- 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(f)*+	-- Zapata Annual Incentive Plan effective January 1, 1991 (Exhibit 10(h) to Zapata's Registration Statement on Form S-1 (Registration No. 33-40286)).
10(g)*+	-- Cimarron Gas Companies, Inc. Incentive Appreciation Plan, effective as of September 30, 1992 (Exhibit 2(c) to Zapata's Current Report on Form 8-K dated November 24, 1992 (File No. 1-4219)).
10(h)*+	-- Noncompetition Agreement dated as of November 9, 1993 by and among Zapata and Peter M. Holt and Benjamin D. Holt, Jr. (Exhibit 10(q) to Zapata's Annual Report on Form 10-K for the fiscal year ended September 30, 1994 (File No. 1-4219)).
10(i)*+	-- Termination Agreement between Cimarron Gas Companies, Inc. and James C. Jewett dated as of January 24, 1994 (Exhibit 10(a) to Zapata's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 1993 (File No. 1-4219)).
10(j)*+	-- Consulting Agreement dated as of July 1, 1994 between Zapata Corporation and Thomas H. Bowersox (Exhibit 10(w) to Zapata's Annual Report on Form 10-K for the fiscal year ended September 30, 1994 (File No. 1-4219)).
10(k)*+	-- Consulting Agreement between Ronald C. Lassiter and Zapata dated as of July 15, 1994 (Exhibit 10(a) to Zapata's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1994 (File No. 1-4219)).
10(l)*+	-- Employment Agreement between Lamar C. McIntyre and Zapata dated as of October 1, 1994 (Exhibit 10(v) to Zapata's Annual Report on Form 10-K for the fiscal year ended September 30, 1994 (File No. 1-4219)).

EXHIBIT NO.	DESCRIPTION OF EXHIBITS
-------------	-------------------------

- 
- 10(m)\*+ -- Purchase Agreement dated as of April 10, 1995 by and between Norex America, Inc. and Zapata relating to 2,250,000 shares of Zapata Common Stock (Exhibit 10(c) to Zapata's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1995 (File No. 1-4219)).
  - 10(n)\*+ -- Assignment and Assumption of Consulting Agreement effective as of July 1, 1995 by and between Zapata and Zapata Protein, Inc. (Exhibit 10(b) to Zapata's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1995 (File No. 1-4219)).
  - 10(o)\* -- Stock Purchase Agreement dated as of August 7, 1995 between Zapata Corporation and Malcolm I. Glazer (Exhibit 10(o) to Zapata's Annual Report on Form 10-K for the fiscal year ended September 30, 1995 (File No. 1-4219)).
  - 10(p)\*+ -- Mutual Release Agreement dated as of December 1, 1995 by and among Zapata Corporation, Cimarron Gas Holding Company, Robert W. Jackson and the Robert W. Jackson Trust.
  - 10(q)\* -- Purchase and Sale Agreement dated March 26, 1996 by and among Cimarron Gas Holding Company, Conoco Inc. and Enogex Products Corporation (Exhibit 2.1 to Zapata's Current Report on Form 8-K dated April 9, 1996 (File No. 1-4219)).
  - 10(r)\* -- Amendment and Clarification of Purchase and Sale Agreement, Waiver and Closing Agreement dated April 9, 1996 (Exhibit 2.2 to Zapata's Current Report on Form 8-K dated April 9, 1996 (File No. 1-4219)).
  - 10(s)\* -- Agreement and Plan of Merger dated as of June 4, 1996 among Zapata, Zapata Acquisition Corp. and Houlihan's (Exhibit 2.1 to Zapata's Registration Statement on Form S-4 (Reg. No. 333-06729)).
  - 10(t)\* -- Standstill Agreement dated April 30, 1996 between Zapata and Malcolm I. Glazer (Exhibit 10.18 to Zapata's Registration Statement on Form S-4 (Reg. No. 333-06729)).
  - 10(u)\* -- Irrevocable proxy dated June 4, 1996 granted by Malcolm I. Glazer to members of a Special Committee of the Board of Directors of Zapata (Exhibit 10.19 to Zapata's Registration Statement on Form S-4 (Reg. No. 333-06729)).
  - 10(v)\* -- 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(w)\*+ -- 1996 Long-Term Incentive Plan of Zapata (Exhibit 10.21 to Zapata's Registration Statement on Form S-4 (Reg. No. 333-06729)).
  - 10(x)+ -- Employment Agreement between Joseph L. von Rosenberg III and Zapata effective as of June 1, 1996.
  - 21 -- Subsidiaries of the Registrant.
  - 23(a) -- Consent of Huddleston & Co., Inc.
  - 23(b) -- Consent of Coopers & Lybrand L.L.P.
  - 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.



AMENDED AND RESTATED  
BY-LAWS  
OF  
ZAPATA CORPORATION  
(a Delaware corporation)

---

SECTION 1. Registered Office. The registered office of ZAPATA CORPORATION (hereinafter called the Corporation) shall be in the City of Wilmington, County of New Castle, State of Delaware, and the resident agent in charge thereof shall be The Corporation Trust Company.

SECTION 2. Other Offices. The Corporation may have an office or offices at such other place or places, either within or without the State of Delaware, as the Board of Directors may from time to time determine or as shall be necessary or appropriate for the conduct of the business of the Corporation.

ARTICLE II

Meetings of Stockholders

SECTION 1. Place of Meeting. All meetings of the stockholders of the Corporation shall be held at such place or places, within or without the State of Delaware, as may from time to time be fixed by the Board of Directors, or as shall be specified or fixed in the respective notices or waivers of notice thereof.

SECTION 2. Annual Meetings. The annual meeting of the stockholders of the Corporation for the election of directors and for the transaction of such other business as may come before the meeting shall be held on such date in each year and at such time as shall be designated by the Board of Directors and stated in the notice of the meeting.

SECTION 3. Special Meetings. A special meeting of the stockholders, or of any class thereof entitled to vote, for any purpose or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation, may be called at any time by the Chairman of the Board of Directors or by order of the Board of Directors and shall be called by the Chairman of the Board of Directors or the Board of Directors upon the written request of stockholders holding of record at least 80% of the outstanding shares of stock of the Corporation entitled to vote at such meeting as of the date of such request. Such written request shall state the purpose or purposes for which such meeting is to be called. Business transacted at any such special meeting shall be limited to the purposes stated in the notice.

SECTION 4. Notice of Meetings. Except as otherwise expressly required by law, notice of each meeting of stockholders,

2

whether annual or special, shall be given at least ten (10) days before the date on which the meeting is to be held, to each stockholder of record entitled to vote thereat by delivering a typewritten or printed notice thereof to him personally, or by mailing such notice in a postage prepaid envelope directed to him at his address as it appears on the stock book of the Corporation. Every notice of a special meeting of the stockholders, besides stating the time and place of the meeting, shall state briefly the objects or purposes thereof. Notice of any adjourned meeting of the stockholders shall not be required to be given, except where expressly required by law.

SECTION 5. Record Date. The Board of Directors may fix, in advance, a date as the record date for the purpose of determining stockholders entitled to notice of, or to vote at, any meeting of stockholders,

or stockholders entitled to receive payment of any dividend or the allotment of any rights, or in order to make a determination of stockholders for any other proper purpose. Such date, in any case, shall be not more than sixty days, and in case of a meeting of stockholders not less than ten days, prior to the date on which the particular action requiring such determination of stockholders is to be taken. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

SECTION 6. List of Stockholders. It shall be the duty of the Secretary or other officer of the Corporation who shall have charge of the stock ledger, either directly or through a transfer agent appointed by the Board, to prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at such meeting, arranged in alphabetical order. Such list shall be open to the examination of any stockholder at the place where said meeting is to be held for said ten (10) days, and shall be produced and kept at the time and place of the meeting during the whole time thereof, and subject to the inspection of any stockholder who may be present. The original or a duplicate stock ledger shall be the only evidence as to who are the stockholders entitled to examine such list or the books of the Corporation or to vote in person or by proxy at such meeting.

SECTION 7. Quorum. At each meeting of the stockholders, the holders of record of a majority of the issued and outstanding stock of the Corporation entitled to vote at such meeting, present in person or by proxy, shall constitute a quorum for the transaction of business, except where otherwise provided by these By-laws, by the Certificate of Incorporation or by law. In the absence of a quorum, any officer entitled to preside at, or act as Secretary of such meeting, shall have the power to adjourn the meeting from time to time until a quorum shall be constituted. At any such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally called.

SECTION 8. Voting at Meetings. Any holder of shares of capital stock of the Corporation entitled to vote shall be entitled to one vote for each such share, either in person or by proxy executed in

3

writing by him or by his duly authorized attorney in fact. No proxy shall be valid after eleven months from the date of its execution unless otherwise provided in the proxy. Each proxy shall be revocable unless expressly provided therein to be irrevocable and unless it is coupled with an interest sufficient in law to support an irrevocable power. Stockholders of the Corporation shall not have cumulative voting rights in the election of directors.

### ARTICLE III

#### Board of Directors

SECTION 1. General Powers. The property, business and affairs of the Corporation shall be managed by the Board of Directors which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these By-laws directed or required to be exercised or done by the stockholders.

SECTION 2. Number and Term of Office. The number of directors that shall constitute the whole Board of Directors shall be fixed by, and may be increased or decreased from time to time by, the affirmative vote of a majority of the numbers at any time constituting the Board of Directors of the Corporation. In the absence of such a designation, the number of directors constituting the whole Board of Directors shall be five (5). Directors need not be stockholders. Each director shall hold office for the full term of office to which he shall have been elected and until his successor shall have been duly elected and shall qualify, or until his earlier death, resignation or removal.

SECTION 3. Place of Meetings. The Board of Directors may hold its meetings, have one or more offices, and keep the books and records of the Corporation, at such place or places within or without the State of Delaware, as the Board may from time to time determine.

SECTION 4. First Meeting. After each annual election of Directors and on the same day or as soon thereafter as convenient, the Board of Directors shall meet for the purpose of organization, the election of officers and the transaction of other business at the place where such annual election is held. Notice of such meeting need not be given. Such meeting may be held at any other time or place as shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors or in a consent and waiver of notice thereof signed by all the directors.

SECTION 5. Regular Meetings. Regular meetings of the Board of Directors may be held without notice at such time and place as shall from time to time be determined by the Board.

SECTION 6. Special Meetings. Special meetings of the Board of Directors may be held at any time upon the call of the Chairman of the Board and Chief Executive Officer, the Secretary or any two directors of the Corporation. Notice shall be given, either

-3-

4

personally or by mail or telegram at least twenty-four hours before the meeting. Notice of the time, place and purpose of such meeting may be waived in writing before or after such meeting, and shall be equivalent to the giving of notice. Attendance of a director at such meeting shall also constitute a waiver of notice thereof, except where he attends for the announced purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

SECTION 7. Quorum. A majority of the directors at the time in office present at any regular or special meeting of the Board of Directors shall constitute a quorum for the transaction of business; except that in no case shall a quorum be less than one-third of the total number of directors authorized; and, except as otherwise required by statute, by the Certificate of Incorporation or by these By-laws, the act of a majority of the directors present at any such meeting at which a quorum is present shall be the act of the Board. In the absence of a quorum, a majority of the directors present may adjourn the meeting from time to time until a quorum shall be present. Notice of any adjourned meeting need not be given.

SECTION 8. Vacancies and Newly Created Directorships. Any vacancy that shall occur in the Board of Directors by reason of death, resignation, disqualification or removal or any other cause whatever, and newly created directorships resulting from any increase in the authorized number of directors, may be filled by a majority of the remaining directors (though less than a quorum) or by the stockholders of the Corporation at the next annual meeting or any special meeting called for the purpose, and, except as otherwise provided by the Certificate of Incorporation with respect to newly created directorships filled by the Board of Directors, each director so chosen shall hold office until the annual meeting at which the term of the class to which he shall have been elected expires and until his successor shall be duly elected and shall qualify, or until his earlier death, resignation or removal.

SECTION 9. Committees. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of two or more of the directors of the Corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. Any such committee, to the extent provided by the Board, shall have and may exercise the powers of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; provided, however, that in the absence or disqualification of any member of such committee or committees, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Such committee or committee shall have such name or names as may be

determined from time to time by resolution adopted by the Board of Directors. Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors when required.

-4-

5

SECTION 10. Action Without a Meeting. Unless otherwise restricted by the Certificate of Incorporation or these By-laws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if prior to such action a written consent thereto is signed by all members of the Board or of such committee as the case may be, and such written consent is filed with the minutes of proceedings of the Board or of such committee.

SECTION 11. Compensation of Directors. Directors, as such, shall not receive any stated salary for their services, but may be paid for their services such amounts as may be fixed from time to time by resolution of the Board. Expenses of attendance, if any, may be paid for attendance at each regular or special meeting of the Board. No such payments shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

SECTION 12. Vote of Directors. Notwithstanding anything to the contrary in these By-laws, the following actions shall require the vote of six (6) Directors: (a) any alteration, amendment or repeal of these By-laws; (b) the issuance of, or the adoption of any agreement or plan for the issuance of, any stock, rights, or other securities (including, without limitation, securities convertible into or exchangeable or exercisable for stock of the Company) to the stockholders or any class thereof generally, any term of which is contingent upon or effective upon the acquisition by any person of any of or all of the Company's stock or upon any other action by any person with respect to such stock; (c) the creation of any committee of the Board of Directors; (d) the filling of vacancies on the Board of Directors or any committee thereof created by the death, resignation or removal of Malcolm I. Glazer or Avram A. Glazer; or (e) any action to remove Malcolm I. Glazer or Avram A. Glazer from any committee of the Board of Directors. Notwithstanding anything to the contrary in these By-laws, effective with the Corporation's 1995 annual meeting of stockholders, the action in this Section 12 shall require the vote of five (5) Directors.

#### ARTICLE IV

##### Officers

SECTION 1. Title, Number and Salaries. The officers of the Corporation shall be elected by the Board of Directors, and shall consist of a Chairman of the Board and Chief Executive Officer, Vice Presidents, a Secretary, a Treasurer, and such Assistant Secretaries and Assistant Treasurers as the Board of Directors may from time to time designate, all of whom shall hold office until their successors are elected and qualified. Two or more offices, except the office of Chairman of the Board and Chief Executive Officer and the office of the Secretary, may be held by the same person, but no officer shall execute, acknowledge or verify any instrument in more than one capacity. The salaries of the officers shall be determined by the Board of Directors or committee duly designated thereby, and may be

-5-

6

altered from time to time except as otherwise provided by contract. All officers shall be entitled to be paid or reimbursed for all cost and expenditures incurred in the Corporation's business.

SECTION 2. Vacancies. Whenever any vacancies shall occur in any office by death, resignation, increase in the number of officers of the Corporation, or otherwise, the same shall be filled by the Board of Directors, and the officer so elected shall hold office until his successor is

chosen and qualified.

SECTION 3. Removal. Any officer or agent elected or appointed by the Board of Directors may be removed by the Board of Directors whenever in its judgment the best interests of the Corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

SECTION 4. Chairman of the Board. The Chairman of the Board shall preside at all meeting of the stockholders and directors, shall be ex officio a member of all standing committees to which he is not otherwise appointed, shall see that all orders and resolutions of the Board are carried into effect, and, subject to the directions of the Board, shall have general and active management of the business of the Corporation and shall perform such other duties as may from time to time be assigned to him by the Board.

SECTION 5. Chief Executive Officer and President. The Chief Executive Officer and President shall be the chief administrative officer of the Corporation, and subject to the provisions of SECTION 4 of this ARTICLE IV, shall perform all the duties incident to the office of Chief Executive Officer and President of a corporation and, subject to the direction of the Board, shall have general and active management of the business of the Corporation and shall perform all duties incident to the office of Chief Executive Officer and President of a corporation and such other duties as may from time to time be assigned to him by the Board. At the request of the Chairman of the Board or of the Board, or in the absence or disability of the Chairman of the Board, the Chief Executive Officer and President shall have all the powers and perform all the duties of the Chairman of the Board.

SECTION 6. Vice Presidents. In the absence or disability of the Chairman of the Board and Chief Executive Officer, the Vice Presidents, in the order of their seniority, shall perform the duties and exercise the powers of the Chairman of the Board and Chief Executive Officer, other than as otherwise provided in the first sentence of SECTION 4 of this ARTICLE IV.

SECTION 7. Secretary. It shall be the duty of the Secretary to attend all meetings of the stockholders and Board of Directors, to record correctly the proceedings had at such meetings in a book suitable for that purpose and to perform like duties for standing committees when required. It shall also be the duty of the Secretary to attest with his signature and the seal of the Corporation all stock certificates issued by the Corporation and to keep a stock ledger in which shall be correctly recorded all transactions pertaining to the capital stock of the Corporation. He shall also attest with his

-6-

7  
signature and the seal of the Corporation all deeds, conveyances or other instruments requiring the seal of the Corporation. The person holding the office of Secretary shall also perform, under the direction and subject to the control of the Board of Directors, such other duties as may be assigned to him. The duties of the Secretary may also be performed by any Assistant Secretary.

SECTION 8. Treasurer. The Treasurer shall keep such funds of the Corporation as may be entrusted to his keeping and account for the same. He shall be prepared at all times to give information as to the condition of the Corporation and shall make a detailed annual report of the entire business and financial condition of the Corporation. The person holding the office of Treasurer shall also perform, under the direction and subject to the control of the Board of Directors, such other duties as may be assigned to him. The duties of the Treasurer may also be performed by any Assistant Treasurer.

SECTION 9. Delegation of Authority. In the case of any absence of any officer of the Corporation or for any other reason that the Board may deem sufficient, the Board of Directors may delegate some or all of the powers or duties of such officer to any other officer or to any director,

employee, stockholder or agent for whatever period of time seems desirable, providing that a majority of the entire Board concurs therein.

## ARTICLE V

### Indemnification and Insurance

SECTION 1. General Indemnification. Subject to the provisions of SECTION 3 of this ARTICLE V, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

SECTION 2. Indemnification in Actions by or in the Right of the Corporation. Subject to the provisions of SECTION 3 of this ARTICLE V, the Corporation shall indemnify any person who was or is a

-7-

8

party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation and except that no indemnification shall be made in respect to any claim, issue or matter as to which such person shall have been adjudged to be liable (i) for any breach of his duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which he derived an improper personal benefit unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all of the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper.

SECTION 3. Determination of Standard of Conduct. Any indemnification under SECTIONS 1 and 2 of this ARTICLE V (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director or officer is proper in the circumstances because he had met the applicable standard of conduct set forth in said SECTIONS 1 and 2. Such determination shall be made (1) by the Board of Directors, by a majority vote of a quorum consisting of directors who were not parties to such action, suitor proceeding, or (2) if such quorum is not obtainable or, even if obtainable and a quorum of disinterested directors so directs, by independent legal counsel (who may be counsel to the Corporation) in a written opinion, or (3) by the stockholders.

SECTION 4. Successful Defense. If a director or

officer of the Corporation has been successful on the merits or otherwise as a party to any action, suit or proceeding referred to in SECTIONS 1 and 2 of this ARTICLE V, or with respect to any claim, issue or matter therein (to the extent that a portion of his expenses can be reasonably allocated thereto), he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

SECTION 5. Expenses During Proceeding. Expenses incurred in defending a civil, criminal, administrative or investigative action, suit or proceeding, or threat thereof, may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors in the specific case upon receipt of an undertaking by or on behalf of the director or officer to whom or on whose behalf any such amount is paid to repay such amount unless it shall ultimately be determined that he is entitled to be indemnified by the Corporation as authorized in this ARTICLE V.

-8-

9

SECTION 6. Exclusivity. The indemnification provided by this ARTICLE V shall not be deemed exclusive of any other rights to which any person indemnified may be entitled under any other By-Law, agreement, vote of stockholders or disinterested directors, or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office and shall continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person.

SECTION 7. Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this ARTICLE V or of Section 145 of the General Corporation Law of the State of Delaware.

SECTION 8. Definitions. For the purposes of this ARTICLE V, references to "the Corporation" include all constituent corporations absorbed in a consolidation or merger as well as the resulting or surviving corporation so that any person who is or was a director or officer of such a constituent corporation or is or was serving at the request of such constituent corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise shall stand in the same position under the provisions of this ARTICLE V with respect to the resulting or surviving corporation as he would if he had served the resulting or surviving corporation in the same capacity. For purposes of this ARTICLE V, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the corporation" shall include any service as a director, officer, employee or agent of the corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to an employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the corporation" as referred to in this ARTICLE V.

## ARTICLE VI

### Shares of Capital Stock and Their Transfer

SECTION 1. Certificates for Stock. Every owner of stock of the Corporation shall be entitled to a certificate or certificates, to be in such form as the Board shall prescribe, certifying the number and class of shares of the capital stock of the Corporation owned by him. The

certificates for the respective classes of such stock shall be numbered in the order in which they shall be issued and shall be signed in the name of the Corporation by the Chairman of the Board and

-9-

10

Chief Executive Officer or any Vice President and the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation and its seal be affixed thereto; provided, however, that, where such certificate is signed by a transfer agent or an assistant transfer agent or by a transfer clerk acting on behalf of the Corporation and a registrar, if the Board shall by Resolution so authorize, the signature of such Chairman of the Board and Chief Executive Officer, Vice President, Treasurer, Secretary, Assistant Treasurer or Assistant Secretary and the seal of the Corporation may be facsimile. In case any officer or officers of the Corporation who shall have signed, or whose facsimile signature or signatures shall have been used on, any such certificate or certificates shall cease to be such officer or officers, whether by reason of death, resignation or otherwise, before such certificate or certificates shall have been delivered by the Corporation, such certificate or certificates may nevertheless be adopted by the Corporation and be issued and delivered as though the person or persons who signed such certificate or certificates, or whose facsimile signature or signatures shall have been affixed thereto, had not ceased to be such officer or officers. A record shall be kept by the Secretary, transfer agent or by any other officer, employee or agent designated by the Board of the name of the person, firm or corporation owning the stock represented by such certificates, the number and class of shares represented by such certificates, respectively, and the respective dates thereof, and in case of cancellation, the respective dates of cancellation. Every certificate surrendered to the Corporation for exchange or transfer shall be cancelled, and no new certificate or certificates shall be issued in exchange for any existing certificate until such existing certificate shall have been so cancelled, except in cases provided for in SECTION 5 of this ARTICLE VI.

SECTION 2. Classes and Series of Classes of Stock.

If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock; provided that, in lieu of the foregoing requirements, there may be set forth on the face or back of the Certificate which the Corporation shall issue to represent such class or series of stock, a statement that the Corporation will furnish without charge to each stockholder who so requests the designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

SECTION 3. Transfer of Stock. Transfers of shares

of the capital stock of the Corporation shall be made only on the books of the Corporation by the registered holder thereof, or by his attorney thereunto authorized by power of attorney duly executed and filed with the Secretary of the Corporation, or with a transfer agent appointed as in SECTION 4 of this ARTICLE VI provided, and on surrender of the certificate or certificates for such shares properly endorsed and the payment of all taxes thereon. The person in whose name shares of stock stand on the books of the Corporation shall be deemed the owner thereof

-10-

11

for all purposes as regards the Corporation; provided, however, that whenever any transfer of shares shall be made for collateral security, and not absolutely, such fact, if known to the Secretary of the Corporation, shall be so expressed in the entry of transfer.



SECTION 4. Regulations. The Board may make such rules and regulations as it may deem expedient, not inconsistent with the Certificate of Incorporation or these By-laws, concerning the issue, transfer and registration of certificates for shares of the stock of the Corporation. It may appoint, or authorize any principal officer or officers to appoint, one or more Transfer Agents and one or more Registrars, and may require all certificates of stock to bear the signature or signatures of any of them.

SECTION 5. Lost, Destroyed or Mutilated Certificates. In case of loss, destruction or mutilation of any certificates of stock, another certificate or certificates may be issued in place thereof upon proof of such loss, destruction, or mutilation and upon the giving of a bond of indemnity to the Corporation in such form and in such sum as the Board may direct; provided, however, that a new certificate may be issued without requiring any bond when, in the judgment of the Board, it is proper so to do.

SECTION 6. Dividends. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Certificate of Incorporation. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the directors shall think conducive to the interest of the Corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

## ARTICLE VII

### Miscellaneous Provisions

SECTION 1. Corporate Seal. The seal of the Corporation shall be circular in form with the words "Corporate SEAL Delaware" in the center and the name of the Corporation around the margin thereof.

SECTION 2. Fiscal Year. The fiscal year of the Corporation shall end at the close of business on the 30th day of September in each year.

SECTION 3. Annual Reports. The Board of Directors shall present at each annual meeting of the stockholders a full report of the business and condition of the Corporation.

SECTION 4. Execution of Contracts. The Board may authorize any officer or officers, agent or agents, or attorney or

-11-

12

attorneys, to enter into any contract or execute and deliver any instrument in the name and on behalf of the Corporation, and such authority may be general or confined to specific instances; and, unless so authorized by the Board or expressly authorized by these By-laws, no officer, agent or employee shall have any power or authority to bind the Corporation by any contract or other engagement or to pledge its credit or to render it liable pecuniarily for any purpose or in any amount.

SECTION 5. Loans. No loan shall be contracted on behalf of the Corporation, and no negotiable paper shall be issued in its name, unless authorized by the Board or by a committee of the Board to whom the Board has delegated such power.

SECTION 6. Checks, Drafts, Etc. All checks, drafts, bills, notes and other negotiable instruments and orders for the payment of money issued in the name of the Corporation, shall be signed by such officer or officers, employee or employees, agent or agents, of the Corporation

and in such manner as shall from time to time be determined by resolution of the Board.

SECTION 7. Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositaries as the Board may designate, or as may be designated by any officer or officers, agent or agents, or attorney or attorneys, of the Corporation to whom power in that respect shall have been delegated by the Board. For the purpose of deposit and for the purpose of collection for the account of the Corporation, the Chairman of the Board and Chief Executive Officer, or any Vice President, or the Treasurer (or any other officer or agent or employee or attorney of the Corporation to whom such power shall be delegated by the Board) may endorse, assign and deliver checks, drafts and other orders for the payment of money which are payable to the order of the Corporation.

SECTION 8. General and Special Bank Accounts. The Board may from time to time authorize the opening and keeping of general and special bank accounts with such banks, trust companies or other depositaries as it may designate or as may be designated by any officer or officers, agent or agents, or attorney or attorneys, of the Corporation to whom power in that respect shall have been delegated by the Board. The Board may make such special rules and regulations with respect to such bank accounts, not inconsistent with the provisions of these By-laws, as it may deem expedient.

#### ARTICLE VIII

##### Amendments

All By-laws of the Corporation shall be subject to alteration or repeal, and new By-laws shall be adopted, either by the affirmative votes of the holders of record of 80% or more of the issued and outstanding stock of the Corporation entitled to vote in respect thereof, given at any annual or special meeting, or by the vote provided for in SECTION 12 of ARTICLE III hereof given at any regular or special meeting of the Board of Directors, provided that notice of

-12-

13

the proposal so to alter or repeal or to make such By-laws be included in the notice of such meeting of the stockholders or the Board, as the case may be. By-laws, whether made or altered by the stockholders or by the Board of Directors, shall be subject to alteration or repeal by the stockholders by the vote hereinabove specified.

-13-

## [ZAPATA CORPORATION LETTERHEAD]

June 1, 1996

Mr. Joseph L. von Rosenberg III  
14855 Memorial Drive, Apt. 2113  
Houston, Texas 77079

Dear Joe:

Zapata Corporation (the "Company") has determined that it is in the best interests of the Company and its shareholders to assure that the Company will have your continued dedication, and to provide you (the "Executive") with compensation and benefits arrangements which are competitive with those of other corporations and which ensure that your compensation and benefits expectations will be satisfied. The Company also believes it is imperative to diminish your inevitable distraction by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control (as defined herein) and to encourage your full attention and dedication to the Company currently and in the event of any threatened or pending Change of Control, and to insure the continuation of favorable compensation and benefits upon a Change of Control. Therefore, in order to accomplish these objectives, the Company does hereby enter into this agreement (this "Agreement"), which shall supersede any other employment agreements between you and the Company.

In order to induce you to remain in the employ of the Company, it is agreed as follows:

1. Employment. The Company hereby employs the Executive, and the Executive hereby accepts such employment, all upon the terms and conditions set forth herein.
2. Term. Subject to the terms and conditions set forth herein, the Executive shall be employed for a primary term commencing on the date hereof and ending on November 30, 1997 (the "Primary Term"). Upon the expiration of the Primary Term, the term of employment of the Executive shall be automatically renewed for each subsequent period of 18 months (each, a "Renewal Term"), except as may be otherwise agreed upon in writing by the Company and the Executive.
3. Duties and Responsibilities.
  - A. Capacity. The Executive shall serve in the capacity of Executive Vice President, General Counsel and Corporate Secretary of the Company. The Executive's duties under this Agreement shall consist of such general management activities as are consistent with the responsibilities of said office and such other activities as may hereafter be assigned to him by the Chief Executive Officer, Avram A. Glazer ("Glazer"). All such duties shall be performed in accordance with any written or oral

2

Mr. Joseph L. von Rosenberg III  
June 1, 1996  
Page 2

direction from time to time furnished to the Executive by Glazer, and the Executive shall report solely to Glazer.

- B. Full-Time Duties. The Executive shall devote his full business time, attention and energies to the business of the Company and shall not be engaged in any other business activity, whether or not pursued for gain, profit or other pecuniary advantage, which would impair his ability to fulfill his duties to the Company under this

Agreement, without the prior written consent of the Company. The Executive shall be allowed, to the extent such activities do not substantially interfere with the performance by the Executive of his duties and responsibilities hereunder, to (a) manage the Executive's personal affairs, and (b) (i) serve on boards or committees of civic or charitable organizations or trade associations, and (ii) serve on the board of directors of any corporation; provided, however, that the Executive shall advise the Company in writing of any such corporate directorship under clause (b) (ii) and, if requested by the Company, the Executive shall first demonstrate, to the reasonable satisfaction of the Company, that any such directorship does not detract from the Executive's performance of his duties and responsibilities under this Agreement. Nothing contained in this paragraph B shall prevent the Executive from passively investing his assets in such a form or manner as will not conflict with the terms of this Agreement and will not require services on the part of the Executive in the operation of the business of the companies or other enterprises in which such investments are made.

- C. Standard of Performance. The Executive will perform his duties under this Agreement with fidelity and loyalty, to the best of his ability, experience and talent and in a manner consistent with his fiduciary responsibilities.
- D. Location. The Executive's primary place of employment shall be in Houston, Texas and the Executive shall not be required to relocate more than 30 miles from 1717 St. James Place, Suite 550, Houston, Texas 77056, without his consent.

4. Compensation.

- A. Base Salary. During the Primary Term and any Renewal Term, the Company shall pay the Executive a salary (the "Base Salary") of \$165,000 per annum, prorated for partial years of employment. The Base Salary shall be payable in accordance with the general payroll practices of the Company in effect from time to time. The Company shall review the Base Salary then being paid to the Executive at such times as the Company regularly reviews the compensation paid to employees generally (but no less frequently than once each fiscal year). Upon completion of such review, the Company in its sole discretion may increase, decrease or maintain the Executive's

3

Mr. Joseph L. von Rosenberg III  
June 1, 1996  
Page 3

then current Base Salary, provided, however, that the Company may decrease the Executive's then current Base Salary only with the prior written consent of the Executive.

B. Benefits.

- (1) Generally. The Executive shall be entitled to participate, in accordance with the Company's regular practices with respect to its similarly situated executives, in the Company's pension, profit-sharing, bonus, disability, accident, medical, life insurance, hospitalization plans and any other employee benefit program maintained by the Company for its similarly situated executives. The Company will have the right to amend or terminate any such benefit plans it may choose to establish.
- (2) Initial Bonus. The Executive shall be entitled to a cash bonus of not less than \$50,000 with respect to calendar year 1996, which bonus shall be payable on or before December 25, 1996 (the "1996 Bonus"). The 1996 Bonus may be paid pursuant to any bonus plan or program maintained by the Company. Regardless of whether the 1996 Bonus is paid pursuant to such a bonus plan or program, payment of the 1996 Bonus shall be deemed to fully satisfy Executive's right (as described in paragraph 4.B.(1) above) to participate in any such bonus plan or program with respect to calendar year 1996.
- (3) Reimbursements. The Executive shall be entitled to

reimbursement from the Company for reasonable out-of-pocket expenses incurred by him in the course of the performance of his duties hereunder, upon the submission of appropriate documentation.

- (4) Vacations and Other Absences. The Executive shall be entitled to such vacation, holidays and, subject to the provisions of Section 5, other paid or unpaid leaves of absence as are consistent with the Company's normal policies or as are otherwise approved by the Company.

- C. Payments. All payments to the Executive provided for under this Agreement shall be paid in cash from the general funds of the Company, and no special or separate funds shall be established and no other segregation of assets shall be made to assure payment. The Executive shall have no right, title or interest whatsoever in or to any investments which the Company may make to aid it in meeting its obligations hereunder. Nothing contained in this Agreement, and no action taken pursuant to the provisions hereof, shall create, or be construed to create, a trust of any kind or any fiduciary responsibility of the Company to the Executive or any other person. To the

4

Mr. Joseph L. von Rosenberg III  
June 1, 1996  
Page 4

extent that any person acquires a right to receive payments from the Company hereunder, such right shall be no greater than the right of an unsecured creditor of the Company.

5. Termination.

- A. Termination by the Company Prior to Change of Control. At the Company's election, this Agreement may be terminated by the Company prior to a "Change of Control" (as hereinafter defined) in any of the following circumstances.
- (1) If the Company shall have "Cause" (as hereinafter defined);
  - (2) If the Executive shall die; or
  - (3) If the Executive shall be unable, with reasonable accommodation, to perform his duties hereunder owing to illness or incapacity for a total of 120 days during any 360-day period;

The termination of the Executive's employment pursuant to this Section 5.A. shall be effective (i) in the case of a termination pursuant to paragraph (1) above, as of the date specified in Section 5.B., (ii) in the case of a termination pursuant to paragraph (2) above, at death, or (iii) in the case of a termination pursuant to paragraph (3) above, upon 30 days' written notice from the Company to the Executive. Upon any termination of the Executive's employment pursuant to paragraph (1), (2) or (3) above, the Company shall have no further liability or obligation under or in connection with this Agreement, except to pay the portion of the Executive's Base Salary earned or accrued at the date of termination. If the Executive is otherwise eligible for benefits under any long-term disability plan sponsored by the Company, then a termination solely pursuant to paragraph (3) above shall not affect, the Executive's entitlement to such benefits. In the event that the Executive's employment with the Company is terminated by the Company for any reason other than for "Cause," death or disability (as defined in paragraph (3) above), the Company shall have no further liability or obligation under or in connection with this Agreement, except to pay the Executive an amount equal to 150% of his annual Base Salary in effect at the date of termination in eighteen (18) equal monthly installments each equal to 8-1/3% of such annual Base Salary, the first such installment payable within 10 days after the date of termination and the remaining installments payable monthly thereafter. The termination of the Executive's employment by the Company other than for "Cause" shall be effective as of the date specified in this Section 5.A.

- B. Cause. "Cause" means (a) the Executive is convicted of a felony involving moral turpitude, (b) the Executive commits a willful serious act intending to enrich himself at the expense of the Company or any affiliated entity, or (c) the Executive, in carrying out his duties and responsibilities under this Agreement, (i) is guilty of willful gross neglect, or (ii) voluntarily engages in conduct that results in material harm to the Company or any affiliated entity, unless such conduct was reasonably believed by the Executive in good faith to be in the best interests of the Company. In each case, the existence of Cause must be confirmed by a majority of the Board of Directors of the Company (the "Board") prior to any termination therefor. In the event of such a confirmation, the Company shall notify the Executive that the Company intends to terminate the Executive's employment for Cause (the "Confirmation Notice"). The Confirmation Notice shall specify the act, or acts, upon the basis of which the majority of the Board has so confirmed the existence of Cause. If the Executives notifies the Company in writing (the "Opportunity Notice") within five days after the Executive has received the Confirmation Notice, the Executive shall be provided one opportunity to meet with the Board (or a sufficient quorum thereof) to discuss such act or acts. Such opportunity to meet shall be fixed and shall occur on a date selected by the Board (such date being not less than 10 nor more than 45 days) after the Company receives the Opportunity Notice from the Executive. Such meeting shall take place at the principal offices of the Company. During the period commencing on the date the Company receives the Opportunity Notice and ending on the date next succeeding the date on which such meeting between the Board (or a sufficient quorum thereof) and the Executive is scheduled to occur, the Executive shall be suspended with pay from his employment with the Company and the Executive's access to the principal offices of the Company or any of its assets shall be restricted to access specifically permitted by the Board. If the Board properly sets the date of such meeting and if the Board (or a sufficient quorum thereof) attends such meeting and does not rescind its confirmation at such meeting or if the Executive fails to attend such meeting for any reason, the Executive's employment by the Company shall, immediately upon the closing of such meeting, be terminated for Cause. If the Executive does not respond in writing to the Confirmation Notice in the manner and within the time deadline specified in this Section 5.B., the Executive's employment with the Company shall, on the sixth day after the receipt by the Executive of the Confirmation Notice, be terminated for Cause.
- C. Termination by the Executive Prior to Change of Control. In the event that the Executive terminates employment hereunder prior to a "Change of Control" for "Good Reason" (as defined in Section 5.D), the Company shall have no further liability or obligation under or in connection with this Agreement, except to pay the Executive an amount equal to 150% of his Base Salary in effect at the date of

termination in eighteen (18) equal monthly installments each equal to 8-1/3% of such annual Base Salary, the first such installment payable within 10 days after the date of termination and the remaining installments payable monthly thereafter. The termination of the Executive's employment for "Good Reason" shall be effective as of the date specified in Section 5.D. In the event that the Executive voluntarily terminates employment hereunder for other than "Good Reason" (as defined in Section 5.D) prior to a "Change of Control," the Company shall have no further liability or obligation under or in

connection with this Agreement.

- D. Good Reason Prior to Change of Control. Prior to "Change of Control," "Good Reason" shall mean (i) the Executive is required to relocate more than 30 miles from 1717 St. James Place, Suite 550, Houston, Texas 77056, without his consent, or (ii) the Company fails to comply with any material provision of this Agreement. Termination of employment for Good Reason shall be deemed to be effective upon 10 days' written notice of termination from the Executive or the Company, as the case may be.
- E. Termination by the Company After Change of Control. In the event that the Executive's employment hereunder is terminated by the Company other than for (i) Cause, (ii) death, or (iii) for disability (as defined in Section 5.A.3), after a "Change of Control," the Company shall have no further liability or obligation under this Agreement, except to pay the Executive a severance payment (the "Severance Payment") (as hereinafter defined) in eighteen (18) equal monthly installments, the first such installment payable within ten (10) days after the date of termination and the remaining installments payable monthly thereafter. The termination of the Executive's employment by the Company shall be effective as of the date(s) specified in Sections 5.A and 5.B. For purposes of this Agreement, "Severance Payment" shall mean an amount equal to 2.99 times the Executive's "base amount within the meaning of Sections 280G(b)(3) and 280G(d) of the Internal Revenue Code of 1986, as amended (the "Code"), and any applicable temporary or final regulations promulgated thereunder, or its equivalent as provided in any successor statute or regulation. In the event that any payment or benefit to be provided to the Executive by the Company would be otherwise nondeductible by the company in whole or in part on account of Code Section 280G, the amount of such payment or benefit shall be reduced in order to limit or eliminate the portion of such amount that would otherwise be non-deductible under Section 280G. For purposes of applying this limitation, the Executive may waive, in writing, any portion of the payment or benefit prior to the date it is paid or made available and the waived amount shall not be taken into account. If Code Section 280G (and any successor provisions thereto) shall be repealed or otherwise be inapplicable, then the Severance Payment shall be equal to 2.99 times the average of the Executive's annual compensation for both

7

Mr. Joseph L. von Rosenberg III  
June 1, 1996  
Page 7

complete and partial calendar years during so much of the five calendar year period preceding the calendar year in which the Change of Control occurred during which the Executive was so employed, determined by annualizing any compensation (other than non-recurring items) includible in the Executive's gross income for any partial calendar year and then adding such non-recurring items to such annualized compensation. Compensation for this purpose shall include every type and form of compensation includible in the Executive's gross income in respect to the Executive's employment by the Company. In the event that the Executive's employment hereunder is terminated by the Company for (i) Cause, (ii) death, or (iii) for disability (as defined in Section 5.A.3), after a "Change of Control," the Company shall have no further liability or obligation under this Agreement.

- F. Termination by the Executive After Change of Control. In the event that the Executive terminates employment hereunder after a "Change of Control" for "Good Reason" (as defined in Section 5.G), the Company shall have no further liability or obligation under or in connection with this Agreement, except to pay the Executive the Severance Payment in eighteen (18) equal monthly installments, the first such installment payable within ten (1) days after the date of termination and the remaining installments payable monthly thereafter. The termination of the Executive's employment for "Good Reason" shall be effective as of the date specified in Section 5.G. In the event that the Executive voluntarily terminates employment hereunder for other than "Good Reason" (as defined in Section 5.G) after a "Change of

Control," the Company shall have no further liability or obligation under or in connection with this Agreement.

- G. Good Reason After Change of Control. The Executive's employment hereunder shall be deemed to have been terminated for "Good Reason" if such termination of employment occurs within one year after the date of a "Change of Control" (as hereinafter defined) and following either (i) a diminution in the compensation (without the consent of the Executive), duties or responsibilities of the Executive immediately prior to the date of the Change of Control, (ii) the Company or any subsidiary of the Company merges with or into or consolidates with another corporation and as a result thereof less than 70% of the outstanding voting securities of the Company (or if the outstanding voting securities of the Company are converted into or exchanged for voting securities of some other corporation, less than 70% of the outstanding voting securities of such other corporation) shall then be owned in the aggregate by the stockholders of the Company immediately prior to such merger or consolidation; provided, however, that this clause shall not apply to any merger or consolidation with Houlihan's Restaurant Group, Inc. or Specialty Equipment Companies, Inc; (iii) the Executive is required to relocate more than 30 miles from 1717 St. James Place, Suite 550, Houston, Texas 77056, without his consent, or

8

W. Joseph L. von Rosenberg III

June 1, 1996

Page 8

(iv) the Company fails to comply with any material provision of this Agreement. Termination of employment for Good Reason shall be deemed to be effective upon 10 days' written notice of termination from the Executive or the Company, as the case may be; provided, however, that no termination by the Executive based on a diminution in duties and responsibilities shall occur until the Executive has first notified the Company in writing as to the specific nature of the diminution in duties or responsibilities and afforded the Company 15 days in which to modify such duties or responsibilities. "Change of Control" means, and shall be deemed to have occurred if, at any time during the Primary Term or any Renewal Term (i) any "person", within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), other than any employee or Subsidiary of the Company, any employee benefit plan (or related trust) applicable to the Company or any of its Subsidiaries or Malcolm I. Glazer or any corporation, person, partnership, trust or other entity controlled, directly or indirectly, by him becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding voting securities; (ii) the Company is merged or consolidated with another corporation and as a result of such merger or consolidation less than 70% of the outstanding voting securities of the surviving or resulting corporation shall then be owned in the aggregate by the stockholders of the Company immediately prior to such merger or consolidation; (iii) at any time after June 1, 1996, individuals who constituted the Board on such date (including, for this purpose, any new director whose election or nomination for election by the Company's stockholders was approved by a vote of at least three-fourths of the directors in office on such date) cease for any reason to constitute at least a majority of the Board; (iv) the consummation of a sale of substantially all of the assets of the Company; or (v) the Company's adoption of a plan of liquidation. A Change in Control shall also include any series of transactions occurring during the term of this Agreement which result in any of the changes described above.

- H. Termination by the Executive. Upon any termination or expiration of the Executive's employment hereunder, the Executive shall have no further liability or obligation under or in connection with this Agreement; provided, however, that the Executive shall continue to be subject to the provisions of Section 6 hereof (it being understood and agreed that such provisions shall survive any termination or expiration of the Executive's employment hereunder). Upon any voluntary termination by the Executive, for any reason other than Good Reason, or expiration of Executive's employment hereunder, the Company shall have no further liability under or in connection with this



Agreement, except to pay the portion of the Executive's Base Salary earned or accrued at the date of termination.

9

W. Joseph L. von Rosenberg III  
June 1, 1996  
Page 9

6. Confidential Information.

A. Nondisclosure. The Executive hereby acknowledges that it will be necessary in connection with the performance of services hereunder to provide or make available to the Executive certain confidential and proprietary information, including, but not limited to, business and financial information, technological information, customer lists and financial information on customers, intellectual property, trade secrets and other information relating to the businesses, products, technology, services, or proprietary information being hereinafter referred to as "Confidential Information"). The Executive further acknowledges that the Confidential Information includes certain protected trade secrets and agrees that any such trade secrets shall remain the property of the Company or its affiliates at all times during the term of this Agreement and following the expiration or termination hereof. The Executive shall not publish, disseminate, distribute, disclose, sell, assign, transfer, copy, remove from the Company's premises, commercially exploit, or otherwise make use of any Confidential Information to or for the use or benefit of the Executive or any other person, firm, corporation or entity, except as specifically authorized in writing by the Company or as required for the due and proper performance of his duties and obligations under this Agreement. In addition, the Executive shall employ all necessary safeguards and precautions in order to ensure that unauthorized access to the Confidential Information is not afforded to any person, firm, corporation or entity. Upon any expiration or termination of this Agreement, or if the Company so requests at any time, the Executive shall promptly return to the Company all Confidential Information in the Executive's possession, whether in writing, on computer disks or other media, without retaining any copies, extracts or other reproductions thereof. Notwithstanding the foregoing, nothing contained in paragraph A shall prevent the publishing, dissemination, distribution, disclosure, sale, assignment, transfer, copying, removal, commercial exploitation or other use by the Executive of any information which (i) is generally available to the public (other than through a breach on the part of the Executive of any of the terms or provisions hereof), (ii) is lawfully obtained by the Executive from a source other than the Company or its affiliates, directors, officers, employees, agents or other representatives (provided, however, that such source is not bound by a confidentiality agreement with the Company or any of its affiliates and is not otherwise under an obligation of secrecy or confidentiality to either of them), or (iii) is required to be disclosed by judicial or administrative process or, in the opinion of counsel, by the fact that the Executive complies fully with the customers, methods or tactics of the Company or its affiliates (any such confidential requirements of applicable law with the provisions of paragraph B below).

10

Mr. Joseph L. von Rosenberg III  
June 1, 1996  
Page 10

B. Requests for Disclosure. If the Executive is requested (whether by oral questions, interrogatory, request for documents, subpoena, civil investigative demand or other legal process) to disclose any part of the Confidential Information, the Executive shall (i) give prompt written notice to the Board of the existence of, and the circumstances attendant to, such request, (ii) consult with the Board as to the advisability of taking legally available steps to resist or

narrow any such request or otherwise to eliminate the need for such disclosure, and (iii) if disclosure is required, cooperate with the Board in obtaining a protective order or other reliable assurance in form and substance satisfactory to the Board that confidential treatment will be accorded to such portion of the Confidential Information as is required to be disclosed.

7. Arbitration. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by final and binding arbitration in Houston, Texas, in accordance with the Commercial Arbitration Rules of the American Arbitration Association ("AAA"). The arbitrator shall be selected by mutual agreement of the parties, if possible. If the parties fail to reach agreement upon appointment of an arbitrator within 30 days following receipt by one party of the other party's notice of desire to arbitrate, the arbitrator shall be selected from a panel or panels of persons submitted by the AAA. The selection process shall be that which is set forth in the AAA Commercial Arbitration Rules then prevailing, except that if the parties fail to select an arbitrator from one or more panels, AAA shall not have the power to make an appointment but shall continue to submit additional panels until an arbitrator has been selected. This agreement to arbitrate shall not preclude the parties from engaging in voluntary, non-binding settlement efforts including mediation.
8. Notices. All notices and other communications hereunder shall be in writing and shall be given (and shall be deemed to have been duly given upon receipt) by delivery in person, by registered or certified mail (return receipt requested and with postage prepaid thereon) or by facsimile transmission to the respective parties at the following addresses (or at such other address as either party shall have previously furnished to the other in accordance with the terms of this Section 8):

If to the Company:

c/o Mr. Avram A. Glazer  
Zapata Corporation  
18 Stoney Clover Lane  
Pittsford, New York 14534

11

Mr. Joseph L. von Rosenberg III  
June 1, 1996  
Page 11

If to the Executive:

Joseph L. von Rosenberg III  
14855 Memorial Drive, Apt. 2113  
Houston, Texas 77079

9. Amendment, Waiver. The terms and provisions of this Agreement may be modified or amended only by a written instrument executed by each of the parties hereto, and compliance with the terms and provisions hereof may be waived only by a written instrument executed by each party entitled to the benefits thereof. No failure or delay on the part of any party in exercising any right, power or privilege granted hereunder shall constitute a waiver thereof, nor shall any single or partial exercise of any such right, power or privilege preclude any other or further exercise thereof or the exercise of any other right, power or privilege granted hereunder.
10. Entire Agreement. This constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior written or oral agreements or understandings between the parties relating thereto.
11. Severability. In the event that any term or provision herein is found to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining terms and provisions hereof shall not be in any way affected or impaired thereby, and shall be construed as if such invalid, illegal or unenforceable provision had never been contained therein.

12. Binding Effect; Assignment. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns (it being understood and agreed that, except as expressly provided herein, nothing contained herein is intended to confer upon any other person or entity any rights, benefits or remedies of any kind or character whatsoever). Neither party may assign this Agreement without the prior written consent of the other party; provided, however, that the Company may assign this Agreement to any of its affiliates or to any successor (whether by operation of law or otherwise) to all or substantially all of its business and assets without the consent of the Executive.
13. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas (except that no effect shall be given to any conflicts of law principles thereof that would require the application of the laws of another jurisdiction).
14. Headings. The headings of the sections contained herein are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision hereof.

12

Mr. Joseph L. von Rosenberg III  
June 1, 1996  
Page 12

15. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

If this letter sets forth our agreement on the subject matter hereof, kindly sign and return to the Company the enclosed copy of this letter which will then constitute our agreement on the subject.

ZAPATA CORPORATION

By: /s/ AVRAM A. GLAZER

-----  
Avram A. Glazer  
President and Chief Executive Officer

ACKNOWLEDGED AND AGREED TO:

/s/ JOSEPH L. VON ROSENBERG III

-----  
Joseph L. von Rosenberg III

## ZAPATA CORPORATION SUBSIDIARIES

Name	Place of Incorporation	Ownership
- - - - -	-----	-----
Cimarron Gas Holding Company	Delaware	100%
Cimarron Gas Companies, Inc.	Oklahoma	100%
Tyler Gas Co.	Texas	100%
Kodiak Compression, Inc.	Oklahoma	100%
Stellar Energy Corporation	Texas	100%
Stellar Pipeline Company	Texas	100%
Stellar Transmission Company	Texas	100%
Energy Industries, Inc.	Delaware	100%
Tanker Leasing Corporation	Delaware	100%
Zapata Compression Investments, Inc.	Delaware	100%
Zapata Energy Industries, L. P.	Delaware	100%
Zapata Exploration Company	Delaware	100%
Zapata Offshore Gathering Company, Inc.	Delaware	100%
Zapata Off-Shore Company	Delaware	100%
Zapata Drilling, Inc.	Delaware	100%
Zapata North Sea, Inc.	Panama	100%
Zapata Overseas Capital Corporation	Delaware	100%
Zapata Canada Inc.	British Columbia	100%
Zapata Protein, Inc.	Delaware	100%
Amigo Feeds, Ltd.	Bermuda	50%
Moss Point Marine, Inc.	Delaware	100%
Protein Finance Company	Delaware	100%
Protein (USA) Company	Delaware	100%
Tullco Inc.	Delaware	100%
Venture Milling Company	Delaware	100%
Zapata Protein International Limited	Cayman Islands	100%
Zapata Protein (USA), Inc.	Virginia	100%
Protein Securities Company	Delaware	100%
Zarpe Trading,		
Ltd.	Barbados	100%
Zapata Services Corporation	Delaware	100%

HUDDLESTON & CO., INC.  
PETROLEUM AND GEOLOGICAL ENGINEERS

1111 FANNIN -- SUITE 1700  
HOUSTON, TEXAS 77002

-----  
(713) 656-0248

December 30, 1996

Zapata Exploration Company  
1717 St. James, Suite 550  
Houston, Texas 77056

Gentlemen:

Huddleston & Co., Inc., has prepared oil and gas reserve estimates for Zapata Exploration Company, a subsidiary of Zapata Corporation (the "Company"), for the Company's fiscal years ended September 30, 1986, 1987, 1988, 1989, 1990, 1991, 1992, 1993, 1994, 1995, and 1996. Such estimates are included in the notes to the Financial Statements of the Company which appear in the Company's annual report on Form 10-K for the fiscal year ended September 30, 1996.

Huddleston & Co., Inc., hereby consents to the identification in such Form 10-K of Huddleston & Co., Inc., as the expert which has prepared such estimates, and the identification of Huddleston & Co., Inc., with respect to such matters in the post-effective amendments to the Company's registration statements on Form S-3 covering certain of the shares of the Company's common stock subject to stock options granted to employees of the Company. Huddleston & Co., Inc., also hereby consents to the inclusion of this letter as an exhibit to such Form 10-K and registration statements.

Very truly yours,

HUDDLESTON & CO., INC.

By: /s/ PETER D. HUDDLESTON

-----  
Peter D. Huddleston, P.E.  
President

## CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Zapata Corporation on Form S-3 (File No. 33-68034) and on Form S-8's (File Nos. 33-19085 and 33-45251) of our reports which both included an explanatory paragraph that states during 1996, Zapata Corporation changed its accounting for its equity investment in an unconsolidated affiliate, reclassified the purchase of certain investments in the 1995 statement of cash flows, revised a mathematical error in the Schedule I 1995 statement of cash flows and reclassified an expense in the 1994 statement of operation and, during 1995, Zapata Corporation adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and For Long-Lived Assets to be Disposed Of" dated December 23, 1996, on our audits of the consolidated financial statements and financial statements schedule of Zapata Corporation as of September 30, 1996 and 1995 and for each of the three years in the period ended September 30, 1996, which reports are included in this Annual Report on Form 10-K.

Coopers & Lybrand L.L.P.

Houston, Texas  
December 23, 1996

POWER OF ATTORNEY

WHEREAS, Zapata Corporation, a Delaware corporation (the "Company"), intends to file with the Securities and Exchange Commission (the "Commission") under the Securities Exchange Act of 1934, as amended (the "Act"), an annual report on form 10-K for the fiscal year ended September 30, 1996 (the "Form 10-K") pursuant to the Act and the rules and regulations of the Commission promulgated thereunder;

NOW, THEREFORE, the undersigned in the capacity of a director, officer or both a director and officer of the Company, as the case may be, does hereby appoint Joseph L. von Rosenberg III and Robert A Gardiner, and each of them, severally, as his true and lawful attorney or attorneys-in-fact with full power of substitution and resubstitution, to execute in his name, place and stead, in his capacity as director, officer or both, as the case may be, the Form 10-K and any and all documents necessary or incidental in connection therewith, including without limitation any amendments to the Form 10-K, and to file the same with the Commission. Each of said attorneys-in-fact shall have full power and authority to do and perform in the name and on behalf of the undersigned in any and all capacities, every act whatsoever necessary or desirable to be done in the premises as fully and to all intents and purposes as the undersigned might or could do in person, the undersigned hereby ratifying and confirming the acts that said attorneys-in-fact and each of them, or their or his substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this power of attorney as of the 17th day of December, 1996.

/s/ AVRAM A. GLAZER  
-----  
Avram A. Glazer

POWER OF ATTORNEY

WHEREAS, Zapata Corporation, a Delaware corporation (the "Company"), intends to file with the Securities and Exchange Commission (the "Commission") under the Securities Exchange Act of 1934, as amended (the "Act"), an annual report on form 10-K for the fiscal year ended September 30, 1996 (the "Form 10-K") pursuant to the Act and the rules and regulations of the Commission promulgated thereunder;

NOW, THEREFORE, the undersigned in the capacity of a director, officer or both a director and officer of the Company, as the case may be, does hereby appoint Joseph L. von Rosenberg III and Robert A Gardiner, and each of them, severally, as his true and lawful attorney or attorneys-in-fact with full power of substitution and resubstitution, to execute in his name, place and stead, in his capacity as director, officer or both, as the case may be, the Form 10-K and any and all documents necessary or incidental in connection therewith, including without limitation any amendments to the Form 10-K, and to file the same with the Commission. Each of said attorneys-in-fact shall have full power and authority to do and perform in the name and on behalf of the undersigned in any and all capacities, every act whatsoever necessary or desirable to be done in the premises as fully and to all intents and purposes as the undersigned might or could do in person, the undersigned hereby ratifying and confirming the acts that said attorneys-in-fact and each of them, or their or his substitutes or substitute,

may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this power of attorney as of the 13th day of December, 1996.

/s/ MALCOLM I. GLAZER  
-----  
Malcolm I. Glazer

POWER OF ATTORNEY

WHEREAS, Zapata Corporation, a Delaware corporation (the "Company"), intends to file with the Securities and Exchange Commission (the "Commission") under the Securities Exchange Act of 1934, as amended (the "Act"), an annual report on form 10-K for the fiscal year ended September 30, 1996 (the "Form 10-K") pursuant to the Act and the rules and regulations of the Commission promulgated thereunder;

NOW, THEREFORE, the undersigned in the capacity of a director, officer or both a director and officer of the Company, as the case may be, does hereby appoint Joseph L. von Rosenberg III and Robert A Gardiner, and each of them, severally, as his true and lawful attorney or attorneys-in-fact with full power of substitution and resubstitution, to execute in his name, place and stead, in his capacity as director, officer or both, as the case may be, the Form 10-K and any and all documents necessary or incidental in connection therewith, including without limitation any amendments to the Form 10-K, and to file the same with the Commission. Each of said attorneys-in-fact shall have full power and authority to do and perform in the name and on behalf of the undersigned in any and all capacities, every act whatsoever necessary or desirable to be done in the premises as fully and to all intents and purposes as the undersigned might or could do in person, the undersigned hereby ratifying and confirming the acts that said attorneys-in-fact and each of them, or their or his substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this power of attorney as of the 13th day of December, 1996.

/s/ RONALD C. LASSITER  
-----  
Ronald C. Lassiter

POWER OF ATTORNEY

WHEREAS, Zapata Corporation, a Delaware corporation (the "Company"), intends to file with the Securities and Exchange Commission (the "Commission") under the Securities Exchange Act of 1934, as amended (the "Act"), an annual report on form 10-K for the fiscal year ended September 30, 1996 (the "Form 10-K") pursuant to the Act and the rules and regulations of the Commission promulgated thereunder;

NOW, THEREFORE, the undersigned in the capacity of a director, officer or both a director and officer of the Company, as the case may be, does hereby appoint Joseph L. von Rosenberg III and Robert A Gardiner, and each of them, severally, as his true and lawful attorney or attorneys-in-fact with full power of substitution and resubstitution, to execute in his name, place and stead, in his capacity as director, officer or both, as the case may be, the Form 10-K and any and all documents necessary or incidental in connection therewith, including without limitation any amendments to the Form 10-K, and to file the same with the Commission. Each of said attorneys-in-fact shall have full power and authority to do and perform in the name and on behalf of the undersigned in any and all capacities, every act whatsoever necessary or desirable to be done in the premises as fully and to



all intents and purposes as the undersigned might or could do in person, the undersigned hereby ratifying and confirming the acts that said attorneys-in-fact and each of them, or their or his substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this power of attorney as of the 13th day of December, 1996.

/s/ ROBERT V. LEFFLER, JR.

-----  
Robert V. Leffler, Jr.

<ARTICLE> 5  
<MULTIPLIER> 1,000

<PERIOD-TYPE>	YEAR	
<FISCAL-YEAR-END>	SEP-30-1996	
<PERIOD-START>	OCT-01-1995	
<PERIOD-END>	SEP-30-1996	
<CASH>	99,938	
<SECURITIES>	0	
<RECEIVABLES>	11,839	
<ALLOWANCES>	0	
<INVENTORY>	29,919	
<CURRENT-ASSETS>	144,548	
<PP&E>	78,586	
<DEPRECIATION>	36,431	
<TOTAL-ASSETS>	233,143	
<CURRENT-LIABILITIES>	45,221	
<BONDS>	18,159	
<COMMON>	7,387	
<PREFERRED-MANDATORY>	0	
<PREFERRED>	3	
<OTHER-SE>	144,923	
<TOTAL-LIABILITY-AND-EQUITY>	233,143	
<SALES>	95,678	
<TOTAL-REVENUES>	95,678	
<CGS>	76,328	
<TOTAL-COSTS>	94,526	
<OTHER-EXPENSES>	(936)	
<LOSS-PROVISION>	0	
<INTEREST-EXPENSE>	3,749	
<INCOME-PRETAX>	(3,533)	
<INCOME-TAX>	(1,012)	
<INCOME-CONTINUING>	(2,521)	
<DISCONTINUED>	9,076	
<EXTRAORDINARY>	0	
<CHANGES>	467	
<NET-INCOME>	7,022	
<EPS-PRIMARY>	.24	
<EPS-DILUTED>	.24	