



# Supreme Court Says Principal Place of Business is Where a Company's Headquarters is Located

A unanimous United Supreme Court ruled today that a corporation's principal place of business is where the company's executives work and direct the company's business activities, not where the company's products are sold. This is yet another reversal of an important Ninth Circuit Court of Appeals ruling.

In a victory for business entities, the ruling will make it harder to sue out-of-state corporations in state courts, which are considered friendlier to class-action lawsuits than are federal courts.

The circuit courts have been divided into a deep four-way split regarding the tests to be applied in locating a corporation's principal (most important, consequential or influential) place of business for purposes of diversity jurisdiction in federal court. These tests ranged from the

Seventh Circuit's "nerve center test," which focused on locating the corporation's "brain," and ignores all other business operations as irrelevant, to the Ninth Circuit's "place of operations test," which focused on the locations of the corporation's business operations, while generally ignoring its nerve center. Unlike either of these tests, the Third Circuit's "center of corporate activities test" focused on finding the center of day-to-day corporate-wide activity and management, with the locations of other business activities being relevant, but less important, factors. Finally, the Fifth, Sixth, Eighth, Tenth and Eleventh Circuits' "totality of the circumstances test" hinged on no particular facet of corporate activities, but rather on the company as a whole, including its character, business purpose, nerve center, management center and locations of operations. The Court today adopted the "nerve center" test.

In [Hertz v. Friend, U.S. \(2010\)](#), plaintiffs brought a class action suit against Hertz in a California state court seeking unpaid overtime and vacation wages. Hertz moved to remove the case to a California federal district court based on diversity jurisdiction. The plaintiffs argued that there was no diversity jurisdiction as Hertz's principal place of business was California and not Florida. The federal district court agreed and remanded the case to the state court. On appeal, the Ninth Circuit affirmed the federal district court. It held that the district court correctly applied the "place of operations test" to determine Hertz's principal place of business. Therefore, there was no diversity jurisdiction and the district court had no authority over the case.



The Supreme Court overturned that decision, sending the case back to federal court:

*"We conclude that the phrase 'principal place of business' refers to the place where the corporation's high level officers direct, control and coordinate the corporation's activities," Justice Stephen Breyer wrote. "Lower federal courts have often metaphorically called that place the corporation's 'nerve center.' We believe that the 'nerve center' will typically be found at a corporation's headquarters."*

Given an important recent pro-plaintiff ruling on class certification in a California UCL case and some recent unfavorable rulings in the California courts, the federal courts may not be so bad for class action plaintiffs after all.



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