



8011-01

SECURITIES AND EXCHANGE COMMISSION

[Investment Company Act Release No. 33810; File No. 811-08387]

Waterside Capital Corporation

March 4, 2020.

AGENCY: Securities and Exchange Commission (“Commission”).

ACTION: Notice.

Notice of an application for an order under section 8(f) of the Investment Company Act of 1940 (the “Act”) declaring that the applicant has ceased to be an investment company.

Applicant: Waterside Capital Corporation.

Filing Dates: The application was filed on January 18, 2018, and amended on June 4, 2018, October 30, 2018, June 12, 2019, August 26, 2019, December 20, 2019, and February 26, 2020.

Hearing or Notification of Hearing: An order granting the request will be issued unless the Commission orders a hearing. Interested persons may request a hearing by writing to the Commission’s Secretary and serving applicant with a copy of the request, personally or by mail. Hearing requests should be received by the Commission by 5:30 p.m. on March 30, 2020 and should be accompanied by proof of service on applicant, in the form of an affidavit or, for lawyers, a certificate of service. Pursuant to rule 0-5 under the Act, hearing requests should state the nature of the writer’s interest, any facts bearing upon the desirability of a hearing on the matter, the reason for the request, and the issues contested. Persons who wish to be notified of a hearing may request notification by writing to the Commission’s Secretary.

ADDRESSES: Secretary, U.S. Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090. Applicant: c/o Jolie Kahn, Esq., 12 E. 49th Street, 11th Floor, New York, NY 10017.

FOR FURTHER INFORMATION CONTACT: Laura J. Riegel, Senior Counsel, at (202) 551-3038, or Daniele Marchesani, Assistant Chief Counsel, at (202) 551-6821 (Division of Investment Management, Chief Counsel’s Office).

SUPPLEMENTARY INFORMATION: The following is a summary of the application. The complete application may be obtained via the Commission’s website by searching for the file number, or for an applicant using the Company name box, at <http://www.sec.gov/search/search.htm> or by calling (202) 551-8090.

Summary of the Application:

1. Applicant was incorporated under the laws of the Commonwealth of Virginia on July 13, 1993 and is registered under the Act as a closed-end investment company. It operated as a small business investment company under a license from the Small Business Administration (the “SBA”) and was internally managed.¹

2. On March 30, 2010, the SBA notified applicant that its account had been transferred to liquidation status and that its outstanding debentures plus accrued interest were due and payable within fifteen days of the notification. Applicant did not have sufficient liquid assets to make that payment and the SBA repurchased the debentures under a note agreement with applicant (the “Note Agreement”).

3. On May 24, 2012, the SBA delivered to applicant a notice of an event of default for failure to meet the principal repayment schedule under the Note Agreement (the “Notice”).

¹ Applicant’s outstanding shares of common stock are traded on the Pink® Open Market.

Under the terms of the Notice and the Note Agreement, the SBA maintained a continuing right to terminate the Note Agreement and appoint a receiver to manage applicant's assets.

4. On November 20, 2013, the SBA filed a complaint in the United States District Court for the Eastern District of Virginia (the "District Court") seeking, among other things, receivership for applicant and a judgment in the amount outstanding under the Note Agreement plus continuing interest. On May 28, 2014, the District Court entered an order (the "Order") that appointed the SBA as receiver of applicant. The SBA designated a principal agent to act on its behalf as the receiver (the "Receiver"). The Order authorized the Receiver to act for the purpose of marshaling and liquidating in an orderly manner all of applicant's assets (the "Receivership"). The Order also served to enter judgment against applicant for its liability in excess of \$11,000,000 to the SBA.

5. Applicant effectively stopped conducting an active business upon the appointment of the SBA as Receiver. Over the course of the Receivership, the activity of applicant was limited to the liquidation of applicant's assets by the Receiver and the payment of the proceeds to the SBA and for the expenses of the Receivership. Effective March 20, 2017, the SBA revoked the license that it had granted to applicant.

6. On June 28, 2017, the District Court entered an order that terminated the Receivership and discharged all claims and obligations of applicant other than the judgment held by the SBA (the "Final Order"). Before the District Court entered the Final Order, the Receiver provided notice to all shareholders of applicant. The Receiver also initiated separate contacts with the largest shareholders of applicant in an attempt to identify a shareholder willing to assume responsibility for the control of applicant on behalf of applicant's shareholders. Roran

Capital, LLC (“Roran”) was the only shareholder willing to assume such control.² At the direction of the Receiver, the Final Order stated that “Control of Waterside shall be unconditionally transferred and returned to its shareholders c/o Roran Capital, LLC (“Roran”) upon notification of entry of this Order.” In reliance on and in compliance with the Final Order, Roran appointed Zindel Zelmanovitch as the director and officer of applicant.³

7. In July 2017, Roran purchased from the SBA applicant’s outstanding judgment owed to the SBA. On May 16, 2019, Roran forgave the entire principal amount and interest due under the judgment payable.

8. On September 19, 2017, applicant entered into a convertible loan agreement with Roran (the “Loan Agreement”) with loans advanced under the terms of a convertible promissory note (the “Note”).⁴ The purpose of Roran’s loans to the applicant, including subsequent ones under amendments to the Loan Agreement, has been to pay for applicant’s reasonable operational expenses to third party service providers, consisting solely of expenses such as legal, accounting, transfer agent and edgarization costs, all at the actual cost for such services.⁵ Roran agreed to fund reasonable expenses of applicant so long as progress was being made to

² As of the Final Order, Roran owned 51,000 shares of applicant’s common stock, representing 2.7% of the issued and outstanding shares of common stock of applicant at that time.

³ Because of the liability exposure inherent in serving on the board of a public company, applicant’s lack of financial resources, and applicant’s loss of its SBIC license, applicant states that Roran was unable to locate any qualified individuals to serve on the board of directors. Zindel Zelmanovitch agreed to serve as director. Zindel Zelmanovitch is the father of Yitzhak Zelmanovitch, the managing member of Roran. Applicant states that Zindel Zelmanovitch has not been compensated for any of his services as a director or officer of applicant.

⁴ The Note bears interest at 12% per annum and has a maturity date of June 19, 2020. Roran has the right to convert all or any portion of the Note into shares of applicant’s common stock at a conversion price equal to 60% of the share price. Roran was not compensated, and will not be compensated, for its efforts during and after the Receivership. It will, however, be reimbursed for all ordinary and necessary expenses incurred on behalf of applicant, and it will be repaid all amounts it loans to applicant.

⁵ Applicant states that for the fiscal year ended June 30, 2019 and all times after the most recent fiscal year, it had no assets, other than cash on hand which the applicant used to pay incurred expenses.

reorganize applicant and to identify either (a) a new business to enter into; or, (b) an active business with which to merge or otherwise acquire.

9. Applicant states that it is and hold itself out as being engaged primarily in the business of seeking either (i) a new business to enter into; or, (ii) merger or acquisition candidates which would benefit from operating as a public entity; however, applicants represent that until the Application is approved, no such transaction is feasible. Applicant also states that it is not currently a party to any litigation or administrative proceedings.

10. Applicant represents that, if the requested order is granted, its shares of common stock will continue to be quoted on the Pink® Open Market.

Applicant's Legal Analysis:

1. Section 8(f) of the Act provides that whenever the Commission, upon application or its own motion, finds that a registered investment company has ceased to be an investment company, the Commission shall so declare by order and upon the taking effect of such order, the registration of such company shall cease to be in effect.

2. Section 3(a)(1)(A) of the Act defines an “investment company” as any issuer that “is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting, or trading in securities.” Section 3(a)(1)(C) of the Act defines an “investment company” as any issuer that “is engaged or proposes to engage in the business of investing, reinvesting, owning, holding, or trading in securities, and owns or proposes to acquire investment securities having a value exceeding 40 per centum of the value of such issuer’s total assets (exclusive of Government securities and cash items) on an unconsolidated basis.”⁶

⁶ Section 3(a)(2) of the Act defines “investment securities” as “all securities except (A) Government securities, (B) securities issued by employees’ securities companies, and (C) securities issued by majority-owned subsidiaries of the owner which (i) are not investment companies, and (ii) are not relying on the exception from the definition of investment company in paragraph (1) or (7) of subsection (c).”

3. Section 3(b)(1) of the Act provides that “[n]otwithstanding paragraph (1)(C) of subsection (a), none of the following persons is an investment company within the meaning of this title: (1) any issuer primarily engaged, directly or through a wholly owned subsidiary or subsidiaries, in a business or businesses other than that of investing, reinvesting, owning, holding, or trading in securities.” Rule 3a-1 under the Act states that “[n]otwithstanding section 3(a)(1)(C) of the Act, an issuer will be deemed not to be an investment company under the Act, provided, that: (a) no more than 45 percent of the value (as defined in section 2(a)(41) of the Act) of such issuer’s total assets (exclusive of Government securities and cash items) consists of, and no more than 45 percent of such issuer’s net income after taxes (for the last four fiscal quarters combined) is derived from, securities other than: (1) Government securities; (2) securities issued by employees’ securities companies; (3) securities issued by majority-owned subsidiaries of the issuer (other than subsidiaries relying on the exclusion from the definition of investment company in section 3(b)(3) or (c)(1) of the Act) which are not investment companies; and (4) securities issued by companies: (i) which are controlled primarily by such issuer; (ii) through which such issuer engages in a business other than that of investing, reinvesting, owning, holding or trading in securities; and (iii) which are not investment companies; (b) the issuer is not an investment company as defined in section 3(a)(1)(A) or 3(a)(1)(B) of the Act and is not a special situation investment company; and (c) the percentages described in paragraph (a) of this section are determined on an unconsolidated basis, except that the issuer shall consolidate its financial statements with the financial statements of any wholly-owned subsidiaries.”

4. Applicant states that it is no longer an investment company as defined in section 3(a)(1)(A) or section 3(a)(1)(C). Applicant states that its business is: (a) to enter into a new business; or, (b) to merge with, or otherwise acquire, an active business which would benefit

from operating as a public entity. Applicant states that its historical development, its public representations, the activities of its director and officer, its lack of assets and income support this assertion. Applicant states that it is thus qualified for an order of the Commission pursuant to section 8(f) of the Act.

For the Commission, by the Division of Investment Management, under delegated authority.

J. Matthew DeLesDernier,

Assistant Secretary.

[FR Doc. 2020-04797 Filed: 3/9/2020 8:45 am; Publication Date: 3/10/2020]