

# HOUSE BILL REPORT

## SSB 5334

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**As Passed House:**

April 5, 1995

**Title:** An act relating to the Washington business corporation act.

**Brief Description:** Amending the corporations act.

**Sponsors:** Senate Committee on Law & Justice (originally sponsored by Senators Smith, Long and Johnson).

**Brief History:**

**Committee Activity:**

Law & Justice: 3/24/95, 3/28/95 [DP].

**Floor Activity:**

Passed House: 4/5/95, 97-0.

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### HOUSE COMMITTEE ON LAW & JUSTICE

**Majority Report:** Do pass. Signed by 16 members: Representatives Sheahan, Chairman; Delvin, Vice Chairman; Hickel, Vice Chairman; Appelwick, Ranking Minority Member; Costa, Assistant Ranking Minority Member; Campbell; Carrell; Chappell; Cody; Lambert; McMahan; Morris; Robertson; Smith; Thibaudeau and Veloria.

**Staff:** Edie Adams (786-7180).

**Background:** A corporation is a form of business organization created by filing articles of incorporation with the Secretary of State. Corporate existence is perpetual regardless of what happens to shareholders, directors, or officers. Corporations have a centralized management structure consisting of: a board of directors that supervises management; officers that carry out the policies of the board of directors; and shareholders who have no active role in management except electing the board of directors and other specified matters. Generally, corporate shares are freely transferable, and shareholders are liable for corporate debts and obligations only to the extent of their investment in the corporation. Corporations are treated as taxable entities.

A corporation may be dissolved in a number of ways, including administrative dissolution by the Secretary of State and judicial dissolution in proceedings initiated by the Attorney General, a shareholder, or a creditor.

The Secretary of State may administratively dissolve a corporation for any of the following grounds: (1) the corporation does not pay license fees or penalties when due; (2) the corporation does not deliver its completed initial report or annual report; (3) the corporation is without a registered agent or registered office; (4) the corporation does not notify the Secretary of State that its registered agent or office has changed; or (5) the corporation's period of duration has expired. A corporation that has been administratively dissolved may apply for reinstatement within two years after dissolution.

A corporation may be judicially dissolved in a proceeding initiated by either the Attorney General, a shareholder, or a creditor. In a shareholder initiated proceeding, a corporation may be dissolved under a number of circumstances, including if the shareholders are deadlocked in voting power and have failed to elect successor directors for a period that includes two consecutive annual meeting dates.

The Washington State Register is published on a monthly basis by the Code Revisor's office. The register contains proposed and adopted new and amendatory agency rules, executive orders, public meeting notices of all state agencies, newly adopted state Supreme Court rules, summaries of Attorney General opinions, and other state government activities.

**Summary of Bill:** The period of time within which a corporation may seek reinstatement after being administratively dissolved is changed to five years. An application for reinstatement must be authorized either by the shareholders or the board of directors, determined at the date of dissolution.

Judicial dissolution of a corporation may occur in a proceeding initiated by a shareholder if the shareholders are deadlocked in voting power and have failed to elect successor directors and irreparable injury to the corporation is being threatened or the business and affairs of the corporation can no longer be conducted to the advantage of the shareholders.

If a court determines that a ground for judicial dissolution exists, it may enter a decree of dissolution or make any other order as justice and equity require. A decree of dissolution shall not be entered until a copy of a revenue clearance certificate for the corporation is received.

A list of corporations dissolved during the preceding month must be printed in the Washington State Register on a monthly basis.

Clarifications are made to the definition of "distribution," provisions relating to dissolution, and provisions relating to shareholder agreements.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Testimony For:** This bill makes technical amendments to clarify the Corporations Act. It also makes some substantive changes with respect to dissolution of a corporation and shareholder agreements. These changes are recommended by the Washington State Bar Association's Corporation Act Revision Committee.

**Testimony Against:** None.

**Testified:** John Steel, Washington State Bar Association (pro).