

A shop owner domiciled in State A sued a distributor in a federal district court in State A for breach of a contract. The shop owner sought \$100,000 in damages for allegedly defective goods that the distributor had provided under the contract. The distributor is incorporated in State B, with its principal place of business in State C. The distributor brought in as a third-party defendant the wholesaler that had provided the goods to the distributor, alleging that the wholesaler had a duty to indemnify the distributor for any damages recovered by the shop owner. The wholesaler is incorporated in State B, with its principal place of business in State A.

The wholesaler has asserted a \$60,000 counterclaim against the distributor for payment for the goods at issue, and the distributor has moved to dismiss the counterclaim for lack of subject-matter jurisdiction.

Should the motion to dismiss be granted?

- A. No, because the wholesaler's and the distributor's principal places of business are diverse.
- B. No, because there is supplemental jurisdiction over the wholesaler's counterclaim.
- C. Yes, because there is no diversity of citizenship between the distributor and the wholesaler.
- D. Yes, because there is no diversity of citizenship between the shop owner and the wholesaler.

Explanation:

Subject-matter jurisdiction generally arises from either:

- **federal-question jurisdiction** – when the claim arises under the U.S. Constitution, a treaty, or a federal law (not seen here) *or*
- **diversity jurisdiction** – when the opposing parties are **citizens** of different states and the **amount in controversy** exceeds \$75,000.

Here, the court has diversity jurisdiction over the shop owner's (citizen of State A) \$100,000 claim against the distributor (citizen of States B and C). But the court lacks diversity jurisdiction over the distributor's indemnity claim against the wholesaler because they are both incorporated in State B (**Choice A**). And it lacks diversity jurisdiction over the wholesaler's counterclaim since it seeks only \$60,000.

When a claim does not satisfy subject-matter jurisdiction, **supplemental jurisdiction** may exist if the claim shares a **common nucleus of operative facts** as a claim originally within the court's subject-matter jurisdiction. Here, the distributor's indemnity claim and the wholesaler's counterclaim arise from the *same* defective goods as the shop owner's original diversity claim. But when the **original claim** is based solely on **diversity jurisdiction**, supplemental jurisdiction is **not permitted** if the **supplemental claim**:

- would **contaminate diversity** of citizenship between the *opposing* plaintiffs and defendants *or*
- seeks **\$75,000 or less** and is **made by a plaintiff** (1) against **parties added** through joinder, intervention, or impleader or (2) seeking to join through compulsory joinder or intervention.

Here, the distributor's and wholesaler's lack of diversity would not contaminate the diversity between the shop owner and the distributor (**Choice C**). Although the shop owner and the wholesaler are both citizens of State A, they are not opposing parties because they have asserted no claims against each other (**Choice D**). And since the wholesaler's \$60,000 counterclaim was asserted by a third-party *defendant*, the court has supplemental jurisdiction over it and should deny the distributor's motion to dismiss.

Educational objective:

A court is generally permitted to exercise supplemental jurisdiction over a claim that does not satisfy subject-matter jurisdiction when that claim shares a common nucleus of operative facts as a claim originally within the court's subject-matter jurisdiction.

References

- 28 U.S.C. § 1367 (supplemental jurisdiction).
- 28 U.S.C. § 1332 (diversity jurisdiction).

- 28 U.S.C. § 1331 (federal-question jurisdiction).

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Subject-matter jurisdiction over related claims

