

CHAPTER 97.

[S. S. B. 70.]

ISSUANCE AND SALE OF SECURITIES.

AN ACT providing for the regulation and supervision of the issuance and sale of certain securities to prevent fraud in the sale thereof; amending sections 2 and 6, chapter 69, Laws of 1923; amending said act by adding thereto a new section to be designated 14-a, and repealing section 2½, chapter 69, Laws of 1923; and providing that this act shall take effect immediately.

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

Amends § 2,
ch. 69, Laws
of 1923.

SECTION 1. That section 2, chapter 69, Laws of 1923, be amended to read as follows:

Section 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:

Defining
"company."

(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);

Excepting therefrom:

Exceptions.

(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 companies 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;

(f) This act shall not apply to original or treasury stocks, bonds, debentures or other securities sold by a metalliferous mining company, or their duly appointed fiscal agent holding such original or treasury stocks, bonds, debentures or other securities under option but any resales thereof shall be governed by the provisions of this act. A resale is hereby defined to be a sale in which the issuing company is not a party either directly or acting through a fiscal agent.

(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.

Definitions.

(3) The word "sale" includes every contract by which, for 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.

(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 subscriptions for, a security of any company offering its own issue for sale.

(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:

(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. 2. That section 2½, chapter 69, Laws of 1923, be and the same is hereby repealed.

Repeal of § 2½, ch. 69, Laws of 1923.

SEC. 3. That section 6, chapter 69, Laws of 1923, be amended to read as follows:

Amends § 6, ch. 69, Laws of 1923.

DUTIES OF DIRECTOR OF LICENSES.

Section 6. Upon the filing of an application, it shall be the duty of the director of licenses 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 director of licenses shall issue to the applicant a permit authorizing it to issue and dispose of such securities. Should the director of licenses 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.

Examination of applications.

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

Powers of director.

The director of licenses is empowered to make at any time examinations of or investigations into the records and books of account of any issuing company or broker.

SEC. 4. That chapter 69, Laws of 1923, be amended by adding thereto a new section to be designated as section 14-a to read as follows:

Adds to ch. 69, Laws of 1923.

Injunction. Section 14-a. In addition to the other penalties and remedies by this act provided, the director of licenses shall have power to apply in any court of competent jurisdiction for an injunction restraining any unlawful acts or fraudulent practices.

Receiver. Whenever the director of licenses finds that companies licensed under this act are operating and conducting their business in an unlawful manner or with disregard to the rights of investors therein, the director of licenses, by and with the consent of the governor, may apply to any court of competent jurisdiction for a receiver to be appointed for the affairs of such firm.

Effective immediately. SEC. 5. This act is necessary for the immediate preservation of the public peace, health and safety, support of the state government and its existing public institutions and shall take effect immediately.

Passed the Senate March 11, 1935.

Passed the House March 13, 1935.

Approved by the Governor March 20, 1935.