

Finding a corporation's home when it comes to federal diversity jurisdiction just got simpler.

In a February 23, 2010 case, *Hertz Corp. v. Friend*, the United States Supreme Court took up the issue of forming a simpler test to determine a corporation's citizenship for purposes of diversity jurisdiction. The diversity jurisdiction statute states "a corporation shall be deemed to be a citizen of any State by which it has been incorporated *and of the State where it has its principal place of business.*" 28 U.S.C. § 1332(c)(1) (emphasis added). Prior to this case, there was not a uniform interpretation used among the federal courts to determine this issue of corporate state citizenship.

The Supreme Court wanted the issue of corporate citizenship relating to diversity jurisdiction to remain as simple as possible. Since some federal circuit courts had been referring to the "nerve center" of a corporation as its principal place of business, the court decided that the "nerve center" should normally be the place where the corporation maintains its headquarters, provided that the headquarters is the actual center of direction, control, and coordination. Thus, where the corporation's officers direct, control and coordinate the corporation's activities, there will the corporation's citizenship be also.

As simple as the test seems, there are some caveats that the court put on the test. It will not be satisfied by simply having an office where the company's board meetings are held, or by listing an office as the "principal executive office" in the corporation's 10-K or any similar form or filing. Courts will have to make a determination regarding the center of direction, control and coordination of the corporation. Additionally, since the court also held that a "place" is a single location, there will no longer be, in most cases, any need to make a long and involved determination of the total amount of business activities a corporation conducts in any number of states to ascertain which state holds the corporation's principal place of business.

The holding of this case is significant for both corporations and those wishing to engage in litigation with corporations in federal court. It should simplify the question of diversity jurisdiction, and remove the tedious and sometimes costly determination of how much business does a corporation do in any given state, while removing an avenue for corporations to attempt to avoid being sued in state courts through creative accounting methods. It will also remove the tendency to place corporations as citizens of more populous states (where they may do more business on financial measures) and place them as citizens of the state in which they actually run their business.

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