

CHAPTER ELEVEN

CORPORATION'S LIABILITY TO THIRD PARTIES

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Section 11.01 Liability of Corporation for Acts of Promoter

As a general rule, a corporation is not liable for the pre-incorporation acts of its promoters unless the corporation affirms the promoter's acts or knowingly accepts the benefits of those acts. This is true for contractual liability. *Bash v. Culver Gold Mining Co.*, 7 Wash 122, 34 P 462 (1893); *Newsrack Supply, Inc. v. Heinle*, 127 Ga App 843, 195 SE2d 193 (1973); *Eustis v. Park-O-Lator Corp.*, 249 Or 194, 435 P2d 802, 437 P2d 734 (1968). It is also true for tort liability. *Fisk v. Leith*, 137 Or 459, 3 P2d 535 (1931); *Burns v. Veritas Oil Co.*, 230 SW 440 (Tex Ct Civ App 1921).

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A promoter is not the alter ego of the corporation to be formed. A promoter does not have any inherent power of agency.

The general rule obtains at law that corporations cannot be bound by acts done or promises made in their behalf before they came into existence. Until organized a corporation has no being, franchises, or faculties. Its promoters, or those engaged in bringing it into being, are in no sense identical with the corporation, nor do they represent it in any relation of agency, and they have no authority to enter into preliminary contracts binding the corporation, unless so authorized by the charter. (citations omitted) *Huson v. Portland & Southeastern Railway Co.*, 107 Or 187, 220, 211 P 897, 907, 213 P 408 (1923).

After incorporation, a corporation can become bound by the pre-incorporation acts of its promoters. It can do so by expressly assuming the liability or ratifying the promoter's acts. *French v. Gabriel*, 57 Wash App 217, 788 P2d 569 (1990); *Walnut Park Lumber & Coal Co. v. Roane*, 171 Wash 362, 17 P2d 896 (1933); *Stilwell v. Spokane Alarm Co.*, 66 Wash 703, 120 P 85 (1912). It can also become liable by accepting the benefits of the promoter's acts. *Scandinavian-American Bank v. Wentworth Lumber Co.*, 101 Or 151, 157, 199 P 624, 626 (1921).

Before incorporation, the appellant could not be a party to any agreement with respondents, and contracts of Harding as its promoter would not be binding upon it, unless it received the benefits arising therefrom and adopted the same. The jury evidently found that it did receive the benefits and did adopt the contract. After such adoption, the contract became that of the corporation, and it became liable. *Chilcott v. Washington State Colonization Co.*, 45 Wash 148, 153, 88 P 113, 115 (1906).

While courts often speak in terms of a corporation "ratifying" a promoter's act, one court has pointed out that this terminology is incorrect; that the proper terminology is that the promoter's act was "assumed" by the corporation.

It may be said, at the outset, that if the acceptance of the accessory purchase order and the issuance of the sequence allotment binds the corporation, it is because of an implied assumption of the Kraft contract, and not because of an implied ratification or adoption of such contract. Ratification presupposes a principal existing at the time of the agent's action.

Both ratification and adoption presuppose that the acts ratified or adopted were performed by one who purported to act on account of another.

When Spencer entered into the original contract with Kraft, and when he accepted the first two payments, the corporation was not in existence, and he was acting for himself individually. Hence his contract with Kraft was not capable of ratification or adoption by the corporation thereafter organized. It was, however, capable of being expressly or impliedly assumed by the corporation. (citations omitted) *Kraft v. Spencer Tucker Sales, Inc.*, 39 Wash 2d 943, 953-4, 239 P2d 563, 568-9 (1952).

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If after incorporation a corporation repudiates a promoter's contract, the corporation is not liable. *Mootz v. Spokane Racing & Fair Ass'n., Inc.*, 189 Wash 225, 64 P2d 516 (1937); *Skandinavia, Inc. v. Cormier*, 514 A2d 1250 (NH 1986).

If it assumes a contract, the corporation may bring a lawsuit to enforce its rights under that contract. *CMG Realty v. Colonnade One Ltd.*, 653 A2d 207 (Conn App 1995). It may do so by filing a lawsuit in its own name, without including the promoter as a party plaintiff. *Speedway Realty Co. v. Grasshoff Realty Corp.*, 248 Ind 6, 216 NE2d 845 (1966); *Huson v. Portland & Southeastern Railway Co.*, 107 Or 187, 220, 211 P 897, 907, 213 P 408 (1923).

Even if a corporation becomes liable for a promoter's act by assuming it, the promoter will usually continue to be liable as well. *Goodman v. Darden, Doman & Stafford Associates*, 100 Wash 2d 476, 670 P2d 648 (1983); *Shea v. State Farm Fire & Casualty Co.*, 198 Ga App 790, 403 SE2d 81 (1991); *Tolliver v. Mathas*, 538 NE2d 971 (Ind App 1989); *K & J Clayton Holding Corp. v. Keuffel & Esser Co.*, 113 NJ Super 50, 272 A2d 565 (1971).

The rules governing promoter liability are well settled. Ordinarily, a corporate promoter is personally liable on any contracts he or she makes for the benefit of a corporation not yet in existence. The subsequent organization of the corporation does not discharge the promoter from liability, unless the parties agree that his or her liability should cease at that time. Similarly, absent agreement of the parties, a promoter will not be discharged from contractual liability if the corporation subsequently adopts or ratifies his contract. A plaintiff can ordinarily, therefore, look to both the promoter and the corporation for compensation for a breach of the preincorporation contract. (footnote & citations omitted) *American Seamount Corp. v. Science and Engineering Associate, Inc.*, 61 Wash App 793, 798, 812 P2d 505, 508-9 (1991).

There is an exception. A promoter is not liable if, at the time of execution, the contacting party knew the corporation did not exist but nevertheless agreed to look only to the corporation for payment. *Coopers & Lybrand v. Fox*, 758 P2d 683, 685 (Colo App 1988); *Sherwood & Roberts-Oregon, Inc. v. Alexander*, 269 Or 389, 525 P2d 135 (1974). But a promoter's liability will depend upon the terms of the contract and the intent of the parties. "There is a strong inference that a person intends to make a contract with an existing entity, rather than the to-be-formed corporation." (citations omitted) *Molander v. Raugust-Mathwig, Inc.*, 44 Wash App 53, 58, 722 P2d 103, 107 (1986).

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Section 11.02 Contract Liability

A. Corporations may enter into contracts.

Every corporation has the power to enter into contracts, unless its articles of incorporation provide otherwise. RCW 23B.03.020(2)(g); *Hansen v. Columbia Breweries, Inc.*, 21 Wash 2d 53, 149 P2d 823 (1942). The power to contract "inheres in every corporation and is coextensive with its corporate powers." *The Portland Lumbering & Manufacturing Co. v. The City of East Portland*, 18 Or 21, 34, 22 P 536, 540 (1889)

A corporation may sue, or be sued, with respect to such contracts. RCW 23B.03.020(2)(a). A corporation may also be held liable under a theory of implied contract. *Simpson v. "U" District Office Building Corp.*, 70 Wash 2d 35, 422 P2d 1 (1967); *Hailey v. King County*, 21 Wash 2d 53, 149 P2d 823 (1944).

A corporation, being an artificial person, can only act through its officers and agents. *Opportunity Christian Church v. Washington Water Power Co.*, 136 Wash 2d 116, 238 P2d 641 (1925); *State v. Oregon City Elks Lodge No. 1189, BPO Elks*, 17 Or App 124, 520 P2d 900 (1974); *Guthridge v. Pen-Mod, Inc.*, 239 A2d 709 (Del Supr 1967).

Being a creation of the law - an artificial person - it can only act by agents who are its limbs or instrumentalities to effect the purpose for which it was organized, and to act for it, their act being the act of the corporation, exactly as the act of an individual in his act. *Killingsworth v. Portland Trust Co.*, 18 Or 351, 355, 23 P 66, 68 (1890).

To be bound by a contract, principles of agency require:

(1) that the person signing the instrument be an officer or agent of the corporation executing it, (2) that it be the free and voluntary act and deed of the corporation, and (3) that the person executing the instrument be authorized to execute it on behalf of the corporation. *Bradley Distributing Co. v. Seattle-First Nat. Bank*, 34 Wash 2d 63, 67, 208 P2d 141, 143 (1949).

An officer or other corporate agent may enter into an authorized contract on behalf of the corporation, his/her principal. Agency principles apply. The authority of the agent may be express, implied, inherent or apparent. See: Sections 6.06 and 6.07 of this book.

A corporation may use a corporate seal, but use of a seal is no longer required. RCW 23B.03.020(2)(b); *Bradley Distributing Co. v. Seattle-First Nat. Bank*, 34 Wash 2d 63, 67, 208 P2d 141, 143 (1949). Use of a corporate seal has become uncommon. See: Section 3.12 of this book.

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B. Ultra vires contracts.

Even if a corporation exceeds its powers in entering a contract, the corporation may not evade its obligations under the contract. RCW 23B.03.040(1). There are three exceptions to this general rule which are set out in RCW 23B.03.040:

- (2) A corporation's power to act may be challenged:
 - (a) In a proceeding by a shareholder against the corporation to enjoin the act;
 - (b) In a proceeding by the corporation, directly, derivatively, or through a receiver, trustee or other legal representative against an incumbent or former director, officer, employee or agent of the corporation;
 - (c) In a proceeding by the attorney general under RCW 23B.14.300.

Illegal acts differ from *ultra vires* acts. Illegal acts are void. *Field v. Hauptert*, 58 Or App 117, 647 P2d 952 (1982)(it was illegal, not *ultra vires*, for a corporation to repurchase its stock while insolvent).

Even if it does not observe all corporate formalities, a contract will be enforceable against a corporation if the other party relied thereon or if the corporation retained the benefits of the transaction. *Twisp Mining & Smelting Co. v. Chelan Mining Co.*, 16 Wash 2d 264, 133 P2d 300 (1943), *cert denied*, 320 US 705, *cert denied*, 320 US 716 (1944), *cert denied*, 325 US 837 (1945).

Like natural persons, corporations must be held to the observance of the recognized principles of common honesty and good faith, and these principles render the doctrine of *ultra vires* unavailing when its application would accomplish an unjust end, or result in the perpetration of a legal fraud. After a corporation has received the fruits which grow out of the performance of an act *ultra vires*, and the mischief has all been accomplished, it comes with an ill grace then to assert its want of power to do the act or make the contract,

in order to escape the performance of an obligation it has assumed. *Wright v. Hughes*, 119 Ind 324, 21 NE 907, 909 (1889).

Even if a corporation lacks the power to enter into a contract, the corporation may be liable to the other contracting party under a theory of implied contract or quantum meruit. *Simpson v. "U" District Office Building Corp.*, 70 Wash 2d 35, 422 P2d 1 (1967); *Gateway Cable T.V., Inc. v. Vikoa Construction Corp.*, 253 So2d 461 (Fla App 1971); *Dawn Memorial Park, Inc. v. Southern Cemetery Consultants of Georgia, Inc.*, 115 Ga App 180, 154 SE2d 258 (1967).

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Section 11.03 Tort Liability, Generally

Like any other person, a corporation is liable for its own tortious acts and for the tortious acts of its agents acting within the scope of their agency. *Velten v. Regis B. Lippert, Intercat, Inc.*, 985 F2d 1515 (11th Cir 1993); *Oregon Natural Resources Council, Inc.*, 659 F Supp 1441, 1449 (D Or 1987), *affirmed in part, vacated in part, reversed in part*, 834 F2d 842 (9th Cir 1987).

The defendant is a railroad corporation as its name imports and necessarily conducts its business through agents and servants. So that, upon whomsoever it devolved any of its personal duties as master, such as furnishing appliances, selection of competent servants, or of providing reasonable regulations for the safety of those in its service, or at the places in which they work, was an agent or representative of the company, and for any dereliction in the performance of such duties resulting in injury, the defendant is liable. *Wild v. Oregon Short Line, Ry. Co.*, 21 Or 159, 161, 27 P 954, 955 (1891).

The principles of agency generally apply to the relationship between a corporation and its officers, directors and agents. *Sons of Norway v. Boomer*, 10 Wash App 618, 519 P2d 28 (1974); *Deers, Inc. v. DeRuyter*, 9 Wash App 240, 511 P2d 1379 (1973); *Williams v. Queen Fisheries, Inc.*, 2 Wash App 691, 469 P2d 583 (1970).

The liability of an officer of a corporation for his own tort committed within the scope of his official duties is the same as the liability for tort of any other agent or servant. That the agent acts for his principal neither adds to nor subtracts from his liability.

* * *

Where the officer performs an act or a series of acts which would amount to conversion if he acted for himself alone, he is personally liable even though the acts were performed for the benefit of his principal and without profit to himself personally. (citations omitted) *Dodson v. Economy Equipment Co.*, 188 Wash 340, 343, 62 P2d 708, 709 (1936).

Unlike other persons, a corporation is an artificial being which can only act through its officers, employees, and agents. *Opportunity Christian Church v. Washington Water Power Co.*, 136 Wash 2d 116, 238 P2d 641 (1925); *Jeffers v. Weinger*, 132 Ill App 3d 877, 477 NE2d 1270 (1985); *Brimbau v. Ausdale Equipment Rental Corp.*, 440 A2d 1292 (RI 1982); *Guthridge v. Pen-Mod, Inc.*, 239 A2d 709 (Del Supr 1967). "A corporation is liable in the same way as a natural person for torts committed by its agents within the scope of their authority and course of employment." *Oregon Natural Resources Council, Inc. v. United States Forest Service*, 659 F Supp 1441, 1449 (D Or 1987), *affirmed in part, vacated in part, reversed in part*, 834 F2d 842 (9th Cir 1987).

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A corporation is liable for the acts of both its human agents and its corporate agents. *Mueller v. Seaboard Commercial Corp.*, 5 NJ 28, 73 A2d 905 (1950). When a subsidiary corporation is acting as an agent for its parent corporation, the parent is liable for its subsidiary's tortious conduct. *Elvalsons v. Industrial Covers, Inc.*, 269 Or 441, 525 P2d 105 (1974).

A. Master/servant & principal/agent distinguished.

Principles of master and servant and principles of principal and agent apply to corporations, just as they do to natural persons. Whether of not a corporation is liable for the acts of an agent will sometimes depend on whether principles of master/servant or principles of principal/agent apply.

Generally, whether the relationship is one of master/servant (employer/employee) or one of principal/independent contractor will turn on the issue of control.

It is well settled in this state that the ultimate test to be employed in determining whether a relationship is that of employer and employee or that of principal and independent contractor is to inquire whether or not the employer retained the right, or had the right under the contract, to control the manner of doing the work and the means by which the result was to be accomplished. *Fardig v. Reynolds*, 55 Wash 2d 540, 544, 348 P2d 661, 663 (1960).

See also: *Phillips v. Kaiser Aluminum*, 74 Wash App 741, 875 P2d 1228 (1994).

B. Corporate liability for act of employee.

"An employer is generally vicariously liable for the negligent acts of an employee conducted within the scope of employment." *Gilliam v. Department of Social & Health Services*, 89 Wash App 569, 584, 950 P2d 20, 28, review denied, 135 Wash 2d 1015, 960 P2d 937 (1998). Thus, if principles of master/servant apply, that is, if the corporate agent is an employee, then the corporation will be held vicariously liable for the tortious acts of its employee acting within the scope of the employment, even if the corporation's own conduct is not tortious. *Walters v. Gossett*, 148 Or App 548, 941 P2d 575 (1997).

The test is whether the employee was, at the time, engaged in the performance of the duties required of him by his contract of employment, or by the specific direction of his employer; or, as sometimes stated, whether he was engaged at the time in the furtherance of the employer's interest. (emphasis deleted) *Vollendorff v. United States*, 951 F2d 215, 218 (9th Cir 1991)(quoting *Greene v. St. Paul-Mercury Indemnity Co.*, 51 Wash 2d 569, 320 P2d 311 (1958)).

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In another decision, the court stated the test as follows:

Three requirements must be met to conclude that an employee was acting within the scope of employment. These requirements traditionally have been stated as: (1) whether the act occurred substantially within the time and space limits authorized by the employment; (2) whether the employee was motivated, at least partially, by a purpose to serve the employer; and (3) whether the act is of a kind which the employee was hired to perform. (citations omitted) *Chesterman v. Barmon*, 305 Or 439, 442, 753 P2d 404, 406 (1988).

Of course, if an employee/agent is acting outside the scope of the agent's authority or employment and, instead, is advancing the employee's own interest, the corporation is no more liable than would be a natural person. *Insurance Company of North America v. Hewitt-Robbins, Inc.*, 13 Ill App 3d 534, 301 NE2d 78 (1973).

The master who puts a servant in a place of trust is justly held responsible when the servant, through lack of judgment, infirmity of temper, or under the influence of passion aroused by the occasion, goes beyond the strict line of duty and inflicts an unjustifiable injury.

On the other hand, the master is not liable when a servant steps aside from the master's business in order to effect some purpose of his or her own; a supervisor's intentional actions directed toward a subordinate, occasioned solely by jealousy, hatred, or other ill feelings, are not, as a matter of law, within the scope of employment. (citations omitted) *Mason v. Kenyon Zero Storage*, 71 Wash App 5, 12-13, 856 P2d 410, 414-5 (1993).

In Washington, employers have a limited duty for the tortious acts of employees who are acting outside the scope of their employment.

Even where an employee is acting outside the scope of employment, the relationship between employer and employee gives rise to a limited duty, owed by an employer to foreseeable victims, to prevent the tasks, premises, or instrumentalities entrusted to an employee from endangering others. This duty gives rise to causes of action for negligent hiring, retention and supervision. Liability under these theories is analytically distinct and separate from vicarious liability. These causes of action are based on the theory that such negligence on the part of the employer is wrong to the injured party, entirely independent of the liability of the employer under the doctrine of respondeat superior. (citations & internal quotation marks deleted) *Niece v. Elmview Group Home*, 131 Wash App 39, 48, 929 P2d 420, 426 (1997).

See also: *Bratton v. Calkins*, 73 Wash App 492, 870 P2d 981 (1994).

In *Standard Fire Insurance Co. v. Blakeslee*, 54 Wash App 5, 771 P2d 1172 (1989), a patient sued both a professional corporation and its principal shareholder (a dentist) for sexual misconduct. An insurance policy covering both the shareholder/dentist and the corporation excluded the shareholder from coverage of his own acts. The court held that the

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conduct of a principal shareholder was sufficient to also exclude the corporation from insurance coverage. *See also: Pepper v. J.J. Welcome Construction Co.*, 73 Wash App 523, 871 P2d 601 (1994)(actions of shareholder could impose liability on corporation under alter ego theory).

C. Corporate liability for act of non-employee agent.

"Generally, a principal is not vicariously liable for the acts of an independent contractor." *Phillips v. Kaiser Aluminum*, 74 Wash App 741, 749, 875 P2d 1228, 1234 (1994). Generally, whether the relationship is one of master/servant (employer/employee) or one of principal/independent contractor will turn on the issue of control.

It is well settled in this state that the ultimate test to be employed in determining whether a relationship is that of employer and employee or that of principal and independent contractor is to inquire whether or not the employer retained the right, or had the right under the contract, to control the manner of doing the work and the means by which the result was to be accomplished. *Fardig v. Reynolds*, 55 Wash 2d 540, 544, 348 P2d 661, 663 (1960).

But control also comes into play in determining whether the corporation is liable for the tortious conduct of an independent contractor. *Mauch v. Kissling*, 56 Wash App 312, 783 P2d 601 (1989).

In passing, we observe that whether a relationship is one of principal and independent contractor is a question different from whether the principal owes a common law duty of care. The concept of control, however, affects both questions. Control can cause a relationship to involve master and servant rather than principal and independent contractor, thus creating the possibility of vicarious liability. The ultimate test in determining whether a relationship is that of employer and employee or that of principal and independent contractor is whether the employer retained the right to control the manner of doing the work and the means by which the result was to be accomplished. Additionally or alternatively, control can generate a common duty of ordinary care on the part of a principal, thus creating the possibility of direct liability. (citations & internal quotation marks deleted) *Phillips v. Kaiser Aluminum*, 74 Wash App 741, 749 n 23, 875 P2d 1228, 1234 (1994).

Other courts have also focused on the issue of control in determining whether a corporation is liable for the tortious acts of an independent contractor.

Plaintiff argues that the trial judge erred in taking the question of Housing's liability for the actions of its director, Sackett, from the jury. The trial judge apparently based his ruling on what he construed to be a lack of evidence of Housing's "right to control" the specific manner in which Sackett carried out her activities on behalf of Housing. *See, e.g., Soderback v. Townsend*, 57 Or App 366, 644 P2d 640 (1982). We agree.

Plaintiff makes no claim that the relationship between Housing and Sackett was that of master and servant; it is conceded that the relationship was one of principal and agent. Concerning the

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distinction between these two relationships, we said in *Stein v. Beta Rho Alumni Ass'n.*, 49 Or App 965, 972-73, 621 P2d 632 (1980):

"The distinction between principal and agent and master and servant is drawn in *Kowaleski v. Kowaleski*, 235 Or 454, 385 P2d 611 (1963), at 457:

* * * All servants are agents and all masters, principals. However, all principals and agents are not also masters and servants. The Comment to Section 250, 1 Restatement 2d 549-550, Agency, states the distinction as follows:

`A principal employing another to achieve a result but not controlling or having the right to control the details of his physical movements is not responsible for incidental negligence while such person is conducting the authorized transaction. Thus, the principal is not liable for the negligent physical conduct of an attorney, a broker, a factor, or a rental agent, as such. In their movements and their control of physical forces, they are in the relation of independent contractors to the principal. It is only when to the relation of principal and agent there is added that right to control physical details as to the manner of performance which is characteristic of the relation of master and servant that the person in whose service the act is done becomes subject to liability for the physical conduct of the actor. * * *"

"Thus the plaintiff must prove not only that an agency relationship existed between the defendant and the [agent], but also that the defendant had a right to control the physical details of the [agent's] actions as in the relationship of master and servant."

Applying the foregoing to the present case, plaintiff cannot establish Housing's liability merely by showing that Sackett was one of Housing's directors. That proves agency only; there must also exist a right to control. (emphasis omitted) *Norris v. Sackett*, 63 Or App 762, 764-5, 665 P2d 1262, 1263 (1983).

In contrast, control is not an important issue in the employer/employee context since the employer will usually be liable even if the employer did not control the particular employee act at issue. *Smith v. Hawks*, 182 Ga App 379, 384, 355 SE2d 669, 675 (1987), *cert denied, appeal after remand, Abbott v. Gill*, 197 Ga App 245, 398 SE2d 225 (1990).

Although earlier authorities sought to justify the *respondeat superior* doctrine on such theories as "control" by the master of the servant, the master's "privilege" in being permitted to employ another, the third party's innocence in comparison to the master's selection of the servant, or the master's "deep pocket" to pay for the loss, "the modern justification for vicarious liability is a rule of policy, a deliberate allocation of risk. The losses caused by the torts of employees, which as a practical matter are sure to occur in the conduct of the employer's enterprise, are placed upon that enterprise itself, as a required cost of doing business. They

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are placed upon the employer because, having engaged in an enterprise which will, on the basis of past experience, involve harm to others through the torts of employees, and sought to profit by it, it is just that he, rather than the innocent injured plaintiff, should bear them; and because he is better able to absorb them, and to distribute them, through prices, rates or liability insurance, to the public, and so to shift them to society, to the community at large."

* * *

Similarly, California cases have long recognized that the employer's responsibility for the torts of his employee extends beyond his actual or possible control of the servant to injuries which are "risks of the enterprise." *Hinton v. Westinghouse Electric Co.*, 2 Cal 3d 956, 88 Cal Rptr 188, 471 P2d 988, 990 (1970).

D. Act of promoters.

A corporation is generally not liable for the pre-incorporation torts of its promoters, unless the corporation subsequently ratifies the promoter's acts or accepts the benefit of those acts. *Fisk v. Leith*, 137 Or 459, 299 P 1013, 3 P2d 535 (1931); *Burns v. Veritas Oil Co.*, 230 SW 440 (Tex Ct Civ App 1921).

Section 11.04 Intentional Acts of Agents

As a general rule, a corporation is liable for the acts of its officers and agents when it is shown that such acts occurred in furtherance of the corporation's business or within the scope of an agent's authority. *Gilliam v. Department of Social & Health Services*, 89 Wash App 569, 584, 950 P2d 20, 28, review denied, 135 Wash 2d 1015, 960 P2d 937 (1998). On the other hand, a corporation is generally not liable for the acts of an agent who is acting outside the scope of the agency. *Simons v. Cissna*, 52 Wash 115, 100 P 200 (1909). Where an agent's intentional act is involved, the issue will generally hinge on whether the act was within the scope of the agent's duties. *Wheeler v. Green*, 286 Or 99, 593 P2d 777 (1979); *Bazal v. Belford Trucking Co., Inc.*, 442 F Supp 1089 (SD Fla 1977).

The master who puts a servant in a place of trust is justly held responsible when the servant, through lack of judgment, infirmity of temper, or under the influence of passion aroused by the occasion, goes beyond the strict line of duty and inflicts an unjustifiable injury.

On the other hand, the master is not liable when a servant steps aside from the master's business in order to effect some purpose of his or her own; a supervisor's intentional actions directed toward a subordinate, occasioned solely by jealousy, hatred, or other ill feelings, are not, as a matter of law, within the scope of employment. (citations omitted) *Mason v. Kenyon Zero Storage*, 71 Wash App 5, 12-13, 856 P2d 410, 414-5 (1993).

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A corporation may be liable for the libel and slander of its employees if those employees were acting within the scope of their employment. *Ecuyer v. New York Life Ins. Co.*, 107 Wash 411, 181 P 871 (1919); *Holden v. American News Co.*, 52 F Supp 24 (ED Wa 1943).

A corporation may be liable for the battery of an employee if the employee, or the person directing the conduct of the employee, had authority to remove a customer by force. *American Automobile Auction, Inc. v. Titsworth*, 292 Ark 452, 730 SW2d 499 (1987); *Paur v. Rose City Dodge, Inc.*, 249 Or 385, 438 P2d 994 (1968).

A corporation may be vicariously liable for the fraudulent statements of its employees, even though the corporation did not authorize the specific misrepresentation, provided that the "subject matters of those representations were of the sort which could reasonably be expected to be made." *Criqui v. Pearl Music Company, Inc.*, 41 Or App 511, 515, 599 P2d 1177, 1179 (1979). See also: *J & J Food Centers, Inc. v. Selig*, 76 Wash 2d 304, 456 P2d 691 (1969); *Hobson v. Union Oil Co. of California*, 187 Wash 1, 59 P2d 929 (1936).

Washington recognizes that a corporation may be held liable for the innocent material representations of its agents. *Kruger v. Redi-Brew Corp.*, 9 Wash App 322, 511 P2d 1405 (1973).

On the other hand, "current Washington law clearly rejects vicarious liability for intentional or criminal conduct outside the scope of employment." *Niece v. Elmview Group Home*, 131 Wash App 39, 56, 929 P2d 420, 429 (1997). Thus, the corporation will generally not be liable for sexual conduct of employees. *Bratton v. Calkins*, 73 Wash App 492, 870 P2d 981 (1994).

One Washington case held that a defendant corporation was not liable for the false imprisonment of a customer who was held as a shoplifter by the corporation's employee is a case where the corporation had only authorized certain other employees to detain shoplifters and the corporation did not ratify the offending employee's act. *Rogers v. Sears, Roebuck & Co.*, 48 Wash 2d 879, 297 P2d 250 (1956). See also: *Hayes v. Sears, Roebuck & Co.*, 34 Wash 2d 666, 209 P2d 468 (1949); *Wheatley v. Washington Jockey Club*, 39 Wash 2d 163, 234 P2d 878 (1951). Another decision held that corporate employees who enter into a conspiracy with employees of another corporation regarding the treatment of customers (passengers on ships) necessarily do so outside the scope of their employment. *Ransom v. Dollar S. S. Line*, 2 F Supp

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409 (WD Wa 1933). *But see: Associated Indemnity Corp. v. Del Guzzo*, 195 Wash 486, 81 P2d 516 (1938).

See also: Section 9.06 of this book.

Section 11.05 Liability after the Acquisition of Assets

A. General rule - purchasing corporation not liable for selling corporation's debts.

As a general rule, a corporation which purchases all of the assets of a selling corporation, but none of its liabilities, does not become liable for the debts of the selling corporation. *Eagle Pacific Insurance Co. v. Christensen Motor Yacht Corp.*, 135 Wash 2d 894, 959 P2d 1052 (1998); *Martin v. Abbott Laboratories*, 102 Wash 2d 581, 689 P2d 368 (1984); *Meisel v. M & N Modern Hydraulic Press Co.*, 97 Wash 2d 403, 645 P2d 689 (1982); *Mooney v. O. P. Mooney Co.*, 71 Wash 258, 128 P 225 (1912).

If one corporation purchases the assets of another and pays a fair consideration therefor, no liability for the debts of the selling corporation exists in the absence of fraud or agreement to assume the debts. The liability of a purchasing corporation is very similar to that of an individual. The corporation does not, merely by reason of the purchase, become liable for the debts of the selling corporation. There is no lien on the assets of a corporation in favor of creditors which will continue against bona fide purchasers of such assets for a valuable consideration. The purchasing corporation is not bound to see that the consideration passing is applied to the payment of debts of the selling corporation. *State ex rel Thompson v. City of Greencastle*, 111 Ind App 640, 40 NE2d 388, 394 (1942)(quoting 13 Am Jur Corporations, § 1238).

If a corporation acquires another corporation's assets together with its liabilities, the purchaser becomes liable for the liabilities acquired. *McGowen v. Pillsbury Co.*, 723 F Supp 530 (WD Wash 1989). If a corporation purchases all of another corporation's assets, but only *some* of its liabilities, the purchase usually becomes liable only for the liabilities specifically acquired. *Deers, Inc. v. DeRuyter*, 9 Wash App 240, 511 P2d 1379 (1973); *Howard v. Apac-Georgia, Inc.*, 192 Ga App 49, 383 SE2d 617 (1989).

The underlying basis for this rule is that a bona fide corporate purchaser receives the traditional protections of any purchaser of an asset. A traditional purchaser acquires an asset free from any third party claim provided the purchaser pays adequate consideration and purchases free from notice of any adverse claims.

The basis of this traditional corporate law doctrine is that a sale of corporate assets transfers an interest separable from the corporate entity and does not result in a transfer of unbargained-for liabilities from the seller to the purchaser. Rather, the purchasing corporation receives

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the protection traditionally accorded any purchaser of property: the bona fide purchaser who gives adequate consideration and who lacks notice of prior claims against the property acquires no liability for those claims. (citations omitted) *Hall v. Armstrong Cork, Inc.*, 103 Wash 2d 258, 262, 692 P2d 787, 790 (1984).

The general rule may apply even if the purchasing corporation voluntarily pays some of the old corporate debts. *Uni-Com Northwest, Ltd. v. Argus Publishing Co.*, 47 Wash App 787, 737 P2d 304, reviewed denied, 108 Wash 2d 1032 (1987).

B. Five exceptions.

There are five exceptions to the general rule, four of which are well-recognized. The first four exceptions apply where:

(1) the purchaser expressly or impliedly agrees to assume liability; (2) the purchase is a de facto consolidation or merger; (3) the purchaser is a mere continuation of the seller; or (4) the transfer of assets is for the fraudulent purpose of escaping liability. *Western Washington Laborers-Employers Health & Security Trust Fund v. Harold Jordan Company, Inc.*, 52 Wash App 387, 394, 760 P2d 382, 387 (1988).

See also: *Eagle Pacific Insurance Co. v. Christensen Motor Yacht Corp.*, 135 Wash 2d 894, 959 P2d 1052 (1998); *Hall v. Armstrong Cork, Inc.*, 103 Wash 2d 258, 692 P2d 787 (1984).

The fifth exception, accepted in Washington and a minority of states, is called the "product line" exception. It was developed to address the particular circumstances present in product liability litigation. *George v. Parke-Davis*, 107 Wash 2d 584, 588, 733 P2d 507, 510 (1987); *Martin v. Abbott Laboratories*, 102 Wash 2d 581, 689 P2d 368 (1984).

If one of these five exceptions applies, liability may be imposed on the purchasing corporation regardless of the exact form of the asset transfer. *Eagle Pacific Insurance Co. v. Christensen Motor Yacht Corp.*, 135 Wash 2d 894, 959 P2d 1052 (1998); *Stoumos v. Kilimnik*, 988 F2d 949, 961 (9th Cir 1993) (applying Washington law). Under some circumstances, insurance coverage for such liability may transfer as well. *Unigard Insurance Co. v. Leven*, 97 Wash App 417, ___ P2d ___ (1999).

C. Express agreement exception.

The first exception is obvious. If an acquiring corporation expressly agrees to be liable for a selling corporation's debts, the acquiring corporation is liable as agreed. *Harbison v. Garden Valley Outfitters, Inc.*, 69 Wash App 590, 849 P2d 669 (1993); *Martin v. Abbott Laboratories*, 102 Wash 2d 581, 689 P2d 368 (1984); *Olympia Nat. Bank v. Murphy Motor Car Co.*, 116 Wash 695, 200 P 577 (1921).

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D. De facto merger exception.

In a merger or consolidation, a surviving corporation is liable for the debts of the nonsurviving corporation. RCW 23B.11.060(1)(c); *Nike, Inc. v. Spencer*, 75 Or App 362, 707 P2d 589 (1985); *Lamb v. Leroy Corp.*, 85 Nev 276, 454 P2d 24 (1969). The surviving corporation also possesses all rights, privileges, and franchises possessed by each of the merged corporations. *Diamond Parking, Inc. v. Seattle*, 78 Wash 2d 778, 479 P2d 47 (1971); *All Brand Importers, Inc. v. Department of Liquor Control*, 213 Conn 184, 567 A2d 1156 (1989); *Knightstown Lake Property Owners Association, Inc. v. Big Blue River Conservancy District*, 178 Ind App 463, 383 NE2d 361 (1978).

While some corporate transactions are not technically a merger, some transactions so resemble a merger that courts will treat them as a *de facto* merger and make the surviving corporations liable for the debts of the nonsurviving corporations. A *de facto* merger is deemed to have occurred if:

- (1) There is a continuation of the enterprise of the seller corporation, so that there is a continuity of management, personnel, physical location, assets, and general business operations.
- (2) There is a continuity of shareholders which results from the purchasing corporation paying for the acquired assets with shares of its own stock, this stock ultimately coming to be held by the shareholders of the seller corporation so that they become a constituent part of the purchasing corporation.
- (3) The Seller corporation ceases its ordinary business operations, liquidates, and dissolves as soon as legally and practically possible.
- (4) The purchasing corporation assumes those liabilities and obligations of the seller ordinarily necessary for the uninterrupted continuation of normal business operations of the seller corporation. (citations & footnotes omitted) *Shannon v. Samuel Langston Co.*, 379 F Supp 797, 801 (WD Mich 1974).

See also: *Bud Antle, Inc. v. Eastern Foods, Inc.*, 758 F2d 1451, 1457-8 (11th Cir), *rehearing denied*, 765 F2d 154 (11th Cir 1985); *Keller v. Clark Equipment Co.*, 715 F2d 1280, 1291 (8th Cir 1983), *cert denied*, 464 US 713 (1984).

For the *de facto* merger exception to apply in connection with the sale of assets, the selling corporation must receive shares of the purchasing corporation, rather than cash. *Fox v. Sunmaster Products, Inc.*, 63 Wash App 561, 821 P2d 502 (1991), *review denied*, 118 Wash 2d 1029, 828 P2d 563 (1992); *Cashar v. Redford*, 28 Wash App 394, 624 P2d 194 (1981).

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E. Continuation exception.

An acquiring corporation will be liable for the debts of a selling corporation if it is deemed to be a "continuation" of the selling corporation. This occurs if the two corporations are essentially the same the same entity. *Uni-Com Northwest, Ltd. v. Argus Publishing Co.*, 47 Wash App 787, 737 P2d 304, *reviewed denied*, 108 Wash 2d 1032 (1987); *Portland Section of the Council of Jewish Women v. Sisters of Charity of Providence in Oregon*, 266 Or 448, 513 P2d 1183 (1973).

The mere continuation theory is designed to prevent the corporation from escaping liability by merely changing hats. Washington courts have indicated that to prevail on the theory of "mere continuation", proof of at least two elements is required. The first element is a common identity of the officers, directors, and stockholders in the selling and purchasing companies. The second element is the sufficiency of the consideration running to the seller corporation in light of the assets being sold.

* * * *

[A] transfer of all or substantially all of the predecessor corporation's assets is an implied element of the mere continuation theory. (citations & internal quotation marks omitted) *Gall Landau Young Construction Company, Inc. v. Hedreen*, 63 Wash App 91, 96-7, 816 P2d 762, 765-6 (1991), *review denied*, 118 Wash 2d 1022 (1992).

Another division of the Court of Appeals declined to follow the three-prong *Hedreen* test, stating:

[Defendant] contends that the proper test for determining whether the buyer is a mere continuation is the "two out of three elements" test from [*Hedreen*]. In *Hedreen*, another division of this court adopted an additional third element: whether the seller transferred substantially all of its assets. Under *Hedreen*, the buyer is a mere continuation when two of the three elements are satisfied.

We decline to adopt *Hedreen's* two out of three elements test for two reasons. First, the traditional two-factor test allows trial courts more discretion in applying the mere continuation exception. Second, whether the seller transferred substantially all of its assets is more properly considered under the fraudulent purpose exception discussed below. *Eagle Pacific Insurance Co. v. Christensen Motor Yacht Corp.*, 85 Wash App 695, 706 n 1, 934 P2d 715, 721 (1997), *affirmed in part, reversed in part on other grounds*, 135 Wash 2d 894, 959 P2d 1052 (1998).

See also: Seipp v. Stetson Ross Machine Co., 32 Wash App 224, 227, 646 P2d 783, 785 (1982).

Even though some of the officers of the selling and purchasing corporations are the same, this is insufficient to apply the continuation exception, unless there is a "common identity" between the managements of the two entities. *Long v. Home Health Serv. of Puget Sound, Inc.*, 43 Wash App 729, 719 P2d 176, *review denied*, 106 Wash 2d 1012 (1986);

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Cashar v. Redford, 28 Wash App 394, 624 P2d 194 (1981).

F. Fraud exception.

Successor liability may also be imposed where a corporation transfers its assets to another entity for the fraudulent purpose of escaping liability. *Hall v. Armstrong Cork, Inc.*, 103 Wash 2d 258, 692 P2d 787 (1984). The fraud exception may apply where the corporate assets are sold for inadequate consideration or where the transfer is fraudulent. *Eagle Pacific Insurance Co. v. Christensen Motor Yacht Corp.*, 135 Wash 2d 894, 959 P2d 1052 (1998). A bad faith transfer can be fraudulent even though the consideration paid for the assets is adequate.

The fraudulent transfer theory has always required consideration *and* good faith. . . Numerous factors may be relevant when determining good faith. The common ownership of the buying and selling corporations casts a suspicion on the transactions. . . A corporation's purchase of another corporation's assets is more likely to be an arm's-length transaction when there is no common identity between the corporations and individuals involved.

Good faith, or the lack thereof, ultimately rests upon the intent of the parties involved in the transaction. Transferring assets to another corporation to hinder or delay creditors is by definition a fraudulent transfer. *Eagle Pacific Insurance Co. v. Christensen Motor Yacht Corp.*, 135 Wash 2d 894, 909-10, 959 P2d 1052, 1059 (1998).

Thus, an acquiring corporation will be liable for the debts of a selling corporation if the transaction was entered into fraudulently in order to permit the selling corporation to defraud its creditors and to escape liability for its debts. *Allen v. Meinig*, 109 Or App 341, 819 P2d 744 (1991), *review denied*, 313 Or 209, 830 P2d 595 (1992); *Peterson v. Harville*, 445 F Supp 16, 24 (D Or 1977).

For example, one federal trial court imposed successor liability after finding the transaction "was designed for the improper purpose of escaping asbestos-related liabilities," holding that the corporation "should not be allowed to avoid liability by transferring its profitable assets leaving no more than a corporate shell unable to satisfy its asbestos-related obligations." *Schmoll v. ACandS, Inc.*, 703 F Supp 868, 872 (D Or 1988), *affirmed*, 977 F2d 499 (9th Cir 1992).

G. Product line exception.

The "product line" exception is a fifth exception to the general rule, one which is less well recognized. This exception is sometimes applied in product liability litigation to impose liability on an acquiring corporation.

The product line exception was first articulated in *Ray v. Alad Corp.*, 19 Cal 3d 22, 560 P2d 3, 136 Cal Rptr 574 (1977) and adopted in

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Washington in *Martin v. Abbott Laboratories*, 102 Wash 2d 581, 689 P2d 368 (1984).

The product line exception requires three factors to be established in order to find liability. First, the transferee must acquire substantially all of the transferor's assets, leaving no more than a corporate shell remaining. Secondly, the transferee must hold itself out to the public as a continuation of the transferor, and must do so by producing the same product line under a similar name. Finally, the transferee corporation must benefit from the goodwill of the transferor. *George v. Parke-Davis*, 107 Wash 2d 584, 588, 733 P2d 507, 510 (1987).

See also: Long v. Home Health Serv. of Puget Sound, Inc., 43 Wash App 729, 719 P2d 176, *review denied*, 106 Wash 2d 1012 (1986); *Hall v. Armstrong Cork, Inc.*, 103 Wash 2d 258, 262, 692 P2d 787 (1984).

The product line exception requires that the purchasing corporation continue to manufacture the particular product for which liability is sought to be imposed. *George v. Parke-Davis*, 107 Wash 2d 584, 733 P2d 507 (1987).

Most states have rejected the product line exception. *Western Helicopter Services, Inc. v. Rogerson Aircraft Corp.*, 728 F Supp 1506 (D Or 1990).

Additional discussion of the product line exception appears in Manlowe, Note, *Successor Liability in Washington: Product Liability*, 6 U PUGET SOUND L REV 323 (1983); *Lucas v. Dorsey Corp.*, 609 NE2d 1191 (Ind App 1993); Phillips, *Successor Corporation Products Liability: Six or More Characters in Search of an Author*, 67 WASH UNIV L Q 335 (1989); *Corporations - Products Liability - Expansion of Successor Corporation Liability Through the Continuity of Enterprise Theory*, 55 MISS L J 413 (1985); Lenard, *Product Liability of Successor Corporations: A Policy Analysis*, 58 IND L J 677 (1983).

H. Rights of creditors if exception applies.

If one of the five exceptions to the general rule applies, a creditor is entitled to judgment against both the selling corporation and the acquiring corporation on the debt, but is entitled to only one complete satisfaction. *Erickson v. Grande Ronde Lumber Co.*, 162 Or 556, 92 P2d 170, 94 P2d 139 (1939). *See also: Crown Controls, Inc. v. Smiley*, 110 Wash 2d 695, 706, 756 P2d 717, 722 (1988)(discussing joint and several liability in the principal and agent context).

It is less clear whether the amount of any such judgment against the purchasing corporation is limited by the value of the assets purchased, or whether the purchasing corporation may be required to pay an amount

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in excess of the value of those assets.

Clearly, if the purchasing corporation expressly agrees to be liable for all liabilities of the selling corporation, it is responsible for all such liabilities, regardless of whether such liabilities exceed the assets acquired.

The result is less clear, however, if the contract expressly states that the purchaser is not acquiring the seller's liabilities, but the court nevertheless imposed liability. Some cases limit recovery to the value of the assets received. *Nelson v. Pampered Beef-Midwest, Inc.*, 298 NW2d 281 (Iowa 1980); *Kinsella v. Marquette-Easton Finance Corp.*, 28 SW2d 427 (Mo App 1930). Others permit a recovery of the full amount of the debt. *Jackson v. Diamond T. Trucking Co.*, 100 NJ Super 186, 241 A2d 471 (1968).

A discussion of this topic appears in 15 FLETCHER CYC CORP § 7129 (Perm Ed 1999).

I. Related issues - fraudulent conveyance & theory of corporate disregard.

If the consideration given in exchange for a seller's assets is insufficient, the fraudulent transfer statutes may also apply. RCW 19.40 *et seq.*; *Tacoma Association of Credit Men v. Lester*, 72 Wash 2d 453, 433 P2d 901 (1967); *Allen v. Meinig*, 109 Or App 341, 819 P2d 744 (1991), *review denied*, 313 Or 209, 830 P2d 595 (1992).

If just prior to, or after, insolvency, corporate assets are transferred to officers, directors, or shareholders for inadequate consideration, a court may disregard the corporate form and impose corporate liabilities on the person or persons receiving the assets. The theory of corporate disregard is discussed in more detail in Chapter Ten of this book.

Section 11.06 Liability after Mergers

In a merger, the surviving corporation becomes liable on all obligations of each corporation which is a party to the merger. *Nike, Inc. v. Spencer*, 75 Or App 362, 707 P2d 589 (1985); *Gaswint v. Case*, 265 Or 248, 509 P2d 19 (1973); *Lamb v. Leroy Corp.*, 85 Nev 276, 454 P2d 24 (1969).

(1) When a merger takes effect:

(c) The surviving corporation has all liabilities of each corporation to the merger. RCW 23B.11.060.

A surviving corporation possesses all rights, privileges, and franchises possessed by each of the merged corporations. *Diamond*

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Parking, Inc. v. Seattle, 78 Wash 2d 778, 479 P2d 47 (1971); *All Brand Importers, Inc. v. Department of Liquor Control*, 213 Conn 184, 567 A2d 1156 (1989); *Knightstown Lake Property Owners Association, Inc. v. Big Blue River Conservancy District*, 178 Ind App 463, 383 NE2d 361 (1978). An exception may exist, however, where a competing state statute requires state approval of the holder of a license. *State ex rel Don Williams Export, Inc. v. Timm*, 78 Wash 2d 520, 477 P2d 15 (1970)(transfer of common carrier permit to surviving corporation required state approval). But the same is not true where a city ordinance requires approval. *Diamond Parking, Inc. v. Seattle*, 78 Wash 2d 778, 479 P2d 47 (1971).

If a lawsuit is pending against a corporation which is merged into another corporation, upon motion by a party, the court may substitute the surviving corporation in place of the nonsurviving corporation. Alternatively, in its discretion, the court may continue the action against the nonsurviving corporation. RCW 25.10.830; *Lloyd Enterprises, Inc. v. Longview Plumbing & Heating Co.*, 91 Wash App 697, 958 P2d 1035 (1999).

If a transaction constitutes a *de facto* merger, the liabilities of the old corporation will also follow its assets into the acquiring corporation. A *de facto* merger occurs when:

- (1) There is a continuation of the enterprise of the seller corporation, so that there is a continuity of management, personnel, physical location, assets, and general business operations.
- (2) There is a continuity of shareholders which results from the purchasing corporation paying for the acquired assets with shares of its own stock, this stock ultimately coming to be held by the shareholders of the seller corporation so that they become a constituent part of the purchasing corporation.
- (3) The Seller corporation ceases its ordinary business operations, liquidates, and dissolves as soon as legally and practically possible.
- (4) The purchasing corporation assumes those liabilities and obligations of the seller ordinarily necessary for the uninterrupted continuation of normal business operations of the seller corporation. (citations & footnotes omitted) *Shannon v. Samuel Langston Co.*, 379 F Supp 797, 801 (WD Mich 1974).

See also: Bud Antle, Inc. v. Eastern Foods, Inc., 758 F2d 1451, 1457-8 (11th Cir), *rehearing denied*, 765 F2d 154 (11th Cir 1985); *Keller v. Clark Equipment Co.*, 715 F2d 1280, 1291 (8th Cir 1983), *cert denied*, 464 US 713 (1984).

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For the *de facto* merger exception to apply in connection with the sale of assets, the selling corporation must receive shares of the purchasing corporation, rather than cash. *Fox v. Sunmaster Products, Inc.*, 63 Wash App 561, 821 P2d 502 (1991), *review denied*, 118 Wash 2d 1029, 828 P2d 563 (1992); *Cashar v. Redford*, 28 Wash App 394, 624 P2d 194 (1981).

A discussion of mergers appears in Section 12.02 of this book.

Section 11.07 Criminal Responsibility

At early common law, a corporation could not be prosecuted for a crime. *Vaughan & Sons, Inc. v. State*, 737 SW2d 805 (Tex Cr App 1987); *State v. Adjustment Department Credit Bureau, Inc.*, 94 Idaho 156, 483 P2d 687 (1971); *State v. Pacific Powder Co.*, 226 Or 502, 360 P2d 530 (1961); 10 FLETCHER CYC CORP § 4942 (Perm Ed 1993).

But by the turn of the last century, courts recognized that a corporation is capable of committing a crime defined and made punishable by statute. *State v. Paggett*, 8 Wash 579, 36 P 487 (1894); *State v. Truax*, 130 Wash 69, 226 P 259 (1924); *State v. Adjustment Department Credit Bureau, Inc.*, 94 Idaho 156, 483 P2d 687 (1971).

Some early cases held that a corporation could be prosecuted only if the legislature specifically so provided. *State v. Terre Haute Brewing Co.*, 186 Ind 248, 115 NE 772 (1917). Other early cases held that a corporation could not be convicted of a crime carrying penalties of death or imprisonment, but could be convicted of a crime carrying the penalty of a fine.

At common law a corporation was not indictable for a felony or a misdemeanor, but this rule has been modified, and the general rule now is that a corporation cannot be indicted for a crime where the penalty imposed by statute is death or imprisonment, but where a fine may be imposed upon a corporation it is subject to criminal prosecution. Even where the penalty provided is fine or imprisonment, or both, in the discretion of the court, a corporation is not immune from criminal prosecution and may suffer the penalty of fine. (citations omitted) *People v. Strong*, 363 Ill 602, 2 NE2d 942, 944 (1936).

Today in some states, a court may even sentence a corporation to jail, but may suspend the sentence and instead impose a fine. *State v. Sheherd Construction Company, Inc.*, 248 Ga 3, 281 SE2d 151, *cert denied*, 454 US 1055 (1981).

As a general rule, a corporation may be held criminally liable for the acts of its employees only when those acts occur during the scope of the employee's authority and responsibility.

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the quantum of proof necessary to sustain the conviction of a corporation for the acts of its agents is sufficiently met if it is shown that the corporation has placed the agent in a position where he has enough authority and responsibility to act for and in behalf of the corporation in handling the *particular* corporate business, operation or project in which he was engaged at the time he committed the criminal act. (emphasis in original) *Commonwealth v. Beneficial Finance Co.*, 360 Mass 188, 275 NE2d 33, 86 (1971).

On the other hand, Congress may constitutionally enact a criminal statute under which a corporation may be convicted for the acts of its agent, even if that conduct was not "within the agent's actual authority, and even though it may have been contrary to express instructions." *United States v. Hilton Hotels Corp.*, 467 F2d 1000, 1004 (9th Cir), *cert denied*, 409 US 1125 (1972). See also: *United States v. Wilson*, 59 F2d 97 (WD Wa 1932). A statute may be enacted which makes a corporation criminally liable for acts of a "managerial official" of the corporation. *Military Circle Pet Center No. 94, Inc. v. State*, 181 Ga App 657, 353 SE2d 555 (1987).

If proof of a crime requires proof that the corporation had actual knowledge of some fact, knowledge of an officer or director may be imputed to the corporation. *J.M.S. Farms, Inc. v. Department of Wildlife*, 68 Wash App 150, 842 P2d 489 (1992).

Most states "have refused to extend corporate responsibility to crimes `involving personal violence and specifically, homicide or manslaughter,'" unless it is clear that the legislature intended such a result. *State v. Pacific Powder Co.*, 226 Or 502, 505, 360 P2d 530, 531 (1961).

In addition to the corporation, its officers may be held criminally responsible for an unlawful corporate act in which they were involved. *State v. Thomas*, 123 Wash 299, 212 P 253 (1923); *Dodson v. Economy Equipment Co.*, 188 Wash 340, 62 P2d 708 (1936); *State v. Paggett*, 8 Wash 579, 36 P 487 (1894); *State v. Baker*, 48 Or App 999, 618 P2d 997 (1980). Likewise, an officer who participates in wrongful conduct, or knowingly approves of wrongful conduct, may be liable for penalties in civil action brought by the state. *State v. WWJ Corp.*, 88 Wash App 167, 941 P2d 717 (1997); *State v. Ralph Williams' North West Chrysler Plymouth, Inc.*, 87 Wash 2d 298, 553 P2d 423 (1976).

There is no language in the statute which exempts from its operation a person who shall obtain money or property with fraudulent intent by means of a check which he draws or makes in a representative capacity. If he draws the check as the representative or officer of a corporation, he

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is none less the maker or drawer within the contemplation of this statute, and the fraud which the statute is designed to prevent is personal to him. There is no doctrine of agency in the criminal law which will permit an officer of a corporation to shield himself from criminal responsibility for his own act on the ground that it was the act of the corporation and not his personal act. *State v. Cooley*, 141 Tenn 33, 206 SW 182, 184 (1918).

An officer would not be criminally liable, however, if the criminal offense is such that only the corporation falls within its terms. *State v. Lyon*, 175 Wash 199, 27 P2d 131 (1933)(failure to report and pay excise tax).

A corporation may be convicted of a crime, even though the crime occurred before a change in ownership of that corporation. *United States v. Rogers*, 624 F2d 1303 (5th Cir 1980). The prosecution of a corporation does not abate merely because the corporation dissolves. *People v. Pymm Thermometer Corp.*, 188 AD2d 560, 591 NYS2d 459 (1995).