

Department of Legislative Services
Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

House Bill 471

(Delegate Doory)

Economic Matters

Judicial Proceedings

Corporations - Miscellaneous Provisions

This bill makes various changes to laws governing corporate actions, including stock issuance prior to the time the articles supplementary becoming effective, delegation by a board of the power to fix the amount and other terms of a distribution, and voting rights on a merger.

The bill is effective June 1, 2003.

Fiscal Summary

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill provides that stock issued by a corporation prior to the time the articles supplementary become effective ceases to be voidable as a result of the failure to file the articles supplementary at the time the articles supplementary become effective. A right or liability accrued because a corporation issued stock before the articles supplementary are effective is extinguished at the time the articles supplementary become effective, except to the extent that the person with the right or liability has acted detrimentally in reliance on the right or liability solely because the stock was issued.

The bill specifies that a corporation's board of directors may delegate to a board committee or corporate officer the power to fix the amount and other terms of a distribution if: (1) the board has given a general authorization; and (2) establishes a procedure for determining the maximum amount of the distribution. The bill includes transfers of money or other property of the corporation in respect of any of its shares within the meaning of a "distribution."

The bill fixes the time, to immediately before the effective date of the merger, for measuring whether a corporation owns less than 100% of its subsidiary's stock and must therefore notify all stockholders of record. The bill also repeals the provision that restricts the notice requirement only to instances in which both parent and subsidiary are Maryland corporations.

Current Law: A corporation must file articles supplementary with the State Department of Assessments and Taxation if, under a power contained in its charter, the corporation's board of directors classifies or reclassifies any unissued stock. Articles supplementary must include: (1) a description of the stock; and (2) a statement that the stock has been classified or reclassified by the board under authority in the corporate charter.

For a merger of a subsidiary corporation owned at 90% but less than 100% by its parent corporation into the parent, the parent must give notice of the transaction to each minority stockholder of record who would otherwise be entitled to vote on the merger, unless waived by all such stockholders.

Additional Information

Prior Introductions: A provision similar to this bill was contained in SB 123 and HB 388 of 2002 and HB 684 of 2001. SB 123 received an unfavorable report from the Senate Judicial Proceedings Committee. HB 388 and HB 684 passed third reading in the House and received unfavorable reports from the Senate Judicial Proceedings Committee.

Cross File: None.

Information Source(s): Department of Assessments and Taxation, Department of Legislative Services

Fiscal Note History: First Reader - February 18, 2003
mdf/jr

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