



## U.S. Supreme Court Strikes Down State Limitations Through Use of Federal Class Actions

In a significant blow to business but a boon for consumers, the Supreme Court ruled yesterday that certain class actions barred or limited by state laws may proceed in federal courts. In *Shady Grove Orthopedic Associates, P.A. v. Allstate Insurance Company*, \_\_\_ U.S. \_\_\_ (March 31, 2010) a 5-4 majority, led by Justice Antonin Scalia, the Supreme Court decided that [Rule 23](#) controls when a class-action lawsuit can be filed in federal court, even when such a case in federal court will be decided based on state law. New York's law and Rule 23, the opinion said, are directly contradictory: both seek to control whether this class-action lawsuit could be filed at all in federal court, but Rule 23 prevails. The Court ruled that if Rule 23's specific terms are met on who may file a class-action lawsuit, the case may proceed in federal court. The result: Rule 23 does exactly what it says - it empowers a federal court to certify a class in each and every case where the Rule's criteria are met.

Shady Grove Orthopedic Associates ("Shady Grove") filed a class action lawsuit in federal court, arguing that Allstate Insurance Company ("Allstate") violated New York law in failing to pay interest to policyholders. The district court dismissed the case on the grounds that New York law prevented a class action lawsuit in this context, and the Second Circuit affirmed. This case concerned the application of state law in federal court under the Erie Doctrine, particularly whether New York class action law applies in federal court and whether it conflicts with Rule 23 of the Federal Rules of Civil Procedure. Shady Grove argued that Rule 23 is the comprehensive class action rule for federal courts, and that New York law cannot undermine federal court procedure. Allstate claimed that state law applies because plaintiffs would have different rights in state and federal court.

Shady Grove provided medical care to Sonia Galvez for her injuries as a result of a car accident in May, 2005. Under the Allstate automobile insurance policy and applicable New York law, Allstate agreed to pay for certain medical costs associated with car accidents. Galvez gave Shady Grove authority to apply to Allstate for payments on her behalf. Shady Grove sent Galvez's claims for about \$500 to Allstate, but Allstate failed to pay. Under New York law, an insurer must either pay or deny the claim within 30 days. The statute mandates a two percent monthly interest penalty for payment made after the 30-day deadline.

Shady Grove and Galvez filed a class action lawsuit in the Federal District Court for the Eastern District of New York, proposing a class of all persons to whom Allstate owes interest payments under New York insurance laws since April of 2000. Allstate filed a motion to dismiss the case, arguing that New York law barred Shady Grove and Galvez from filing this class action lawsuit. Allstate specifically alleged that, under [Section 901\(b\)](#) of the New York Civil Practice Law and Rules ("CPLR"), Shady Grove and Galvez could not use a class action lawsuit to collect a statutory penalty unless specifically authorized under the statute. Shady Grove and Galvez argued that CPLR 901(b) did not apply in federal courts because it was merely a procedural rule and conflicted with Federal Rule of Civil Procedure 23, which governs class action lawsuits in federal court.



The district court granted the motion to dismiss. The court found that New York insurance laws did not specifically authorize a class action for the recovery of interest, and, therefore, CPLR 901(b) prevented the filing of the class action. The district court held that the New York's restriction on class actions applies in federal court because the law substantively affected plaintiffs' rights to bring lawsuits in New York courts. Shady Grove appealed. The Second Circuit affirmed dismissal of the suit. First, it found that CPLR 901(b) and Rule 23 did not conflict. Next, it found that federal court should apply CPLR 901(b) because otherwise class action plaintiffs could recover in federal court even though they could not in state court. Finally, the court found that CPLR 901(b) did not undermine the authority of the federal system.

Scalia rejected arguments by Allstate and the Second Circuit that Rule 23 and the New York law did not conflict because they addressed different issues. Allstate contended that Rule 23 is procedural, governing whether a class should be certified, while the New York law is substantive, determining whether a particular type of claim is eligible for class treatment. He called the "eligibility-certifiability" distinction "entirely artificial," explaining that both are prerequisites for maintaining a class action.

Scalia wrote expansively of Rule 23's sweep: "Rule 23 unambiguously authorizes *any* plaintiff, in *any* federal civil proceeding, to maintain a class action if the Rules' prerequisites are met." "We cannot contort its text, even to avert a collision with state law that might render it invalid." Justice Stevens joined this part of the Scalia opinion but he also said that he agreed that Rule 23 "must apply in this case." The New York law against a penalty remedy, Stevens said, was a procedural rule only, and had to give way to Rule 23. But the remainder of the Stevens' concurring opinion made it clear that he diverged significantly from Scalia on the general question of whether federal courts, applying what they considered to be federal procedural rules in a state-law case, would always trump a state procedural rule.

If the Rule were susceptible of two meanings—one that would violate §2072(b) and another that would not—we would agree. See *Ortiz v. Fibreboard Corp.*, 527 U. S. 815, 842, 845 (1999); cf. *Semtek Int'l Inc. v. Lockheed Martin Corp.*, 531 U. S. 497, 503–504 (2001). But it is not. Rule 23 unambiguously authorizes *any* plaintiff, in *any* federal civil proceeding, to maintain a class action if the Rule's prerequisites are met.

There is little question that the Court's decision is good for those who use class actions as a remedy to rectify corporate wrongdoing. The decision will effectively overturn a large number of state statutes that limit remedies which can be sought by class actions or that outright prohibit certain class actions. It is noteworthy that in its Supreme Court brief, Allstate said at least 22 states limit remedies recoverable in class actions and at least 23 prohibit class actions for certain claims.



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