

## CLIENT ALERT

### Supreme Court Rejects Attempt by Class Action Plaintiff to Plead Around Federal Court Jurisdiction

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On March 19, 2013, the Supreme Court held unanimously that federal jurisdiction under the Class Action Fairness Act (CAFA) cannot be defeated by a named plaintiff's stipulation, prior to class certification, that he will not seek damages above \$5 million on behalf of the class. The decision resolves a conflict among the federal courts of appeal, and reinforces CAFA's goal of ensuring that large interstate class actions are heard in federal court.

In *Standard Fire Insurance Company v. Knowles*, plaintiff Greg Knowles filed a putative class action in Arkansas state court against Standard Fire Insurance Co. on behalf of "hundreds, possibly thousands" of insureds. Standard Fire removed the action to federal court under CAFA, which provides federal district courts with "original jurisdiction" to hear class actions if the class has more than 100 members, the parties are minimally diverse, and the amount in controversy exceeds \$5 million in the aggregate for all class members. 28 U.S.C. §§ 1332(d)(2), 5(B). Despite evidence submitted by Standard Fire demonstrating that the amount in controversy exceeded the \$5 million threshold for CAFA jurisdiction, the district court remanded the case to state court based on the named plaintiff's stipulation that he would not "at any time during the case... seek damages for the class... in excess of \$5,000,000 in the aggregate." When the Eighth Circuit declined to hear its appeal, Standard Fire successfully petitioned for a writ of certiorari by the U.S. Supreme Court.

The Supreme Court vacated and remanded. Justice Breyer, writing for the Court, explained that the stipulation of a putative class action plaintiff cannot defeat CAFA jurisdiction if evidence shows that the amount in controversy requirement is satisfied. This is so for the "simple" reason that stipulations "must be binding," and the word of a named plaintiff cannot bind the putative class "before the class is certified." To hold otherwise, the Court explained, would "exalt form over substance, and run directly counter to CAFA's primary objective: ensuring 'Federal court consideration of interstate cases of national importance.'" Slip Op. at 6 (quoting § 2(b)(2), 119 Stat. 5).

The result curbs some of the jurisdictional gamesmanship that plagues class litigation by removing the incentive for plaintiffs to artificially cap their damages in an effort to secure a state forum. It also helps ensure that federal standards will apply to high-stakes, interstate class actions.

For more information, please contact the professional(s) listed below, or your regular Crowell & Moring contact.

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