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Classy Move: The Supreme Court Rebuffs Class Action Forum Manipulation

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The U.S. Supreme Court recently issued its first decision reviewing the scope of removal jurisdiction under the federal Class Action Fairness Act (CAFA). In *Knowles v. Standard Fire Insurance Co.*, No. 11-1450 (U.S.), the Supreme Court unanimously held that a putative class representative cannot avoid federal jurisdiction by stipulating that the class will not seek damages in excess of the CAFA \$5 million jurisdictional minimum. Specifically, the Court ruled that a putative class representative cannot bind the putative class before a class is certified.¹ In doing so, the Court eliminated plaintiffs' use of stipulations aimed at manipulating CAFA's jurisdictional provisions in an attempt to confine cases to "plaintiff friendly" state courts.²

Before Congress enacted CAFA, a putative class action could only be filed in or removed to federal court if the case presented a federal question or satisfied principles of traditional diversity jurisdiction.³ Traditional diversity jurisdiction requires, among other things, that at least one named plaintiff have an amount in controversy in excess of \$75,000. Importantly, the claims of named plaintiffs and putative class members pre-CAFA could not be aggregated to satisfy the amount in controversy threshold. Because class actions involving millions of dollars and issues of national concern could be restricted to state courts, Congress enacted CAFA to expand the ability of federal courts to preside over class actions.⁴

In *Knowles*, the representative plaintiff filed a class action complaint in Arkansas state court and a stipulation that the representative plaintiff would not "seek damages for [himself] or any other individual class member in excess of \$75,000 (inclusive of costs and attorneys' fees) or seek damages for the class as alleged in the complaint to which this stipulation is attached in excess of \$5,000,000 in the aggregate (inclusive of costs and attorneys' fees)." The defendant, Standard Fire Insurance Company, removed the case to federal court under CAFA and submitted evidence showing that the class damages, if recovered, would exceed the \$5 million CAFA jurisdictional threshold. The District Court nevertheless remanded the case to state court based on the representative plaintiff's stipulation, which purported to limit damages to less than \$5 million.⁵

¹ *Knowles v. Standard Fire Insurance Co.*, No. 11-1450 at 9 (U.S. Mar. 19, 2013).

² *Id.* at 6.

³ See K&L Gates LLP's client alert: *Knowing Where You Are Litigating Is Half the Battle: The Supreme Court Hears Oral Argument in Knowles v. Standard Fire Insurance Co. to Decide Whether a Named Plaintiff Can Defeat Federal Jurisdiction Under CAFA by Stipulating Not to Seek Damages in Excess of \$5 Million*, available at <http://www.klgates.com/knowning-where-you-are-litigating-is-half-the-battle-the-supreme-court-hears-oral-argument-in-knowles-v-standard-fire-insurance-co-to-decide-whether-a-named-plaintiff-can-defeat-federal-jurisdiction-under-cafa-by-stipulating-not-to-seek-damages-in-excess-of/>.

⁴ See 28 U.S.C. §§ 1332(d)(2), (5)(b). For more background on CAFA and diversity jurisdiction, please refer to our earlier client alert referenced in note 3.

⁵ *Knowles v. Standard Fire Ins. Co.*, No. 4:11-cv-04044, 2011 WL 6013024, at *3, 4-5 (W.D. Ark. Dec. 2, 2011).

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The Supreme Court held that (1) the plaintiff's stipulation could not alter CAFA's aggregation analysis for jurisdictional purposes, (2) the District Court should have disregarded the stipulation, and (3) the District Court should have conducted CAFA's jurisdictional analysis by "adding up the value of the claim of each person who falls within the definition of Knowles's proposed class and determine whether the resulting sum exceeds \$5 million" at the time the complaint was filed.⁶ The Court concluded that stipulations in putative class actions can only be effective if they are binding and that in a putative class action, a class representative "cannot legally bind members of the proposed class before the class is certified."⁷ Thus, "[t]he stipulation Knowles proffered to the District Court ... does not speak for those he purports to represent."⁸ Because Knowles "lacked the authority to concede the amount-in-controversy issue for the absent class members," his "precertification stipulation does not bind anyone but himself, [and] Knowles has not reduced the value of the putative class members' claims."⁹ According to the Supreme Court, to rule otherwise, would "run directly counter to CAFA's primary objective [of] ensuring Federal court consideration of interstate cases of national importance."¹⁰

The Supreme Court's first CAFA decision is significant. Class action plaintiffs can no longer use a stipulation to set an artificial cap on the class members' damages in the attempt to bar removal of an action otherwise removable under CAFA.¹¹ And the Supreme Court made clear that lower courts must abide by the test for CAFA jurisdiction as set forth in the statute: determine the actual value in controversy as alleged in the complaint and aggregate the claims of the putative class members. With *Knowles*, the Court preserves "CAFA's primary objective: ensuring 'Federal court consideration of interstate cases of national importance.'"¹² Without doubt, in certain cases, the plaintiffs' class action bar will devise and employ other methods to avoid federal CAFA jurisdiction. The unanimous decision in *Knowles*, however, reflects a strong first statement by the Supreme Court that may be a sign of things to come.

For additional information regarding the types of class actions defended by K&L Gates LLP and the K&L Gates LLP lawyers who concentrate in class action defense and consumer financial services litigation, please visit our practice group websites at <http://www.klgates.com/class-action-litigation-defense-practices/> and <http://www.klgates.com/financial-services-litigation-practices/>.

⁶ *Id.* at 3.

⁷ *Id.* at 3, 4. The Court emphasized, however, that an individual plaintiff can stipulate to limit his damages for the purpose of defeating federal jurisdiction, but he can do so because he has the authority to bind himself. *Id.* at 6-7.

⁸ *Id.* at 3-4.

⁹ *Id.* at 4.

¹⁰ *Id.* at 6.

¹¹ In fact, the Supreme Court expressly recognized that permitting class representatives to use stipulations to limit class-wide damages "would squarely conflict with [CAFA's] objectives," because it would allow plaintiffs to artificially divide a \$100 million class action into "21 just-below-\$5-million state court actions" simply to avoid federal jurisdiction. *Id.* at 6.

¹² *Id.* at 6.

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