

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 398

(Senator Feldman)

Judicial Proceedings

Economic Matters

Corporations - Formation of a Holding Company by Merger

This bill is intended to establish a simplified process for the formation of a holding company through the merger of a Maryland parent corporation with or into a direct or indirect wholly owned subsidiary corporation (subsidiary) of the Maryland parent corporation.

Fiscal Summary

State Effect: The bill does not directly affect State operations or finances.

Local Effect: The bill does not directly affect local operations or finances.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill defines “holding company” as a Maryland corporation (1) that, from its formation until consummation of a merger governed by the bill, has been at all times a subsidiary and (2) all of the shares of the stock of which are issued in the merger.

Generally, a vote of the stockholders of the parent corporation is not necessary to authorize a merger with or into a single subsidiary of the parent corporation if:

- the parent corporation and the subsidiary are the only parties to the merger;
- each share or fraction of a share of the stock of the parent corporation outstanding immediately prior to the effective time of the merger is converted in the merger into

a share or equal fraction of a share of the stock of a holding company having the same contract rights as the share of stock of the parent corporation being converted in the merger;

- the holding company, the parent corporation, and the subsidiary that is the other party to the merger are Maryland corporations;
- the charter and bylaws of the holding company immediately following the effective time of the merger are identical to the charter and bylaws of the parent corporation in effect immediately prior to the effective time of the merger, other than (1) provisions (if any) regarding the incorporator or incorporators, the principal office, the resident agent, and the initial board of directors; (2) provisions related to minor changes in name or designation of stock classes or series; and (3) any amendment to the charter that was necessary to cause a specified alteration or cancellation of stock, if the specified alteration or cancellation of stock has become effective;
- as a result of the merger, the parent corporation or its successor becomes a subsidiary of the holding company;
- the directors of the parent corporation become or remain the directors of the holding company at the effective time of the merger;
- the stockholders of the parent corporation do not recognize gain or loss for federal income tax purposes, as determined by the board of directors of the parent corporation; and
- a majority of the entire board of directors of the parent corporation approves the merger.

As of the effective time of a completed merger, if the parent corporation was formed before, and the holding company was formed on or after, October 1, 1995, and the parent corporation's charter did not expressly terminate preemptive rights, the holding company's charter must state that stockholders of the holding company have preemptive rights to subscribe to any additional shares of stock or convertible security, to the extent provided in the parent corporation's charter immediately prior to the effective time of the merger and subject to Title 2 of the Corporations and Associations Article.

A voting trust agreement, written agreement, proxy, or other similar instrument that is authorized under Title 2 of the Corporations and Associations Article, and that applied to

the parent corporation or its stock or stockholders immediately prior to the effective time of the merger, also must apply to the holding company or its stock or stockholders.

To the extent that restrictions on business combinations applied to the parent corporation and the stockholders of the parent corporation immediately prior to the effective time of the merger, the restrictions must also apply to the holding company and its stockholders immediately after the effective time of the merger as though the holding company were the parent company.

In addition, all the holding company shares of stock acquired in the merger are deemed to have been acquired at the time that the shares of stock of the parent corporation that were converted in the merger were acquired. Moreover, any stockholder that immediately prior to merger was *not* an interested stockholder (as defined in Title 3, Subtitle 6 of the Corporations and Associations Article) does *not*, solely by reason of the merger, become an interested stockholder of the holding company. Likewise, any stockholder that immediately prior to merger *was* an interested stockholder (as defined in Title 3, Subtitle 6 of the Corporations and Associations Article) *remains* an interested stockholder of the holding company.

In addition, as of the effective time of a merger:

- to the extent that, immediately prior to the effective time of the merger, any approval by the stockholders of the parent corporation (that is governed by specified voting rights and shareholder approval provisions) applied to the parent corporation and any of its control shares, the same approval provisions apply to the holding company and any of its control shares immediately after the merger as if the holding company were the parent corporation;
- to the extent that, immediately prior to the effective time of the merger, the board of directors of the parent corporation had elected by resolution to be subject or not subject to (wholly or partly) any or all provisions related to unsolicited takeovers as specified in Title 3, Subtitle 8 of the Corporations and Associations Article, the same election must apply to the holding company immediately after the merger as if the holding company were the parent corporation;
- unless the board of directors of the holding company has authorized shares of the holding company's stock to be issued without certificates, or until certificates with the name of the holding company have been issued, the holding company shares of stock into which the parent corporation shares of stock are converted in the merger may continue to be represented by the stock certificates that previously represented the parent corporation shares of stock; and

- to the extent that a stockholder of the parent corporation, immediately prior to the effective time of the merger, had standing to institute or maintain derivative litigation on behalf of the parent corporation, that stockholder must have standing to institute or maintain derivative litigation on behalf of the holding company.

Finally, the bill specifies that a merger of a parent real estate investment trust with or into a single subsidiary real estate investment trust may be approved in the manner specified under the bill (if the merger otherwise conforms to statutory requirements).

Current Law: A Maryland corporation having capital stock may:

- consolidate with one or more other Maryland or foreign corporations having capital stock to form a new consolidated corporation;
- merge into another Maryland or foreign corporation having capital stock, or have one or more such corporations merged into it;
- merge into a domestic or foreign business trust having transferrable units of beneficial interest, or have one or more such business trusts merge into it;
- merge into a domestic or foreign limited partnership, or have one or more domestic or foreign limited partnerships merged into it;
- merge into a domestic or foreign limited liability company, or have one or more domestic or foreign limited liability companies merged into it;
- merge into a domestic or foreign partnership, or have one or more domestic or foreign partnerships merged into it;
- participate in a share exchange either (1) as the successor or (2) as the corporation that is the subject of the stock acquisition; or
- transfer its assets.

Restrictions or limitations imposed on a corporation by law, charter provision, or that are contained in franchise agreements, as specified, continue.

Except as otherwise specified, the board of directors of each corporation proposing to consolidate, merge, transfer its assets, or have its stock acquired in a share exchange must (1) adopt a resolution which declares that the proposed transaction is advisable, as

specified, and (2) direct that the proposed transaction be submitted for consideration at either an annual or a special meeting of the stockholders.

State law requires that notice of the meeting be given by each corporation and state that a purpose of the meeting is to act on the proposed consolidation, merger, share exchange, or transfer of assets. The notice must be given to (1) each of its stockholders entitled to vote on the proposed transaction and (2) each of its stockholders not entitled to vote on the proposed transaction (except the stockholders of a successor in a merger, if the merger does not alter the contract rights of their stock as expressly set forth in the charter).

An agreement of consolidation, merger, share exchange, or transfer of assets may require submission to the stockholders, even if the board of directors determines – at any time *after* having declared the advisability of the proposed transaction – that the proposed transaction is no longer advisable and either makes no recommendation to the stockholders or recommends that the stockholders reject the proposed transaction.

The proposed consolidation, merger, share exchange, or transfer must be approved by the stockholders of each corporation by the affirmative vote of two-thirds of all the votes entitled to be cast on the matter.

Background: The bill is a result of recommendations by the Committee on Corporation Law of the Business Law Section of the Maryland State Bar Association. According to the committee, it regularly reviews the Corporations and Associations Article in an attempt to clarify unclear provisions and eliminate outdated language.

Additional Information

Prior Introductions: SB 1056 of 2016, a similar bill, received a hearing in the Senate Judicial Proceedings Committee, but no further action was taken. Its cross file, HB 1513, was referred to the House Rules and Executive Nominations Committee, but no further action was taken.

Cross File: HB 759 (Delegates Kramer and West) - Economic Matters.

Information Source(s): State Department of Assessments and Taxation; Maryland State Bar Association; Department of Legislative Services

Fiscal Note History: First Reader - February 15, 2017
mm/kdm Third Reader - March 10, 2017

Analysis by: Sasika Subramaniam

Direct Inquiries to:
(410) 946-5510
(301) 970-5510