

Federal Court Diversity Jurisdiction: The Supreme Court Hits A “Nerve Center”

Insurance coverage cases are governed by state law. Nevertheless, those cases are often litigated in federal courts. Parties elect to proceed in federal court for various reasons. Insurance companies, fearing state court bias, often remove cases filed originally in state court to federal court. Policyholders may opt to file a case originally in federal court in the hope that the path to trial will be shorter.

In any event, proceeding in federal court requires diversity-of-citizenship. That is, each plaintiff must be a citizen of a state different from each defendant. If any plaintiff is a citizen of the same state as any defendant, then there is no diversity and the case may not proceed in federal court.

Determining the citizenship of an individual is straight forward and is guided by where one resides. Litigants and courts, however, often struggle when determining the citizenship of a corporation. The statute governing diversity jurisdiction provides that “a corporation shall be deemed 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).

While determining the state of incorporation is easy, determining where a corporation maintains its “principal place of business” often proves difficult. When a corporation’s headquarters is located in the same state as its manufacturing plant and other centers of business, its principal place of business is within that state. The corporate citizenship determination is far more difficult when the corporate headquarters and other centers of business are located in different states.

In order to alleviate this confusion, the Supreme Court recently rendered an opinion adopting the “never center” approach to determining a corporation’s principal place of business.

See Hertz Corp. v. Friend, ___ U.S. ___ (Feb. 23, 2010). Under that approach, the focus is on the place where “a corporation’s officers direct, control, and coordinate the corporation’s activities.” Slip op. at 14. In practice, this will be normally the place where the corporation maintains its headquarters. This assumes further that the corporate headquarters is the actual center of direction, control and coordination of corporate activities -- the “nerve center” if you will -- and not simply an office where the corporation holds its board meetings. Id.

Thus, for diversity purposes, a corporation is a citizen of any state in which it is incorporated and has its “nerve center.” Diversity will be present, and federal jurisdiction available, only if each plaintiff is the citizen of a state separate and distinct from each defendant.