

- (2) Section 2, chapter 82, Laws of 1981 and RCW 30.23.020;
- (3) Section 3, chapter 82, Laws of 1981 and RCW 30.23.030;
- (4) Section 4, chapter 82, Laws of 1981 and RCW 30.23.040;
- (5) Section 5, chapter 82, Laws of 1981 and RCW 30.23.050;
- (6) Section 6, chapter 82, Laws of 1981 and RCW 30.23.060;
- (7) Section 7, chapter 82, Laws of 1981 and RCW 30.23.070;
- (8) Section 8, chapter 82, Laws of 1981 and RCW 30.23.080;
- (9) Section 9, chapter 82, Laws of 1981 and RCW 30.23.900; and
- (10) Section 11, chapter 82, Laws of 1981 and RCW 30.23.901.

Passed the House April 21, 1987.

Passed the Senate April 13, 1987.

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Filed in Office of Secretary of State May 18, 1987.

CHAPTER 421

[Engrossed House Bill No. 713]

DEBENTURE COMPANIES

AN ACT Relating to debt-related securities; amending RCW 21.20.705, 21.20.715, 21.20.720, and 21.20.320; adding new sections to chapter 21.20 RCW; prescribing penalties; and providing an effective date.

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

Sec. 1. Section 6, chapter 171, Laws of 1973 1st ex. sess. as amended by section 1, chapter 140, Laws of 1979 and RCW 21.20.705 are each amended to read as follows:

When used in this chapter, unless the context otherwise requires((;));

(1) "Debenture company" means an issuer of any note, debenture, or other debt obligation for money ((used or to be used as capital)) to be used as operating funds of the issuer, which is offered or sold in this state ~~((and is required to be registered under the provisions of this chapter;)),~~ and which issuer is engaged or proposes to engage in the business of investing, reinvesting, owning, holding, ~~((leasing;)),~~ or trading in: (a) Notes, or other debt obligations, whether or not secured by real ((or chattel mortgages, deeds of trust, land, land)) or personal property ((contracts, or security agreements and financing statements under the uniform commercial code)); (b) vendors' interests in real estate contracts; (c) real or personal property to be leased to third parties; or (d) real or personal property. The term "debenture company" does not include an issuer by reason of any of its securities which are exempt from registration under RCW 21.20.310 or offered or sold in transactions exempt from registration under RCW 21.20.320 (1) or (8); and

(2) "Acquiring party" means the person acquiring control of a debenture company through the purchase of stock.

Sec. 2. Section 8, chapter 171, Laws of 1973 1st ex. sess. and RCW 21.20.715 are each amended to read as follows:

Any debenture company offering debt securities to the public shall provide that at least fifty percent of the amount of those securities sold (~~(after July 1, 1973, shall)~~) have maturity dates of two years or more.

NEW SECTION. Sec. 3. (1) For purposes of the provisions of this chapter relating to debenture companies a person shall be deemed a controlling person if:

(a) Such person directly or indirectly, or acting through one or more other persons owns, controls, or has power to vote twenty-five percent or more of any class of voting securities of a debenture company;

(b) Such person controls in any manner the election of a majority of the directors or trustees of a debenture company; or

(c) The director determines, after notice and opportunity for hearing, that such person, directly or indirectly, exercises a controlling influence over the management or policies of a debenture company.

(2) The director may except, by order, for good cause shown, any person from subsection (1) of this section if the director finds the exception to be in the public interest and that the exception does not threaten the protection of investors.

Sec. 4. Section 9, chapter 171, Laws of 1973 1st ex. sess. as last amended by section 41, chapter 68, Laws of 1979 ex. sess. and RCW 21.20.720 are each amended to read as follows:

(1) A director (~~((or))~~), officer, or controlling person of a debenture company shall not:

(a) Have any interest, direct or indirect, in the gains or profits of the debenture company, except to receive dividends upon the amounts contributed by him or her, the same as any other (~~((depositor))~~) investor or shareholder and under the same regulations and conditions: PROVIDED, That nothing in this subsection shall be construed to prohibit salaries as may be approved by the debenture company's board of directors;

(b) Become a member of the board of directors or a controlling shareholder of another debenture company or a bank, trust company, or national banking association, of which board enough other directors or officers of the debenture company are members so as to constitute with him or her a majority of the board of directors.

(2) (~~((Neither))~~) A director (~~((nor))~~), an officer, or controlling person shall not:

(a) For himself or herself or as agent or partner of another, directly or indirectly use any of the funds held by the debenture company, except to make such current and necessary payments as are authorized by the board of directors;

(b) Receive directly or indirectly and retain for his or her own use any commission on or benefit from any loan made by the debenture company, or

any pay or emolument for services rendered to any borrower from the debenture company in connection with such loan;

(c) Become an indorser, surety, or guarantor, or in any manner an obligor, for any loan made from the debenture company and except when approval has been given by the director of licensing or the director's administrator of securities upon recommendation by the company's board of directors.

(d) For himself or herself or as agent or partner of another, directly or indirectly borrow any of the funds held by the debenture company, or become the owner of real or personal property upon which the debenture company holds a mortgage, deed of trust, or property contract. A loan to or a purchase by a corporation in which he or she is a stockholder to the amount of fifteen percent of the total outstanding stock, or in which he or she and other directors ((or)), officers, or controlling persons of the debenture company hold stock to the amount of twenty-five percent of the total outstanding stock, shall be deemed a loan to or a purchase by such director or officer within the meaning of this section, except when the loan to or purchase by such corporation occurred without his or her knowledge or against his or her protest.

NEW SECTION. Sec. 5. (1) It is unlawful for any person to acquire control of a debenture company until thirty days after filing with the director a copy of the notice of change of control on the form specified by the director. The notice or application shall be under oath and contain substantially all of the following information plus any additional information that the director may prescribe as necessary or appropriate in the particular instance for the protection of investors, borrowers, or shareholders and the public interest:

(a) The identity and business experience of each person by whom or on whose behalf acquisition is to be made;

(b) The financial and managerial resources and future prospects of each person involved in the acquisition;

(c) The terms and conditions of any proposed acquisition and the manner in which the acquisition is to be made;

(d) The source and amount of the funds or other consideration used or to be used in making the acquisition, and a description of the transaction and the names of the parties if any part of these funds or other consideration has been or is to be borrowed or otherwise obtained for the purpose of making the acquisition;

(e) Any plan or proposal which any person making the acquisition may have to liquidate the debenture company, to sell its assets, to merge it with any other company, or to make any other major change in its business or corporate structure or management;

(f) The identification of any person employed, retained, or to be compensated by the acquiring party, or by any person on its behalf, who makes

solicitations or recommendations to shareholders for the purpose of assisting in the acquisition and a brief description of the terms of the employment, retainer, or arrangement for compensation; and

(g) Copies of all invitations for tenders or advertisements making a tender offer to shareholders for the purchase of their stock to be used in connection with the proposed acquisition.

(2) When a person, other than an individual or corporation, is required to file an application under this section, the director may require that the information required by subsection (1)(a), (b), and (f) of this section be given with respect to each person who has an interest in or controls a person filing an application under this subsection.

(3) When a corporation is required to file an application under this section, the director may require that the information required by subsection (1)(a), (b), and (f) of this section be given for the company, each officer and director of the company, and each person who is directly or indirectly the beneficial owner of twenty-five percent or more of the outstanding voting securities of the company.

(4) If any tender offer, request, or invitation for tenders or other agreements to acquire control is proposed to be made by means of a registration statement under the Securities Act of 1933 (48 Stat. 74; 15 U.S.C. Sec. 77(a)), as amended, or in circumstances requiring the disclosure of similar information under the Securities Exchange Act of 1934 (48 Stat. 881; 15 U.S.C. Sec. 78(a)), as amended, the registration statement or application may be filed with the director in lieu of the requirements of this section.

(5) Any acquiring party shall also deliver a copy of any notice or application required by this section to the debenture company proposed to be acquired within two days after the notice or application is filed with the director.

(6) Any acquisition of control in violation of this section shall be ineffective and void.

(7) Any person who wilfully or intentionally violates this section or any rule adopted pursuant thereto is guilty of a gross misdemeanor and shall be punished pursuant to chapter 9A.20 RCW. Each day's violation shall be considered a separate violation.

NEW SECTION. Sec. 6. The director may disapprove the acquisition of a debenture company within thirty days after the filing of a complete application under section 5 of this act or an extended period not exceeding an additional fifteen days if:

(1) The poor financial condition of any acquiring party might jeopardize the financial stability of the debenture company or might prejudice the interests of the investors, borrowers, or shareholders;

(2) The plan or proposal of the acquiring party to liquidate the debenture company, to sell its assets, to merge it with any person, or to make any

other major change in its business or corporate structure or management is not fair and reasonable to the debenture company's investors, borrowers, or stockholders or is not in the public interest;

(3) The business experience and integrity of any acquiring party who would control the operation of the debenture company indicates that approval would not be in the interest of the debenture company's investors, borrowers, or shareholders;

(4) The information provided by the application is insufficient for the director to make a determination or there has been insufficient time to verify the information provided and conduct an examination of the qualification of the acquiring party; or

(5) The acquisition would not be in the public interest.

NEW SECTION. Sec. 7. (1) The director may issue and serve upon a debenture company a notice of charges if in the opinion of the director any debenture company:

(a) Is engaging or has engaged in an unsafe or unsound practice in conducting the business of the debenture company;

(b) Is violating or has violated the law, a rule or order, or any condition imposed in writing by the director in connection with the granting of any application or other request by the debenture company or any written agreement made with the director; or

(c) Is about to do the acts prohibited in (a) or (b) of this subsection when the opinion that the threat exists is based upon reasonable cause.

(2) The notice shall contain a statement of the facts constituting the alleged violation or violations or the practice or practices and shall fix a time and place at which a hearing will be held to determine whether an order to cease and desist should issue against the debenture company. The hearing shall be set in accordance with chapter 34.04 RCW.

Unless the debenture company appears at the hearing by a duly authorized representative, it shall be considered to have consented to the issuance of the cease and desist order. If this consent or if upon the record made at the hearing the director finds that any violation or practice specified in the notice of charges has been established, the director may issue and serve upon the debenture company an order to cease and desist from the violation or practice. The order may require the debenture company and its directors, officers, employees, and agents to cease and desist from the violation or practice and may require the debenture company to take affirmative action to correct the conditions resulting from the violation or practice.

(3) A cease and desist order shall become effective at the expiration of ten days after the service of the order upon the debenture company concerned except that a cease and desist order issued upon consent shall become effective at the time specified in the order and shall remain effective as provided therein unless it is stayed, modified, terminated, or set aside by action of the director or a reviewing court.

NEW SECTION. Sec. 8. Whenever the director determines that the acts specified in section 7 of this act or their continuation is likely to cause insolvency or substantial dissipation of assets or earnings of the debenture company or to otherwise seriously prejudice the interests of its security holders, the director may also issue a temporary order requiring the debenture company to cease and desist from the violation or practice. The order shall become effective upon service on the debenture company and shall remain effective unless set aside, limited, or suspended by a court in proceedings under section 7 of this act pending the completion of the administrative proceedings under the notice and until such time as the director dismisses the charges specified in the notice or until the effective date of a cease and desist order issued against the debenture company under section 7 of this act.

Sec. 9. Section 32, chapter 282, Laws of 1959 as last amended by section 1, chapter 90, Laws of 1986 and RCW 21.20.320 are each amended to read as follows:

The following transactions are exempt from RCW 21.20.040 through 21.20.300 except as expressly provided:

(1) Any isolated transaction, or sales not involving a public offering, whether effected through a broker-dealer or not; or any transaction effected in accordance with any rule by the director establishing a nonpublic offering exemption pursuant to this subsection where registration is not necessary or appropriate in the public interest or for the protection of investors.

(2) Any nonissuer distribution of an outstanding security by a registered broker-dealer if (a) a recognized securities manual contains the names of the issuer's officers and directors, a balance sheet of the issuer as of a date within eighteen months, and a profit and loss statement for either the fiscal year preceding that date or the most recent year of operations, or (b) the security has a fixed maturity or a fixed interest or dividend provision and there has been no default during the current fiscal year or within the three preceding fiscal years, or during the existence of the issuer and any predecessors if less than three years, in the payment of principal, interest, or dividends on the security.

(3) Any nonissuer transaction effected by or through a registered broker-dealer pursuant to an unsolicited order or offer to buy; but the director may by rule require that the customer acknowledge upon a specified form that the sale was unsolicited, and that a signed copy of each such form be preserved by the broker-dealer for a specified period.

(4) Any transaction between the issuer or other person on whose behalf the offering is made and an underwriter, or among underwriters.

(5) Any transaction in a bond or other evidence of indebtedness secured by a real or chattel mortgage or deed of trust, or by an agreement for the sale of real estate or chattels, if the entire mortgage, deed of trust, or agreement, together with all the bonds or other evidences of indebtedness

secured thereby, is offered and sold as a unit. A bond or other evidence of indebtedness is not offered and sold as a unit if the transaction involves:

(a) A partial interest in one or more bonds or other evidences of indebtedness secured by a real or chattel mortgage or deed of trust, or by an agreement for the sale of real estate or chattels; or

(b) One of multiple bonds or other evidences of indebtedness secured by one or more real or chattel mortgages or deeds of trust, or agreements for the sale of real estate or chattels, sold to more than one purchaser as part of a single plan of financing; or

(c) A security including an investment contract other than the bond or other evidence of indebtedness.

(6) Any transaction by an executor, administrator, sheriff, marshal, receiver, trustee in bankruptcy, guardian, or conservator.

(7) Any transaction executed by a bona fide pledgee without any purpose of evading this chapter.

(8) Any offer or sale to a bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer, or to a broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.

(9) Any transaction pursuant to an offering not exceeding five hundred thousand dollars effected in accordance with any rule by the director if the director finds that registration is not necessary in the public interest and for the protection of investors.

(10) Any offer or sale of a preorganization certificate or subscription if (a) no commission or other remuneration is paid or given directly or indirectly for soliciting any prospective subscriber, (b) the number of subscribers does not exceed ten, and (c) no payment is made by any subscriber.

(11) Any transaction pursuant to an offer to existing security holders of the issuer, including persons who at the time of the transaction are holders of convertible securities, nontransferable warrants, or transferable warrants exercisable within not more than ninety days of their issuance, if (a) no commission or other remuneration (other than a standby commission) is paid or given directly or indirectly for soliciting any security holder in this state, or (b) the issuer first files a notice specifying the terms of the offer and the director does not by order disallow the exemption within the next five full business days.

(12) Any offer (but not a sale) of a security for which registration statements have been filed under both this chapter and the Securities Act of 1933 if no stop order or refusal order is in effect and no public proceeding or examination looking toward such an order is pending under either act.

(13) The issuance of any stock dividend, whether the corporation distributing the dividend is the issuer of the stock or not, if nothing of value is given by stockholders for the distribution other than the surrender of a right

to a cash dividend where the stockholder can elect to take a dividend in cash or stock.

(14) Any transaction incident to a right of conversion or a statutory or judicially approved reclassification, recapitalization, reorganization, quasi reorganization, stock split, reverse stock split, merger, consolidation, or sale of assets.

(15) The offer or sale by a registered broker-dealer, or a person exempted from the registration requirements pursuant to RCW 21.20.040, acting either as principal or agent, of securities previously sold and distributed to the public: PROVIDED, That:

(a) Such securities are sold at prices reasonably related to the current market price thereof at the time of sale, and, if such broker-dealer is acting as agent, the commission collected by such broker-dealer on account of the sale thereof is not in excess of usual and customary commissions collected with respect to securities and transactions having comparable characteristics;

(b) Such securities do not constitute the whole or a part of an unsold allotment to or subscription or participation by such broker-dealer as an underwriter of such securities or as a participant in the distribution of such securities by the issuer, by an underwriter or by a person or group of persons in substantial control of the issuer or of the outstanding securities of the class being distributed; and

(c) The security has been lawfully sold and distributed in this state or any other state of the United States under this or any act regulating the sale of such securities.

(16) Any transactions by a mutual or cooperative association issuing to its patrons any receipt, written notice, certificate of indebtedness, or stock for a patronage dividend, or for contributions to capital by such patrons in the association if any such receipt, written notice, or certificate made pursuant to this paragraph is nontransferable except in the case of death or by operation of law and so states conspicuously on its face.

(17) Any transaction effected in accordance with any rule adopted by the director establishing a limited offering exemption which furthers objectives of compatibility with federal exemptions and uniformity among the states, provided that in adopting any such rule the director may require that no commission or other remuneration be paid or given to any person, directly or indirectly, for effecting sales unless the person is registered under this chapter as a broker-dealer or salesperson.

NEW SECTION. Sec. 10. If any provision of this act or its application to any person or circumstance is held invalid, the remainder of the act or the application of the provision to other persons or circumstances is not affected.

NEW SECTION. Sec. 11. Sections 3 and 5 through 8 of this act are added to chapter 21.20 RCW and shall be codified within the subchapter "ADDITIONAL PROVISIONS."

NEW SECTION. Sec. 12. Sections 1 through 8 of this act shall take effect January 1, 1988. The director of licensing may take whatever action is necessary to implement this act on its effective date. This act applies to any person, individual, corporation, partnership, or association, whether or not in existence on or prior to January 1, 1988.

Passed the House April 25, 1987.

Passed the Senate April 25, 1987.

Approved by the Governor May 18, 1987.

Filed in Office of Secretary of State May 18, 1987.

CHAPTER 422

[Engrossed Substitute House Bill No. 743]

ECONOMIC DEVELOPMENT—PUBLIC WORKS IMPROVEMENTS

AN ACT Relating to state government; amending RCW 43.160.010, 43.160.035, 43.160.050, 43.160.060, 43.160.080, 43.160.115, 43.160.140, 43.160.180, and 43.160.900; reenacting and amending RCW 43.160.030; repealing RCW 43.160.073 and 43.160.110; and declaring an emergency.

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

Sec. 1. Section 1, chapter 40, Laws of 1982 1st ex. sess. as amended by section 1, chapter 257, Laws of 1984 and RCW 43.160.010 are each amended to read as follows:

(1) The legislature finds that it is the public policy of the state of Washington to direct financial resources toward the fostering of economic development through the stimulation of investment and job opportunities and the retention of sustainable existing employment for the general welfare of the inhabitants of the state. Reducing unemployment (~~as soon as possible~~) and reducing the time citizens remain jobless is important for the economic welfare of the state. A valuable means of fostering economic development (~~should be fostered through~~) is the construction of public facilities which contribute to the stability and growth of the state's economic base. Strengthening the economic base through issuance of industrial development bonds, whether single or umbrella, further serves to reduce unemployment. Consolidating issues of industrial development bonds when feasible to reduce costs additionally advances the state's purpose to improve economic vitality. Expenditures made for these purposes as authorized in this chapter are declared to be in the public interest, and constitute a proper use of public funds. A community economic revitalization board is needed which shall aid the development of economic opportunities. The general objectives of the board should include: