

MedForms Inc. processes claims for medical insurers. Last year, MedForms contracted with a data entry company ("the company") to enter information from claims into MedForms's data- base. MedForms hired a woman to manage the contract with the company.

A few months after entering into the contract with the company, MedForms began receiving complaints from insurers regarding data-entry errors. On behalf of MedForms, the woman conducted a limited audit of the company's work and discovered that its employees had been making errors in transferring data from insurance claims forms to the MedForms database.

The woman immediately reported her findings to her MedForms supervisor and told him that fixing the problems caused by the company's errors would require a review of millions of forms and would cost millions of dollars. In response to her report, the supervisor said, "I knew we never should have hired a woman to oversee this contract," and he fired her on the spot.

The woman properly initiated suit against MedForms in the United States District Court for the District of State A. Her complaint alleged that she had been subjected to repeated sexual harassment by her supervisor throughout her employment at MedForms and that he had fired her because of his bias against women. Her complaint sought \$100,000 in damages from MedForms for sexual harassment and sex discrimination in violation of federal civil rights law.

After receiving the summons and complaint in the action, MedForms filed a third-party complaint against the company, seeking to join it as a third-party defendant in the action. MedForms alleged that the company's data-entry errors constituted a breach of contract. MedForms sought

\$500,000 in damages from the company. MedForms served the company with process by hiring a process server who personally delivered a copy of the summons and complaint to the company's chief executive officer at its headquarters.

MedForms is incorporated in State A, where it also has its headquarters and document processing facilities. The woman is a citizen of State A. The company's only document processing facility is located in State A, but its headquarters are located in State B, where it is incorporated and where its chief executive officer was served with process.

State A and State B each authorize service of process on corporations only by personal delivery of a summons and complaint to the corporation's secretary.

The company has moved to dismiss MedForms's third-party complaint for (a) insufficient service of process, (b) lack of subject-matter jurisdiction, and (c) improper joinder.

How should the District Court rule on each of the grounds asserted in the company's motion to dismiss? Explain.

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MedForms (incorporated and headquartered in State A) hired a woman, a State A citizen, to manage its data-entry contract. After she reported the contractor's costly errors, her supervisor said he never should have hired a woman and fired her. She sued MedForms in federal court in State A for sexual harassment and sex discrimination under federal civil rights law, seeking \$100,000. MedForms then filed a third-party complaint against the contractor for breach of contract, seeking \$500,000. The contractor is incorporated and headquartered in State B, with its only document-processing facility in State A. MedForms served the contractor by personally delivering the summons and complaint to its CEO at headquarters, though State A and State B allow service on a corporation only through its secretary. The contractor moves to dismiss for insufficient service, lack of subject-matter jurisdiction, and improper joinder.

← Her federal civil-rights claim: the anchor claim, separate from the contract dispute.

← A \$500,000 contract claim, unrelated to whether the contractor owes the woman anything: watch impleader.

← Incorporated and headquartered in State B: a State B citizen, so diverse from State A.

← Served on the CEO, an officer: valid under the federal rule even though state law says secretary only.

## Section 1: Service of Process (Ground a)

**Issue.** Whether MedForms properly served the contractor with process.

**Rule.** G/R: under Rule 4(h) a corporation may be served by delivering the summons and complaint to an officer, a managing or general agent, or an agent authorized to receive service; alternatively a plaintiff may follow the service law of the state where the court sits or where service is made.

A federal court applies federal procedural law, and the officer-delivery method is an independent federal route.

**Analysis.** Here, MedForms delivered the summons and complaint to the contractor's CEO, an officer, which the federal rule expressly authorizes. That both states allow service only on a corporate secretary does not matter, because the federal method is

Ground (a): start with service.

The state method is only an alternative, not a ceiling.

Delivery to the CEO satisfies the officer route.

independently sufficient in federal court.

**Conclusion.** Therefore, Section 1: service was proper and the motion to dismiss for insufficient service should be denied.

## Section 2: Subject-Matter Jurisdiction, Diversity (Ground b)

**Issue.** Whether the court has subject-matter jurisdiction over the breach-of-contract claim.

**Rule.** G/R: federal courts have diversity jurisdiction over suits between citizens of different states where the amount in controversy exceeds \$75,000.

A corporation is a citizen of every state where it is incorporated and of the one state of its principal place of business, its nerve center, which is ordinarily its headquarters.

**Analysis.** Here, the contract claim is state law, so there is no federal-question jurisdiction, but diversity exists. MedForms is incorporated and headquartered in State A, a State A citizen. The contractor is incorporated and headquartered in State B, a State B citizen; its lone processing facility in State A does not shift its nerve center. The parties are diverse and the \$500,000 sought far exceeds \$75,000.

**Conclusion.** Therefore, Section 2: the court has diversity jurisdiction and the motion on that ground should be denied.

*Ground (b): a state-law claim needs a jurisdictional basis.*

*Dual citizenship, single nerve center.*

*The State A facility is a red herring.*

## Section 3: Improper Joinder, Impleader (Ground c)

**Issue.** Whether MedForms may implead the contractor as a third-party defendant on the breach-of-contract claim.

**Rule.** G/R: under Rule 14(a) a defending party may bring in a nonparty only if that nonparty is or may be liable to the defendant for all or part of the plaintiff's claim against the defendant. Impleader requires derivative or secondary liability, not merely a related claim.

**Analysis.** Here, MedForms alleges the contractor breached a separate contract, not that the contractor is liable for the woman's harassment and discrimination injuries. The contractor's possible liability to MedForms is independent of MedForms's possible liability to the woman, so the impleader requirement is unmet even though both matters involve the contract the woman oversaw.

*Ground (c): the ground that succeeds.*

*Related is not the same as derivative.*

*No pass-through of the woman's claim, so no impleader.*

**Conclusion.** Therefore, Section 3: joinder was improper and the third-party complaint should be dismissed.

### Step-by-Step: Testing a Third-Party Complaint

*Run each ground of the motion in turn: service, then subject-matter jurisdiction, then whether impleader actually fits.*

**1. Service on a corporation? Delivery to an officer or agent satisfies the federal rule, which governs in federal court.**

→ **Service proper**



**2. Subject-matter jurisdiction? Diverse citizens plus over \$75,000; a corporation's nerve center is its headquarters.**

→ **Diversity jurisdiction**



**3. Impleader proper? Only if the third party is liable to the defendant for part of the plaintiff's claim. A separate contract claim is not derivative.**

→ **Joinder improper, dismissed**