

**Agency, Partnership,  
and the LLC:  
The Law of Unincorporated  
Business Enterprises**



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**Cases, Materials, Problems**

ABRIDGED TENTH EDITION

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*Dedication of First through Fifth Editions (from Professor Hynes):*

*To my children*

*Professor Loewenstein dedicates this Abridged Tenth Edition  
to his family.*



# Contents

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Table of Cases	xix
Preface	xxxi
Glossary	xxxiii
<b>Introduction · The Law of Unincorporated Business Enterprises</b>	<b>3</b>
A. The Corporation	3
B. The Different Forms of Unincorporated Businesses	6
1. The Sole Proprietorship	6
2. The Business Trust	7
3. The Partnership	8
4. The Limited Liability Partnership (LLP)	9
5. The Limited Partnership	10
6. The Limited Liability Limited Partnership (LLLLP)	10
7. The Limited Liability Company (LLC)	11
<b>Chapter 1 · The Agency Relationship; The Ambiguous Principal</b>	
<b>Problem; Subagency</b>	<b>13</b>
<i>Carrier v. McLarky</i>	14
<i>United States v. Bonds</i>	15
Notes	24
A. Agency or Sale	29
<i>Hunter Mining Laboratories, Inc. v. Management Assistance, Inc.</i>	29
Notes	31
B. Agency and the Law of Trusts	33
Notes	35
C. Agent or Escrow Holder	36
Notes	36
D. Dual Agency; The Ambiguous Principal Problem	38
1. The Dual Agency Rule	38
Notes	38
2. The Ambiguous Principal Problem	39
<i>Norby v. Bankers Life Co.</i>	40
Notes	43
E. Subagency	44
Notes	45
F. The History of Agency and Other Matters	46
Problems	47

<b>Chapter 2 · Rights and Duties between Principal and Agent</b>	51
A. Duties of Principal to Agent	52
1. Duty of Exoneration and Indemnification	52
<i>Admiral Oriental Line v. United States</i>	52
Notes	54
2. Duty to Pay Compensation	56
Notes	57
3. Duty of Care	58
4. Worker's Compensation Legislation	58
5. Duty to Deal Fairly and in Good Faith	59
B. Duties of Agent to Principal	62
1. Duty of Good Conduct and to Obey	62
2. Duty to Indemnify Principal for Loss Caused by Misconduct	63
3. Duty to Account	64
4. The Fiduciary Duties of Agents	64
a. Commencement of Fiduciary Relationship	64
b. Duty of Care	65
Notes	66
c. Duty of Disclosure	67
Notes	67
d. Duty of Loyalty	68
i. Loyalty During the Relationship	69
<i>Gelfand v. Horizon Corp.</i>	69
Notes	72
ii. Post-Termination Competition	75
Notes	76
Notes	78
iii. Dealing at Arm's Length	78
<i>Pappas v. Tzolis</i>	79
Note	81
Problems	82
<b>Chapter 3 · Vicarious Tort Liability</b>	85
A. The Master-Servant Relationship	85
1. The Concept	85
<i>Jones v. Hart</i>	86
Notes	86
a. The History of Respondeat Superior Liability	90
i. The Holmes Thesis	90
ii. The Wigmore Rebuttal	91
b. Is an Employment Relationship Necessary to Respondeat Superior Liability?	92
<i>Heims v. Hanke</i>	93
<i>Sandrock v. Taylor</i>	94



Notes	95
c. Rationale for Respondeat Superior	97
i. Arguments Questioning the Theory	97
ii. Arguments in Favor of or Explanations for the Theory	100
d. Imputed Contributory Negligence	101
e. Limitation to Losses Caused by Tortious Behavior	102
f. Direct Tort Liability of an Employer	102
2. The Independent Contractor Exception	103
a. The Concept	103
<i>Kane Furniture Corp. v. Miranda</i>	103
Note	107
<i>Lazo v. Mak's Trading Co.</i>	108
Notes	110
<i>Soderback v. Townsend</i>	112
<i>Hunter v. R.G. Watkins &amp; Son, Inc.</i>	113
Notes	115
<i>Sandroek v. Taylor</i>	119
Note	121
b. Limitations to the Independent Contractor Exception	123
<i>Hixon v. Sherwin-Williams Co.</i>	123
Notes	125
<i>Kleeman v. Rheingold</i>	126
Notes	130
Problems	133
3. Borrowed Servants	134
<i>Charles v. Barrett</i>	135
Notes	135
<i>ATS, Inc. v. Beddingfield</i>	137
Problems	141
4. The Scope of Employment Limitation	141
a. Negligent Acts	142
<i>Joel v. Morison</i>	142
Notes	143
<i>Fiocco v. Carver</i>	147
Notes	150
<i>Clover v. Snowbird Ski Resort</i>	152
Note	157
<i>Spencer v. V.I.P., Inc.</i>	158
b. Intentional Torts	163
<i>Bremen State Bank v. Hartford Accident &amp; Indemnity Co.</i>	164
Note	165
i. The Assault on § 228(1)(c)	165
<i>Ira S. Bushey &amp; Sons v. United States</i>	165
Notes	169

<i>Lisa M. v. Henry Mayo Newhall Memorial Hospital</i>	170
Notes	177
ii. Restatement (Second) § 219(2)(d)	180
<i>Costos v. Coconut Island Corp.</i>	180
Notes	184
iii. The Implied Contract Theory	185
iv. Punitive Damages	186
v. Non-Physical Torts	189
B. The Partnership Relationship	189
C. The Unincorporated Nonprofit Association Relationship	190
1. Liability of the Members	191
2. Liability of the Association	191
a. In General	191
b. For the Actions of Its Affiliates and Chapters	192
c. To Its Members	192
D. Three Unusual Examples of Vicarious Tort Liability	193
1. Vicarious Liability by Estoppel	193
2. The “Family Car” Doctrine	193
3. Owner Consent and Other Legislation	194
Problems	195
<b>Chapter 4 · Contractual Powers of Agents</b>	199
A. Authority	199
1. Express Authority	199
<i>King v. Bankerd</i>	200
Notes	204
2. Implied Authority	205
a. Delegation of Authority	206
b. Incidental Authority	207
B. Apparent Authority	207
<i>H.H. Taylor v. Ramsay-Gerding Construction Company</i>	207
Notes	211
<i>Sauber v. Northland Insurance Co.</i>	215
Notes	217
C. Estoppel	220
<i>Estate of Cordero v. Christ Hospital</i>	220
Notes	225
D. The Inherent Agency Power Concept	227
Note	229
Problems	229
<b>Chapter 5 · Fraudulent Acts of Agents</b>	233
A. The Unscrupulous Agent	234
<i>Entente Mineral Co. v. Parker</i>	234
Notes	238

B. Limits to Liability for Fraud	240
Notes	242
C. The Exculpatory Clause	244
Problems	246
<b>Chapter 6 · The Undisclosed Principal</b>	247
A. Rights of the Undisclosed Principal	248
1. Assertion of Rights by the Undisclosed Principal	248
2. Parol Evidence Rule	250
3. Sealed Contracts	250
4. Exceptions	252
<i>Kelly Asphalt Block Co. v. Barber Asphalt Paving Co.</i>	252
<i>Finley v. Dalton</i>	254
Notes	257
B. Liabilities of the Undisclosed Principal	258
1. Authorized Transactions	258
a. Remedies of the Third Party	259
b. The Election Rule	259
2. Unauthorized Transactions	261
<i>Watteau v. Fenwick</i>	262
Note	263
<i>Senor v. Bangor Mills</i>	265
Notes	268
C. Payment and Setoff	269
1. Payment by the Third Party	269
2. Payment to the Third Party	270
3. Setoff	272
<i>Oil Supply Company, Inc. v. Hires Parts Service, Inc.</i>	272
Note	275
Question	275
Problems	276
<b>Chapter 7 · Liability of the Agent to Third Persons</b>	279
A. Liability on the Contract	279
1. Liability When the Principal Is Unintentionally Undisclosed	279
<i>Jensen v. Alaska Valuation Service</i>	279
Notes	282
2. Liability When the Principal Is Disclosed: Special Circumstances	283
Notes	284
3. Liability When the Principal Is Partially Disclosed or Unidentified	286
Notes	286
B. The Agent's Warranty of Authority	289
Notes	290
C. Harm to the Economic Interests of Others	292
Note	292

D. Liability in Tort Problems	292 293
<b>Chapter 8 · The Doctrine of Ratification</b>	295
A. The Concept	295
<i>Evans v. Ruth</i>	295
<i>Dempsey v. Chambers</i>	297
1. Justification for the Concept	299
Notes	301
2. Implied Ratification	303
<i>Manning v. Twin Falls Clinic &amp; Hospital, Inc.</i>	303
Notes	304
B. The Knowledge Requirement	305
<i>Computel, Inc. v. Emery Air Freight Corp.</i>	306
C. Can Silence Constitute Affirmance?	308
<i>Bruton v. Automatic Welding &amp; Supply Corp.</i>	308
Notes	312
D. The No Partial Ratification Rule	314
Notes	314
E. Changed Circumstances	315
Notes	315
Problems	316
<b>Chapter 9 · Notice and Notification; Imputed Knowledge</b>	319
A. Introduction	319
B. Notification	319
<i>Montana Reservoir &amp; Irrigation Co. v. Utah Junk Co.</i>	325
Note	326
C. Imputed Knowledge	327
<i>Constant v. University of Rochester</i>	328
Notes	330
<i>Bird v. Penn Central Co.</i>	334
Notes and Questions	337
D. The Adverse Interest Qualification	338
<i>Kirschner v. KPMG LLP</i>	340
Notes	344
E. The Sole Actor Doctrine	345
<i>Munroe v. Harriman</i>	347
Notes	350
Problems	351
<b>Chapter 10 · Termination of the Agency Relationship</b>	353
A. Termination between the Parties to an Agency Relationship	353
1. Termination by Will	353
a. Some Consequences of Termination of an Agency Relationship	354
b. Irrevocable Powers Phrased in Agency Terms	354

2. Termination by Operation of Law	355
a. Death	355
<i>Hunt v. Rousmanier’s Administrators</i>	355
Notes	356
b. Loss of Capacity	357
Notes	358
B. Notice of Termination to Third Parties	359
1. Termination by Will	359
2. Termination by Operation of Law	361
Problems	363
<b>Chapter 11 · The Creation of a Partnership</b>	<b>365</b>
A. Introduction	365
B. The Limited Liability Partnership (LLP)	366
C. The Partnership Relationship Defined and Distinguished from Other Relationships	368
1. An Early Test of Partnership	368
2. The Uniform Partnership Act (1914), the Revised Uniform Partnership Act (1997), and the 2013 Amendments to RUPA	368
Notes	372
<i>Martin v. Peyton</i>	373
Notes	377
<i>Byker v. Mannes</i>	378
Notes	383
Note on Non-Equity Partners	384
D. The Underlying Theory of Partnership—Aggregate or Entity?	385
<i>Fairway Development Co. v. Title Insurance Co. of Minnesota</i>	386
Notes	388
E. Income Tax Considerations—A Brief Summary	389
F. Contributions of Property to the Partnership	389
1. Ambiguities Concerning Ownership of Particular Property	389
Note	392
2. The Special Matter of Title to Real Property	392
3. The Property Rights of a Partner	393
Notes	394
Problems	395
<b>Chapter 12 · The Operation of a Partnership</b>	<b>399</b>
A. Contractual Powers of Partners	399
1. Actual Authority	400
<i>Summers v. Dooley</i>	400
<i>National Biscuit Co. v. Stroud</i>	402
Notes	404
2. Apparent Authority	404
<i>Burns v. Gonzalez</i>	404

Notes	408
<i>RNR Investments Limited Partnership v. Peoples First Community Bank</i>	410
Note	414
3. Liability of Purported Partner	414
a. Is There a Duty to Speak?	416
Note	417
B. Tort Liability for the Wrongs of Partners	417
1. In General	417
2. The Fraudulent Partner	418
C. Suits against the Partnership	419
D. Suits by the Partnership	420
E. Notice and Notification to the Partnership	420
Notes	421
F. Rights and Duties among Partners	422
1. Fiduciary Duties	422
a. The Duty of Loyalty	422
i. Duty During Formation of Partnership	422
ii. Pre-Emptying Business Opportunities	423
<i>Meinhard v. Salmon</i>	423
Notes	426
iii. Leaving the Business	427
iv. Dealing with Conflicts of Interest	428
<i>J &amp; J Celcom v. AT&amp;T Wireless Services, Inc.</i>	432
Note	439
v. Fiduciary Duties and Freedom of Contract	439
<i>Labovitz v. Dolan</i>	439
Question	443
<i>Singer v. Singer</i>	443
Notes	445
b. The Duty of Care	447
c. The Duty of Full Disclosure	448
d. The Duty of Good Faith and Fair Dealing	448
Notes	452
2. The Right to an Accounting	452
3. Suits Among Partners	453
G. Claims by Creditors of the Partnership	455
1. Rights against Partnership Assets	455
2. Rights against the Personal Assets of Individual Partners	455
H. Claims by Personal Creditors of a Partner against the Partnership Interest of the Partner	456
<i>Tupper v. Kroc</i>	457
Notes	461
<i>Bauer v. Blomfield Co./Holden Joint Venture</i>	461

I. The LLP Shield	465
<i>Ederer v. Gursky</i>	465
Note	469
Problems	470
<b>Chapter 13 · Dissociation of a Partner and Dissolution of a Partnership</b>	<b>473</b>
<i>Dreifuerst v. Dreifuerst</i>	475
Notes	478
A. Causes of Dissolution under UPA and RUPA	479
1. Dissolution at Will	480
Notes	481
2. Judicial Dissolution	482
<i>Horizon/CMS Healthcare Corp. v. Southern Oaks Health Care, Inc.</i>	482
Note	487
3. Wrongful Dissociation	487
<i>Saint Alphonsus Diversified Care, Inc. v. MRI Associates, LLP</i>	487
Notes	491
4. Judicial Expulsion	491
<i>Brennan v. Brennan Associates</i>	492
Notes	497
B. Notice of Dissolution and Termination of Authority among Partners	498
1. Termination of Authority	498
2. Notice of Dissolution—Lingering Apparent Authority	499
C. Continuing the Business	500
1. The Buy-Sell Agreement	500
<i>Estate of Cohen v. Booth Computers</i>	500
2. Continuation Clauses	504
3. Liability of an Incoming Partner	504
4. Liability of a Withdrawing Partner	505
<i>Redman v. Walters</i>	505
5. Creditors' Claims	507
6. Calculation of Buyout Price Under RUPA § 701	508
Note	511
D. Winding Up; Liquidation; Terminating the Business	511
1. Winding Up and Liquidation	511
<i>Resnick v. Kaplan</i>	513
Notes	514
<i>Ohlendorf v. Feinstein</i>	516
2. Termination	518
a. Settlement of Accounts	518
b. The Losing Venture: Claims Among Partners	519
<i>Kovacik v. Reed</i>	519
Notes	521
Problems	522

<b>Chapter 14 · The Limited Partnership</b>	525
A. Organizational Defects	528
<i>Briargate Condominium Ass'n v. Carpenter</i>	529
B. The Agreement of Limited Partnership	534
Note	535
C. The Limited Partner	535
1. The Control Question	535
a. In General	535
<i>Holzman v. DeEscamilla</i>	535
Note	537
<i>Gateway Potato Sales v. G.B. Investment Co.</i>	537
b. Control of the Corporate General Partner	541
<i>Zeiger v. Wilf</i>	541
2. Suits by Limited Partners	546
Notes	548
3. Limitations on Distributions and Transfer of Interests	550
4. Duties of Limited Partners	551
<i>KE Property Management, Inc. v. 275 Madison Management Corp.</i>	551
Note	554
5. Rights of Personal Creditors of Limited Partners	554
6. Withdrawal Rights of a Limited Partner	555
7. Merger of a Limited Partnership into Another Entity	555
8. Inspection Rights of Limited Partners	555
9. Dissolution of a Limited Partnership	556
D. The General Partner	556
1. Powers of a General Partner	556
2. Fiduciary Duty of the General Partner	557
<i>Appletree Square I Limited Partnership v. Investmark, Inc.</i>	557
Notes	559
<i>Gotham Partners, L.P. v. Hallwood Realty Partners, L.P.</i>	561
Notes	567
<i>Brickell Partners v. Wise</i>	570
Notes	573
3. The General Partner's Obligations under the Implied Covenant of Good Faith and Fair Dealing	574
4. Withdrawal of General Partner	577
Problems	577
<b>Chapter 15 · The Limited Liability Company</b>	581
A. Introduction	581
B. Tax Matters	583
1. The Kintner Regulations	583
2. The Check-the-Box Regulations	584
C. Securities Laws Issues	585



D. The Creation of an LLC	585
Notes	587
<i>Elf Atochem North America, Inc. v. Jaffari</i>	588
Notes	594
E. The Entity Theory and the LLC	595
<i>Litchfield Asset Management Corp. v. Howell</i>	595
Notes	601
<i>Abraham &amp; Sons Enterprises v. Equilon Enterprises, LLC</i>	603
Notes	607
<i>Turner v. Andrew</i>	608
Questions	610
Note	610
F. The Operation of an LLC	611
1. The Management of an LLC	611
<i>Pinnacle Data Services, Inc. v. Gillen</i>	611
Note	613
a. Authority and Apparent Authority of Members	613
b. Fiduciary Duties of Members	614
<i>McConnell v. Hunt Sports Enterprises</i>	615
Notes	621
<i>VGS, Inc. v. Castiel</i>	622
Notes	627
<i>Katris v. Carroll</i>	630
Note	634
c. Use of Corporate Structure	634
2. Claims Among Members	635
a. Derivative Claims	635
<i>Wood v. Baum</i>	635
Notes	640
b. Direct Claim for Oppression	642
<i>Pointer v. Castellani</i>	642
Notes	650
c. Direct Claim for Breach of Fiduciary Duty	652
<i>Feresi v. The Livery, LLC</i>	653
Notes	657
3. Limitations on Distributions	658
4. Transferability of Interests	658
<i>Condo v. Conners</i>	659
5. Exit Privileges	664
6. Expulsion of a Member	664
7. Claims of Creditors of Members	664
8. Inspection of Books and Records	666
9. Bankruptcy of a Member	666
G. Series LLCs	667

H. LLCs as Social Enterprise Vehicles: The L3C and the Benefit LLC	668
I. Dissolution of an LLC	669
<i>R &amp; R Capital, LLC v. Buck &amp; Doe Run Valley Farms, LLC</i>	670
Notes	676
<i>Holdeman v. Epperson</i>	677
Notes	683
Problems	685
<b>Index</b>	687

# Table of Cases

---

- 8182 Maryland Assoc. v. Sheehan, 505  
A. Gay Jenson Farms Co. v. Cargill, Inc., 33  
A.J. Richey Corp. v. Garvey, 485  
Abraham v. E.H. Porter Constr. Co., 150  
Abraham v. S.E. Onorato Garages, 303  
Abraham & Sons Enterprises v. Equilon Enterprises, 603  
Adams Express Co. v. Trego, 203  
Adams v. Land Services, Inc., 420  
Adams v. New York City Transit Authority, 186  
Admiral Oriental Line v. United States, 52  
Aegis Corp. v. United Builders of Washington, Inc., 487  
Ahn v. Rooney, Pace, Inc., 26  
Ak's Daks Communications, Inc. v. Maryland Securities Division, 585  
Albright, In re, 666, 667  
Alexander Myers & Co. v. Hopke, 244  
Alma W. v. Oakland Unified School District, 175, 177  
American Nat'l Bank v. Miller, 348, 349  
Anderson v. Abbott, 33  
Anderson v. United States, 460  
Andrews III v. Kerr McGee Corp., 602  
Angelo Tomasso, Inc. v. Armor Construction & Paving, Inc., 597  
Anglo American Security Fund v. S.R. Global International Fund, 547  
Apcar Investment Partners VI, Ltd. v. Gaus, 367  
Apex Smelting Co. v. Burns, 164  
Appletree Square I Limited Partnership v. Investmark, Inc., 557  
Arbor Place, L.P. v. Encore Opportunity Fund, L.L.C., 666  
Armoneit v. Elliott Crane Serv., Inc., 140  
Arnold's of Mississippi v. Clancy, 257  
Aronson v. Lewis, 637, 638, 639  
Arsand v. City of Franklin, 87  
Arthur v. St. Peters Hosp., 221  
Arvizu v. Estate of Puckett, 97  
ASB Allegiance Real Estate Fund v. Scion Breckenridge Managing Member, LLC, 575  
Ash v. Georgia-Pacific Corp., 346  
Asociation de Prejudicos v. Citibank, F.S.B., 371  
Atlantic & Gulf Stevedores v. Revelle, 37  
Atlas Tack Corp. v. DiMasi, 415  
ATS, Inc. v. Beddingfield, 137  
Atwood v. Chicago, Rock Island & Pac. Ry., 38  
Auriga Capital Corp. v. Gatz Properties, LLC, 651  
Autoexchange.com, Inc. v. Dreyer and Reinbold, Inc., 229  
Azioni v. City of Los Angeles, 96  
Azzolina v. Sons of Italy, 191  
B.B. Walker Co. v. Burns Int'l Sec. Servs., Inc., 165  
Babbitt Bros. Trading Co. v. New Home Sewing Mach. Co., 317  
Badger v. Paulson Investment Co., Inc., 209  
Balaban v. Bank of Nevada, 458

- Balinovic v. Evening Star Newspaper Co., 195
- Baltrusch v. Baltrusch, 409
- BancInsure, Inc. v. U.K. Bancorporation, Inc., 338
- Band v. Livonia Assocs., 558
- Bandringa v. Bandringa, 442
- Barnes v. Costle, 183
- Basil v. Wolf, 221
- Basile v. H & R Block, Inc., 29
- Bassan v. Investment Exchange Corp., 433, 434
- Batzel v. Smith, 21
- Bauer v. Blomfield Co./Holden Joint Venture, 461
- Baxter Int'l, Inc. S'holders Litig., In re, 638
- Baxter v. Morningside, Inc., 96
- Bayless v. Christie, Manson & Woods Int'l, Inc., 214
- Beatty v. H.B. Owsley & Sons, 135
- Beckenstein v. Potter & Carrier, Inc., 43
- Beckett v. H & R Block, Inc., 29
- Bell v. N. Ohio Tel. Co., 680
- Bell v. Riggs, 43
- Belmont v. MB Inv. Partners, Inc., 345
- Belt Railway Co. v. Banicki, 164
- Benjamin Plumbing, Inc. v. Barnes, 286
- Bernier v. Bernier, 649
- Berry v. Ostrom, 455
- Berry's Estate, In re, 357, 358
- Bescor, Inc. v. Chicago Title & Trust Co., 292
- Biedenbach v. Teague, 96
- Biever, Drees & Nordell v. Coutts, 75
- Billups Petroleum Co. v. Hardin's Bakeries Corp., 237
- Bird v. Penn Central Co., 334
- Birkner v. Salt Lake County, 153, 154, 155, 156
- Birmingham Matinee Club v. McCarty, 258
- Birnbaum v. Birnbaum, 426
- Bischoff Realty, Inc. v. Ledford, 274
- Blackmore Partners, L.P. v. Link Energy LLC, 628, 629
- Blanchette v. Cataldo, 45
- Blankenship v. Smalley, 421
- Blum v. Kauffman, 567
- Bobrow v. United States Casualty Co., 336
- Boehmer v. Norton, 165
- Bourjaily v. U.S., 18
- Boykin v. District of Columbia, 175
- Brcka v. Falcon Electric Corp., 587
- Brehm v. Eisner, 637
- Bremen State Bank v. Hartford Accident & Indemnity Co., 164
- Brennan v. Brennan Associates, 492
- Briargate Condominium Ass'n v. Carpenter, 529
- Brickell Partners v. Wise Delaware Court of Chancery, 570
- Brinkley v. Farmers Elevator Mut. Ins. Co., 118
- BRJM, LLC v. Output Systems, Inc., 291
- Brodie v. Jordan, 646, 649
- Brooks v. Shaw, 267
- Brown v. Owen Litho Service, Inc., 281
- Browne v. Maxfield, 228
- Browning-Ferris Indus. of Cal., Inc. v. Nat'l Labor Rel. Bd., 123
- Browning-Ferris Industries of California, Inc., In re, 123
- Bruton v. Automatic Welding & Supply Corp., 308
- Bryant v. Better Bus. Bureau of Greater Md., 102
- BT-I v. Equitable Assurance Society of the United States, 560
- Bucher & Willis v. Smith, 212
- Burg v. Miniature Precision Components, 73
- Burlington Industries, Inc. v. Ellerth, 185
- Burns v. Gonzalez, 404
- Bushey & Sons, Inc. v. United States, 157, 165

- Bushi v. Sage Health Care, PLLC, 657  
Butler v. Maples, 214  
Byker v. Mannes, 378, 383  
C.F. Trust, Inc. v. First Flight Limited Partnership, 554  
Campen v. Stone, 186  
Cange v. Stotler & Co., 214, 228  
Cannon v. Goodyear Tire & Rubber Co., 154, 156  
Canon v. Chapman, 70  
Canter v. Lakewood of Voorhees, 554  
Cantor Fitzgerald, L.P. v. Cantor, 554  
Cantor v. Cochran, 104  
Capital Wireless Corp. v. Deloitte & Touche, 342  
Carden v. Arkoma Associates, 608  
Caremark Int'l Inc. Deriv. Litig., In re, 636  
Carlisle Etcetera LLC, In re, 677  
Carr v. Wm. C. Crowell Co., 172  
Carrier v. McLlarky, 14, 65  
Carter v. Bessey, 154  
Carter v. Reynolds, 162  
Cassano v. Aschoff, 126  
Cassiday v. McKenzie, 362  
Cates v. International Telephone & Telegraph Corp., 420  
CCD, L.C. v. Millsap, 664  
Cede & Co. v. Technicolor, Inc., 448  
Cefaratti v. Aranow, 226  
Cenco Inc. v. Seidman & Seidman, 343, 344  
Cencom Cable Income Partners, L.P. Litig, In re, 566  
Centro Empresarial Cempresa S.A. v América Móvil, S.A.B. de C.V., 80  
Chalupiak v. Stahlman, 73  
Charles v. Barrett, 135  
Chase v. Consolidated Foods Corp., 213  
Chemical Bank v. Security Pacific Nat'l Bank, 66  
Chevron, U.S.A., Inc. v. Lee, 162  
Citigroup Inc. S'holders Litig., In re, 639  
CKP, Inc. v. GRS Constr. Co., 28  
Clapp v. JMK/Skewer, Inc., 25  
Clawson v. Pierce-Arrow Motor Car Co., 145, 147  
Clearing House, Inc. v. Khoury, 14  
Clover v. Snowbird Ski Resort, 152  
CML V, LLC v. Bax, 602, 641  
Cohen v. Blank, 244  
Cohen, Estate of v. Booth Computers, 500  
Cohen, In re, 371  
Coker v. Dollar, 292  
Colby v. Riggs Nat'l Bank, 333  
Collen v. Wright, 290  
Colony Assocs. v. Fred L. Clapp & Co., 45  
Combes v. Montgomery Ward & Co., 154  
Computel, Inc. v. Emery Air Freight Corp., 306  
Condo v. Connors, 659  
Constant v. University of Rochester, 328  
Continental Ins. Co. v. Gazaway, 219  
Continental Ins. Co. v. Rutledge & Co., Inc., 565  
Cook v. Brundidge, Fountain, Elliott & Churchill, 419  
Cooke v. E.F. Drew & Co., 116, 117  
Co-op Mill & Supply, Inc. v. Blue Star Foods, 242  
Copp v. Breskin, 283  
Corbin v. George, 206  
Cordero, Estate of v. Christ Hospital, 220  
Corley v. Ott, 422  
Corrales v. Corrales, 370  
Cory Bros. & Co. v. United States, 52, 55  
Cosgrove v. Bartolotta, 607  
Costa v. Borges, 488  
Costos v. Coconut Island Corp., 180  
Cotten v. Perishable Air Conditioners, 506  
County Collector, In re Application of the, 633

- Cousin v. Taylor, 191, 290  
 Craig v. Parsons, 70  
 Creel v. Lilly, 478  
 Crinkley v. Holiday Inns, Inc., 193, 194  
 Cruz v. S. Dayton Urological Assocs., Inc., 617  
 CSX Transp., Inc. v. Recovery Express, Inc., 215  
 Cunningham v. BHP Petroleum Great Britain PLC, 377  
 Currier v. Abbott, 115  
 Curtis v. A. Garica y Cia., Ltda., 131  
 Curtis, Collins & Holbrook Co. v. United States, 349  
 D & G Equip. Co. v. First Nat'l Bank, 361  
 Darling-Singer Lumber Co. v. Commonwealth, 249  
 Davenport v. Quinn, 598, 600  
 Davidson v. Harris, 150  
 Day v. Stascavage, 549  
 De Pratt v. Sergio, 137  
 Delaney v. Rochereau & Co., 89  
 Della Ratta v. Larkin, 372, 555, 560, 577  
 Deloitte LLP v. Flanagan, 427  
 Dembrowski v. Central Construction Co., 245  
 Deonier & Assoc. v. Paul Revere Life Insur. Co., 61  
 DeRuyter v. Wis. Elec. Power Co., 162  
 Desert Equities v. Morgan Stanley Leveraged Fund II, 560  
 Desimone v. Barrows, 638  
 Diamond v. Pappathanasi, 548  
 Dierksen v. Albert, 35  
 Dimmitt Elevator Co. v. Carter, 352  
 Direct Mail Specialist, Inc. v. Brown, 528  
 Ditzel v. Kent, 409  
 Doe v. Forrest, 185  
 Doe v. Samaritan Counseling Center, 175, 178  
 Donemar, Inc. v. Molloy, 73  
 Dow v. Connell, 117  
 Drake v. Maid-Rite Co., 220  
 Dreier, In re, 240  
 Dreifuerst v. Dreifuerst, 475  
 Driscoll v. Towle, 135  
 Duffy v. Piazza Construction, Inc., 447  
 Duray Development, LLC v. Perrin, 587  
 E Property Management, Inc. v. 275 Madison Management Corp., 551  
 Eagle Industries, Inc. v. DeVilbiss Health Care, 534  
 Eastman v. Clark, 190  
 Eden v. Spaulding, 111  
 Ederer v. Gursky, 465  
 Edlebeck v. Hooten, 96  
 Edwards v. National Speleological Soc'y, 192  
 Effort Enters., Inc. v. Crosta, 165  
 Elf Atochem N. Am., Inc. v. Jaffari, 588, 672, 673, 675  
 Elle v. Babbitt, 400  
 Ellebracht v. Siebring, 512  
 Elsbury, State v., 458  
 Emerald Partners v. Berlin, 638  
 Enea v. Superior Court, 429, 432, 656  
 Engalla v. Permanente Med. Group, 42  
 Entente Mineral Co. v. Parker, 234  
 Essex Trust v. Enwright, 83  
**Estate of (see name of party)**  
 Evans v. Ruth, 295  
**Ex parte (see name of party)**  
 F & G Investments, L.L.C. v. 1313 Hickory, Ltd., 285  
 F.C. Adams, Inc. v. Elmer F. Thayer Estate, 49  
 Faegre & Benson, LLP v. R & R Investors, 395  
 Fairway Development Co. v. Title Insurance Co. of Minnesota, 386  
 Faragher v. City of Boca Raton, 185  
 Farnsworth v. Deaver, 518  
 Farwell v. Boston & W.R.R. Corp., 58  
 Federal Deposit Ins. Corp. v. Braemoor Assocs., 421

- Feldman v. Upton, Cohen & Slamowitz, 129
- Feresi v. The Livery, LLC, 653
- Finley v. Dalton, 254
- Fiocco v. Carver, 144, 147
- Fireman's Fund Am. Ins. Co. v. Turner, 63
- First American Title v. Lawson, 337
- First Bank v. S & R Grandview, L.L.C., 665
- First Nat'l Bank of Cicero v. Lewco Securities Corp., 350
- First Nat'l Bank of Cicero v. United States, 346
- Fisher v. Fisher, 487
- Fisk Ventures, LLC v. Segal, 670, 676
- Flippo v. CSC Associates III, L.L.C., 627
- Flynn v. Gold Kist, Inc., 165
- Foley v. Allard, 217
- Ford v. Williams, 250
- Ford v. Wisconsin Real Estate Examining Bd., 63
- Frank Rizzo, Inc. v. Alatsas, 545
- Frates v. Nichols, 514
- Freeman v. Superior Court, 320
- Frontier Traylor Shea, LLC v. Metropolitan Airports Commission, 607
- Funds for Business Growth, Inc. v. Woodland Marble & Tile Co., 314
- Gandy v. Cole, 313
- Garbish v. Malvern Fed. Sav. & Loan Ass'n, 66
- Gardner v. Hermann, 218
- Gaston v. Sharpe, 140, 141
- Gateway Potato Sales v. G.B. Investment Co., 537
- Gebhardt Family Investment, L.L.C. v. Nations Title Insurance of New York, Inc., 610
- Gelber v. Kugel's Tavern, 609
- Gelfand v. Horizon Corp., 69
- Gelfman v. Weeden Investors, L.P., 568
- General Overseas Films, Ltd. v. Robin Int'l, Inc., 213
- Gerber v. Enterprise Products Holdings, LLC, 575
- Gigandet v. Lighting Galleries, Inc., 283
- Gilman Paint & Varnish Co. v. Legum, 531
- Gilman, United States v., 63
- Girard Bank v. Haley, 480
- Goldstick v. ICM Realty, 300
- Golf Digest/Tennis, Inc. v. Diode, Inc., 283
- Gordon v. Pettingill, 306, 307
- Gordon v. S.M. Byers Motor Car Co., 137
- Gotham Partners, L.P. v. Hallwood Realty Partners, L.P., 561, 567
- Gotthelf v. Property Mgt. Sys., 165
- Gottsacker v. Monnier, 628
- Grace v. Smith, 368
- Grainger v. Antoyan, 579
- Grassmueck v. American Shorthorn Assoc., 421
- Grede v. McGladrey & Pullen LLP, 342
- Green v. Bellerive Condominiums Limited Partnership, 554
- Green v. H & R Block, Inc., 29
- Grieb v. Hammerle, 146
- Groff v. Citizens Bank of Clovis, 394
- Grosboll, In re Estate of, 392
- Grossberg v. Haffenberg (1937), 442
- Grove v. Brown, 630
- Grubb & Ellis Co. v. First Texas Sav. Ass'n, 285
- Grupo Dos Chiles, LLC, In re, 672
- Guinand v. Walton, 524
- Guttman v. Huang, 638
- H.H. Taylor v. Ramsay-Gerding Construction Company, 207
- Hagan v. Adams Property Associates, Inc., 610
- Hale Propeller, LLC v. Ryan Marine Products Pty., Ltd., 599
- Haley v. Talcott, 669
- Hamilton v. Natrona County Educ. Ass'n, 179

- Hammon v. Paine, 276  
Harper, Estate of ex rel. Al-Hamim v. Denver Health and Hosp. Authority, 119  
Harrelson v. Lee, 603  
Hartell v. Simonson & Son Co., 135  
Hartford Elevator v. Lauer, 73  
Hausman, In re, 587  
Heart of Am. Lumber Co. v. Belove, 277  
Hector v. Metro Centers, Inc., 28  
Heims v. Hanke, 93  
Heller Ehrman LLP v. Davis Wright Tremaine LLP, 515  
Hendrix v. First Bank of Savannah, 313  
Henshaw v. Kroenecke, 78  
Herbert Constr. Co. v. Continental Ins. Co., 218, 360  
Hewitt v. First Nat'l Bank, 323  
Heydon v. Heydon, 393  
Hinman v. Westinghouse Elec. Co., 157  
Hinson v. United States, 115  
Hirsch v. Jones Intercable, Inc., 548, 549  
Hirzel Funeral Homes, Inc. v. Equitable Trust Co., 317  
Historic Hermann, Inc. v. Thuli, 28  
Hixon v. Sherwin-Williams Co., 123  
Holdeman v. Epperson, 677, 681  
Holly Hill Lumber v. McCoy, 255  
Holman v. Coie, 450  
Holzman v. DeEscamilla, 535  
Horecker v. Pere Marquette R. Co., 164  
Horizon/CMS Healthcare Corp. v. Southern Oaks Health Care, Inc., 482  
Horne v. Aune, 478  
Horning v. Horning Construction, LLC, 669  
Howe v. Buffalo, etc., R. R. Co., 52  
Howell v. First of Boston Int'l Corp., 276  
Howell v. Smith, 282, 293  
Hubbard v. Tenbrook, 267  
Hunt v. Rousmanier's Administrators, 355, 356  
Hunter Mining Laboratories, Inc. v. Management Assistance, Inc., 29  
Hunter v. R.G. Watkins & Son, Inc., 113  
Huong Que, Inc. v. Luu, 78  
Husky Indus. v. Craig Indus., 289  
Huston, Estate of v. Greene, 302  
Hutchins v. Insurance Co., 114  
Hyde v. Cooper, 298  
Hydrolevel Corp. v. American Soc'y of Mech. Eng'rs, 238  
Illinois Central R. Co. v. King, 165  
**In re (see name of party)**  
Industrial Mfrs., Inc. v. Bangor Mills, Inc., 268  
Ingram v. Deere, 384  
Instituto Cubano v. The S.S. Theotokos, 288  
Insurance Co. v. Ives, 43  
Inter-Tel Technologies, Inc. v. Linn Station Properties, LLC, 609  
Investcorp, L.P. v. Simpson Investment Co., L.C., 683  
Investment Management, Inc. v. Jordan Realty, Inc., 479  
IOS Capital, LLC v. Allied Home Mtg. Capital Corp., 214  
Iron v. Sauve, 190  
J & J Builders Supply v. Caffin, 416  
J & J Celcom v. AT & T Wireless Servs., Inc., 432, 433, 435, 436  
Jahncke Service, Inc. v. Heaslip, 281  
Jennings v. Pittsburgh Mercantile Co., 213  
Jensen v. Alaska Valuation Service, 279  
Jerger v. Rubin, 244  
Jewel v. Boxer, 515  
Joel v. Morison, 142  
John Chezik Buick v. Friendly Chevrolet Co., 220  
Johnson Realty v. Bender, 55  
Johnson v. Bernheim, 403  
Jones v. Compagnie Generale Maritime, 187  
Jones v. H.F. Ahmanson & Co., 429



- Jones v. Hart, 86  
Jones v. Healthsouth Treasure Valley Hospital, 226  
Jones v. Mutual Creamery Co., 316  
Kaminski v. Wladerek, 201  
Kane Furniture Corp. v. Miranda, 103  
Kaplan v. Coldwell Banker Residential Affiliates, Inc., 227  
Karle v. Seder, 433, 434  
Katris v. Carroll, 630  
Kaycee Land and Livestock v. Flahive, 601  
Keller v. Gunn Supply Co., 154  
Kelley v. Rossi, 118  
Kelly Asphalt Block Co. v. Barber Asphalt Paving Co., 252  
Kelly v. Blum, 651  
Kenai Peninsula Borough v. State, 96  
Kilbourne v. Henderson, 39  
King v. Bankerd, 200, 201  
King v. Barnes, 423  
King v. First Nat'l Bank, 36  
King v. Horizon Corp., 245  
Kingston v. Booth, 86  
Kirk v. Showell, Fryer & Co., Inc., 206  
Kirschner v. KPMG LLP, 340  
Klebanow v. New York Produce Exch., 546  
Kleeman v. Rheingold, 126  
Klein v. Weiss, 202  
Kline Bros. v. Royal Ins. Co., 315  
Kline v. Gutzler, 257  
KMK Factoring, L.L.C. v. McKnew (In re William McKnew), 621  
Knapp v. Standard Oil Co., 113  
Konick v. Berke Moore Co., 114, 115  
Kovacik v. Reed, 519  
Kowaleski v. Kowaleski, 112  
Kozasa v. Guardian Elec. Mfg. Co., 68  
Kuehn v. White, 179  
Kuznik v. Bees Ferry Associates, 448  
L.C.S. Colliery, Inc. v. Mack, 37  
Lachmann v. Houston Chronicle Pub'g Co., 293  
LaFleur v. LaFleur, 112  
Lampe v. Williamson, 384  
Lane v. Cotton, 89  
Lavazzi v. McDonald's Corp., 35  
Lazo v. Mak's Trading Co., 108  
Leafgreen v. American Family Mutual Ins. Co., 240  
Leff v. Gunter, 429  
Leight v. Osteosymbionics, L.L.C., 586  
Lenart v. Ragsdale, 249  
Leon v. Kelly, 373  
LiButti v. United States, 598  
Licocci v. Cardinal Assocs., 78  
Light v. Chandler Improvement Co., 242, 244  
Liike, In the Matter of the Estate of, 391  
Lindsay, Marcel, Harris & Pugh v. Harris, 683  
Lindsey v. Stein Bros. & Boyce, Inc., 49  
Link v. Kroenke, 214  
Lio v. Zhong, 640  
Lisa M. v. Henry Mayo Newhall Memorial Hospital, 170  
Litchfield Asset Management Corp. v. Howell, 595  
LNYC Loft, LLC v. Hudson Opportunity Fund I, LLC, 641  
Lola Cars Int'l Ltd. v. Krohn Racing, 676  
Loughry v. Lincoln First Bank, N.A., 187  
Lowman v. Sheets, 471  
Luddington v. Bodenvest Ltd., 556  
Lumer v. Marone, 288  
Luster, State v., 27  
Luth v. Rogers & Babler Constr. Co., 157  
Lyons v. American Legion Post No. 650 Realty Co., 191  
Lyons v. Brown, 160  
MacDonald v. Gough, 364  
Madden v. Kaiser Found. Hosps., 42  
Maddex v. Ricca, 169  
Mahan v. Mahan, 518

- Mahar v. Stonewood Transport, 184  
Maloney v. Rath, 130  
Malpiede v. Townson, 638  
Mann v. Adventure Quest, Inc., 338  
Manning v. Twin Falls Clinic & Hospital, Inc., 303  
Marks' Dependents v. Gray, 146  
Marley, Ex parte, 188  
Marqusee v. Hartford Fire Ins. Co., 315  
Marr v. Langhoff, 514  
Marsh v. Delta Air Lines, Inc., 62  
Marshall v. International Longshoreman's Union, 192  
Martin v. Heinold Commodities, Inc., 64  
Martin v. Peyton, 373, 377  
Mary M. v. City of Los Angeles, 173  
Matanuska Valley Bank v. Arnold, 345  
**Matter of (see name of party)**  
Matter of Crazy Eddie Sec. Litig., 342  
Matulis v. Gans, 301  
Matz v. Ibach, 333  
Mayer v. Buchanan, 288  
Mays v. Brighton Bank, 28  
McBriety v. Phillips, 417  
McCarthy v. Souther, 114  
McCollum v. Clothier, 56  
McConnell v. Hunt Sports Enterprises, 615  
McCormick v. Brevig, 390, 478  
McCracken v. Hamburger, 267  
McCrillis v. A & W Enterprises, Inc., 301  
McGee v. Best, 614  
McKnight v. Peoples-Pittsburgh Trust Co., 57  
McLain v. Training & Dev. Corp., 182  
McMillan v. United Mortgage Co., 460  
MDM Group Associates, Inc. v. CX Reinsurance Co. Ltd, U.K., 61  
Mduba v. Benedictine Hosp., 222  
Mediacomp, Inc. v. Capital Cities Communication, Inc., 283  
Meehan v. Shaughnessy, 427  
Meinhard v. Salmon, 72, 423, 656  
Messenger, In re, 471  
Metroplex Mailing Services, LLC v. RR Donnelley & Sons Co., 603  
Metzler v. Layton, 165  
Mieuli v. DeBartolo, 527  
Mifflin Chem. Corp., In re, 339  
Milford Power Company, LLC v. PDC Milford Power, LLC, 666  
Miller v. American Real Estate Partners, L.P., 568  
Miller v. Paducah Airport Corp., 608, 609  
Miller v. Quarles, 292  
Miller v. Westcor Ltd. Pt'ship, 125  
Milligan v. Wedge, 118  
Minute Maid Corp. v. United Foods, Inc., 397  
Mitchell v. Reed, 425  
Mock v. Bigale, 478  
Mogensen v. Mogensen, 390  
Monin v. Monin, 472  
Montana Reservoir & Irrigation Co. v. Utah Junk Co., 325  
Monty v. Orlandi, 174  
Moore & Co. v. T-A-L-L, Inc., 73  
Moore v. Seabaugh, 282  
Moren v. Jax Restaurant, 447  
Morgan v. Harper, 360  
Morris v. Brown, 523  
Mortgage Grader, Inc. v. Ward & Olivio, L.L.P., 470  
Mosser v. Darrow, 71  
Mount Vernon Sav. & Loan v. Partridge Assocs., 537  
Moye White LLP v. Beren, 67  
Mrachek v. Sunshine Biscuit, Inc., 134  
Mundorff v. Wickersham, 336  
Munroe v. Harriman, 347  
Mussey v. Beecher, 230  
Mutual Service Cas. Ins. Co. v. Midway Massage, Inc., 119  
Myers v. Cook, 313  
Napp v. Liberty National Life Insurance Co., 237

- National Biscuit Co. v. Stroud, 402  
National R.R. Passenger Corp. v. Notter, 331, 333  
Nationwide Mutual Insurance Co. v. Darden, 121  
Naviera Despina, Inc. v. Cooper Shipping Co., 38  
Nazareth v. Herndon Ambulance Service, 185  
NCP Litigation Trust v. KPMG LLP, 345  
Neal v. Cincinnati Union Stock Yards Co., 333  
Nelson v. American-West African Line, 166  
Nemec v. Shrader, 59, 60  
Nepstad v. Lambert, 136  
Nicholes v. Hunt, 478  
Nightingale & Associates, LLC v. Hopkins, 651  
Nixon v. Blackwell, 651  
NLRB v. Friendly Cab Co., Inc., 18  
Noonan v. Texaco, Inc., 111  
Norby v. Bankers Life Co., 40  
North American Catholic Educational Programming Foundation, Inc. v. Gheewalla, 602  
Northern Tankers (Cyprus) Ltd. v. Backstrom, 599  
Norton v. K-Sea Transp. Partners L.P., 574  
Nowell v. Union Mut. Fire Ins. Co., 14  
O'Connor v. Uber Techs., Inc., 122  
O'Neal v. Employment Sec. Agency, 62, 63  
O'Toole v. Carr, 196  
Obeid v. Hogan, 634, 641  
Ohlendorf v. Feinstein, 516  
Oil Supply Company, Inc. v. Hires Parts Service, Inc., 272  
Olmstead v. F.T.C., 665  
Olsen v. Vail Assocs., 67  
Olson v. Halvorsen, 595  
Olson v. Staggs-Bilt Homes, Inc., 151  
Oneta v. Paul Tocci Co., 109  
Oregon RSA No. 6, Inc. v. Castle Rock Cellular of Oregon Limited Partnership, 449  
Owen v. Cohen, 497  
Owens v. Palos Verdes Monaco, 408  
Oxford Lake Line v. First Nat'l Bank of Pensacola, 306  
P.D. 2000, L.L.C. v. First Financial Planners, Inc., 587  
Pacific Landmark Hotel v. Marriott Hotels, 357  
Page v. Page, 480  
Page v. Suraci, 305  
Pankratz Farms, Inc. v. Pankratz, 478  
Pannell v. Shannon, 684  
Papp v. Rocky Mountain Oil & Minerals, 370  
Pappas v. Tzolis, 614  
Parker v. Vanderbilt Univ., 140  
Paro v. Trust Co., 115  
Parrish Chiropractic Centers, P.C. v. Progressive Casualty Insurance Co., 663  
Patmon v. Hobbs, 657  
Paul v. Kennedy, 37  
PB Real Estate, Inc. v. DEM II Properties, 597, 665  
Pee Dee State Bank v. Prosser, 332  
Pena v. Greffert, 185  
**People v. (see name of defendant)**  
Petersen v. Schneider, 95  
Peterson v. Brinn & Jensen Co., 116  
Peterson v. Peterson, 360  
Phansalkar v. Andersen Weinroth & Co., L.P., 73  
Phoenix Airline Svcs. v. Metro Airlines, 641  
Pierson v. Houston Indep. Sch. Dist., 192  
Ping v. Beverly Enterprises, Inc., 205  
Pinnacle Data Services, Inc. v. Gillen, 611  
Pinshaw v. Metropolitan Dist. Comm'n, 304

- Plastering Institute Pension Trust v. Elite Plastering Co., Inc., 332
- Pointer v. Castellani, 642
- Polikoff v. Levy, 452
- Popricki, State v., 101
- Port Ship Serv. v. Norton, Lilly & Co., 288
- Posner v. Bayless, 202
- Potter v. Brown, 497
- Potter v. Chaney, 281
- Potts v. BE & K Constr. Co., 304
- Premier Van Schaack Realty, Inc. v. Sieg, 610
- Printing Mart-Morristown v. Sharp Electronics Corp., 544
- Puckett v. Codisco, Inc., 285
- Pullen v. Dale, 310
- Quinn v. Leidinger, 390
- R & R Capital, LLC v. Buck & Doe Run Valley Farms, LLC, 670
- R.N.R. Oils, Inc. v. BP West Coast Products, LLC, 607
- R.S.M. Inc. v. Capital Management Holdings L.P., 570
- Radzvilowicz, State v., 597
- Rales v. Blasband, 637, 638
- Ramlall v. MobilePro Corp., 603
- Randall v. Meredith, 407
- Rappaport v. Gelfand, 470, 511
- Rattner v. Bidzos, 639
- Redman v. Walters, 505
- Reed v. Hinderland, 101
- Reimer v. Davis, 213
- Resnick v. Kaplan, 513
- Rev O, Inc. v. Woo, 658
- Richardson-Merrell, Inc., 186
- Richert v. Handly, 521
- Richmond v. White Mount Rec. Ass'n, 126
- Ridgely v. First National Bank, C.C., 409
- Riggs Inv. Mgt. v. Columbia Partners, 73
- Riley v. Standard Oil Co., 145, 149
- Rinke v. Rinke, 476
- Riveredge Assocs. v. Metropolitan Life Ins. Co., 471
- RNR Investments Limited Partnership v. Peoples First Community Bank, 410
- Robarge v. Bechtel Power Co., 157
- Robbins v. Finlay, 77
- Roberts Assocs. v. Blazer Int'l Corp., 56
- Robertson v. Jacobs Cattle Co., 497, 508
- Robinson Bank v. Miller, 390
- Robinson v. Glynn, 585
- Rodgers v. Kemper Constr. Co., 173
- Rodliff v. Dallinger, 253
- Roepke v. Western Nat'l Mutual Ins. Co., 609
- Roginsky v. Richardson-Merrell, Inc., 186
- Rohe Scientific Corp. v. National Bank of Detroit, 212
- Rosenbaum v. Texas Energies, Inc., 333
- Roth v. First Nat'l State Bank, 246
- Rothman v. Fillette, 239
- Rouse v. Pollard, 418
- Royal Carbo Corp. v. Flameguard, Inc., 73
- Rumbin v. Utica Mutual Insurance Co., 663
- Russell Realty Associates v. Russell, 497
- Rykaczewski v. Kerry Home, Inc., 240
- Saballus v. Timke, 441, 442
- Saint Alphonsus Diversified Care, Inc. v. MRI Associates, LLP, 487
- Salmon v. Commissioner, 426
- Sandrock v. Taylor, 94, 119
- Sanford v. Goodridge, 120
- Santiago v. Phoenix Newspapers, Inc., 112
- Saphir v. Neustadt, 597
- Sauber v. Northland Insurance Co., 215
- Sauter v. New York Tribune, 169
- SBC Pledgor 1 2012-1 Trust v. Clark/School, LLC, 684, 685
- Schoeller v. Schoeller, 517

- Schroer v. Schroer, 487  
Schueler v. Blomstrand (1946), 442  
Schuler v. Birnbaum, 453  
SEC v. Lowery, 585  
SEC v. Shiner, 585  
SEC v. W.J. Howey Co., 585  
Security Servs., Inc. v. K Mart Corp., 353  
Seibert v. Noble, 28  
Senor v. Bangor Mills, 265  
Serapion v. Martinez, 378  
Serio v. Baystate Properties, LLC, 603  
Sertich v. Moorman, 453  
Sexton v. United States, 333  
Shank, Irwin, Conant & Williamson v. Durant, Mankoff, Davis, Wolens & Francis, 55  
Shapiro v. American Home Assurance Co., 337  
Sheffield Services Company v. Trowbridge, 602  
Shephard, In re, 394  
Shifrin v. Forest City Ents., Inc., 679  
SI Management L.P. v. Winger, 534  
Simmons v. United States, 175  
Simpson v. Thorslund, 454  
Sims v. Bergamo, 110  
Smith v. Manchester Mgt. Corp., 453  
Smith v. Thompson, 85  
Smith v. Ward, 213  
Soderback v. Townsend, 112  
Solar Cells, Inc. v. True North Partners, LLC, 627  
Solomon v. Gibson, 347  
Sonet v. Plum Creek Timber Co., 560, 572  
Spayd v. Turner, Granzow & Hollenkamp, 618  
Spencer v. V.I.P., Inc., 158  
St. Louis & St. Charles Bridge Co. v. Union Elec. Light & Power Co., 322  
Stansifer v. Chrysler Motors Corp., 31  
Starr v. Fordham, 448  
State ex rel. Clarke v. Ripley Sav. Bank & Trust Co., 333  
State Farm Mutual v. Johnson, 206  
**State v. (see name of defendant)**  
Steckroth v. Ferguson, 497  
Sterud v. Chugach Elec. Ass'n, 111  
Stockwell v. Morris, 115  
Stoker v. Bellemeade, LLC, 641  
Stone ex rel. AmSouth Bancorporation v. Ritter, 636, 638, 639  
Stone v. Hurst Lumber Co., 154  
Stortroen v. Beneficial Finance Co., 44  
Stott v. Greengos, 49  
Strain v. Ferroni, 96  
Strategis Asset Valuation & Mgt. v. Pacific Mutual, 353  
Stroll v. Epstein, 283, 284  
Summers v. Dooley, 400  
Superior Vending, LLC, In re, 683  
Sweeney v. Otter, 490  
Sword v. NKC Hosps., Inc., 222  
T & T Communications v. State, Department of Labor and Employment Security, 105  
T.G. Slater & Son, Inc. v. The Donald P. and Patricia A. Brennan LLC, 302  
Tarnowski v. Resop, 73  
Tarron v. Bowen Machine & Fabricating, Inc., 136  
Tauscher v. Puget Sound Power & Light Co., 125  
Taylor v. Cordis Corp., 60  
Tedder v. Riggin, 291  
Teed v. Parsons, 371  
Thayer v. Pacific Elec. Ry., 38  
Thelen LLP, In re, 515  
Thompson v. Sun Oil Co., 320  
Thomson-Houston Electric Co. v. Capitol Electric Co., 349  
Thorn v. City of Glendale, 174  
Throop v. F.E. Young & Co., 117  
TM2008 Investments, Inc. v. Procon Capital Corp., 657  
Tooley v. Donaldson, Lufkin & Jenrette, Inc., 640  
Toothman v. Freeborn & Peters, 585

- Torrence v. Chicago Tribune Co., 121  
Town & Country House & Home Serv.  
v. Newbery, 76  
Travel Centre, Ltd. v. Starr-Mathews  
Agency, Inc., 204  
TravelCenters of Am., LLC v. Brog, 670,  
672  
Travers, People v., 188  
Trover v. 419 OCR, Inc., 594  
Tschetter v. Berven, 585  
Tucker v. Jerris, 298  
Tupper v. Kroc, 457  
Turner v. Andrew, 608  
Tyson Fresh Meats, Inc. v. Lauer Ltd.  
LLC, 603  
Tzolis v. Wolff, 640  
United Carolina Bank v. Caroprop,  
Ltd., 332  
United States Cellular Investment Co.  
of Allentown v. Bell Atlantic Mobile  
Systems, Inc., 569  
**United States v. (see name of defendant)**  
United States v. Bonds, 15  
United States v. Hull, 89  
USACafes, L.P. Litigation, In re, 574  
Utah State Univ. v. Sutro & Co., 39  
Valone v. Valone, 556  
Van D. Costas, Inc. v. Rosenberg, 286  
Venture Sales, LLC v. Perkins, 676  
Vette v. Giles, 530  
VGS, Inc. v. Castiel, 622  
Viado v. Domino's Pizza, LLC, 97, 227  
Vidricksen v. Grover, 532  
Violette v. Shoup, 24  
Volunteer Fire Co. v. Hilltop Oil Co., 28  
Von Wedel v. McGrath, 204  
Wagner v. City of Globe, 316  
Walker v. Resource Dev. Co., 567, 664  
Walter v. Holiday Inns, Inc., 448  
Want v. Century Supply Co., 354  
Warren v. McLouth Steel Corp., 132  
Watson v. Schmidt, 317  
Watteau v. Fenwick, 229  
Waugh v. Carver, 368  
Weber v. Stokely-Van Camp, 101  
Weinstein v. Colborne Foodbotics,  
LLC, 602, 658  
Welch v. Via Christi Health Partners,  
Inc., 555  
Wendt v. Fischer, 73, 424  
Wheeler v. Green, 190  
White v. Consumers Fin. Serv., Inc.,  
206  
White v. Cox, 192  
Whitehead v. Variable Annuity Life  
Ins., 154, 155, 156  
Wiersma v. City of Long Beach, 175  
Wilkins v. Waldo Lumber Co., 301  
William Penn Partnership v. Saliba, 628  
Williams v. City of New York, 187  
Williams v. Feather Sound, Inc., 102  
Williams v. Good Health Plus, Inc., 119  
Wilson v. Joma, Inc., 150  
Wilzig v. Sisselman, 512  
Winchester v. Howard, 254  
Winslow v. Wellington, 115  
Winston & Strawn v. Nosal, 451  
Wood v. Baum, 635  
Wright v. United States, 110  
Young v. Nevada Title Co., 39  
Zaist v. Olson, 597, 598  
Zeiger v. Wilf, 541  
Zito v. Fischbein Badillo Wagner Hard-  
ing, 385  
Zito v. United States, 339  
Zsigo v. Hurley Medical Center, 185

# Preface

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This abridged Tenth Edition seeks to incorporate developments in the law of agency and unincorporated business entities since the publication of the Ninth Edition of this casebook in 2015. The courts have considered many issues arising under the revised general and limited partnership acts as well as the limited liability company acts, and I have sought to capture the most important of those cases. Significant developments have occurred in relation to limited liability companies, where the courts have decided numerous cases in the past several years.

As in previous editions, most textual omissions, whether of a few words, a paragraph, or several pages, are indicated by an ellipsis. Occasionally the ellipsis is not used where the nature of the text is such that its use would be excessive or distracting, and sometimes text is slightly rearranged for ease of reading. In addition, omissions consisting of footnotes or of citations to cases or articles are not indicated. Under no circumstances has editing altered the substance of the text being presented. Footnotes that have been retained from cases retain their original numbers in brackets at the start of the text of the footnote. All citations in court opinions to legislation based on one of the uniform acts are treated as if made directly to the uniform act. This avoids the problem of forcing the reader to cope with the different numbering systems of the various states.

I am deeply indebted to my colleague, Professor J. Dennis Hynes, whose meticulous scholarship is reflected in the first five editions of this book and, of course, greatly influences the most recent five editions for which I have been responsible.

*Mark J. Loewenstein*  
Boulder, Colorado  
August 2018





# Glossary

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**Agency**—The agency relationship is a consensual relationship created when one person (the agent) acts on behalf of and subject to the control of another (the principal).

**Agent**—An agent is a person (which can include an entity, like a corporation, partnership, or LLC) who acts on behalf of and subject to the control of another.

**Agent’s agent**—This sometimes confusing phrase describes the situation where a person acts on behalf of and subject to the control of an agent for another (the agent’s principal) but is not responsible to and does not have the power to create liability for the agent’s principal. The phrase is confusing because a subagent (see below) also is an agent of an agent. (The difference is that the subagent is also the agent of, and thus possesses the power to create liability for, the remote principal.) The confusion can be dispelled only by seeing the language in context. Although sometimes ambiguous, the phrase can serve the useful purpose, once a situation is analyzed, of sharply delineating the relationship of the parties in just a few words.

**Apparent authority**—Apparent authority is the power of an agent to bind the principal to unauthorized contracts. The power is created by manifestations, which can be subtle and indirect, of the principal to the third party that are reasonably relied upon by the third party.

**Borrowed servant**—A servant (employee) is borrowed when exposure to vicarious liability for the torts of the employee is shifted from the lending employer to the borrowing employer. The standards for determining when an employee is borrowed are in conflict and confusion in the law of many states today. The majority rule appears to require both a transfer of the allegiance of the employee and control by the borrowing employer before vicarious liability is shifted from the lending employer to the borrowing employer.

**Business trust**—This is a form of doing business through use of a trust. The business trust recently has received significant statutory treatment in some states. At the present time it is infrequently used except in specialized security transactions. It is covered in the Introduction immediately following this glossary.

**Co-agent**—A co-agent is one of two or more agents of a principal. Co-agents can be in a hierarchical relationship, like that of a president of a corporation and her secretary. Under such circumstances, co-agency appears confusingly like agency because the secretary functions throughout the working day under the direction and control of the president and may even have been hired by the president. Yet the

secretary is a co-agent, not the president's agent, because both the president and the secretary work on behalf of their common employer.

**Control**—To exercise authority over; dominate; direct; regulate. This word has different meanings in the law of agency depending upon context. If, for example, the issue being pursued is liability for the physical torts of another, a special kind of control, over physical conduct and over the details of the activity, is required.

**Disclosed principal**—A principal is disclosed when a third party has notice of the principal's existence and identity. Under such circumstances, the agent acting in the transaction is not a party to the resulting contract in the absence of special facts, like guaranteeing the contract.

**Employee**—The term employee is a defined term in the Restatement (Third) of Agency § 7.07 and is used to describe an agent for whose torts the principal is vicariously liable. Thus, an employee is “an agent whose principal controls or has the right to control the manner and means of the agent's performance or work.” It replaces the term “servant,” used in earlier Restatements of Agency and in many common law cases. The new definition makes clear that the term is not limited to traditional, compensated employees, as the definition goes on to provide that “the fact that work is performed gratuitously does not relieve a principal of liability.” The term might also exclude an agent who is an employee for purposes of federal and state laws, but whose principal lacks the right to control the manner and means of the agent's performance of work.

**Employer**—This term is used in the Restatement (Third) of Agency to describe a principal who is vicariously liable for the torts of its “employee” agent. See the definition of “employee.” The term “employer” replaces the term “master,” used in earlier Restatements of Agency and in many common law cases. As used in the Restatement (Third) of Agency, the term “employer” includes principals who, for other purposes (such as coverage under various federal and state laws regulating the employment relationship), are not “employers.”

**General agent**—A general agent is an agent authorized by the principal to conduct a series of transactions involving a continuity of service, like a manager of a business.

**Independent contractor**—This is an ambiguous phrase in the law of agency. It can mean a nonagent, such as a building contractor who contracts to build something for an owner but who is not subject to control over the physical conduct of the work and who does not act on the owner's behalf, but rather merely benefits the owner by the work being done as performance under an ordinary contract. The phrase “independent contractor” also refers to a nonservant agent, such as a real estate broker or a lawyer, who acts as agent for another but who is not subject to control over the physical conduct of the work. A principal is not liable for the physical torts of a non-servant agent (independent contractor).

The Restatement (Third) of Agency abandons this term. To determine whether a principal is vicariously liable for the tortious conduct of its agent, the Restatement (Third) has a special definition of the term “employee.” If the agent falls within this

definition (which focuses on the degree of control that the principal has over the agent), the agent is an employee and the principal has respondeat superior liability for the employee's tortious conduct. The Restatement (Third) also uses the term "nonagent service provider" in some comments to capture one of the meanings of "independent contractor" set forth here.

**Inherent agency power**—This is a controversial doctrine in the literature of agency. It states that a general agent has the power to bind a principal to unauthorized acts beyond the customary doctrines of apparent authority and estoppel if the acts done "usually accompany or are incidental to" authorized transactions. The Restatement (Third) of Agency abandons this term.

**LLC**—The acronym "LLC" stands for "limited liability company." This relatively new form of doing business in an unincorporated form is described in the Introduction immediately following this glossary and is covered in detail in Chapter 15. All states allow the creation of LLCs.

**LLLP**—The acronym "LLLP" stands for "limited liability limited partnership." It refers to a limited partnership in which not only the limited partners but also the general partners have limited liability. This relatively new form of doing business is described in the Introduction immediately following this glossary and is covered in Chapter 14. Legislation enabling the creation of LLLPs is rapidly being adopted by the states.

**LLP**—The acronym "LLP" stands for "limited liability partnership." It is a recent innovation in the law of partnership, following the widespread adoption of statutes authorizing the LLC. It refers to a general partnership in which the partners have limited liability. This new form of doing business is described in the Introduction immediately following this glossary and is covered in Chapter 11. All states have legislation providing for the LLP.

**Master**—The word "master" is a term of art in the law of agency. It identifies a principal who employs an agent to perform services and who controls or has the right to control the physical conduct of the agent in the performance of the service. A master is vicariously liable for the physical torts of its servant under the doctrine of respondeat superior. The Restatement (Third) of Agency has abandoned this term in favor of the term "employer." See the definition of "employer" above.

**On behalf of**—This is an essential element of the agency relationship. It means acting *primarily* for the benefit of another, not merely benefiting another by one's actions. A person who acts on behalf of another ordinarily is a fiduciary of the other, due to the trust being placed in the actor under such circumstance.

**Partially disclosed principal**—A principal is partially disclosed when the third party has notice that the agent is acting on behalf of someone but does not know the identity of the principal. Under this circumstance it is inferred, subject to agreement, that the agent is a party to the contract. The Restatement (Third) of Agency abandons this term in favor of the term "unidentified principal."

**Partnership**—A partnership is an association of two or more persons to carry on as co-owners a business for profit. It can be formed without any papers being filed and without the owners even realizing that they are creating a partnership. The partnership is described more fully in the Introduction immediately following this glossary and is covered in detail in Chapters 11–13.

**Principal**—A principal is the one for whom action is taken. The action is taken on behalf of and subject to the principal's control.

**Respondeat superior**—This Latin phrase means “let the master answer.” It is a shorthand and classic expression for the doctrine that a master (or employer) is vicariously liable for the torts of its servant (or employee) committed within the scope of employment.

**Servant**—The word “servant” is a term of art in the law of agency. A servant is an agent who is employed to perform service and whose physical conduct in the performance of the service is controlled or is subject to the right of control by the master. Janitors and construction workers are examples of servants, although they are unlikely to appreciate being called servants. In part because the word “servant” is passé in today's language, the word “employee” is usually used in its place. “Employee” is less exact, however, because there are servants who are not employees and employees who are not servants. Despite this possible confusion, the Restatement (Third) of Agency abandons the term “servant” in favor of the term “employee,” albeit one specially defined. See the definition of “employee” above.

**Sole proprietorship**—A sole proprietorship occurs when a person carries on a business as its sole owner. No forms need be filed with the state in order to create a sole proprietorship. The proprietor is personally liable for the debts of the business and pays income taxes on the net income of the business. The sole proprietorship is covered in the Introduction immediately following this glossary.

**Special agent**—A special agent is an agent who is authorized to conduct a single transaction or a series of transactions not involving continuity of service, such as a real estate broker.

**Subagent**—Subagency exists when an agent (A) is authorized expressly or (more commonly) implicitly by the principal (P) to appoint another person (B) to perform all or part of the actions A has agreed to take on behalf of P. If A remains responsible to P for the actions taken, B is a subagent and A is both an agent (to P) and a principal (to B). B is an agent of P as well as A, which underscores the importance of P's express or implied consent to this relationship.

**Undisclosed principal**—A principal is undisclosed when the third party is unaware that the agent is acting for a principal and thus assumes that the agent is contracting on its own behalf. Under these circumstances the agent is a party to the contract (as is the undisclosed principal).

**Unidentified principal**—This term is employed in the Restatement (Third) of Agency to describe what many courts and the earlier Restatements referred to as a “partially disclosed principal.” See the definition of that term above.