

Corporate & Financial Weekly Digest

Posted at 11:12 AM on April 22, 2011 by [Bruce M. Sabados](#)

Kansas District Court Rejects "Reverse Alter Ego" Liability Theory

Co-authored by [Elizabeth D. Langdale](#)

Plaintiffs entered into a Funding Agreement with defendant Gary Hall that directed the parties to create lending entities to facilitate real estate investments. The Funding Agreement provided that the parties would divide profits received by the lending entities. Defendant Bentley Investments of Nevada LLC was a lending entity Mr. Hall created pursuant to the Funding Agreement. Plaintiffs asserted that defendants failed to advance the profits contractually allocated to them, and thereby breached the Funding Agreement.

Defendant Bentley moved to dismiss plaintiffs' complaint on the basis that it failed to plead a breach of contract claim, because Bentley was not a party to the Funding Agreement. Plaintiffs contended that Bentley should be held liable under a "reverse alter ego theory" because it was responsible for Mr. Hall's breaches.

The U.S. District Court for the District of Kansas granted defendants' motion to dismiss, rejecting plaintiffs' argument that Bentley was liable on a reverse alter ego liability theory. Citing Tenth Circuit precedent, the district court noted that absent a clear statement under state law that reverse alter ego liability is appropriate, federal courts should not hold a corporation liable for the acts of an individual. Because Kansas has not clearly adopted reverse alter ego liability, plaintiffs could not predicate a claim on this theory to hold defendant Bentley liable. (*Bettis v. Hall*, No. 10-2457-JAR, 2011 WL 1430327 (D. Kan. Apr. 14, 2011))

Katten Muchin Rosenman LLP
Charlotte Chicago Irving London Los Angeles New York Washington, DC