

Supreme Court Rejects Class Action Plaintiff's Effort to Avoid Federal Jurisdiction Under CAFA

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In a unanimous decision issued on March 19, 2013, the U.S. Supreme Court held that the named plaintiff in a proposed class action lawsuit cannot defeat federal jurisdiction under the Class Action Fairness Act (CAFA or the Act) by filing a pre-certification stipulation that he and the class will seek, in the aggregate, less than \$5 million in damages. The decision is the Court's first under CAFA since the Act became law in 2005. [Standard Fire Ins. Co. v. Knowles](#), No. 11-1450, 568 U.S. __ (2013).

Factual Background

The named plaintiff in the case, Greg Knowles, filed his class action complaint against Standard Fire Insurance Company in Arkansas state court in April 2011, after suffering property damage in a 2010 hailstorm. He alleged that Standard had underpaid claims for property damage that he and other covered Arkansas homeowners had incurred by refusing to pay charges associated with their retention of general contractors to repair damage that they had suffered. In an apparent effort to avoid federal jurisdiction, Knowles alleged only state law claims, limited his definition of the class to residents of Arkansas, and asserted both that no individual class member's claim exceeded \$75,000 and that the aggregated damages of all class members did not exceed \$5 million. In addition, Knowles stipulated (in the complaint itself and in a stipulation attached to it) that he would not seek damages exceeding \$75,000 for any class member and that he would not seek class damages in excess of \$5 million.

Standard removed the case to federal court under CAFA, and Knowles responded by filing a motion to remand on the ground that the necessary amount in controversy had not been met. The district court found that the sum or value of the amount in controversy would, in the absence of Knowles's stipulation, have fallen

just above CAFA's \$5 million threshold. In light of the stipulation, however, the court concluded that the amount in controversy fell beneath the threshold, and it therefore granted the motion to remand. Standard filed a petition for permission to appeal to the Eighth Circuit Court of Appeals, which the court of appeals denied, prompting Standard to file a petition for certiorari. The U.S. Supreme Court granted Standard's petition on August 31, 2012 and heard argument on January 7, 2013.

Legal Analysis

Justice Stephen Breyer, writing for a unanimous Court, reasoned that the district court's task under CAFA is "to determine whether it has jurisdiction by adding up the value of the claim of each person who falls within the definition of [the] proposed class and determine whether the resulting sum exceeds \$5 million." Here, the Court noted, the district court had performed that task and had determined that "the resulting sum would have exceeded \$5 million *but for* the stipulation." (emphasis in original). Accordingly, the issue before the Court was "whether the stipulation makes a critical difference."

The Court held that Knowles's stipulation did not make a critical difference for the simple reason that, in order to be effective, "[s]tipulations must be binding"—and while Knowles's pre-certification stipulation was binding on him, it was not binding on "those he purports to represent." As the Court observed, a plaintiff who files a proposed class action cannot legally bind members of the proposed class until the class is certified. And since federal removal jurisdiction is determined by "examining the case 'as of the time it was filed in state court'"—at which point no class had been certified—the district court had been wrong to conclude that Knowles's stipulation "could overcome its finding that the CAFA jurisdictional threshold had been met.

In reaching this conclusion, the Court distinguished the many cases in which individual plaintiffs have been permitted to avoid removal to federal court and to obtain a remand to state court by stipulating to amounts in controversy that fall below the federal jurisdictional requirement. As the Court observed, the stipulations in those cases differed from Knowles's stipulation in that they were "legally binding on all plaintiffs." Because Knowles could not bind the absent class members, that "essential feature is missing here"—thus rendering his stipulation ineffective to defeat federal jurisdiction.

Practical Impact

The *Standard Fire* case did not arise in an employment context, but the Court's resolution of it is likely to benefit employers who are potential class action defendants. Class action plaintiffs tend to prefer state courts and thus often try to defeat federal jurisdiction—as Knowles attempted to do in the *Standard Fire* case. The Court's ruling here that pre-certification stipulations cannot defeat federal jurisdiction removes an arrow from the quiver of class action plaintiffs seeking to avoid federal court and therefore benefits class action defendants.

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