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February 2010

BUSINESS LITIGATION UPDATE

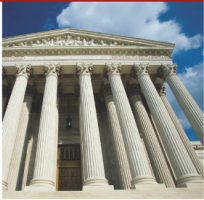
Supreme Court Establishes “Nerve Center” as a Corporation’s “Principal Place of Business” for Purposes of Diversity Jurisdiction

Business lawyers and their national corporate clients know well how costly and complicated litigation can be over the “citizenship” of an entity. In a unanimous decision, the U.S. Supreme Court held on February 23 in *Hertz Corp. v. Friend* that the phrase “principal place of business” in the diversity jurisdiction provisions of 28 U.S.C. §1332(c)(1) refers to the “nerve center” of a corporation, *i.e.*, the “place where the corporation’s high level officers direct, control, and coordinate the corporation’s activities.” This decision provides a single, uniform interpretation of a statutory phrase that has grown increasingly complex since it was introduced more than 50 years ago. The decision further reduces the possibility that a corporation will be deemed a citizen of a state—in this case, California—simply because it conducts significant business operations within that state.

In September 2007, two California citizens sued Hertz Corporation (“Hertz”) in a California state court seeking damages on behalf of themselves and a potential class of other California citizens for alleged violations of the state’s wage and hour laws. Hertz removed the action to federal court on the basis that its principal place of business was in New Jersey as its leadership, core executive and administrative functions and corporate headquarters were all located there. The district court, however, remanded the case to the California state courts, holding that Hertz’s principal place of business was California, not New Jersey. Applying Ninth Circuit precedent, which instructed courts to determine a corporation’s principal place of business by comparing the amount of a corporation’s business activity state by state, the district court reasoned that California citizenship was appropriate because the amount of business activity Hertz conducted in California was significantly greater than the amount in the “next closest state.” The Ninth Circuit affirmed.

In its decision, the Supreme Court vacated the Ninth Circuit’s judgment, finding that the “general business activities test” utilized by the Ninth Circuit was improper and might lead to strange results. Namely, if a corporation may be deemed a citizen of California on the basis of “activities [that] roughly reflect California’s larger population . . . nearly every national retailer—no matter how far flung its operations—will be deemed a citizen of California for diversity purposes.” The Court determined that “principal place of business” is “best read as referring to the place where a corporation’s officers direct, control, and coordinate the corporation’s activities,” *i.e.*, the corporation’s “nerve center.”

While acknowledging that the “nerve center” test is “imperfect” and that there will still be “hard cases,” the Court noted that its test “nonetheless points courts in a single direction, towards the



center of overall direction, control and coordination.” Important to the Court’s adoption of the “nerve center” test was that “Courts do not have to try to weigh corporate functions, assets, or revenues different in kind, one from the other.”

FOR MORE INFORMATION

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