Supplementary Material

Chapter 11: The Contemporary Era – Judicial Power and Constitutional Authority

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Hertz Corporation v. Friend, 559 U.S. 77 (2010)

A California employee of Hertz Corporation sued the company in state court for violating the state's wage and hour laws. The employer sought to remove the case to federal court based on diversity jurisdiction. The federal district court concluded that California was the principal place of business for Hertz and so dismissed the suit for lack of jurisdiction, and the circuit court affirmed that decision. Hertz appealed to the U.S. Supreme Court, which unanimously reversed and sent the case back to the district court for trial.

The jurisdiction of federal courts over cases involving the citizens of different states is rooted in the U.S. Constitution but limited by federal statute. Whether and how corporations could make use of diversity jurisdiction to sue in federal courts has long been a source of disagreement. In 1958, Congress declared that corporations would be counted as citizens for diversity jurisdiction purposes in the state in which they were incorporated and that served as their principal place of business. Courts continued to divide over the meaning of "principal place of business." In this case, the Court adopted a "nerve center" (or corporate headquarters) standard for determining the principal place of business.

Why might the nerve center standard be easier to apply than alternative standards? How much weight should simplicity have in determining an appropriate jurisdictional standard? How important should constitutional purposes be in interpreting a jurisdictional statute? Why should corporations be able to make use of diversity jurisdiction at all? Why shouldn't the place of employment be determinative in a case like this?

JUSTICE BREYER, delivered the opinion of the Court.

The federal diversity jurisdiction statute provides that [1] "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." We seek here to resolve different interpretations that the Circuits have given this phrase. In doing so, we place primary weight upon the need for judicial administration of a jurisdictional statute to remain as simple as possible. And we conclude that [2] 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. 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.

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. . . . The Constitution provides that the "judicial Power shall extend" to "Controversies . . . between Citizens of different States." Art. III, § 2. This language, however, does not automatically confer diversity jurisdiction upon the federal courts. Rather, it authorizes Congress to do so and, in doing so, to determine the scope of the federal courts' jurisdiction within constitutional limits. . . .

. . . . In 1809, Chief Justice Marshall, writing for a unanimous Court, described a corporation as an "invisible, intangible, and artificial being" which was "certainly not a citizen." *Bank of United States v. Deveaux* (1809). But the Court held that a corporation could invoke the federal courts' diversity jurisdiction based on a pleading that the corporation's shareholders were all citizens of a different State from the defendants. . . .

In *Louisville, C. & C. R. Co. v. Letson* (1844), the Court modified this initial approach. It held that a corporation was to be deemed an artificial person of the State by which it had been created, and its citizenship for jurisdictional purposes determined accordingly. . . .

In 1928 this Court made clear that the "state of incorporation" rule was virtually absolute. It held that a corporation closely identified with State A could proceed in a federal court located in that State as long as the corporation had filed its incorporation papers in State B, perhaps a State where the corporation did no business at all. . . .

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. . . . [Seeking to prevent frauds and abuses with respect to jurisdiction] in 1958, Congress [by statute stated that a] corporation was to "be deemed a citizen of any State in which it has been incorporated and of the State where it has its principal place of business."

The phrase "principal place of business" has proved more difficult to apply than its originators likely expected. . . .

. . . . If a corporation's headquarters and executive offices were in the same State in which it did most of its business, the test seemed straightforward. The "principal place of business" was located in that State. . . .

But suppose those corporate headquarters, including executive offices, are in one State, while the corporation's plants or other centers of business activity are located in other States? . . . [Many courts adopted the "nerve center" rule, arguing that] "where a corporation is engaged in far-flung and varied activities which are carried on in different states, its principal place of business is the nerve center from which it radiates out to its constituent parts and from which its officers direct, control and coordinate all activities without regard to locale, in the furtherance of the corporate objective. . . ."

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. . . . We conclude 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. It is the place that Courts of Appeals have called the corporation's "nerve center." And in practice it should normally be the place where the corporation maintains its headquarters -- provided that the headquarters is the actual center of direction, control, and coordination, i.e., the "nerve center," and not simply an office where the corporation holds its board meetings (for example, attended by directors and officers who have traveled there for the occasion).

Three sets of considerations, taken together, convince us that this approach, while imperfect, is superior to other possibilities. First, the statute's language supports the approach. The statute's text deems a corporation a citizen of the "State where it has its principal place of business." The word "place" is in the singular, not the plural. The word "principal" requires us to pick out the "main, prominent" or "leading" place. . . .

A corporation's "nerve center," usually its main headquarters, is a single place. The public often (though not always) considers it the corporation's main place of business. And it is a place within a State. By contrast, the application of a more general business activities test has led some courts, as in the present case, to look, not at a particular place within a State, but incorrectly at the State itself, measuring the total amount of business activities that the corporation conducts there and determining whether they are "significantly larger" than in the next-ranking State.

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Second, administrative simplicity is a major virtue in a jurisdictional statute. . . . Complex jurisdictional tests complicate a case, eating up time and money as the parties litigate, not the merits of their claims, but which court is the right court to decide those claims. . . .

Simple jurisdictional rules also promote greater predictability. Predictability is valuable to corporations making business and investment decisions. . . .

A "nerve center" approach, which ordinarily equates that "center" with a corporation's headquarters, is simple to apply comparatively speaking. . . .

Third, the statute's legislative history, for those who accept it, offers a simplicity-related interpretive benchmark. . . .

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We also recognize that the use of a "nerve center" test may in some cases produce results that seem to cut against the basic rationale. . . . For example, if the bulk of a company's business activities visible to the public take place in New Jersey, while its top officers direct those activities just across the river in New York, the "principal place of business" is New York. One could argue that members of the public in New Jersey would be less likely to be prejudiced against the corporation than persons in New York -- yet the corporation will still be entitled to remove a New Jersey state case to federal court. And note too that the same corporation would be unable to remove a New York state case to federal court, despite the New York public's presumed prejudice against the corporation.

We understand that such seeming anomalies will arise. However, in view of the necessity of having a clearer rule, we must accept them. . . .

The burden of persuasion for establishing diversity jurisdiction, of course, remains on the party asserting it. . . .

Petitioner's unchallenged declaration suggests that Hertz's center of direction, control, and coordination, its "nerve center," and its corporate headquarters are one and the same, and they are located in New Jersey, not in California. . . .

[Vacated and remanded.]