

# FINAL BILL REPORT

## SHB 1041

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C 467 L 07

Synopsis as Enacted

**Brief Description:** Modifying plurality voting for directors.

**Sponsors:** By House Committee on Judiciary (originally sponsored by Representatives Pedersen, Rodne, Haler, Moeller and Lantz).

**House Committee on Judiciary**  
**Senate Committee on Judiciary**

### **Background:**

The Washington Business Corporation Act (WBCA) regulates the creation and operation of business corporations. Some of the provisions of the WBCA are default rules that will apply only if a corporation chooses not to adopt some alternative. One of the default provisions of the WBCA provides for plurality voting to elect the directors of a corporation.

The default plurality voting provision in the WBCA provides that, unless otherwise provided in the articles of incorporation, in any election of directors the candidates elected are those receiving the largest numbers of votes cast by the shares entitled to vote in the election, up to the number of directors to be elected by such shares.

Also by default, shareholders may cumulate votes by multiplying the number of votes they are entitled to cast by the number of directors for whom they are entitled to vote and cast the product for a single candidate or distribute the product among two or more candidates.

Plurality voting allows for the election of a director candidate who gets more votes than other candidates, but does not require a candidate to get a majority of votes. Plurality voting also allows election regardless of the number of votes withheld or cast against a candidate.

Some corporations have provided for other methods of election, including some form of majority vote requirement, or some form of restriction on plurality voting. However, a corporation operating under the default system can adopt majority voting only by amending its articles of incorporation, and amending the articles requires action by both the shareholders and the board of directors. If a corporation adopts a majority voting rule or tries to ameliorate the effects of plurality voting, other provisions of law present potential problems. For instance, the WBCA provides that a director continues in office until a successor is elected. Thus, even in a corporation with majority voting, an incumbent director who fails to get a majority vote might nonetheless remain in office. Bylaw changes which might require a director to resign in such a situation are suspect because of the arguably overriding statutory provision calling for the director to remain in office.

In some instances, a director of a corporation may be elected by the vote of only a specified class or group of shareholders. In such a case, if a vacancy occurs and it is to be filled by a shareholder vote, only shareholders from that same class or group may vote. However, if such a vacancy is to be filled by the board of directors, the WBCA does not designate directors who may participate in filling the vacancy.

It is a generally accepted practice for publicly-held corporations to appoint someone to count votes and otherwise oversee elections at shareholders' meetings. However, there is no requirement in the WBCA for the appointment of such a person.

The American Bar Association (ABA) issued a report in late 2005 that recommended changes to the plurality voting rule in the Model Corporations Act. In 2006, the state of Delaware adopted changes to its corporation law that are equivalent to those recommendations. The Corporate Act Revision Committee of the Washington State Bar Association has recommended changes to the WBCA similar to those recommended by the ABA and those adopted by Delaware.

### **Summary:**

Several changes are made to the WBCA with respect to the election of directors of corporations. The general default to a plurality voting rule is maintained, but corporations are given increased ability to deviate from or modify plurality voting without having to amend their articles of incorporation.

Unless prohibited or contradicted by the articles of incorporation, the bylaws of a corporation may specify a number, percentage, or level of votes required for the election of directors. A bylaw providing for any such manner of election that has been adopted by the shareholders may not be amended by the board of directors unless the bylaw itself allows it. However, such a bylaw that has been adopted by the board of directors may be amended by either the board or the shareholders.

Bylaws may provide for the counting of votes cast against or votes withheld in determining whether a candidate has received a specified number, percentage, or level of votes. Unless the bylaws provide otherwise, abstentions will not count as votes cast.

In the case of an election where there are more candidates than positions, and at least one candidate is proposed by shareholders, the statutory default plurality voting rules will apply unless the bylaws specifically cover such cases.

Corporations are authorized to alter the provision requiring that directors remain in office until a successor is elected or appointed. Shorter terms of office may also be provided for directors who are elected by less than some specified vote.

A director's resignation may be made effective contingent upon a future date to be determined by some event. A notice of resignation contingent upon the failure to receive a specified vote may be made irrevocable.

When a vacancy occurs in a director position that was held by a director elected by a specific voting group of shareholders, and the vacancy is to be filled by the board of directors, only those directors who were elected by that same voting group may participate in filling the vacancy.

Any corporation with shares listed on a national exchange or regularly traded in certain markets must appoint an inspector to oversee voting at shareholders' meetings. The person appointed may be an officer or employee of the corporation. It is the duty of the inspector to act impartially in determining the numbers and voting power of outstanding shares and shares represented at the meeting, the validity of proxies, and the results of the voting.

Other changes are made to correct a citation and to provide for terminology consistent with other provisions of the WBCA and the Model Corporations Act.

**Votes on Final Passage:**

House	97	0	
Senate	42	0	(Senate amended)
House			(House refused to concur)
Senate	45	0	(Senate amended)
House	98	0	(House concurred)

**Effective:** July 22, 2007