WATERSIDE CAPITAL CORP
Form DEF 14A
November 05, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. __)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

Waterside Capital Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

WATERSIDE CAPITAL CORPORATION

A Small Business Investment Company

500 East Main Street, Suite 800

Norfolk, Virginia 23510

November 5, 2004

Dear Shareholder:

You are cordially invited to attend the 2004 Annual Meeting of Shareholders of Waterside Capital Corporation that will be held at 150 West Main Street, Suite 2100, Norfolk, Virginia 23510 at 11:00 a.m. Eastern Time on December 6, 2004. At the meeting, you will be asked to elect 15 Directors to serve one-year terms, to approve an amendment to the Company s Articles of Incorporation removing the prohibition against Directors serving on the Executive Committee of the Company s Board of Directors for more than five years without a one-year break in service, and to ratify the appointment of Witt Mares Eggleston Smith, PLC as the Company s independent auditor for the fiscal year ending June 30, 2005.

Enclosed are a Notice of the Annual Meeting, a Proxy Card, and a Proxy Statement containing information about the matters to be acted upon at the meeting. Directors and officers of the Company as well as a representative of Witt Mares Eggleston Smith, PLC, our independent auditor, will be present at the annual meeting to respond to any shareholder questions.

IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AT THE MEETING. Accordingly, we urge you to sign and date the enclosed Proxy Card and promptly return it to us in the enclosed, self-addressed, postage-paid envelope, even if you are planning to attend the meeting. If you attend the meeting, you may vote in person, even if you have previously returned a Proxy Card. The Board of Directors encourages you to vote **FOR** all the matters to be considered at the annual meeting.

We look forward to the 2004 Annual Meeting of Shareholders, and we hope you will attend the meeting or be represented by proxy.

Sincerely,

/s/ J. Alan Lindauer

J. ALAN LINDAUER, President and

Chief Executive Officer

WATERSIDE CAPITAL CORPORATION

500 EAST MAIN STREET, SUITE 800

NORFOLK, VIRGINIA 23510

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS TO BE HELD DECEMBER 6, 2004

TO OUR SHAREHOLDERS:

NOTICE IS HEREBY GIVEN THAT the 2004 Annual Meeting of Shareholders of Waterside Capital Corporation (the Company) will be held at 150 West Main Street, Suite 2100, Norfolk, Virginia 23510 at 11:00 a.m. Eastern Time on December 6, 2004 for the following purposes:

1. To elect 15 Directors to hold office for a term of one year and until their respective successors are elected and qualified;

2. To adopt an amendment to the Company s Articles of Incorporation removing the prohibition against Directors serving on the Executive Committee of the Company s Board of Directors for more than five years without a one-year break in service;

3. To ratify the appointment of Witt Mares Eggleston Smith, PLC as the Company s independent auditor for the fiscal year ending June 30, 2005; and

4. To act upon such other matters as may properly come before the meeting or any adjournment thereof.

Information concerning the matters to be acted upon at the meeting is set forth in the accompanying Proxy Statement. The Board of Directors has established the close of business on October 7, 2004 as the record date for the determination of shareholders entitled to notice of and to vote at the annual meeting or any adjournments thereof. The Board of Directors of the Company unanimously recommends that shareholders vote **FOR** approval of each of the items indicated in 1, 2 and 3 above.

By Order of the Board of Directors

/s/ Gerald T. McDonald

Gerald T. McDonald, Secretary

Norfolk, Virginia

November 5, 2004

PLEASE COMPLETE, SIGN, AND DATE THE ENCLOSED PROXY CARD AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE. IF YOU ATTEND THE MEETING, YOU MAY VOTE EITHER IN PERSON OR THROUGH YOUR PROXY.

PROXY STATEMENT

This Proxy Statement and the enclosed Proxy Card (proxy) are furnished in connection with the solicitation of proxies on behalf of the Board of Directors of Waterside Capital Corporation (the Company) to be voted at the Annual Meeting of Shareholders (the Annual Meeting) to be held at 150 West Main Street, Suite 2100, Norfolk, Virginia 23510 at 11:00 a.m. Eastern Time on December 6, 2004, and at any adjournment thereof, for the purposes set forth in the accompanying Notice of Meeting.

Only shareholders of record at the close of business on October 7, 2004 (the Record Date) are entitled to notice of and to vote at the Annual Meeting. This Proxy Statement and proxy are being mailed to registered holders of the Common Stock of the Company on or about November 5, 2004.

Revocability of Proxy

Any shareholder who gives a proxy may still vote in person, if he so desires, and may revoke the proxy at any time prior to the voting of such proxy by contacting the Secretary of the Company, Gerald T. McDonald, in writing, or by filing a duly executed proxy bearing a later date. If your proxy is properly signed, received by the Company and not revoked by you, the shares to which it relates will be voted at the Annual Meeting in accordance with your instructions, if any.

Person Making the Solicitation

The cost of soliciting proxies will be borne by the Company. The Company has retained Registrar and Transfer Company to assist in the solicitation of proxies from brokers and nominees and in the counting of proxies. The Company will pay Registrar and Transfer Company approximately $500 plus out-of-pocket expenses for this assistance. In addition to solicitation by mail, the Company will request banks, brokers, and other custodians, nominees and fiduciaries to send proxy material to the beneficial owners and to secure their voting instructions, if necessary. The Company, upon request, will reimburse them for their expenses in so doing. Officers and other employees of the Company may solicit proxies personally, by telephone, by facsimile or other means of electronic transmission from some shareholders if proxies are not received promptly, for which no additional compensation will be paid.

Voting Shares And Vote Required

On the Record Date, the Company had 1,456,675 shares of Common Stock outstanding, each share having one vote on each matter presented at the Annual Meeting. Only holders of the Company s Common Stock of record at the close of business on October 7, 2004, will be entitled to vote. A majority of the shares entitled to vote, represented in person or by proxy, will constitute a quorum for the transaction of business at the Annual Meeting. Directors are elected by a plurality of votes cast by shareholders at the Annual Meeting. Under Virginia law, the affirmative vote of more than two-thirds of the outstanding shares of the Company s Common Stock is required to approve the proposed amendment to the Company s Articles of Incorporation. A majority of votes cast is required to ratify the appointment of our independent auditor. Abstentions, broker non-votes, and withheld votes will be counted for purposes of determining whether a quorum exists for the transaction of business at the Annual Meeting, but such votes (i) will have the effect of a vote against the proposed amendment to the Company s Articles of Incorporation and (ii) will not be considered votes cast for any proposal at the Annual Meeting and therefore will have no effect on the election of Directors or ratification of the appointment of the Company s independent auditor.

All shareholder meeting proxies, ballots, and tabulations that identify individual shareholders are kept confidential, and will not be available for examination, nor will the identity or the vote of any shareholder be disclosed except as may be necessary to meet legal requirements. Votes will be counted and certified by Registrar and Transfer Company.

Unless specified otherwise, your proxy will be voted as follows:

(1) **FOR** the election of the 15 nominees to serve as Directors of the Company for a one-year term and until their respective successors are duly elected and qualified;

(2) **FOR** the approval of an amendment to the Company s Articles of Incorporation removing the prohibition against Directors serving on the Executive Committee of the Company s Board of Directors for more than five years without a one-year break in service; and

(3) **FOR** the ratification of the appointment of Witt Mares Eggleston Smith, PLC as the Company s independent auditor for the fiscal year ending June 30, 2005.

The Company is not aware of any matters that are to come before the Annual Meeting other than those described in this Proxy Statement. However, if other matters do properly come before the Annual Meeting, it is the intention of the persons named in the enclosed proxy to vote such proxy in accordance with their best judgment.

PROPOSAL 1. ELECTION OF DIRECTORS

The Company s Board of Directors is currently comprised of 15 members. Directors serve for a term of one year and hold office until their successors are duly elected and qualified. The Board of Directors recommends that the 15 nominees listed below be elected to the Board of Directors. Except for Mr. Litton, who was recently appointed to the Board to fill a vacancy, all of such nominees were previously elected as Directors by the shareholders. Proxies received will be voted for the election of these 15 nominees unless marked to the contrary. A shareholder who desires to withhold voting of the proxy for the nominees may so indicate on the proxy. Each of the nominees has consented to be named as a nominee and has indicated his intent to serve if elected. If any nominee becomes unable to serve, the proxies will be voted for a substitute nominee to be designated by the Board of Directors, or the number of directors will be reduced.

There are no family relationships among any of the nominees, nor among any of the nominees and any officer. There is no understanding between any nominee and any other person pursuant to which the nominee was selected. Messrs. Lindauer and Litton are the only nominees that are interested persons within the meaning of § 2(a)(19) of the Investment Company Act of 1940, as amended (Investment Company Act). The following table sets forth certain information regarding the nominees.

Director Nominees

Name[1]	Age	Positions Held	Board Committee(s)	Term of Office Length of Time Served[2]	Principal Occupation(s) During Past 5 Years
James E. Andrews	66	Director	Audit	1997	Retired as Principal Owner of Anzell Automotive, Inc. and franchisor of automotive repair shops
J. W. Whiting Chisman, Jr.	63	Director	Audit Compensation Executive	1994	President, Dare Investment Company, a land developer and investor in equities
Eric L. Fox	57	Director		1993	Senior Portfolio Manager, UBS Financial Services, a financial services and investment firm and formerly Portfolio Manager, Paine Webber, an investment firm
Marvin S. Friedberg	61	Director		2000	Chief Executive Officer, Virginia Commonwealth Trading Company, an international trading firm
Roger L. Frost	72	Director	Audit	1997	Retired as Senior Partner with Goodman & Company, a firm of Certified Public Accountants
Ernest F. Hardee	64	Director	Executive	1997	President and Chief Executive Officer, Hardee Realty Corporation, a real estate brokerage firm
Henry U. Harris, III	51	Director		1997	President and Portfolio Manager, Virginia Investment Counselors, Inc., a financial consulting firm
Robert I. Low	67	Director	Executive	1993	Retired as Partner with Goodman & Company, a firm of Certified Public Accountants
Peter M. Meredith, Jr.	52	Director	Audit Compensation Executive	1994	Executive, Meredith Construction Company
Augustus C. Miller	70	Director		1994	President and Chief Executive Officer, Miller Oil Co., Inc., a fuels distributor
Juan M. Montero, II	62	Director		1995	Physician, private practice of general and thoracic surgery
R. Scott Morgan	59	Director	Executive	1997	President, Towne Bank
Jordan E. Slone	42	Director		1995	Chairman and Chief Executive Officer, The Harbor Group Companies, a diversified real estate and financial services firm

Name[1]	Age	Positions Held	Board Committee(s)	Term of Office Length of Time Served[2]	Principal Occupation(s) During Past 5 Years
Interested Person Director Nominees					
J. Alan Lindauer[3]	65	Director, President and Chief Executive Officer	Executive	1993	President and Chief Executive Officer of the Company
T. Richard Litton Jr.[4]	37	Director		2004	Executive Vice President and General Counsel, Harbor Group International, L.L.C., a commercial real estate investment and management firm and formerly Partner, Kaufman & Canoles, P.C., a full service law firm

(1) All directors receive mail at the Company s corporate executive offices at 500 East Main Street, Suite 800, Norfolk, Virginia 23510.
(2) All directors serve one year terms and hold office until their respective successors are duly elected and qualified.
(3) Mr. Lindauer is an interested person of the Company within the meaning of § 2(a)(19) of the Investment Company Act by virtue of his serving as the Company s President and Chief Executive Officer.
(4) Mr. Litton is an interested person of the Company as a result of his provision of legal services to the Company during its last two fiscal years while he was a partner with Kaufman & Canoles, P.C. Mr. Litton had departed Kaufman & Canoles prior to his appointment to the Board, and therefore has not provided legal services to the Company since joining the Board.

Directors are elected by a plurality of shares of Common Stock present in person or represented by proxy and entitled to vote at the Annual Meeting.

THE BOARD OF DIRECTORS RECOMMENDS THAT ALL SHAREHOLDERS VOTE FOR THE DIRECTOR-NOMINEES SET FORTH ABOVE.

SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

The following table sets forth information as of October 31, 2004 relating to the beneficial ownership of the Company s Common Stock by (i) each of the Company s directors and each executive officer identified in the Summary Compensation Table below (Named Executive Officers) and (ii) all of the Company s directors and executive officers as a group. Except for those Named Executive Officers and/or Directors listed below, no other person (or group of affiliated persons) is known by the Company to own beneficially more than 5% of the Common Stock.

Beneficial Ownership of Common Stock

Name and Address of Beneficial Owner[1]	Amount of Beneficial Ownership[2]	Percent of Class[2]	Dollar Range of Equity Securities of the Company[2]	
James E. Andrews	15,582	1.0	50,001	100,000

J.W. Whiting Chisman, Jr.	41,277	2.8	Over 100,000	
Eric L. Fox	8,015	*	10,001	50,000

Marvin S. Friedberg	46,402	3.2	Over 100,000
Roger L. Frost	56,317	3.9	Over 100,000
Ernest F. Hardee	5,170	*	10,001 50,000
Henry U. Harris, III	6,455	*	10,001 50,000
Robert I. Low	5,300	*	10,001 50,000
Gerald T. McDonald	60,449(3)	4.0	Over 100,000
Peter M. Meredith, Jr.	109,917(4)	7.5	Over 100,000
Augustus C. Miller	12,411	*	50,001 100,000
Juan M. Montero, II	30,939(5)	2.1	Over 100,000
R. Scott Morgan	2,478	*	10,001 50,000
Jordan E. Slone	16,614(6)	1.1	50,001 100,000
Martin N. Speroni	43,250(7)	2.9	50,001 100,000
Lex W. Troutman	38,320(8)	2.6	10,001 50,000
Interested Person Director Nominees			
J. Alan Lindauer	264,383(9)	17.4	Over 100,000
T. Richard Litton, Jr.			
All officers and directors as a Group (18) persons)	743,279	46.5	Over 100,000

(1) All directors and the executive officers receive mail at the Company s corporate executive offices at 500 East Main Street, Suite 800, Norfolk, Virginia 23510.

(2) The number of shares and percentages shown in the table are as of October 7, 2004, and are based on (i) the 1,456,675 shares of Common Stock outstanding on such date and (ii) an aggregate of 142,680 shares issuable pursuant to options held by the respective person or group which are presently exercisable or which may be exercised within 60 days after October 7, 2004. Pursuant to the rules of the Securities and Exchange Commission, (a) the presently exercisable options are deemed to be outstanding and to be beneficially owned by the person or group holding such options or warrants for the purpose of computing the percentage ownership of such person or group, but are not treated as outstanding for the purpose of computing the percentage of ownership of any other person or group and (b) the same shares are not counted more than once in computing the aggregate number of shares owned by the officers and directors as a group. See, Notes (7), (8) and (9) below. The dollar range of equity securities of the Company is based on a share price of $5.30, the last reported sale price of our Common Stock on the Nasdaq SmallCap Market on June 30, 2004, the last business day of the Company s 2004 fiscal year.

(3) Includes 40,300 shares which Mr. McDonald has the right to acquire within 60 days through the exercise of options granted under the 1998 Employee Stock Option Plan and 13,408 shares held under the Company s 401(k) plan.

(4) Includes (i) 11,130 shares held by Meredith Realty Company, L.L.C., of which Mr. Meredith is a member, (ii) 35,462 shares held by Pomar Holding Company, L.L.C., of which Mr. Meredith is a member, (iii) 16,118 shares owned by Mr. Meredith s wife, and (iv) 4,452 shares held in trust for the benefit of Mr. Meredith s children.

(5) All except 109 shares are held by Juan M. Montero II M.D. P.C. Profit Sharing and Money Purchase Pension Plan for benefit of Dr. Montero.

(6) All except 909 shares are held by Garden Capital Acquisitions, LLC of which Mr. Slone is a member.

(7) Includes 31,130 shares which Mr. Speroni has the right to acquire within 60 days through the exercise of options granted under the 1998 Employee Stock Option Plan (10,000 of which are also deemed to be beneficially owned by Mr. Lindauer by virtue of a contractual option arrangement enter into between Mr. Speroni and Mr. Lindauer) and 12,120 shares held under the Company s 401(k) plan.

(8) Includes 31,130 shares which Mr. Troutman has the right to acquire within 60 days through the exercise of options granted under the 1998 Employee Stock Option Plan (10,000 of which are also deemed to be beneficially owned by Mr. Lindauer by virtue of a contractual option arrangement enter into between Mr. Troutman and Mr. Lindauer) and 2,427 held under the Company s 401(k) plan.

(9) Includes 40,300 shares which Mr. Lindauer has the right to acquire within 60 days through the exercise of options granted under the 1998 Employee Stock Option Plan, 3,118 shares held under the Company s 401(k) plan, and 20,000 shares which Mr. Lindauer has the right to acquire immediately by virtue of contractual option arrangements entered into with each of Messrs. Speroni and Troutman.

* Represents less than one percent (1%) interest.

Meetings and Committees of the Board of Directors

Meetings/Annual Meeting Attendance

The business of the Company is managed under the direction of the Board of Directors. The Executive Committee of the Board of Directors has been delegated the power, with certain exceptions, to act in place of the full Board during all periods between regular meetings of the Board, and the Executive Committee meets on a regularly scheduled basis during the year. The Board of Directors held one meeting during fiscal year 2004. All members of the Board of Directors except Mr. Lindauer and Mr. Litton, are independent directors. Each member of the Board of Directors attended the meeting during fiscal year 2004, other than Messrs. Andrews, Fox and Hardee. The Board of Directors does not have a policy regarding attendance at annual shareholders meetings, however Directors are encouraged to attend such meetings. During the Company s last annual meeting of shareholders held on October 21, 2004, eight Board members were in attendance.

Committees

The Board of Directors has established an Executive Committee, an Audit Committee, and a Compensation/Stock Option Committee. The Company s Articles of Incorporation provide for the appointment by the Board of Directors of an Executive Committee comprised of not less than five nor more than nine members, all of whom must be members of the Board of Directors. The Executive Committee was constituted by the Board of Directors in December 1993 and, under Virginia law, may exercise all the authority of the Board of Directors except that it may not (i) approve or recommend to shareholders action that Virginia law requires to be approved by shareholders, (ii) fill vacancies on the Board of Directors or any committee, (iii) amend the Articles of Incorporation, (iv) adopt, amend, or repeal the Bylaws, (v) approve a plan of merger, (vi) authorize or approve a distribution, except according to a general formula or method prescribed by the Board of Directors, or (vii) authorize or approve the issuance or sale or contract for sale of shares, or determine the designation of the relative rights, preferences and limitations of a class or series of shares within limits specifically prescribed by the Board of Directors. The Executive Committee meets on a regularly scheduled basis during the year to review significant developments affecting the Company and to act on matters requiring approval. It also holds special meetings when an important matter requires action between scheduled meetings.

The Executive Committee met ten times during fiscal year 2004. All members of the Executive Committee attended at least 75% of all Executive Committee meetings in fiscal year 2004, except for Messrs. Low and Morgan. The members of the Executive Committee are Messrs. Chisman, Hardee, Lindauer, Low, Meredith and Morgan.

The Audit Committee held two meetings in 2004. At year-end, its members were James E. Andrews, J. W. Whiting Chisman Jr., Roger L. Frost and Peter M. Meredith, Jr. See Audit Committee Report below.

The Compensation Committee makes recommendations to the Board of Directors as to, among other things, the compensation of the Chief Executive Officer, each officer who is also a director of the Company and designated other members of senior management, as well as new compensation and stock plans. The Compensation Committee met two times during fiscal year 2004. The members of the Compensation Committee are Messrs. Chisman, Hardee, and Meredith. See Compensation Committee Report below.

Director Nominations

The Board of Directors of the Company does not maintain a nominating committee, rather the entire Board is responsible for selecting nominees for election as Directors. The Company believes that the Board is able to fully consider and select qualified nominees for election to the Board without delegating that responsibility to a committee of independent Directors or adopting formal procedures. A majority of the independent Directors then serving on the Board must approve any nominee to be recommended by the Board to the Company s shareholders.

The Board does not currently have a committee charter or written policy with regard to the nomination process. Candidates have traditionally been recommended to the Board by its members, and there is not a formal process for identifying or evaluating new director nominees. Any recommendations for potential Director nominees received from shareholders will be evaluated in the same manner that potential nominees recommended by Board members, management or other parties are evaluated. Nominations should be addressed to: Gerald T. McDonald, Secretary, Waterside Capital Corporation, 500 East Main Street, Suite 800, Norfolk, Virginia 23510.

Qualifications for consideration as a Director nominee may vary according to the particular areas of expertise being sought as a complement to the existing Board composition. However, in making its nominations, the Board of Directors considers, among other things, an individual s business experience, community involvement, industry experience, financial background, breadth of knowledge about issues affecting the Company, time available for meetings and consultation regarding Company matters, and other particular skills and experience possessed by the individual.

Audit Committee Report

The Audit Committee of the Board of Directors is composed of four directors, each of whom is an independent director as that term is defined under the Nasdaq listing standards. To be an independent director under this definition, a director may not be an officer or an employee of the Company or have any other relationship with the Company that interferes with the exercise of independent judgment. Because we are an investment company registered under the Investment Company Act, any director who is an interested person of the Company within the meaning of § 2(a)(19) of the Investment Company Act will not be deemed independent under Nasdaq rules. As discussed above, the Audit Committee held two meetings during fiscal year 2004. Responsibilities of the Audit Committee are set forth in its Charter, which is reviewed and amended periodically by the Company s Board of Directors, as appropriate. A copy of the Company s Audit Committee Charter is attached as **Exhibit A** to this Proxy Statement. Among other things, the Audit Committee:

serves as an independent and objective monitor of the Company s financial reporting process and internal control systems;

appraises the efforts and effectiveness of the Company s independent auditors, including their independence and professionalism;

provides an efficient means for communication among the Board, the independent auditors, and the Company s financial and senior management;

recommends to the Board of Directors the engagement of, and the fees to be paid to, the Company s independent auditor; and

supervises the Company s compliance with applicable legal and regulatory requirements.

The Audit Committee reviews the Company s financial reporting process on behalf of the Board of Directors. Management has the primary responsibility of the financial statements and the reporting process, including the system of internal controls. In this context, the Audit Committee has met and held discussions with management and the independent auditors. Management represented to the Audit Committee that the Company s financial statements were prepared in accordance with generally accepted accounting principles, and the Audit Committee has reviewed and discussed the financial statements with management and the independent auditors. The Audit Committee discussed with the independent auditors the matters required to be discussed by Statement of Auditing Standards No. 61 (*Communication with Audit Committees*). In addition, the Audit Committee has discussed with the independent auditors the auditors independence from the Company and its management, including the matters in the written disclosures required by the Independence Standards Board Standards No. 1 (*Independence Discussions With Audit Committees*). The Audit Committee discussed with the Company s independent auditor the overall scope and specific plans for their respective audits.

The Audit Committee meets with the independent auditors, with and without management present, to discuss the results of their examinations, the evaluations of the Company s internal controls, and the overall quality of the Company s financial reporting. The meetings also are designed to facilitate any private communications with the Audit Committee desired by the independent auditors. In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board has approved, that the audited financial statements of the Company be included in the Annual Report to Shareholders for the fiscal year ended June 30, 2004. The Audit Committee and the Board have also appointed, subject to shareholder ratification, the selection of the Company s independent auditor, Witt Mares Eggleston Smith, PLC.

James E. Andrews

J. W. Whiting Chisman, Jr.

Roger L. Frost

Peter M. Meredith, Jr.

EXECUTIVE AND DIRECTOR COMPENSATION

The table below sets forth certain information regarding cash and other compensation paid during the fiscal years ended June 30, 2002, 2003 and 2004 to each of the Named Executive Officers (the Chief Executive Officer and the three highest compensated Officers receiving more than $60,000 in annual compensation) in all capacities in which they served.

10

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation Salary	Bonus	All Other Compensation[1]	Aggregate Compensation From the Company
J. Alan Lindauer	2004	$ 167,750	$ 27,000	$ 11,636	$ 206,386
	2003	165,000		11,779	176,779
CEO & President	2002	165,000		8,809	173,809
Gerald T. McDonald	2004	112,250	18,000	7,898	138,148
	2003	121,000		8,821	129,821
CFO, Treasurer & Secretary	2002	121,000		8,707	129,707
Lex W. Troutman	2004	123,000	18,000	8,533	149,533
	2003	121,000		9,108	130,108
Business Development Officer	2002	121,000		8,256	129,256
Martin N. Speroni	2004	120,333	18,000	8,268	146,601
	2003	110,000		8,019	118,019
Director of Research	2002	110,000		8,556	118,556

(1) Includes 401(k) match and term life insurance premiums paid on behalf of the Named Executive Officers.

The following table contains information concerning the fiscal year-end value of all unexercised stock options held by the Named Executive Officers. There were no exercises of stock options by, or grants of stock options to, the Named Executive Officers during the fiscal year ended June 30, 2004.

Aggregated Option/SAR Exercises in Last Fiscal Year and Fiscal Year-End Option/SAR Values

Name	Shares Acquired on Exercise(#)	Value Realized($)	Number of Securities Underlying Unexercised Options/SARs at FY-end(#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money options/SARs at FY-end($)(1) Exercisable/ Unexercisable
J. Alan Lindauer			60,300/0	$ 41,125
CEO & President				
Gerald T. McDonald			40,300/0	17,625
CFO, Treasurer & Secretary				

Lex W. Troutman Business Development Officer	31,130/0	11,750
Martin N. Speroni Director of Research	31,130/0	11,750

(1) Under Securities and Exchange Commission rules, an option is only considered in-the-money for purposes of the chart if the per share exercise price is less than $5.30, the last reported sales price of our common stock on the Nasdaq SmallCap Market on June 30, 2004, the last business day of the Company s 2004 fiscal year.

Employment Agreement

Mr. Speroni is employed as the Company s Director of Research under an employment agreement dated February 1, 2004 (the Speroni Employment Agreement). The Speroni Employment Agreement expires on January 31, 2005, unless terminated earlier in accordance with its terms. Mr. Speroni is paid an annual salary of $124,800. The Speroni Employment Agreement provides, should Mr. Speroni leave employment with the Company, a two-year covenant not to compete with the Company within the Commonwealth of Virginia and a one-year employee non-solicitation clause. It also imposes certain non-disclosure obligations on Mr. Speroni with respect to the Company s confidential and proprietary information.

401(k) Plan

In July of 1998, the Company adopted a profit sharing and thrift plan qualified under Section 401(k) of the Internal Revenue Code (the 401(k) Plan). All employees of the Company may elect to participate and contribute up to 8% of their annual salary in the 401(k) Plan. The Company may make matching contributions and the amount of such contributions, if any, will be determined by the Company each year. The Company made 100% matching contributions of the first 6% of each participating employee s contributions to the 401(k) Plan during the fiscal year ended June 30, 2004.

Stock Option Plan

The Waterside Capital Corporation 1998 Employee Stock Option Plan (the Option Plan) was approved by the shareholders of the Company on October 22, 1998. The shareholders of the Company approved an amendment to the Plan on October 25, 1999. The Option Plan provides for the issuance of stock option awards to employees of the Company. The purpose of the Option Plan is to promote the long-term growth and profitability of the Company by providing employees with incentives to improve shareholder value and contribute to the growth and financial success of the Company, and by enabling the Company to attract, retain, and reward highly motivated and qualified employees. The maximum number of shares of the Company s Common Stock that may be issued with respect to awards granted under the Option Plan is 212,000. The maximum number of shares that may be issued with respect to awards under the Plan to an individual in a calendar year may not exceed 25,000 shares. The Option Plan is administered by the Compensation Committee and the Option Plan authorizes the Compensation Committee to make all awards. The Compensation Committee determines the prices, vesting schedules, expiration dates, and other material conditions under which such awards may be exercised.

Directors Compensation

During 2004, Directors and members of the committees of the Board of Directors received $100 for each meeting they attended. In lieu of receiving cash, all Directors who were entitled to receive fees for meeting attendance elected to receive such fees in the form of Common Stock purchased by the Company on the open market. Directors who are also employees of the Company received no compensation from the Company in their capacity as directors. The Company reimburses all of its

Directors for travel and out of pocket expenses in connection with their attendance at meetings of the Board of Directors. The following table contains information concerning the compensation paid to the Company s Directors during the fiscal year ending June 30, 2004:

Name of Director	Total Compensation from the Company Paid to Directors[1]
James E. Andrews	$ 300
J. W. Whiting Chisman, Jr.	$ 1,400
Eric L. Fox	$ 500
Marvin S. Friedberg	$ 700
Roger L. Frost	$ 1,000
Ernest F. Hardee	$ 900
Henry U. Harris III	$ 700
Robert I. Low	$ 700
Peter M. Meredith, Jr.	$ 1,500
Augustus C. Miller	$ 200
Juan M. Montero II	$ 800
R. Scott Morgan	$ 400
Jordan E. Slone	$ 700
Interested Person Directors	
J. Alan Lindauer	
T. Richard Litton Jr.	

(1) Paid in the form of Common Stock purchased by the Company on the open market.

Compensation Committee Report Concerning Compensation of Certain Executive Officers

This report describes the Company s executive officer compensation strategy, the components of the compensation program, and the manner in which the 2004 compensation determinations were made for the Company s Chief Executive Officer, J. Alan Lindauer, and the Company s other executive officers (collectively Executive Officers).

In addition to the information set forth above under Executive Compensation, the Compensation Committee is required to provide shareholders a report explaining the rationale and considerations that led to the fundamental executive compensation decisions affecting the Company s Executive Officers. In fulfillment of this requirement, the Compensation Committee, at the direction of the Company s Board of Directors, has prepared the following report for inclusion in this Proxy Statement. None of the members of the Compensation Committee are executive officers or employees of the Company.

Compensation Philosophy

The compensation of the Company s Executive Officers is designed to attract, retain, motivate and reward qualified, dedicated executives, and to directly link compensation with (i) the Executive Officer s previous and anticipated performance, (ii) the contributions and responsibilities of the Executive Officer to the Company and (iii) the Company s profitability. None of these three factors is

13

given more relative consideration than any other. The principal components of an Executive Officer s compensation package during fiscal year 2004 were (i) a base salary at a stated annual rate, together with certain other benefits as may be provided from time to time and (ii) discretionary cash bonuses. See Bonus Program below. In addition, stock option awards have been made in the past, and will continue to be made in the future, to the Company s Executive Officers pursuant to the Company s 1998 Employee Stock Option Plan.

Bonus Program

The Company has historically awarded annual cash bonuses to Executive Officers based upon individual performance and financial performance of the Company.

1998 Employee Stock Option Plan

The Board and the Compensation Committee strive to compensate key employees of the Company in a manner that aligns closely the interests of such key employees with the interests of the Company s shareholders. In furtherance of this goal, in 1998 the Board adopted the Waterside Capital Corporation 1998 Employee Stock Option Plan, which was approved by shareholders. During 1999, the Board adopted, and the shareholders approved, an amendment to the Plan. The purpose of the Plan is to support the business goals of the Company and to attract, retain and motivate management officials of high caliber by providing incentives that will, through the award of options to acquire the Company s Common Stock, associate more closely the interests of Executive Officers and key employees of the Company with the interests of the Company s shareholders. The Compensation Committee did not grant any stock options to Executive Officers during fiscal year 2004, however, the Committee expects that such stock option grants will be awarded in the future.

Limitation on Deductibility of Certain Compensation for Federal Income Tax Purposes

Section 162(m) of the Internal Revenue Code (162(m)) precludes the Company from taking a deduction for compensation in excess of $1 million for the Chief Executive Officer or certain of its other highest paid officers. Certain performance based compensation, however, is specifically exempt from the deduction limit. The Compensation Committee has concluded that 162(m) will not impact the Company during fiscal year 2004 because compensation in excess of $1 million will not be paid to any employee of the Company.

J. W. Whiting Chisman, Jr.

Ernest F. Hardee

Peter M. Meredith, Jr.

THE PRECEDING COMPENSATION COMMITTEE REPORT CONCERNING COMPENSATION OF CERTAIN EXECUTIVE OFFICERS AND THE AUDIT COMMITTEE REPORT APPEARING ELSEWHERE IN THIS PROXY STATEMENT SHALL NOT BE DEEMED TO BE SOLICITING MATERIAL OR TO BE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED, OR INCORPORATED BY REFERENCE IN ANY DOCUMENTS SO FILED.

14

Section 16 Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, together with rules promulgated by the Securities and Exchange Commission pursuant to the Investment Company Act, requires directors, officers and persons who beneficially own more than 10% of a registered class of stock of the Company to file initial reports of ownership (Forms 3) and reports of changes in beneficial ownership (Forms 4 and 5) with the SEC and NASDAQ. Such persons are also required under the rules and regulations promulgated by the SEC to furnish the Company with copies of all Section 16(a) forms they file.

During the Company s 2004 fiscal year, each Director of the Company, other than Mr. Litton, failed to file a Form 4 relating to the receipt by such Director of shares of Common Stock issued by the Company in lieu of directors fees. These shares were purchased on the open market and issued to Directors on a monthly basis.

PROPOSAL 2. AMENDMENT TO ARTICLES OF INCORPORATION

The Company s Board of Directors has unanimously approved and recommended that the shareholders of the Company approve an amendment to the Company s Articles of Incorporation (Articles) to remove the prohibition against Directors serving on the Executive Committee of the Company s Board of Directors for more than five years without a one-year break in service. A copy of this proposed amendment to the Articles (the Amendment) is attached to this Proxy Statement as **Exhibit B**. The Amendment, if adopted, would delete the following provision contained in Article V, Section 5.1, subparagraph C of the Company s Articles:

With the exception of the President, no person shall serve more than five (5) one-year terms on the Executive Committee without a break in service of at least one year between terms. This restriction, however, shall not apply to members of the Executive Committee serving in an ex officio capacity.

Reasons For, and Effect of Amendment

As discussed in more detail above, the Articles provide for the appointment of an Executive Committee that has been delegated all of the authority of the Board of Directors, other than authority with respect to certain specified actions. The Articles currently prohibit any Director from serving on the Executive Committee for more than five one-year terms without a break in service of at least one year in between terms. Currently, all members of our executive committee have served more than five years without such a break-in service. If adopted, the Amendment would remove this break in service requirement from the Articles and permit directors to continue to serve on the Executive Committee for uninterrupted consecutive terms without a break in service, provided such members continue to be appointed to the Executive Committee by the Board of Directors.

The Board appoints members to the Executive Committee based on their backgrounds in order to ensure that the committee provides an appropriate blend of business and other experience. In the event that members of the Executive Committee are willing to continue to serve, the Board does not believe that it is in the Company s best interest to require such members to end their service on the committee for a one-year term simply because they have served for five consecutive one-year terms. Rather, the Board believes that the composition of the Executive Committee should be based solely on the qualifications of those willing to serve on the committee.

15

Vote Required to Approve Amendment

The Virginia Stock Corporation Act requires that any amendment to the Articles be approved by more than two-thirds of the Company s outstanding shares of Common Stock. Accordingly, the Amendment will not be approved and adopted without the affirmative vote of more than two-third of the Company s outstanding shares of Common Stock.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL OF THE PROPOSED AMENDMENT TO THE COMPANY S ARTICLES OF INCORPORATION DESCRIBED IN PROPOSAL 2 ABOVE.

PROPOSAL 3. RATIFICATION OF APPOINTMENT OF AUDITORS

The Company s Audit Committee has selected and approved Witt Mares Eggleston Smith, PLC as the Company s independent auditor to audit the financial statements of the Company for the fiscal year ending June 30, 2005, and the Audit Committee desires that such appointment be ratified by the Company s shareholders. Witt Mares Eggleston Smith, PLC audited the Company s financial statements for the fiscal year ended June 30, 2004. A representative of Witt Mares Eggleston Smith, PLC will be present at the Annual Meeting. Such representative will have an opportunity to make a statement if he or she so desires, and will be available to respond to appropriate questions. Ratification by the shareholders of the appointment of Witt Mares Eggleston Smith, PLC requires the affirmative vote of the majority of the votes cast at the Annual Meeting.

The Company appointed Witt Mares Eggleston Smith, PLC as the new independent auditor for the Company effective May 12, 2003. This appointment was ratified by the Company s shareholders during the Company s 2003 Annual Meeting of Shareholders. Effective May 8, 2003, the Company dismissed KPMG LLP as the independent auditor of the Company. This change in the auditor for the Company was approved by the Audit Committee of the Board of Directors of the Company. The Audit Committee decided to solicit audit proposals from three independent public accounting firms, including KPMG LLP prior to the commencement of the audit for the Company s fiscal year ending June 30, 2003. After receiving these proposals and considering a variety of factors, including cost, the Audit Committee decided to dismiss KPMG LLP and engage Witt Mares Eggleston Smith, PLC as the Company s independent auditor.

During the Company s two most recent fiscal years prior to dismissing KPMG LLP, there were no disagreements between the Company and KPMG LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of KPMG LLP, would have caused KPMG LLP to make reference to the subject matter of the disagreement in connection with its report. None of the reportable events described under Item 304(a)(1)(v) of Regulation S-K, promulgated under the Securities Act of 1933, as amended (Regulation S-K), occurred within the Company s two most recent fiscal years prior to KPMG LLP s dismissal.

The audit reports of KPMG LLP on the financial statements of the Company as of and for the fiscal years ended June 30, 2002 and 2001 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles. The Company provided KPMG LLP with a copy of the foregoing disclosure, and KPMG LLP issued a letter to the Company on May 12, 2003 stating its agreement with such statements.

Prior to its engaging Witt Mares Eggleston Smith, PLC, the Company did not consult with Witt Mares Eggleston Smith, PLC with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company s financial statement, or any other matters or reportable events listed on Item 304(a)(2)(i) and (ii) of Regulation S-K**.**

Fees Paid to Principal Accountants

The following table sets forth the professional fees paid to the Company s independent auditor by the Company for professional services rendered for the Company s last two completed fiscal years.

	2004	2003
Audit fees [1]	$ 4,000	$ 36,000
Audit-related fees [2]	6,000	
Tax fees [3]	5,000	6,000[5]
All other fees [4]	800	
	$ 15,800	$ 42,000

(1) These fees are paid for professional services rendered for the audit of the Company s financial statements for fiscal 2004 and 2003. Fees for professional services rendered for the audit of the Company s financial statements for fiscal 2004 in the amount of approximately $26,000 have paid during fiscal 2005.

(2) These are fees paid for assurance and related services that were reasonably related to the performance of the audit or review of Company s financial statements that are not reported under Audit fees above, including consultations regarding internal controls and financial accounting and reporting matters.

(3) These are fees paid for professional services rendered for tax compliance, tax planning, and tax advice.

(4) These are fees for permissible work performed by Witt Mares Eggleston Smith, PLC that does not fall within the specifications of the above categories. This did not include any services for financial information system design or implementation.

(5) These are fees paid for the preparation of tax returns and for other miscellaneous services performed by KPMG LLP, the independent auditor for the Company prior to its appointment of Witt Mares Eggleston Smith, PLC, effective May 12, 2003.

The Company s Audit Committee pre-approves all audit, audit-related and non-audit services provided by our independent auditor, Witt Mares Eggleston Smith, PLC. Generally, services are pre-approved by the Audit Committee through its annual review of the engagement letter. Subsequently, as the need for additional services arise, detailed information regarding the specific audit, audit-related, tax and permissible non-audit services are submitted to the Audit Committee for its review and approval prior to the provision of such services. In the event that the Audit Committee cannot meet prior to the provision of such services, the Committee has delegated to its Chair the authority to pre-approve such services. All such pre-approvals are then reported to the Audit Committee at its next regularly scheduled meeting.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF WITT MARES EGGLESTON SMITH, PLC AS THE COMPANY S INDEPENDENT AUDITOR.

OTHER MATTERS

The Board of Directors does not know of any matters that will be presented for action at the Annual Meeting other than those described above or matters incident to the conduct of the Annual Meeting. If, however, any other matters not presently known to management should come before the Annual Meeting, it is intended that the shares represented by proxies will be voted on such matters in accordance with the discretion of the holders of such proxies.

SHAREHOLDER COMMUNICATIONS

The Company does not currently have a formal policy regarding shareholder communications with the Board of Directors as it does not receive a significant amount of such communications; however, any shareholder may submit written communications to Gerald T. McDonald, Secretary, Waterside Capital Corporation, 500 East Main Street, Suite 800, Norfolk, Virginia 23510, whereupon such communications will be forwarded to the Board of Directors if addressed to the Board of Directors as a group or to the individual Director or Directors addressed.

SHAREHOLDER PROPOSALS

The next Annual Meeting will be held on or about December 6, 2005. Any shareholder who wishes to submit a proposal for consideration at that meeting, and who wishes to have such proposal included in the Company s proxy statement, must comply with SEC Rule 14a-8 and must submit the proposal in writing no later than July 11, 2005. The deadline for shareholders to notify the Company of non-Rule 14a-8 matters that may be raised for consideration at the next Annual Meeting is also July 11, 2005. All such proposals and notifications should be sent to Gerald T. McDonald, the Secretary of the Company, at the Company s principal executive offices, 500 East Main Street, Suite 800, Norfolk, Virginia.

GENERAL

The Company s 2004 Annual Report to Shareholders accompanies this Proxy Statement. The 2004 Annual Report does not form any part of the material for the solicitation of proxies. Upon written request, the Company will provide shareholders with a copy of its Report on Form N-SAR for the year ended June 30, 2004 (the Form N-SAR), as filed with the Securities and Exchange Commission, without charge. Please direct written requests for a copy of the Form N-SAR to: Gerald T. McDonald, Chief Financial Officer, Waterside Capital Corporation, 500 East Main Street, Suite 800, Norfolk, VA 23510.

PLEASE MARK, SIGN, DATE AND RETURN THE PROXY PROMPTLY

By Order of the Board of Directors

November 5, 2004

Exhibit A

Audit Committee Charter

A. Purpose

1. The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities:

    a. Serve as an independent and objective party to monitor the Company s financial statements and its accounting and financial reporting processes.

    b. Review and appraise the audit efforts of the Company s independent accountants and internal auditing department.

    c. Provide an open avenue of communication among the independent accountants, financial and senior management, the internal auditing department, and the Board of Directors.

    d. Review the Company s compliance with legal and regulatory requirements.

2. The Audit Committee will substantially fulfill these responsibilities by carrying out the activities enumerated in Section D of this Charter.

3. In discharging its oversight role, the Audit Committee or a designated party on its behalf is empowered to investigate any matters brought to its attention with full access to all books, records, facilities, and personnel of the Company. The Audit Committee shall have the authority to engage the independent counsel, independent accountants and/or other advisers as it determines necessary to carry out its duties. The Company shall provide for appropriate funds, as determined by the Audit Committee, for the purpose to fulfill its corporate governance responsibilities.

B. Composition

1. The Audit Committee shall be comprised of three or more directors as determined by the Board, each of whom shall be independent of management, and free from any relationship that in the opinion of the Board would interfere with the exercise of his or her independent judgment as a member of the Committee. Each member of the Audit Committee shall meet the independence and experience requirements of the NASDAQ Stock Market, Inc., and the Exchange Act of 1934 and the Rules and Regulations of the Securities and Exchange Commission. All members of the Committee shall have a working familiarity with basic finance and accounting practices, and at least one member of the Committee shall have accounting or related financial management expertise. Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Company or an outside consultant.

2. The members of the Committee shall be elected by the Board at the annual organizational meeting of the Board or until their successors shall be duly elected and qualified. Unless a Chair is elected by the full Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership.

3. A majority of members at an Audit Committee meeting will constitute a quorum. The action of a majority of members participating at any meeting of the Audit Committee at which quorum is present shall be the consensus of the Audit Committee.

C. Meetings

The Committee shall hold such regular meetings as may be necessary, but not less frequently than on a quarterly basis. The Chairman of the Audit Committee or the Chief Audit Executive may call a meeting of the Audit Committee. Management, the Chief Audit Executive, independent accountants, the Company s legal counsel, regulatory representative and any other parties may attend a meeting at the discretion of the Audit Committee. As part of its job to foster open communication, the Committee should meet at least annually with management, the Chief Audit Executive and the independent accountants in separate executive sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately.

Minutes will be prepared to record the business conducted. All Committee Minutes will be retained as part of the Company s Permanent Records and will be stored with the Corporate Board Minutes. The Audit Committee shall report on its activities to the Board of Directors on a regular basis.

D. Responsibilities and Duties

To fulfill its responsibilities and duties the Audit Committee shall:

1. Documents/Reports Review

    a. Review and update this Charter policy, at least annually, as conditions dictate.

    b. Review the organization s annual audited financial statements and quarterly financial statements, including disclosures made under, Management s Discussion and Analysis of Financial Condition and Results of Operations and its critical accounting policies and practices, prior to the filing of the annual report on Form 10-KSB and quarterly reports on Form 10-QSB.

    c. Review the regular internal reports to management prepared by the internal auditing department and management s responses.

2. Oversight of the Company s Relationship with the Independent Accountants

    a. Be directly responsible, in its capacity as a committee of the Board, for the appointment and termination (subject, if applicable, to shareholder ratification) of the independent accountants, approve the fees and other compensation to be paid to the independent accountants. The Audit Committee will also provide oversight of work of the independent accountant, including resolution of disagreements between management and the independent accountant regarding financial reporting.

    b. Pre-approve all audits and permitted non-audit services, and the compensation, fees and terms for such services provided by the independent accountants. The Audit Committee may delegate pre-approval authority to subcommittees consisting of on or more members when appropriate, including the authority to grant pre-approvals of audited and permitted non-audit services, provided that decisions made by the subcommittee are presented to the full Committee at its next scheduled meeting.

c. At least annually, obtain and review a formal written report by the independent accountants describing any relationships between the firm and the Company and any other relationships that may adversely affect the independence of the independent accountant. In addition, the Audit Committee shall make direct inquiries with the independent accountants with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditors and take appropriate action to oversee the independence of the independent accountants.

d. Review with the independent accountants any audit problems or difficulties or other matters required to be discussed by Statement on Auditing Standards Number 61, including any restrictions on the scope of the independent accountants activities or on access to requested information, and any significant disagreements between management and the independent accountants.

e. At least annually, obtain a written report by the independent accountants describing their firm s internal quality-control procedures; any material issues raise by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues.

f. Ensure the external audit partners involved with the audit are independent and rotated as recommended by authoritative guidance.

g. Ensure the Corporate Personnel Policy Manual outlines clear hiring practices for employees or former employees of the independent accountants.

h. Review the performance of the independent accountants and approve any proposed discharge of the independent accountants when circumstances warrant.

3. Financial Reporting and Disclosure Processes

a. In consultation with management, independent accountants and the Chief Audit Executive, review and discuss the following:

i. integrity of the organization s internal and external financial reporting processes, financial statements and major disclosures and the adequacy and effectiveness of the Company s system of internal controls and disclosure controls procedures.

ii. adequacy of management s attestation of internal controls and its corporate disclosure controls.

iii. analysis of significant financial statement reporting issues, judgments relating to preparation of the Company s financial statements, the appropriateness of accounting principles followed by the Company, and any changes to these same accounting principles.

iv. if applicable, discuss the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company s financial statements and related required disclosures.

v. the annual audited financial statements and quarterly financial statements, including disclosures made under Management s Discussion and Analysis of Financial Condition and Results of Operations and its critical accounting policies and practices, prior to the filing of the annual report on Form 10-KSB and the quarterly reports on Form 10-QSB.

b. Periodically discuss with management the Company s financial information released to the public, including but not limited to press releases, which discuss earnings, pro-forma or adjusted non-GAAP information and financial information provided to stock analysts.

c. Periodically consult with management, the independent accountants and the Chief Audit Executive about the Company s financial and operational risk exposures and related internal controls to monitor and control such risk exposures.

d. Issue a report for inclusion in the Company s proxy statement, disclosing that the Audit Committee reviewed and discussed the Company s audited financial statements with management, the independent accountants and Chief Audit Executive. The report should also indicate that the Audit Committee recommends to the Board of Directors whether or not the audited financial statements should be included in the annual report on Form 10-KSB.

4. Oversight of the Company s Internal Audit Functions

a. On an annual basis, review and approve the internal audit department charter and its annual internal audit program in terms of the scope of the audit conducted or schedules to be conducted. Review the internal audit department resources, which includes its staffing levels and continuing education process to determine its adequacy to fulfill its duties.

b. Review the significant reports to management prepared by the internal auditing department and management s responses. Determine whether or note the internal audit department has tracked management s responses to external and internal audits. Also verify that management has in a timely manner completed all promised action(s) as outlined within management s original responses.

c. Ensure there are no unjustified restrictions or scope limitations of the internal audit department or its Chief Audit Executive.

d. Review the appointment and replacement of the Company s Chief Audit Executive.

e. Review the effectiveness of the internal audit function, including compliance with the Institute of Internal Auditor s Standards for the Professional Practice of Internal Auditing and other audit guidance provided by Federal and State agencies.

5. Compliance Oversight Responsibilities

a. Review reports and disclosures of insider and affiliated party transactions in accordance with SEC and listing regulations. The audit committee will review and approve all related-party transactions.

b. In consultation with management and the Chief Audit Executive determine that the Company and its subsidiaries are in conformity with applicable SEC laws and regulations and the Company s Code of Conduct and Ethics.

6. Audit Process Improvement

a. Establish timely regular and separate systems of reporting to the Audit Committee by management, the independent accountants and the Chief Audit Executive regarding any significant judgments made in management s preparation of the financial statements and the view of each as to appropriateness of such judgments.

b. The Audit Committee and Chief Audit Executive will perform a self-evaluation of its performance at least annually to determine whether it is functioning effectively.

c. Review any significant disagreement among management and the independent accountants or the internal auditing department in connection with the preparation of the financial statements.

d. Review with the independent accountants, the internal auditing department and management to the extent which changes or improvements in financial or accounting practices, as approved by the Audit Committee, have been implemented.

7. Corporate Governance Compliance Oversight Responsibilities

a. Establish whistle blower policy for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

b. Discuss with management and the independent accountants and Chief Audit Executive any correspondence with regulators or governmental agencies and any published reports that raise material issues regarding the Company s financial statements or accounting policies.

c. Discuss with the company s counsel legal matters that may have a material impact on the financial statements or the Company s compliance policies.

8. Outside Advisors

The Audit Committee shall have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting or other advisors. The company shall provide for appropriate funding, as determined by the Audit Committee, for payment of:

a. Compensation to the independent accountants for the purpose of rendering or issuing an audit report or performing other audit, review or attest services for the Company;

b. Compensation to any advisors and legal counsel employed by the Audit committee that are necessary or appropriate in carrying out its duties.

9. Other Duties

The Audit Committee has the discretion to perform other duties as it deems appropriate, which includes the following but not limited to:

a. Institute and oversee special investigations as needed;

b. Consider the effectiveness of the Company s internal control system; and

c. Perform duties as assigned by the Board of Directors.

Limitation of Audit Committee s Role

While the Audit Committee has the responsibilities and powers set forth in the Charter, it recognized that the members of the Audit Committee are not full-time employees of the Company and are not, and do not represent themselves to be, fulfilling the role of the independent accountants or auditors by profession. As such it not the duty of the Audit Committee or its members to plan or conduct audits or to determine that the Company s financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the independent accountants.

Each member of the Audit Committee shall be entitled to rely on:

The integrity of the persons and organizations within and outside the Company from which it receives information.

The accuracy of financial and other information provided to the Audit Committee by such persons or organization absent actual knowledge to the contrary (which shall promptly be reported to the Board of Directors).

Representations made by management as to any information technology, internal audit and other non-audit services provided by the independent accountants to the Company.

Exhibit B

ARTICLES OF AMENDMENT

OF

WATERSIDE CAPITAL CORPORATION

1. The name of the corporation is: Waterside Capital Corporation

2. Article V, Section 5.1, subparagraph C of the Corporation s Amended and Restated Articles of Incorporation is hereby deleted in its entirety and in lieu thereof is substituted the following:

C. Intentionally Deleted.

3. The amendment was proposed by the Corporation s board of directors and submitted to the shareholders in accordance with the provisions of Chapter 9 of Title 13.1 of the Code of Virginia.

4. The amendment was adopted by the shareholders on December 6, 2004.

5. The designation, number of outstanding shares, and number of votes entitled to be cast by each voting group, and the total number of votes cast for and against the amendment by each voting group were as follows:

Class	Number Outstanding and Entitled to Vote	Number Voted for Amendment	Number Voted Against Amendment	Number Abstaining
Common Stock				

6. The number of votes cast for the adoption of the amendment by each voting group was sufficient for approval by the voting group.

The undersigned President and Chief Executive Officer of the Corporation declares the facts herein stated are true as of December __, 2004.

WATERSIDE CAPITAL CORPORATION

By _____

J. Alan Lindauer, President
and Chief Executive Officer

x PLEASE MARK VOTES

AS IN THIS EXAMPLE

REVOCABLE PROXY

WATERSIDE CAPITAL CORPORATION

PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS FOR THE 2004 ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON DECEMBER 6, 2004 AT 11:00 A.M.

The undersigned, having received the Annual Report to Shareholders and the accompanying Notice of Annual Meeting of Shareholders and Proxy Statement dated November 5, 2004, hereby appoints Ernest F. Hardee and Peter M. Meredith, Jr. (each with the power to act alone), as proxies, with full power of substitution, and hereby authorizes them to represent and vote, as directed below, all the shares of the Common Stock of Waterside Capital Corporation held of record by the undersigned on October 7, 2004, at the 2004 Annual Meeting of Shareholders to be held on December 6, 2004, and any adjournment thereof.

Please be sure to sign and date this Proxy in the box below.

Date _____

_____ _____

Shareholder sign above Co-holder (if any) sign above

+ +

	For	With-hold	For All Except
1. To elect 15 directors to hold office for a term of one year and until their respective successors are elected and qualified;	¨	¨	¨

NOMINEES: James E. Andrews, J.W. Whiting Chisman, Jr., Eric L. Fox, Marvin S. Friedberg, Roger L. Frost, Ernest F. Hardee, Henry U. Harris, III, J. Alan Lindauer, T. Richard Litton, Jr., Robert I. Low, Peter M. Meredith, Jr., Augustus C. Miller, Juan M. Montero, II, R. Scott Morgan, Sr., and Jordan E. Sloan.

INSTRUCTION: To withhold authority to vote for any individual nominee, mark For All Except and write that nominee s name in the space provided below.

	For	Against	Abstain
2. To adopt and amendment to the Company s Articles of Incorporation removing the prohibition against Directors serving on the Executive Committee of the Company s Board of Directors for more than five years without a one-year break in service.	¨	¨	¨

	For	Against	Abstain
3. To ratify the appointment of Witt Mares Eggleston Smith, PLC as the Company s independent auditor for the fiscal year ending June 30, 2005	¨	¨	¨

4. To act upon such other matters as may properly come before the meeting or any adjournment thereof.

THIS PROXY IS REVOCABLE AT ANY TIME PRIOR TO ITS EXERCISE. THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED AS DIRECTED. WHEN NO DIRECTION IS GIVEN, THIS PROXY WILL BE VOTED FOR 1, 2 AND 3 ABOVE.

é Detach above card, sign, date and mail in postage paid envelope provided. é

WATERSIDE CAPITAL CORPORATION

NOTE: Please sign your name(s) exactly as they appear hereon. If signer is a corporation, please sign the full corporate name by duly authorized officer. If any attorney, guardian, administrator, executor, or trustee, please give full title as such. If a partnership, sign in partnership name by authorized person.

PLEASE COMPLETE, DATE, SIGN AND RETURN THIS PROXY PROMPTLY

IN THE ACCOMPANYING ENVELOPE.

IF YOUR ADDRESS HAS CHANGED, PLEASE CORRECT THE ADDRESS IN THE SPACE PROVIDED BELOW AND RETURN THIS PORTION WITH THE PROXY IN THE ENVELOPE PROVIDED.

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