U.S. SUPREME COURT LIMITS ABILITY OF CLASS ACTION PLAINTIFFS TO CIRCUMVENT THE PROTECTIONS OF THE CLASS ACTION FAIRNESS ACT

The U.S. Supreme Court has considered a number of important issues affecting class action litigation over the last few terms, and it handed another victory to class action defendants yesterday. In *Standard Fire Insurance Company v. Knowles*, the Court addressed for the first time the scope of the Class Action Fairness Act of 2005 (CAFA). CAFA was enacted to limit the number of abusive class actions being heard in state courts by making it easier for defendants to remove class actions to the federal courts. In the unanimous *Knowles* decision written by Justice Stephen Breyer, the Court held that a named class action plaintiff cannot avoid removal to federal court by stipulating that the class will seek an aggregate damages award of less than CAFA’s jurisdictional minimum.

**The Knowles Case**

In *Knowles*, the plaintiff sued Standard Fire Insurance Company in Arkansas state court, claiming that Standard Fire unlawfully failed to include general contractor fees in payments made pursuant to homeowner’s insurance policies. The plaintiff alleged that Standard Fire’s actions harmed “hundreds, and possibly thousands” of policyholders in Arkansas. Under the jurisdictional provisions of CAFA, federal courts have original jurisdiction to hear a class action if the class has more than 100 members, the parties are minimally diverse, and the “matter in controversy exceeds the sum or value of $5,000,000.” To avoid exceeding the $5 million jurisdictional minimum that would trigger federal court jurisdiction, the plaintiff stated in the complaint’s request for relief that neither he nor the class he purported to represent would seek damages totaling more than $5 million. In addition, the plaintiff’s counsel attached to the complaint a signed affidavit stipulating that the plaintiff would not seek damages for the class in excess of $5 million in aggregate.

Standard Fire removed the case to federal court, but the plaintiff argued for the case to be remanded to state court in light of the stipulation limiting the amount in controversy to below the $5 million threshold. Applying Eighth Circuit precedent, the district court agreed with the plaintiff and remanded the case to state court, despite its finding that the amount in controversy would have exceeded $5 million but for the plaintiff’s stipulation. After the Eighth Circuit declined to hear Standard Fire’s appeal, the Supreme Court agreed to take the case due to divergent views in the circuit courts of appeal.

In a concise opinion, the Supreme Court ruled that the plaintiff’s stipulation limiting the amount in controversy was ineffective because a plaintiff who files a class action complaint cannot bind the unnamed members of the proposed class before the class is certified. The plaintiff’s stipulation therefore was binding only on the plaintiff himself and did not reduce the value of the putative class members’ claims. Because CAFA requires federal courts to consider the aggregate amount of the claims of the individual class members—which the district court found would be in excess of $5 million—the district court should have ignored the stipulation entirely in considering jurisdiction.

**Impact of the Decision**

The express purpose of CAFA is to expand federal jurisdiction for large class action lawsuits in order to avoid abuses of the class action mechanism in state courts. The decision in *Standard Fire Insurance Company v. Knowles* recognizes and furthers that purpose by prohibiting plaintiffs from circumventing CAFA’s protections, in this case through the use of a non-binding stipulation. The decision is just one of several recent Supreme Court cases that rein in the use of class actions against businesses.

For more information on the implications of the Supreme Court’s *Knowles* decision or class action litigation, please contact Colleen Bal, Evan Seite, or another member of Wilson Sonsini Goodrich & Rosati’s litigation practice.

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2. 28 U.S.C. §§ 1332(d)(2) & (d)(5).
U.S. Supreme Court Limits Ability of Class Action Plaintiffs . . .

Continued from page 1...

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