

WATERSIDE CAPITAL CORP
Form 10-Q
November 15, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (D) OF
THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTER ENDED
SEPTEMBER 30, 2002**

COMMISSION FILE NO.: 333-36709

WATERSIDE CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

VIRGINIA
(State of Incorporation)

54-1694665
(I.R.S. Employer Identification Number)

**300 EAST MAIN STREET, SUITE 1380,
NORFOLK, VIRGINIA**
(Address of principal executive office)

23510
(Zip Code)

(757) 626-1111
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant 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 has been subject to the filing requirements for the past 90 days.

Yes No

As of September 30, 2002, the registrant had issued and outstanding 1,557,630 shares of Common Stock, \$1.00 par value.

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WATERSIDE CAPITAL CORPORATION

Unaudited Balance Sheets

June 30, 2002 and September 30, 2002

	June 30, 2002	September 30, 2002
Assets:		
Investments in portfolio companies, at fair value (note 3):		
Equity securities	\$ 15,304,120	\$ 15,258,164
Debt securities	8,463,170	8,494,434
Options and warrants	3,879,533	3,268,788
	<u>27,646,823</u>	<u>27,021,386</u>
Total investments, cost of \$35,349,098 and \$32,371,690 at June 30, 2002 and September 30, 2002, respectively	27,646,823	27,021,386
Current assets:		
Cash and cash equivalents	5,417,202	4,461,108
Current portion of dividends receivable	252,129	380,196
Interest receivable	98,586	165,470
Other receivable (note 4)		1,348,268
Prepaid expenses	89,190	76,654
Other current assets		25,914
	<u>5,857,107</u>	<u>6,457,610</u>
Total current assets	5,857,107	6,457,610
Dividends receivable, excluding current portion	458,583	503,583
Notes receivable	229,452	229,452
Property and equipment, net	91,507	81,958
Deferred financing costs, net	797,897	780,259
	<u>35,081,369</u>	<u>35,074,248</u>
Total assets	\$ 35,081,369	\$ 35,074,248
Liabilities and Stockholders' Equity:		
Current liabilities:		
Accounts payable	\$ 7,010	\$ 5,466
Accrued interest	677,067	166,522
Accrued expenses	300,008	391,481
Deferred revenue	91,626	46,140
	<u>1,075,711</u>	<u>609,609</u>
Total current liabilities	1,075,711	609,609
Debtures payable	25,400,000	25,400,000
	<u>26,475,711</u>	<u>26,009,609</u>
Total liabilities	26,475,711	26,009,609
Stockholders' equity:		
Common stock, \$1 par value, 10,000,000 shares authorized, 1,557,630 issued and outstanding at June 30, 2002 and September 30, 2002, respectively	1,557,630	1,557,630
Preferred stock, \$1 par value, 25,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital	14,570,319	14,570,319

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Net unrealized depreciation on investments, net of income taxes	(7,702,275)	(5,350,304)
Undistributed accumulated earnings (deficit)	179,984	(1,713,006)
	<u> </u>	<u> </u>
Total stockholders equity	8,605,658	9,064,639
Commitments and contingencies		
	<u> </u>	<u> </u>
Total liabilities and stockholders equity	\$ 35,081,369	\$ 35,074,248
	<u> </u>	<u> </u>
Net asset value per common share	\$ 5.52	\$ 5.82
	<u> </u>	<u> </u>

See accompanying notes to financial statements.

WATERSIDE CAPITAL CORPORATION

Unaudited Statements of Operations

Three months ended September 30, 2001 and 2002

	2001	2002
Operating income:		
Dividends	\$ 600,516	\$ 498,405
Interest on debt securities	405,748	347,462
Interest on cash equivalents	8,237	11,744
Fee and other income	167,512	3,181
Total operating income	1,182,013	860,792
Operating expenses:		
Salaries and benefits	193,085	190,272
Legal and accounting	44,100	56,600
Interest expense	523,268	528,213
Other operating expenses	79,245	74,025
Total operating expenses	839,698	849,110
Recovery related to investee litigation, net (note 4)		615,018
Net operating income before income taxes	342,315	626,700
Income tax benefit	(76,000)	
Net operating income	418,315	626,700
Realized loss on investments, net of income tax benefit of \$670,000 for the three months ended September 30, 2001 and \$0 for the three months ended September 30, 2002	(1,094,985)	(2,519,690)
Change in unrealized appreciation on investments, net of income tax expense of \$814,000 for the three months ended September 30, 2001 and \$0 for the three months ended September 30, 2002	1,331,449	2,351,971
Net increase in stockholders' equity resulting from operations	\$ 654,779	\$ 458,981
Net increase in stockholders' equity resulting from operations per share - basic and diluted	\$ 0.41	\$ 0.29
Weighted average shares outstanding	1,581,430	1,557,630

See accompanying notes to financial statements.

WATERSIDE CAPITAL CORPORATION

Unaudited Statements of Changes in Stockholders' Equity

Three months ended September 30, 2001 and 2002

	Common stock		Additional paid-in capital	Net unrealized depreciation on investments	Undistributed accumulated earnings	Total stockholders equity
	Shares	Amount				
Balance at June 30, 2001	1,581,430	\$ 1,581,430	\$ 14,618,719	\$ (7,464,341)	\$ 3,263,203	\$ 11,999,011
Net operating income					418,315	418,315
Net realized loss on investments, net of income taxes					(1,094,985)	(1,094,985)
Change in net unrealized depreciation on investments, net of income taxes				1,331,449		1,331,449
Balance at September 30, 2001	1,581,430	\$ 1,581,430	\$ 14,618,719	\$ (6,132,892)	\$ 2,586,533	\$ 12,653,790
Balance at June 30, 2002	1,557,630	\$ 1,557,630	\$ 14,570,319	\$ (7,702,275)	\$ 179,984	\$ 8,605,658
Net operating income					626,700	626,700
Net realized loss on investments					(2,519,690)	(2,519,690)
Change in net unrealized depreciation on investments				2,351,971		2,351,971
Balance at September 30, 2002	1,557,630	\$ 1,557,630	\$ 14,570,319	\$ (5,350,304)	\$ (1,713,006)	\$ 9,064,639

See accompanying notes to financial statements.

WATERSIDE CAPITAL CORPORATION

Unaudited Statements of Cash Flows

Three months ended September 30, 2001 and 2002

2001

2002