

Client Alert.

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United States Supreme Court Clarifies Test for Corporate Citizenship for Purposes of Federal Diversity Jurisdiction

By Alexei Klestoff

On February 23, 2010, the United States Supreme Court resolved a split in the lower courts regarding the appropriate test to determine a corporation's "principal place of business" for purposes of federal diversity jurisdiction. *The Hertz Corp. v. Friend*, No. 08-1107 (U.S. 2010).

A corporation's principal place of business is its "nerve center." The federal diversity jurisdiction statute, 28 U.S.C. § 1332(c)(1), states that a corporation is deemed a citizen of "any state by which it has been incorporated" and "of the State where it has its *principal place of business*." Federal courts have applied different tests to determine a corporation's principal place of business. For example, under the law of the Ninth Circuit, a corporation's principal place of business was determined by the amount of business the company did state by state. If the corporation did significantly more business in one state, that state was considered its principal place of business. If there was no such state, then the court was to look to the state where the majority of its executive and administrative functions were performed (its "nerve center").

The district court applied this test in *Hertz* and concluded that Hertz's principal place of business was California because the "plurality of each of [Hertz's] relevant business activities" was in that state, despite the fact that its headquarters was in New Jersey. The Ninth Circuit affirmed.

The United States Supreme Court vacated the Ninth Circuit's judgment and remanded the case to the district court. Stressing the need for administrative simplicity, the Court unanimously held that a corporation's principal place of business is the place where "the corporation's high level officers direct, control, and coordinate the corporation's activities," in other words, the corporation's "nerve center." The Court further stated that in most cases, the "nerve center" will be the corporation's headquarters.

The Court's ruling is important because it will likely allow more suits to be tried in federal courts, and potentially limits the ability of plaintiffs to choose favorable state forums merely because the defendant corporation does most of its business there.

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