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Anti-Injunction Decision Hamstrings Ability to Settle Federal Class Actions

By Steven P. Benenson & John T. Chester

The Seventh Circuit recently decided a case with significant implications for class-action settlements. In *Adkins v. Nestlé Purina PetCare Co.*, __ F.3d __, 2015 WL 864931 (7th Cir. Mar. 2, 2015), a case involving allegedly unsafe dog treats, the Court of Appeals reversed a district court's order tentatively approving a nationwide class-action settlement pending a fairness hearing, and enjoining class members from prosecuting related litigations.

The district court's injunction effectively halted a Missouri state-court class action that was scheduled to proceed to trial prior to the federal district court's fairness hearing. The class representative in the Missouri action sought to intervene in *Adkins*, challenging the injunction as violative of the Anti-Injunction Act, 28 U.S.C. § 2283, which provides: "A court of the United States may not grant an injunction to stay proceedings in a State court except as expressly authorized by Act of Congress, or where necessary in aid of its jurisdiction, or to protect or effectuate its judgments."

Defendants asserted that continuation of the Missouri action was likely to undermine the nationwide settlement, and therefore that the injunction was necessary in aid of the district court's jurisdiction -- and thus permissible under the Act. The Seventh Circuit,

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however, rejected this based on a narrow interpretation of the statutory language. The Court acknowledged that if the Missouri case were to proceed to final decision before the fairness hearing, then the nationwide settlement would have to be renegotiated and might well collapse. However, the Court interpreted the phrase "in aid of its jurisdiction" to mean "adjudicatory competence," and rejected the notion that trial or judgment in the Missouri action could imperil the district court's ability and authority to adjudicate the federal suit. Based on this reasoning, the Court concluded that "if the Missouri case cannot diminish federal jurisdiction, [the Anti-Injunction Act] precludes an injunction until the federal case reaches a final judgment." In sum, the Court found that preserving a particular settlement is not "necessary" to federal jurisdiction.

While appearing to promote notions of federalism, the *Atkins* decision will hamstring litigants' ability to reach -- and satisfy the procedural requirements for -- class-action settlements. If a district court cannot enjoin parallel state-court actions from proceeding between the preliminary approval of a settlement and final judgment, some class members and their attorneys will undoubtedly race to obtain state-court judgments and scuttle federal court settlements before they can get to fairness hearings. This, in turn, will drive up the already-high cost of litigating and settling class actions, and undermine the federal courts' judicial economy.

Fortunately, other circuits have concluded that where the continued litigation of a parallel state-court class action could significantly impair a federal court's ability and authority to approve a class-action settlement, an injunction is appropriate. For instance, in recognizing that complex class actions can require an enormous amount of time and expenditure of resources, the Third Circuit has explained:

> It is in the nature of complex litigation that the parties often seek complicated, comprehensive settlements to resolve as many claims as possible in one proceeding. These cases are especially vulnerable to parallel state actions

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> that may frustrate the district court's efforts to craft a settlement in the multi-district litigation before it, thereby destroying the ability to achieve the benefits of consolidation. In complex cases where certification or settlement has received conditional approval, or perhaps even where settlement is pending, the challenges facing the overseeing court are such that it is likely that almost any parallel litigation in other fora presents a genuine threat to the jurisdiction of the federal court.

In re Diet Drugs, 282 F.3d 220, 236 (3d Cir. 2002) (citations and internal quotation marks omitted). Accordingly, the Third Circuit held in that case that the District Court's injunction of related state-court litigation clearly fell under the "necessary in aid of its jurisdiction" exception to the Anti-Injunction Act. *Id*. at 239.

The defendants in *Adkins* have filed a petition for a writ of certiorari with the Supreme Court, *Nestlé Purina PetCare Co. v. Curts*, 2015 WL 1250861 (Mar. 18, 2015), asserting that the decision is in conflict with rulings of the First, Second, Third, Fifth, Eighth, and Ninth Circuits. The petitioners argue that the case presents a frequently-recurring issue of national importance in that -- despite Congress having specifically encouraged the adjudication of complex class-action litigation in federal court by enacting the Class Action Fairness Act -- the Seventh Circuit's holding jeopardizes litigants' and courts' ability to achieve settlements. In addition, the petitioners contend that the Seventh Circuit failed to apply the Supreme Court's interpretation of the Anti-Injunction Act to allow a federal court to stay state-court proceedings where "necessary to prevent a state court from so interfering with a federal court's consideration or disposition of a case as to seriously impair the federal court's flexibility and authority to decide that case." *Id*. at *15 (quoting *Atl. Coast Line R.R. Co. v. Bhd. of Locomotive Eng'rs.*, 398 U.S. 281 (1970)).

If certiorari is granted, the *Adkins* decision will be closely watched by class action litigants and counsel across the country, many of which routinely obtain injunctions of parallel state-court actions when settling class actions in circuits that permit it.