

COURT OF APPEALS OF MARYLAND

Renbaum v. Custom Holding, Inc., 386 Md. 28

871 A.2d 554 (2005) · No. No. 78, September Term, 2004 · Decided April 4, 2005

SUMMARY

The Maryland Court of Appeals considered whether a trial court properly reopened a judgment to receive additional evidence and ordered the involuntary dissolution of a closely held corporation based on alleged director deadlock. The court held that the trial court did not abuse its discretion under Maryland Rule 2-534 in considering evidence arising before entry of judgment, but concluded that the evidence was insufficient to warrant dissolution under the Maryland corporate dissolution statute. The court also addressed the appointment of independent counsel for the corporation.

CASE DETAILS

COURT	Court of Appeals of Maryland
WRITING FOR THE COURT	Harrell, J.; Bell, C.J.; Raker, J.; Wilner, J.; Cathell, J.; Battaglia, J.; Greene, J.
JURISDICTION	Maryland
DECIDED	April 4, 2005
DOCKET	No. 78, September Term, 2004
DISPOSITION	reversed_and_remanded
PROCEDURAL POSTURE	Barry Renbaum appealed the involuntary dissolution of Custom Holding, Inc. The Court of Special Appeals affirmed in an unreported opinion. The Court of Appeals granted certiorari, reversed the dissolution order in part, affirmed the appointment of independent counsel, and remanded.
STANDARD OF REVIEW	Abuse of discretion for the trial court's ruling on involuntary dissolution and the Rule 2-534 motion; de novo review for questions of statutory and rule interpretation.
PRECEDENTIAL VALUE	Published Maryland Court of Appeals opinion; precedential
PARTIES	Barry J. Renbaum v. Custom Holding, Inc., Michael Renbaum

TOPICS

- dissolution
- corporate law
- statutory interpretation
- motion for reconsideration
- appellate procedure

PRACTICE AREAS

corporate law

civil procedure

appellate procedure

statutory interpretation

QUESTIONS PRESENTED

1. Whether the circuit court abused its discretion by granting a Rule 2-534 motion and admitting evidence concerning events occurring after trial but before entry of judgment.
2. Whether director disagreement over dividends and corporate counsel satisfied Maryland Corporations and Associations Article § 3-413(a)(1)'s requirement that directors be so divided regarding management that the votes required for board action cannot be obtained.
3. Whether the circuit court erred by appointing independent counsel for Custom Holding when the directors could not agree on counsel for the dissolution proceeding.

HOLDINGS

1. A circuit court may exercise its broad discretion under Maryland Rule 2-534 to open a judgment and receive additional evidence concerning events occurring after trial but before entry of judgment, provided the motion is timely and the opposing party has an opportunity to be heard.
2. Involuntary dissolution under Maryland Corporations and Associations Article § 3-413(a)(1) requires a present director deadlock, not merely a division or disagreement, concerning management of the corporation's affairs.
3. Section 3-413(a)(1) requires a current conflict; a formal vote is not indispensable if the conduct of the directors demonstrates that the required vote cannot be obtained; the directors must be more than merely divided; and the dispute must concern management of the corporation's affairs.
4. The dividend dispute could not support dissolution because, before the revised judgment was entered, the Class B directors accepted the proposed \$4 million dividend without conditions and no current division remained.
5. The disagreement over selection of corporate counsel did not constitute the statutory deadlock necessary for involuntary dissolution because it did not impair Custom's primary corporate function or prevent it from performing its corporate powers.
6. The circuit court did not err by appointing independent counsel for Custom because the board of directors could not agree on counsel to represent the corporation in the dissolution proceeding.

KEY QUOTATIONS

"We hold that, in order to satisfy the meaning of "so divided" regarding the "management of the corporation's affairs," the directors must be in deadlock, not mere division." (386 Md. at 50)

"We define a deadlocked corporation under § 3-413(a)(1) in familiar terms one which, because of decision or indecision of the directors that cannot be remedied by the shareholders, the corporation cannot perform its corporate powers." (386 Md. at 50)

“Even though the board of directors of Custom may have been divided as to the choice of corporate counsel, that division does not rise to the level of deadlock required by § 3-413(a)(1).” (386 Md. at 54)

FACTUAL BACKGROUND

Custom Holding, a closely held Maryland corporation funded by proceeds from the sale of Custom Savings Bank, was controlled by two shareholder families whose representatives divided the four seats on the board. The directors disagreed about annual dividends and the selection of corporate counsel, but agreed on the management of Custom's investment portfolio by Vanguard. Before the circuit court entered its revised judgment, the Class B directors accepted a proposed \$4 million dividend without conditions. The circuit court nonetheless treated the dispute over corporate counsel as a deadlock and ordered involuntary dissolution.

PROCEDURAL HISTORY

Michael Renbaum petitioned the Circuit Court for Baltimore County for involuntary dissolution under Maryland Corporations and Associations Article § 3-413(a)(1), alleging director deadlock over dividends and corporate counsel. The circuit court initially denied dissolution, then granted Michael's Rule 2-534 motion to alter or amend after receiving additional evidence arising before entry of judgment, and ordered dissolution. The Court of Special Appeals affirmed. The Court of Appeals reversed the dissolution ruling but upheld the appointment of independent counsel and remanded with directions to vacate the dissolution order.

DISPOSITION

reversed_and_remanded

REMAND INSTRUCTIONS

Remand to the Court of Special Appeals with directions to vacate the Circuit Court for Baltimore County's order for involuntary dissolution of Custom Holding, Inc. The judgment was otherwise affirmed as to appointment of independent counsel.

CASES CITED

- Renbaum v. Custom Holding, 383 Md. 256, 858 A.2d 1017 (2004)
- In re Yve S., 373 Md. 551, 583-84, 819 A.2d 1030, 1049 (2003)
- In re Adoption/Guardianship No. 3598, 347 Md. 295, 312-13, 701 A.2d 110, 118-19 (1997)
- Davis v. Slater, 383 Md. 599, 604, 861 A.2d 78, 80-81 (2004)
- Nesbit v. Government Employees Insurance Co., 382 Md. 65, 72, 854 A.2d 879, 883 (2004)
- Tierco Maryland, Inc. v. Williams, 381 Md. 378, 398, 849 A.2d 504, 516 (2004)
- Atlantic Food & Beverage Systems, Inc. v. City of Annapolis, 70 Md. App. 721, 725, 523 A.2d 648, 649-50 (1987)
- Claibourne v. Willis, 347 Md. 684, 691, 702 A.2d 293, 296 (1997)
- Mason v. Supreme Court of Equitable League of America of Baltimore City, 77 Md. 483, 484, 27 A. 171, 171 (1893)

- Murray v. Requardt, 180 Md. 245, 253, 23 A.2d 697, 700 (1942)
- Wollman v. Littman, 35 A.D.2d 935, 316 N.Y.S.2d 526 (N.Y. App. Div. 1970)
- In re Admiral Rubber Corporation, 12 Misc. 2d 355, 172 N.Y.S.2d 952, 954 (N.Y. Sup. Ct. 1958)
- In re Smith, 154 A.D.2d 537, 546 N.Y.S.2d 382, 384 (N.Y. App. Div. 1989)
- Hall v. John S. Isaacs & Sons Farms, Inc., 163 A.2d 288, 295 (Del. 1960)
- Tydings v. Berk Enterprises, 80 Md. App. 634, 645, 565 A.2d 390, 396 (1989)
- First Wholesale Cleaners, Inc. v. Donegal Mutual Insurance Co., 143 Md. App. 24, 30-33, 792 A.2d 325, 329-30 (2002)
- Calvert Joint Venture # 140 v. Snider, 373 Md. 18, 31 n.8, 816 A.2d 854, 861 n.8 (2003)

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