

## Supreme Court Clarifies Corporate Citizenship for Purposes of Federal Diversity Jurisdiction

This past week, the U.S. Supreme Court issued an important opinion for purposes of establishing diversity jurisdiction in Federal court, *Hertz Corp. v. Friend*, No. 08-1107 (February 23, 2010). In *Hertz*, the Supreme Court held that the phrase “principal place of business” in the diversity jurisdiction statute is limited to the place where a corporation’s “high level officers direct, control, and coordinate the corporation’s activities.” By limiting a corporation to a single “principal place of business,” the decision not only provides litigants with greater certainty about whether they can sue or be sued in Federal court, but also opens the door of the federal courts to corporate litigants who previously could not establish diversity of state citizenship.

Federal courts have jurisdiction to hear many cases only where there is a complete diversity of state citizenship among the litigants. Under the diversity statute, a corporation is a citizen of (i) “any State in which it has been incorporated” and (ii) in “the State where it has its principal place of business.” Prior to this week’s ruling, the regional Circuit Courts of Appeal had applied a variety of inconsistent and relatively complex tests to determine a corporation’s “principal place of business.” In some instances, tests such as the “business activity” test could result in different courts finding the same corporation to be a citizen of different states, diminishing the circumstances in which diversity jurisdiction was proper.

The *Hertz* ruling brings greater certainty to determining the “principal place of business” by settling on a single “nerve-center” test that, according to the Court, will make determining diversity “as simple as possible.” The Court explained that a corporation’s principal place of business is its “nerve-center”—the place within a state housing the corporation’s headquarters, “provided that the headquarters is the [corporation’s] actual center of direction, control, and coordination . . .” Notably, however, the Court cautioned against jurisdictional manipulation, stating that a mere office used for out-of-town board meetings, a blanket assertion on a corporate form (*e.g.*, Form 10-K), or the location of an annual corporate retreat does not suffice.

In addition to offering corporate litigants greater jurisdictional certainty, and perhaps greater access to federal courts in the future, *Hertz Corp.* provides a clearer path for corporate defendants to determine whether removal of pending cases from state to federal court, or remand of federal cases to state court, may be available. Ropes & Gray litigators have deep experience in counseling clients on these jurisdictional matters.

### Contact Information

If you have any questions about the issues raised in *Hertz Corp. v. Friend* and its affect on your business, please do not hesitate to contact your regular Ropes & Gray attorney.