

Department of Legislative Services
Maryland General Assembly
2024 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 544

(Senators Waldstreicher and West)

Judicial Proceedings

Economic Matters

Corporations and Associations - Ratification of Defective Corporate Acts -
Alterations

This bill generally alters statutory provisions under the Corporations and Associations Article regarding the ratification of defective corporate acts.

Fiscal Summary

State Effect: The bill is not anticipated to materially affect State operations or finances.

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

Small Business Effect: Minimal.

Analysis

Bill Summary/Current Law: The bill generally implements numerous recommendations, some of which are described below, of the Maryland State Bar Association, whose Committee on Corporation Law regularly reviews the Corporations and Associations Article.

Definitions

The bill (1) repeals the definition of “corporate act” and (2) alters definitions of “overissue” and “putative stock” by generally incorporating references to stock at the time of *the purported* issuance and including *stock purportedly issued in an overissue* in the definition of putative stock.

Ratification of a Defective Corporate Act

Currently, a board of directors of a corporation may ratify a defective corporate act by adopting a resolution stating specified items, including (1) if the board of directors could have authorized or approved the defective corporate act without stockholder approval and stockholder action is not otherwise required, that the board ratifies the defective corporate act *or* (2) if stockholder approval or action is required, a direction that the ratification be submitted for consideration at a meeting of the stockholders.

The bill establishes that ratification of a defective corporate act approved in a resolution adopted under the aforementioned provisions must be submitted for consideration at a meeting of the stockholders if stockholder approval is required or would have been required on the date of the defective corporate act by any provision of (1) the Maryland General Corporation Law; (2) the charter or bylaws of the corporation; (3) any action taken by the board of directors, a committee of the board of directors, or the stockholders; or (4) any plan or agreement to which the corporation is a party in effect at the time a resolution was adopted under the provisions. To ratify a defective corporate act under these provisions, the stockholder must adopt a resolution, as specified.

Voting Requirements

The bill specifies that if the charter or bylaws of a corporation in effect at the time of ratification of the defective corporate act (or in effect at the time of the defective corporate act) requires (or required) a larger number or portion of votes cast by stockholders, and others, as specified, to elect the director, then the affirmative vote of the larger number or portion of votes cast must be required to ratify the election of the director.

The bill also makes technical, conforming, and stylistic changes.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: HB 888 (Delegate Amprey) - Economic Matters.

Information Source(s): Judiciary (Administrative Office of the Courts); State Department of Assessments and Taxation; Department of Legislative Services

Fiscal Note History: First Reader - February 22, 2024
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