

U.S. Supreme Court: Location of Corporation's "Nerve Center" Determines Its "Principal Place of Business"



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One of the jurisdictional prerequisites to resolve a dispute in Federal Court is the parties' "diversity of citizenship." When one of the parties is a corporation, its "citizenship" is deemed to be its "principal place of business." In a groundbreaking decision, a unanimous U.S. Supreme Court has ruled that a corporation's "principal place of business" is its "nerve center" – typically the corporate headquarters at which officers "direct, control, and coordinate the corporation's activities." The Court's opinion in *Hertz Corp. v. Friend*, authored by Justice Steven Breyer, puts to rest a decades-old debate that has fostered an assortment of judicial tests for determining this jurisdictional issue. The decision provides a simple rule that should promote greater predictability to companies making business and investment decisions, as well as to plaintiffs deciding whether to file suit in state or federal court.

Hertz arises from a lawsuit in which two Hertz employees sued Hertz Corporation in California state court on behalf of a potential class of California citizens, claiming violations of California wage-and-hour laws. Hertz sought to remove the lawsuit to federal district court under the statute that governs federal jurisdiction of suits between citizens of different states, 28 U.S.C. §1332(c)(1). The statute provides that "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." Hertz argued that since its core executive and administrative functions were conducted from its headquarters in New Jersey, it was citizen of that state. The District Court disagreed, determining that California is Hertz's principal place of business because a "plurality" of its "relevant business activities" occurred there, as compared the amount of business activity in "the next closest state." The Ninth Circuit Court of Appeals affirmed.

On appeal, the Supreme Court highlighted the difficulties that federal courts have had determining a corporation's "principal place of business." In particular, the Court was critical of the hodgepodge of complex, cumbersome, and not entirely consistent tests that courts have employed during the past fifty years to identify "principal place of business." These tests, like that used by the Ninth Circuit, focused heavily on where – based on volume – a corporation's actual business activities were located. Therefore, the Court, to establish a single, uniform interpretation of "principal place of business," turned to the "nerve center test" that only one circuit – the Seventh – had previously adopted, and ruled 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. A "nerve center" will normally be the place where the corporation maintains its headquarters which, as the Court made clear, must be the "actual center of direction, control, and coordination," and not merely an office with a phone or mail box drop, or where occasional board meetings are held.

Hertz brings much needed clarity to an area that had been rife with confusion for more than 50 years. Hereafter, *Hertz* will dictate the venue for litigation involving national corporations. The "nerve center" rule provides a straightforward test that promotes greater predictability – particularly for corporations making business decisions. In this regard, the Court was mindful of the "gamesmanship" that complex jurisdictional tests had encouraged, and the resultant effect of cases not being resolved on their legal and factual merits. Gone are the days of national corporations being haled into state courts of dubious jurisdiction due to the quirks of convoluted jurisdictional tests. The rule also eliminates the peculiar result of a national corporation being deemed a citizen of California merely because the size of California's economy has caused the corporation to perform a plurality of its business activities in that state. Overall, national corporations and their counsel should cheer *Hertz* for promoting corporate interests and predictability of the law that governs them.

If you would like a full copy of the *Hertz Corp. v. Friend*, or if you have any questions related to corporate governance or Director and Officer Liability, please contact one of our Corporate & General Business Practice Group members.

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