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United States District Court
For the Northern District of California

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

SOVEREIGN GENERAL INSURANCE
SERVICES, INC.,

No. C 02-02972 CRB

Plaintiff,

ORDER

v.

LE BOEUF LAMB GREENE & MC RAE,
LLP, et al.

Defendants.

Defendants LeBoeuf, Lamb, Greene & MacRae, LLP; Schifrin, Gagnon & Dickey, Inc.; Allyson S. Taketa; Theresa M. Fitzgerald; Dan Hansell; Daniel M. Whitley; and Barry Zalma (collectively, “the non-Lloyd’s Defendants”) move this Court for an order compelling plaintiff Sovereign General Insurance Services, Inc. to arbitrate its claims against the non-Lloyd’s Defendants in England, or, in the alternative, staying the case against the non-Lloyd’s Defendants pending the outcome of an arbitration between plaintiff and Lloyd’s of London underwriters who were originally defendants in this action but have since been dismissed from the case (“the Lloyd’s Defendants”).

A. Background

Pursuant to a pair of written contracts known as “Binding Authority Agreements,” plaintiff Sovereign General was authorized to bind certain types of insurance on behalf of syndicates of Lloyd’s of London beginning in early 1999. In 2000, a dispute arose between Sovereign General and the Lloyd’s Defendants when the Lloyd’s Defendants allegedly refused to honor and implement the Binding Authority

1 Agreements on the grounds that Sovereign General had exceeded the premium limitations under the second
2 of the agreements. The Lloyd's Defendants transferred authority to settle policies under the Binding
3 Authority Agreements from Sovereign General to defendant Schiffrin, Gagnon & Dickey, Inc. and retained
4 defendant Barry Zalma as legal counsel. The Lloyd's Defendants also transferred claims adjusting and
5 settlement responsibilities for claims arising out of the Binding Authority Agreements to defendant LeBoeuf,
6 Lamb, Green & McRae, LLP ("LeBoeuf"). LeBoeuf attorneys Taketa, Fitzgerald, Hansell, and Whitley
7 are also defendants in this action and join this motion to compel arbitration.¹

8 Plaintiff originally filed its complaint in California Superior Court. The Lloyd's Defendants removed
9 to federal court pursuant to 9 U.S.C. § 205, which permits removal when "the subject matter of an action
10 or proceeding pending in a State court relates to an arbitration agreement or award falling under the
11 Convention [on the Recognition and Enforcement of Foreign Arbitral Awards]." Since the Lloyd's
12 Defendants were parties to an international commercial arbitration agreement and the claims asserted
13 against them arose out of that agreement, removal of the claims against the Lloyd's Defendants was proper
14 under section 205.

15 When the Lloyd's Defendants removed to federal court, this Court assumed jurisdiction over the
16 claims against the non-Lloyd's Defendants as well. However, the basis for jurisdiction over the latter claims
17 is *not* 9 U.S.C. § 205. Unlike the claims against the Lloyd's Defendants, the claims against the non-
18 Lloyd's Defendants—for interference with prospective economic advantage, section 17200 unfair business
19 practices, and declaratory judgment—do not "relate[] to an arbitration agreement or award falling under the
20 Convention." 9 U.S.C. § 205; see also *id.* § 203 (giving district courts jurisdiction over "an action or
21 proceeding falling under the Convention"). Accordingly, this Court's jurisdiction over these claims is purely
22 supplemental. See 28 U.S.C. § 1367(a) (providing for supplemental jurisdiction over claims "so related to
23 claims in the action within [the court's] original jurisdiction that they form part of the same case or
24 controversy").

25 On August 22, 2002, at plaintiff's request, this Court issued an order dismissing the Lloyd's
26 Defendants from the case. Accordingly, only the non-Lloyd's Defendants and defendant Aon Limited

27
28 ¹Although Aon Limited (formerly known as Aon Group Limited) is also a defendant, it does not join
in this motion. As used herein, the term "non-Lloyd's Defendants" does not include Aon Limited. Leslie M.
Schiffrin, who was also a named defendant, died in May 2002.

1 remain.

2 **B. Motion to Compel Arbitration**

3 The non-Lloyd's Defendants argue that plaintiff's claims against them are covered by the
4 mandatory-arbitration provisions in the Binding Authority Agreements between plaintiff and the Lloyd's
5 Defendants. They seek an order compelling plaintiff to submit its claims to arbitration on the grounds that
6 (1) the non-Lloyd's Defendants, as agents of the Lloyd's Defendants, are entitled to enforce the
7 Agreements' arbitration provisions, and (2) plaintiff's claims against the non-Lloyd's defendants are "so
8 intertwined with those asserted against the Lloyd's Defendants that arbitration of the Non-Lloyd's claims
9 under the Binding Authority Agreements is wholly appropriate." Def.'s Motion at 6.

10 This Court disagrees. First, to the extent that the non-Lloyd's Defendants acted as agents of the
11 Lloyd's Defendants, such agency relationship was not in service of the Binding Authority Agreements
12 (which provided that plaintiff, not the Lloyd's Defendants, would perform the tasks ultimately assigned to
13 the non-Lloyd's Defendants). Accordingly, the non-Lloyd's Defendants' status as "agents" does not give
14 them standing to enforce the Agreements' arbitration provisions.

15 Second, while the factual history of the claims against the non-Lloyd's Defendants happens to
16 involve the Binding Authority Agreements between plaintiff and the Lloyd's Defendants, none of those
17 claims actually arises out of the Agreements. In fact, the claims against the non-Lloyd's Defendants for
18 unfair business practices or interference with prospective economic advantage could be brought even in the
19 absence of the Agreements. As such, this Court cannot agree that the claims against the non-Lloyd's
20 Defendants are so integrally related to or closely intertwined with the Agreements that the Agreements'
21 arbitration clauses should apply. See Roby v. Corp. of Lloyd's, 996 F.2d 1353, 1361 (2d Cir. 1963)
22 ("[I]f the *substance* of [the] claims, stripped of their labels, does not fall within the scope of the
23 [arbitration] clauses, the clauses cannot apply.").

24 **C. Jurisdiction**

25 Under 28 U.S.C. § 1367(c), it is within this Court's discretion to decline to exercise supplemental
26 jurisdiction once it has dismissed all claims over which it has original jurisdiction. Having dismissed the
27 claims against the Lloyd's Defendants at plaintiff's request, the Court now chooses to exercise that
28 discretion. As discussed above, the remaining claims do not arise out of the Binding Authority Agreements

1 that supported removal of this case to federal court in the first place. Moreover, all of the remaining claims
2 are premised on California law. As such, it is this Court's view that what remains of this case would be
3 more properly adjudicated by a California court.²

4 **D. Conclusion**

5 The non-Lloyd's Defendants' Motion to Compel Arbitration is hereby DENIED and the case is
6 REMANDED to California Superior Court pursuant to 28 U.S.C. § 1447(c). The non-Lloyd's
7 Defendants' Motion to Stay is DISMISSED without prejudice.

8 **IT IS SO ORDERED.**

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10
11 Dated: September 12,2002

/s/
CHARLES R. BREYER
UNITED STATES DISTRICT JUDGE

United States District Court
For the Northern District of California

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²This finding applies to defendant Aon Limited as well.