SENATE BILL 879

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By: Senator Waldstreicher
Introduced and read first time: February 7, 2022
Assigned to: Judicial Proceedings

Committee Report: Favorable with amendments
Senate action: Adopted
Read second time: March 8, 2022

CHAPTER ______

1 AN ACT concerning

2 Corporations and Associations – Ratification of Defective Corporate Acts

3 FOR the purpose of establishing a process by which a defective corporate act may be ratified by a board of directors of a corporation or its stockholders; requiring a corporation ratifying a defective corporate act that would have required a filing with the State Department of Assessments and Taxation to file articles of validation with the Department; authorizing an adversely affected person or entity to file an action contesting a ratification under this Act; applying this Act to real estate investment trusts; and generally relating to the ratification of defective corporate acts.

10 BY repealing and reenacting, with amendments,
11 Article – Corporations and Associations
12 Section 1–101(f), 1–203(b)(1), 1–301, and 8–601.1
13 Annotated Code of Maryland
14 (2014 Replacement Volume and 2021 Supplement)

15 BY repealing and reenacting, without amendments,
16 Article – Corporations and Associations
17 Section 1–101(g)
18 Annotated Code of Maryland
19 (2014 Replacement Volume and 2021 Supplement)

20 BY adding to
21 Article – Corporations and Associations

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.
Underlining indicates amendments to bill.
Strike-out indicates matter stricken from the bill by amendment or deleted from the law by amendment.
Section 2–701 through 2–707 to be under the new subtitle “Subtitle 7. Ratification of Defective Corporate Acts”

Annotated Code of Maryland
(2014 Replacement Volume and 2021 Supplement)

SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND, That the Laws of Maryland read as follows:

Article – Corporations and Associations

1–101.

(f) (1) “Charter” includes:

(i) A charter granted by special act of the General Assembly;
(ii) Articles or certificate of incorporation;
(iii) Amended articles or certificate of incorporation;
(iv) Articles of restatement, if approved as described in § 2–609 of this article;
(v) Articles of amendment and restatement; and
(vi) Articles or agreements of consolidation.

(2) “Charter” includes the documents referred to in paragraph (1) of this subsection, either as:

(i) Originally passed or accepted for record; or
(ii) Amended, corrected, or supplemented by special act of the General Assembly, articles of amendment, articles of amendment and reduction, articles of extension, articles supplementary, articles or agreements of merger, articles of revival, [or] a certificate of correction, OR ARTICLES OF VALIDATION.

(g) “Charter document” means any:

(1) Document enumerated in subsection (f) of this section; and
(2) Articles of reduction, articles of transfer, articles of merger, articles of share exchange, articles of conversion, articles of dissolution, and stock issuance statements.

1–203.
(b) (1) Except as provided in paragraph (10) of this subsection, for each of the following documents, the nonrefundable processing fee is $100:

### Document

- Articles of incorporation
- Articles of amendment
- Articles of extension
- Articles of restatement of charter
- Articles of amendment and restatement
- Articles supplementary
- Articles of share exchange
- Articles of consolidation or merger
- Articles of revival for stock corporation
- Articles of revival for nonstock corporation
- Articles of conversion

### ARTICLES OF VALIDATION

1–301.

(a) Articles supplementary and articles of amendment, restatement, amendment and restatement, consolidation, merger, share exchange, conversion, and extension, AND VALIDATION and, except as provided in § 3–406(b) of this article, articles of dissolution shall be executed as follows:

1. They shall be signed and acknowledged for each corporation, statutory trust, or real estate investment trust party to the articles, by its chairman or vice chairman of the board of directors or board of trustees, by its chief executive officer, chief operating officer, chief financial officer, president, or one of its vice presidents, or, if authorized by the bylaws or resolution of the board of directors or board of trustees, by any other officer or agent of the corporation, statutory trust, or real estate investment trust;

2. They shall be witnessed or attested by the secretary, treasurer, chief financial officer, assistant treasurer, or assistant secretary of each corporation, statutory trust, or real estate investment trust party to the articles, or, if authorized by the bylaws or resolution of the board of directors or board of trustees, by any other officer or agent of the corporation, statutory trust, or real estate investment trust;

3. They shall be signed and acknowledged for each other entity party to the articles by a person authorized to act for the entity by law or by the governing document; and

4. The matters and facts set forth in the articles with respect to authorization and approval shall be verified under oath as follows:

   (i) With respect to any Maryland corporation, statutory trust, or real estate investment trust party to the articles, by the chairman or the secretary of the meeting at which the articles or transaction were approved, by the chairman or vice
chairman of the board of directors or board of trustees, by the chief executive officer, chief
operating officer, chief financial officer, president, vice president, secretary, or assistant
secretary of the corporation, statutory trust, or real estate investment trust, or, if
authorized in accordance with item (1) of this subsection, by any other officer or agent of
the corporation, statutory trust, or real estate investment trust;

(ii) With respect to any foreign corporation party to articles of
consolidation, merger, or share exchange, by the chief executive officer, chief operating
officer, chief financial officer, president, vice president, secretary, or assistant secretary of
the corporation; and

(iii) With respect to any other Maryland or foreign entity party to the
articles, by a person authorized by law or by the governing document to act for the entity.

(b) All other instruments required to be filed with the Department may be signed:

(1) By the chairman or vice chairman of the board of directors, the chief
executive officer, chief operating officer, president, or any vice president and witnessed or
attested by the secretary or any assistant secretary, or by any other officer or agent of the
corporation who is authorized by the bylaws or resolution of the board of directors to
perform the duties usually performed by the secretary;

(2) If it appears from the instrument that there are no such officers, by a
majority of the directors or by such directors as may be designated by the board and the
instrument so states; or

(3) If it appears from the instrument that there are no officers or directors,
by the holders of a majority of outstanding stock.

SUBTITLE 7. RATIFICATION OF DEFECTIVE CORPORATE ACTS.

2–701.

(A) IN THIS SUBTITLE THE FOLLOWING WORDS HAVE THE MEANINGS
INDICATED.

(B) "CORPORATE ACT" MEANS ANY ACT TAKEN BY OR ON BEHALF OF A
CORPORATION BY THE BOARD OF DIRECTORS, A COMMITTEE OF THE BOARD OF
DIRECTORS, OR THE STOCKHOLDERS OF THE CORPORATION.

(C) "DATE OF THE DEFECTIVE CORPORATE ACT" MEANS:

(1) THE DATE AND THE TIME A DEFECTIVE CORPORATE ACT WAS
PURPORTEDLY TAKEN; OR
(2) If the exact time is unknown, the date and approximate
time a defective corporate act was purportedly taken.

(1) Any corporate act purportedly taken that, at the date
of the defective corporate act, would have been within the power of
the corporation but is void or voidable due to a failure of
authorization; or

(2) An overissue.

(2) If the exact time is unknown, the date and approximate
time a defective corporate act was purportedly taken.

“Defective corporate act” means:

(1) Any corporate act purportedly taken that, at the date
of the defective corporate act, would have been within the power of
the corporation but is void or voidable due to a failure of
authorization; or

(2) An overissue.

“Failure of authorization” means a corporate act that:

(1) The corporation failed to authorize or approve; and

(2) Is void or voidable the failure of a corporation to
authorize, approve, or otherwise effect a corporate act in compliance
with the Maryland General Corporation Law, its charters or bylaws,
any action taken by its board of directors, a committee of its board of
directors, or its stockholders, or any plan or agreement to which the
 corporation is a party, if and to the extent that the failure would
render the corporate act void or voidable.

“Overissue” means the purported issuance by a
corporation of stock of:

(1) A class or series in excess of the number of shares of
the class or series that the corporation has the power to issue under §
2–201(a) of this title or the corporation’s charter at the time of
issuance; or

(2) Any class or series that is not authorized for issuance
by the corporation’s charter.

“Putative stock” means stock that cannot be
determined by the board of directors to be valid stock.

(2) “Putative stock” includes stock issued upon exercise of
rights, options, warrants, or their securities convertible into or
exercisable for stock, purportedly created or issued as a result of a
defective corporate act, including stock reissued upon exercise of
rights, options, warrants, or other securities convertible into or
exercisable for stock:
1 (1) Purportedly created or issued as a result of a defective corporate act, that but for the failure of authorization would constitute valid stock; and

2 (2) That cannot be determined by the board of directors to be valid stock.

3 (G) (H) “Valid stock” means stock that has been duly authorized and validly issued in accordance with the provisions of this title.

4 2–702.

5 (A) The board of directors of a corporation may ratify a defective corporate act by adopting a resolution stating:

6 (1) (I) The defective corporate act to be ratified; and

7 (II) If the defective corporate act involved the issuance of putative stock, the number of shares and the class or series of putative stock issued;

8 (2) The date of the defective corporate act;

9 (3) The nature of the failure of authorization of the defective corporate act; and

10 (4) (I) If the board of directors could have authorized or approved the defective corporate act without stockholder action approval at the date of the defective corporate act, that the board of directors ratifies the defective corporate act; or

11 (II) If stockholder approval is required at the time of ratification or if the board of directors could not have authorized or approved the defective corporate act without stockholder action approval at the date of the defective corporate act, that the board of directors submits directs that the ratification be submitted for consideration at a meeting of the stockholders.

12 (B) If a ratification is submitted for consideration at a meeting of the stockholders under subsection (A)(4)(II) of this section, the stockholders may ratify the defective corporate act by adopting a resolution stating:
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(1) (I) The defective corporate act to be ratified; and

(II) If the defective corporate act involved the issuance of putative stock, the number of shares and the class or series of putative stock issued;

(2) The date of the defective corporate act; and

(3) That the stockholders ratify the defective corporate act.

(C) (1) The quorum and voting requirements applicable to ratification under this section shall be the approval standard requiring the greater of portion of votes under:

(I) The requirements that would be applicable to the defective corporate act proposed to be ratified at the time of ratification; or

(II) The requirements that would have been applicable to the defective corporate act on the date of the defective corporate act.

(2) (I) Unless otherwise required by the charter or bylaws of a corporation then in effect or in effect at the time of a defective corporate act, if the defective corporate act is the election of a director, ratification of the defective corporate act shall require a majority of the votes cast at a meeting at which a quorum is present.

(II) The presence or approval of holders of stock of any class or series of which no stock is then outstanding or of any person that is no longer a stockholder may not be required.

(3) Holders of putative stock on the record date for determining which stockholders are entitled to vote on a ratification submitted to stockholders under this section shall not be entitled to vote or be counted for quorum purposes in any vote to consider ratification.

(D) Ratification of a defective corporate act under this section shall make the ratified defective corporate act binding on the corporation in accordance with § 2–703 of this subtitle.
2–703.

(A) (1) Except as provided in paragraph (2) of this subsection, ratification of a defective corporate act becomes effective on the date that the board of directors adopts a resolution under § 2–702(a) of this subtitle or, if required by this subtitle, the date that stockholders adopt a resolution under § 2–702(b) of this subtitle.

(2) If the defective corporate act would have required a filing with the Department, ratification of the defective corporate act becomes effective on the later of:

- The date that articles of validation filed in accordance with § 2–705 of this subtitle are accepted for record by the Department; or

- The date established in the articles of validation, not to exceed 30 days after the articles are accepted for record.

(B) A defective corporate act ratified in accordance with this subtitle shall not be void or voidable as a result of the failure of authorization identified by the board of directors in a statement under § 2–702(a). Beginning at the time ratification is effective and without regard to the 120–day period during which a claim may be brought under § 2–707(b) of this subtitle:

- A defective corporate act ratified in accordance with this subtitle is not void or voidable as a result of the failure of authorization identified in a board action under § 2–702(a) of this subtitle and shall be deemed a valid corporate act effective as of the date of the defective corporate act;

- The issuance of putative stock purportedly issued pursuant to a defective corporate act identified in a board action under § 2–702(a) is not void or voidable and shall be deemed valid stock as of the time it was purportedly issued; and

- Any corporate act taken after a defective corporate act ratified in accordance with this subtitle in reliance on the defective corporate act having been validly effected, and any subsequent defective corporate corporate act resulting from the original defective corporate act, shall be valid as of the time the act was taken.
2–704.

(A) If ratification of a defective corporate act requires approval by stockholders, the secretary of the corporation shall give notice of the proposed ratification to all stockholders entitled to notice of the meeting in accordance with § 2–504 of this title, stockholders as of the date of the defective corporate act, and holders of putative stock as of the date of the defective corporate act in accordance with § 2–504 of this title.

(B) (1) Except as provided in paragraph (2) of this subsection, if ratification of a defective corporate act does not require approval by stockholders, notice to stockholders of the ratification shall be deemed to may be given to stockholders as of the ratification and as of the date of the defective corporate act and holders of putative stock when the board of directors adopts a resolution in accordance with § 2–702(A) of this subtitle.

(2) In the case of a corporation with a class of equity securities registered under the Securities Exchange Act of 1934, notice to stockholders of a ratification that does not require approval of stockholders shall be deemed to be given when the ratification has been disclosed in a document publicly filed with the Securities and Exchange Commission.

(C) (1) Except as provided in paragraph (2) of this subsection, the notice required by given to holders of putative stock in accordance with this section shall be provided to:

(I) holders of putative stock as of the date of the defective corporate act;

(II) where notice is required under subsection (A) of this section, holders of putative stock as of the record date of the meeting; and

(III) where notice is required under subsection (B) of this section, holders of putative stock as of the date on which the board of directors adopted a resolution ratifying the defective corporate act.

(2) Notice is not required to be given to holders of putative stock whose identities or addresses cannot be reasonably determined from the records of the corporation.
(A) (1) If a defective corporate act ratified under this subtitle would have required the filing of a charter document with the Department under any provision of this article, the corporation shall file articles of validation in accordance with this section.

(2) If a charter document that was required to be filed with respect to the defective corporate act was not filed, the articles of validation required by this section shall be filed in lieu of the charter document that was not filed.

(B) The articles of validation required by this section shall include:

(1) The title and date of filing of any charter document previously filed with respect to the defective corporate act and any charter document that amended, supplemented, or corrected that charter document;

(2) A statement describing the defective corporate act;

(3) The date of the defective corporate act;

(4) A statement that the defective corporate act was ratified in accordance with this subtitle and a description of the ratification;

(5) The time that the ratification is to become effective, provided that the time is not more than 30 days after the articles of validation are accepted for record; and

(6) (i) A statement that a charter document was previously filed with respect to the defective corporate act, and no change to the charter document is required;

(ii) 1. A statement that a charter document was previously filed with respect to the defective corporate act;

2. A statement describing the changes being made to the charter document; and
3. Any other information required by this article; or

(III) 1. A statement that a charter document was not previously filed with respect to the defective corporate act and that a charter document was required to be filed;

2. A citation to the provision of this article under which the charter document was required to be filed; and

3. Any other information required by this article.

2–706.

(A) Upon application by the corporation, any successor entity to the corporation, any director of the corporation, any record or beneficial holder of valid stock or putative stock, any record or beneficial holder of putative stock as of the date of the defective corporate act, any holder of a voting trust certificate, any holder of a voting trust certificate as of the date of the defective corporate act, or any other person or entity claiming to be substantially and adversely affected by a ratification under this subtitle, a court may:

(1) Determine the validity of any ratification under this subtitle; or

(2) Modify or waive any of the procedures required by this subtitle to ratify a defective corporate act.

(B) An action under this section shall be brought within 120 days after:

(1) If the ratification was approved by stockholders, the date on which ratification occurred; or

(2) If notice was given or deemed given within 60 days after the ratification, the date on which notice was given or deemed given to stockholders and any holders of putative stock in accordance with this subtitle.

2–707.
(A) Nothing in this subtitle may be construed to require that ratification of a defective corporate act under this subtitle be the exclusive means of ratifying or validating a defective corporate act or to limit the ability of a corporation to file certificates or charter documents in accordance with any other provision of this article.

(B) The absence or failure of ratification in accordance with this subtitle shall not, of itself, affect the validity or effectiveness of any corporate act otherwise lawfully ratified, nor may it create a presumption that any corporate act is or was a defective corporate act or void or voidable.

8–601.1.

Sections 2–113, 2–201(c), 2–309(a) and (e), 2–313, 2–502(e), 2–503(b), [and] 2–504(f), and 2–701 through 2–707 of this article and, except as otherwise provided in § 8–601 of this subtitle or in the declaration of trust, § 2–405.1 of this article shall apply to real estate investment trusts.

SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect October 1, 2022.

Approved:

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Governor.

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President of the Senate.

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Speaker of the House of Delegates.