

CHAPTER 69.

[S. S. B. 26.]

SECURITIES ACT.

AN ACT providing for the regulation and supervision of the issuance and sale of certain securities, as the same are herein defined, to prevent fraud in the sale thereof, and providing penalties, and making an appropriation.

Be it enacted by the Legislature of the State of Washington:

SECTION 1. This act shall be known as the "Securities Act," and the duty of administering and enforcing this act shall devolve upon the secretary of state.

SEC. 2. Definition of terms. The following words have in this act the signification attached to them in this section, unless otherwise apparent from the context: Definitions.

(1) The word "company" includes all domestic and foreign private corporations, associations, joint stock companies and co-partnerships, and also trustees (but not including executors, administrators, receivers, or other trustees acting under the authority of a court); Company.

Excepting therefrom:

(a) All national banking associations and other corporations organized and existing under and by virtue of the acts of Congress of the United States;

(b) All insurance companies authorized to transact business within this state and all corporations transacting a banking or trust company business within this state;

(c) All building and loan, and savings and loan corporations, associations and societies authorized as such to do business in this state;

(d) All public utilities subject to the jurisdiction, control and regulation of the director of public works;

(e) All companies organized without capital stock and not for pecuniary gain and exclusively engaged in educational, benevolent, charitable or reformatory purposes, and companies based on membership basis for social, athletic and educational purposes.

Security:

(2) The word "security" includes:

(a) All shares or interests into which the capital, capital stock, or property of companies, or rights of stockholders or members thereof, are divided, including all treasury shares and shares of their own capital stock purchased or otherwise acquired by companies upon delinquent assessment sales or in any other lawful manner, and all certificates and other instruments issued by them or their authority, evidencing or representing such shares, interests or rights;

(b) All promissory notes, mortgages, bonds, debentures, and other evidences of indebtedness issued by any company, excepting promissory notes and mortgages negotiated by the drawer or maker in the ordinary course of business by private negotiation.

(c) Any instrument issued, offered or sold to the public by any company, evidencing or representing any right to participate or share in the profits or earnings or the distribution of assets of any business carried on for profit.

(d) All bonds, debentures and other evidences of indebtedness issued by any foreign government or any political subdivision thereof; or by any state of the United States of America or any political subdivision thereof, except the State of Washington and its political subdivisions.

(3) The word "sale" includes every contract by which, for a valuable consideration, a company transfers any security or interest therein; and any exchange, pledge, or hypothecation, or any transfer

in trust or otherwise, for the performance of an obligation.

The word "sell" includes every act by which such sale is made. Sell.

(4) The word "agent" includes every person or company employed or appointed by a broker or company who sells, negotiates for the sale of, solicits, or takes subscription for, a security of any company offering its own issue for sale. Agent.

(5) The word "broker" includes every person or company, other than an agent, engaging in the business of selling, offering for sale, negotiating for the sale of, soliciting subscriptions for, or otherwise dealing in securities issued by others; or underwriting any issue of securities, or of purchasing such securities with the purpose of reselling or offering them for sale to the public for a commission or at a profit, excepting therefrom the following: Broker.

(a) One who disposes of securities to a broker.

(b) Any pledge holder selling in good faith and not for the purpose of avoiding the provisions of this act, and in the ordinary course of business, a security pledged with him for the payment of a bona fide debt.

(c) Any owner of any security not the issuer or an underwriter thereof who sells or exchanges the same for his own account: *Provided*, That such sale or exchange is not made by such owner in the course of repeated and successive transactions of like or similar character.

SEC. 21½. This act shall not apply to domestic or foreign corporations, associations, joint stock companies, co-partnerships or common law trusts, engaged in the metalliferous mining industry as its principal business. Mining companies.

PERMIT OF SECRETARY OF STATE TO SELL SECURITIES.

Permit.

SEC. 3. No company shall sell, or offer for sale, negotiate for the sale of, or take subscriptions for any security of its own issue, until it shall have first applied for and secured from the secretary of state a permit authorizing it so to do: *Provided*, This shall not apply to a sale for a delinquent stock assessment made in accordance with the provisions of the statutes of the State of Washington; nor shall it forbid an original subscription to capital stock made by one who has signed the articles of incorporation of such corporation as an incorporator thereof; nor shall it forbid, in cases where there is not and has not been any advertisement or general solicitation for subscriptions an original subscription to capital stock made by any person within sixty days after the filing of the articles of incorporation or (in subscribing to an increase of capital stock) within thirty days after the filing of the certificate of increase.

APPLICATIONS FOR PERMITS.

Application,
contents.

SEC. 4. All applications shall be in writing, verified as provided by the statutes of the State of Washington for the verification of pleadings, and filed in the office of the secretary of state.

(1) Applications shall set forth—

(a) The names, addresses and occupations of the officers of the company;

(b) The location of the office of the company;

(c) A statement of the assets and liabilities of the company as of a date within thirty days, prior to the filing of its application, or such reasonable statement thereof as shall be prescribed by the secretary of state;

(d) A statement of the plan upon which the company proposes to transact business;

(e) The number of shares in the treasury of the company and the amount to be paid agents for the sale of stock;

(f) A copy of any security the company proposes to issue, and of any contract [contract] it proposes to make concerning the same;

(g) A copy of any circular, prospectus, advertisement, or other advertising matter which is proposed to be issued in connection with the sale of its securities.

(h) Any such additional information concerning the affairs of the company as the secretary of state may reasonably require.

(2) If the applicant is a co-partnership or an unincorporated association or joint stock company, it shall file with its application a copy of its articles of co-partnership or association, and all other papers pertaining to its organization.

(3) If the applicant is a trustee, it shall file with its application a copy of all instruments by which the trust is created and in which it is accepted, acknowledged and declared.

(4) If the applicant is a corporation, it shall file with its application a copy of all minutes of any proceedings of its directors or stockholders or members relating to or affecting the issue of such securities, and also a copy of its articles of incorporation and of its bylaws and of any amendments thereto.

COMPANIES ORGANIZED UNDER ANOTHER STATE,
TERRITORY OR GOVERNMENT.

SEC. 5. If the applicant is a corporation or association organized under the laws of any other state, territory or government, it shall also, in addition to all the requirements in this act mentioned, file with its application a certificate executed by the proper officer of such state, territory or government

Foreign
companies.

showing that such applicant is authorized to transact business in such state, territory or government; and also file in such form as the secretary of state may prescribe, its written instrument, irrevocably appointing the secretary of state and his successor in office its true and lawful attorney upon whom all process in any action or proceeding against it arising out of or founded upon the sale of securities within this state may be served, with the same effect as if said corporation or association were organized or created under the laws of this state and had been lawfully served with process therein.

DUTIES OF SECRETARY OF STATE.

SEC. 6. Upon the filing of an application, it shall be the duty of the secretary of state to examine the same and the papers and documents filed therewith. If he finds that the proposed plan of business of the applicant is fair, just and equitable, and that the securities which it proposes to issue and the methods to be used by it in issuing and disposing of the same are not such as will work a fraud upon the purchaser thereof, the secretary of state shall issue to the applicant a permit authorizing it to issue and dispose of such securities. Should the secretary of state find that the proposed plan of business of the applicant is unfair, unjust or inequitable he shall deny the application for a permit and notify the applicant of his decision.

Every permit shall recite in bold type that the issuance thereof is permissive only, and does not constitute a recommendation or endorsement of the securities permitted to be issued.

The secretary of state is hereby authorized and directed to make such reasonable rules and regulations as are necessary to carry out the provisions of this act.

Secretary
of state,
duties.

Issuance of
permit.

Rules and
regulations.

REVOCATION OR SUSPENSION OF PERMIT.

SEC. 7. The secretary of state, on satisfactory proof that the holder of the permit is guilty of fraud or misrepresentation in the sale of any security, may revoke any permit issued under this act. He may, also for good cause shown, change, amend, or temporarily suspend any rights granted under the permit: *Provided*, That before any such permit is revoked, changed, or amended, the secretary of state shall notify the person or company to whom such permit has been granted that such action is contemplated, and such company shall have, upon being advised, ten days within which to submit evidence to show why such action should not be taken.

Revocation or suspension of permit.

AGENT'S OR BROKER'S CERTIFICATES.

SEC. 8. No person or company shall act as an agent or broker until such person or company shall have applied for and obtained from the secretary of state a certificate authorizing such company so to act. Every such certificate shall be issued for a term of one year, but may be revoked for cause as provided in this act.

Agent or brokers, certificate.

(1) To obtain such certificate, the applicant shall file an application verified before an officer empowered to administer oaths. Said application shall set forth the following:

Application, contents.

(a) The name and address of applicant, and, if a corporation, association or joint stock company, the name and address of each of its officers, managing representatives, and agents; and, if it be a partnership, the name and address of the partners.

(b) The business in which the applicant has been engaged for the year next preceding the date of the application, and, if employed by another, the name of each employer.

(c) The city, town and street address, if known, at which the business is to be conducted; and when established at a location, this information shall be furnished.

(d) Such other information as the secretary of state may reasonably require to enable him to determine the trustworthiness of the applicant.

(2) If the applicant is a broker, the general plan and character of the business of the applicant.

**BROKERS—COMPANIES ORGANIZED IN ANOTHER STATE,
TERRITORY OR GOVERNMENT—POWER OF ATTORNEY.**

Foreign
companies.

SEC. 9. If the applicant is a corporation, joint stock company or association organized under the laws of any other state, territory or government, it shall file with the application a copy of its articles of incorporation or association, together with a certificate executed by the proper officer of such state, territory or government, dated not more than thirty days before the filing of such application, showing that such applicant is authorized to transact business as agent or broker within the meaning of those terms above defined in such state, territory or government. And also, in such form as the secretary of state may prescribe, its written instrument, irrevocably appointing the secretary of state and his successor in office its true and lawful attorney upon whom all process in any action or proceeding against it arising out of or founded upon the sale of securities within this state may be served, with the same effect as if said corporation or association were organized or created under the laws of this state and had been lawfully served with process therein.

DUTY OF SECRETARY OF STATE.

Certificate,
issuance.

SEC. 10. If the secretary of state be satisfied with the character and trustworthiness of the applicant, he shall issue such certificate. Should he

find that applicant is untrustworthy and does not possess a good character and reputation, he shall deny the application and notify the applicant of his decision.

REVOCATION OR SUSPENSION OF CERTIFICATE.

SEC. 11. The secretary of state, on satisfactory proof that the holder of the certificate is guilty of fraud or fraudulent misrepresentation in the sale of any security, may revoke such certificate. He may, also, for good cause shown, change, amend, or temporarily suspend any rights granted under the certificate: *Provided*, That before any such certificate is revoked, changed or amended the secretary of state shall notify the agent or broker to whom such certificate has been granted that such action is contemplated, and such agent or broker shall have, after being advised, ten days within which to submit evidence to shown [show] why such action should not be taken.

Revocation or suspension of certificate.

LITERATURE TO BE SUBMITTED TO SECRETARY OF STATE.

SEC. 12. All advertisements, circulars, pamphlets, prospectuses or advertising matter of any description issued by an agent or broker shall contain the name and address of the agent or broker, and be mailed by registered letter to the secretary of state at Olympia, Washington, before or at the time same is published or circulated. No such advertisement, pamphlet, prospectus or circular shall be published or circulated after notice given by the secretary of state that in his opinion the same contains any false statements or is otherwise likely to deceive a reader thereof.

Literature.

This section shall not apply to the owner of any security who is not the issuer or underwriter thereof who sells or exchanges the same for his own account: *Provided*; That such sale or exchange is not made

in the course of repeated and successive transactions of like or similar character made by him.

DUTIES OF AGENT OR BROKER.

Duties of
agent or
broker.

SEC. 13. Every agent or broker shall, whenever required by the secretary of state, file in the office of the secretary of state a true statement concerning any security sold or offered for sale by any such agent or broker showing the name and location of the principal office of the issuer of such security, the names of its managing officers if it is a corporation, or of its members if it is a co-partnership, its assets, liabilities and issued capital stock, its gross income, expense and fixed charges for any given period, and the approximate price at which the agent or broker has sold or proposes to sell such securities, together with any other information within the knowledge of the agent or broker which the secretary of state may require.

Defaulting
company.

SEC. 14. Whenever evidence shall have been filed with the secretary of state that any company authorized by the secretary of state to sell securities, has defaulted in any of its obligations to its stockholders or creditors, the secretary of state may require such company to file in the office of the secretary of state in such form as he may prescribe, a report upon the securities sold under the authority of the permit, the proceeds derived therefrom, and the distribution of such proceeds, together with such other information concerning property, officers or affairs relating to or affecting the value of such securities as the secretary of state may require and whenever it shall appear to the secretary of state from an examination of such report or reports, that the affairs of the company are in an unsound condition or that it is conducting its business in an unsafe or unlawful manner, the secretary of state may order the discontinuance in the sale of securities by the

Discontinuance
of sale.

company until such time as he shall be satisfied that such unsound condition or such unsafe or unlawful conduct of its business has been remedied.

SEC. 15. All papers, documents, reports and other instruments filed with the secretary of state under this act shall be open to public inspection except those reports filed in accordance with the preceding Section No. 14, and also excepting any statements filed as provided under the provisions of subdivision "h" of paragraph 1, Section 4 of this act: *Provided*, That if, in his judgment, the public welfare or the welfare of any person, company, broker, or agent demands that any portion of such information be not made public, he may, in his discretion, withhold such information from public inspection for such time as in his judgment is necessary.

Documents,
inspection of.

REVIEW BY COURTS.

SEC. 16. Every order, decision or other official act of the secretary of state shall be subject to review; and any party aggrieved by such order, decision or act of the secretary of state may appeal therefrom to the superior court of the county of Thurston by serving upon the secretary of state a notice of such appeal, specifying the order, decision or act appealed from, and filing the same with the clerk of the superior court of the county of Thurston within sixty days after the date of such order, decision or official act. Whereupon the secretary of state shall, within ten days after the filing of such notice of appeal, make and certify a transcript of all records and papers on file in his office affecting or relating to the order, decision or act appealed from, and upon the payment of the fee therefor by the appellant, the secretary of state shall file the same in the office of the clerk of said superior court. Upon the hearing of such appeal the burden of proof

Review by
courts.

shall be upon the appellant, and the court shall receive and consider any pertinent evidence, whether oral or documentary, concerning the action of the secretary of state from which appeal is taken. Any party to such appeal to the superior court who is aggrieved by the judgment of said court rendered upon such appeal may prosecute an appeal to the supreme court of the State of Washington. The general laws relating to bills of exception, statements of fact and appeal to the supreme court, shall apply to all appeals taken to the supreme court under this act: *Provided*, That no supersedeas of the judgment of the superior court shall be allowed, except at the discretion of said superior court. If supersedeas is allowed, it shall be upon such bonds and with such conditions as the superior court may require by its order.

EXPENSES.

Expenses.

SEC. 17. The expenses incurred by the secretary of state in carrying into effect the provisions of this act, and the amendments thereto, shall be allowed and paid out of the state treasury, upon presentation of the bills therefor to the satisfaction of the state auditor, who shall draw warrants in favor of the secretary of state, or his assistants and clerks, upon the treasurer, who shall pay the same out of the funds hereafter appropriated from time to time by the Legislature for that purpose.

Unlawful
acts of
agents.

SEC. 18. That it shall be unlawful for any broker, dealer or other person holding himself as a seller of securities to advertise for sale, or to pretend to have for sale securities, stock or bonds which he has no authority to sell or cannot deliver.

That it shall be unlawful for any broker, dealer or other person to advertise for sale any bonds, stock or securities at fictitious prices.

That it shall be unlawful for any broker, dealer or seller of bonds, securities or stocks, or one who holds himself out as such to deal in wash sales. (Wash sales within the meaning of the term used in this section shall mean the booking of between brokers, the selling of between brokers, or others, stocks, securities or bonds wherein no transaction actually occurred.)

SEC. 19. Every person who shall violate, or knowingly aid or abet the violation, of any provisions of this act, and every person who fails to perform any act which it is made his duty to perform herein, shall be guilty of a gross misdemeanor. Penalty.

SEC. 20. All companies organized in this state prior to March 8th, 1923, or admitted to do business in this state prior to said date and coming within the provisions of this act shall comply with the provisions hereof within ninety days after this act shall take effect. Existing companies.

SEC. 21. There is hereby appropriated out of the general fund not otherwise appropriated the sum of fifteen thousand dollars (\$15,000.00) to carry out the provisions of this act to be disbursed upon vouchers approved by the secretary of state. Appropriations.

FEES.

SEC. 22. The secretary of state shall charge the following fees: Fees. schedule.

(1) For filing an application for permit to issue security ten dollars (\$10.00) for all companies whose capitalization is one hundred thousand dollars (\$100,000.00) or less, and twenty-five dollars (\$25.00) for all companies whose capitalization is over one hundred thousand dollars (\$100,000.00).

(2) For filing an application for a broker's certificate twenty-five dollars (\$25.00), and ten dollars (\$10.00) for each and every year after the first year.

(3) For filing an application for an agent's certificate five dollars (\$5.00), and two dollars (\$2.00) for each and every year thereafter.

Fees for furnishing copies of papers and records shall be as now provided by law.

If unconstitutional in part.

SEC. 23. If any section or part of a section of this act is for any reason held to be unconstitutional such decision shall not affect the validity of the remaining portion of this act.

Passed the House March 3, 1923.

Passed the Senate March 5, 1923.

Permitted to become a law without the signature of the Governor.

J. GRANT HINKLE,
Secretary of State.

CHAPTER 70.

[H. B. 70.]

ALIENS.

AN ACT relating to the rights and disabilities of aliens with respect to lands and amending Chapter 50 of the Laws of 1921.

Be it enacted by the Legislature of the State of Washington:

See Rem.
Comp. Stat.
§ 10582, et seq;
Pierce's Code
§ 136 et seq.

SECTION 1. That Chapter 50 of the Laws of 1921 be amended by adding thereto a new section to be known as Section 2a (Section 10582 of Remington's Compiled Statutes) to read as follows:

Conveyance
of lesser
interest.

Section 2a. If an owner of land knowingly convey to or create in an alien an estate or interest therein less than his own, the state, instead of taking the lesser estate or interest, may take its value in money out of the greater estate, and such value may be determined and be charged upon and recovered out of the greater estate in an equitable action.

SEC. 2. That Chapter 50 of the Laws of 1921 be further amended by adding thereto a new section