AN ACT Relating to allowing crowdfunding for certain small securities offerings; adding new sections to chapter 21.20 RCW; and creating a new section.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. Sec. 1. The legislature finds that start-up companies play a critical role in creating new jobs and revenues. Crowdfunding, or raising money through small contributions from a large number of investors, allows smaller enterprises in Washington to have access to the capital they need to get new businesses off the ground. However, state securities registration can be prohibitively expensive for the small offerings that crowdfunding facilitates, and the use of crowdfunding for business financing in Washington is unnecessarily restricted by state securities laws. It is the intent of the legislature to help new businesses access equity-based crowdfunding as a financing tool, democratizing venture capital, and facilitating investment by Washington residents in Washington start-ups.

Accordingly, to promote the formation and growth of smaller Washington enterprises and the job formation that accompanies such growth, and to permit such businesses to raise capital unencumbered by
unnecessary government regulation, the legislature finds that crowdfunding should be permitted, subject to certain restrictions to protect the interests of Washington investors, in accordance with section 2 of this act.

NEW SECTION. Sec. 2. A new section is added to chapter 21.20 RCW to read as follows:

(1) The following transactions are exempt from RCW 21.20.040 through 21.20.300 and 21.20.327 except as expressly provided:

(a) Any offer or sale by the issuer of a security in a transaction that meets the requirements of this section is exempt from registration, including under RCW 21.20.040 through 21.20.300 and 21.20.327, under RCW 21.20.320(9).

(b) The offering must be conducted in accordance with the requirements of section 3(a)(11) of the securities act of 1933 and this section. Securities must be offered to and sold only to persons who are residents of the state of Washington at the time of purchase. Prior to any offer or sale pursuant to this exemption, the seller shall obtain documentary evidence from each prospective purchaser that provides the seller with a reasonable basis to believe that such investor is a resident of the state of Washington. Sales of securities shall be made only by entities organized and doing business in the state of Washington.

(c) The aggregate purchase price of all securities sold by an issuer pursuant to this exemption during any twelve-month period shall not exceed one million dollars. Securities sold by the issuer pursuant to other available exemptions shall not count against this one million dollar cap.

(d) The aggregate amount sold to any investor by any one issuer during the twelve-month period preceding the date of such transaction, may not exceed:

(i) The greater of two thousand dollars or five percent of the annual income or net worth of such investor, as applicable, if either the annual income or the net worth of the investor is less than one hundred thousand dollars; and

(ii) Ten percent of the annual income or net worth of such investor, as applicable, not to exceed a maximum aggregate amount sold
of one hundred thousand dollars, if either the annual income or net
worth of the investor is one hundred thousand dollars or more.

(e) Securities may be sold only to persons who sign the following
statement at the time of sale: "I acknowledge that I am investing in
a high-risk, speculative business venture, that I may lose all of my
investment, and that I can afford the loss of my investment."

(f) Sales of securities may be offered through an internet portal
which requires as a condition of entry to the portal evidence or
certification of residency within the state of Washington. The
department of financial institutions may inspect and review any such
web site, and at the time such a web site first offers investment
opportunities to Washington residents, the web site operator shall
inform the director of the existence of the web site and shall give the
department access to the site.

(g) The issuer must reasonably believe that all purchasers of
securities are purchasing for investment and not for sale in connection
with a distribution of the security.

(h) The issuer shall file with the director a notice either in the
form required by the department or on securities and exchange
commission Form D, a consent to service of process, and a fee of three
hundred dollars within fifteen days after the first sale. Failure to
timely file such form shall not preclude an issuer from being able to
rely on this exemption, so long as the issuer files such form upon
written demand of the department.

(i) Attempted compliance with the exemption provided by this
section does not act as an exclusive election. The issuer may claim
any other applicable exemption.

(j) For so long as any of the securities issued under the exemption
are outstanding, the issuer shall provide a quarterly report to the
issuer's shareholders by making such report publicly accessible, free
of charge, at the issuer's internet web site address with a user name
and password within forty-five days of the end of each fiscal quarter.
The report must contain the following information:

(i) Executive officer and director compensation, including
specifically the cash compensation earned by the executive officers and
directors since the previous report and on an annual basis, and any
bonuses or other compensation, including stock options or other rights
to receive equity securities of the issuer or any affiliate of the
issuer, received by them; and

(ii) A brief analysis by management of the issuer of the business
operations and financial condition of the issuer.

(k) Securities issued pursuant to a transaction described in this
section may not be transferred by the purchaser of such securities
during a one-year period beginning on the date of purchase, unless such
securities are transferred:

(i) To the issuer of the securities;
(ii) To an accredited investor;
(iii) As part of a registered offering; or
(iv) To a member of the family of the purchaser or the equivalent,
or in connection with the death or divorce or other similar
circumstances, in the discretion of the department.

(2) The department may adopt rules to protect investors who
purchase securities under this section.

NEW SECTION. Sec. 3. A new section is added to chapter 21.20 RCW
to read as follows:

(1) There is levied and collected on the sale of securities sold by
an issuer pursuant to section 2 of this act, an excise tax of five
percent on the total aggregate purchase price. The tax imposed in this
section must be paid by the buyer to the seller, and each seller must
collect from the buyer the full amount of the tax. The tax collected
must be paid to the department of revenue in accordance with RCW
82.32.045.

(2) All other applicable provisions of chapter 82.32 RCW have full
force and application with respect to the tax imposed under this
section. The department of revenue must administer this section.

(3) For the purposes of this section, "aggregate purchase price"
means the total amount of consideration for the sale of securities
pursuant to section 2 of this act.

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