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Preventing the Subversion of Devlin v. Scardelletti

Brian Wolfman
Georgetown University Law Center, wolfmanb@law.georgetown.edu

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In 2002, the U.S. Supreme Court ruled in Devlin v. Scardelletti that objecting class members could appeal a federal district court’s approval of a class settlement without first intervening in the litigation. Public interest lawyer Brian Wolfman says the ruling was a victory for both objectors and the integrity of class action procedure: Objectors, he argues, help keep fairness hearings fair.

But a number of courts are now ruling that Devlin only applies to non-opt-out class actions, rather than the much more numerous ones that give class members opt-out rights. In this article, Wolfman details the exact wording of the Supreme Court decision and asserts that the high court clearly did not limit the application of Devlin.

Preventing the Subversion of Devlin v. Scardelletti

BY BRIAN WOLFMAN

In Devlin v. Scardelletti,1 the Supreme Court held that, under Federal Rule of Civil Procedure 23, a member of a class who objects to a proposed class action settlement may appeal the district court’s approval of the settlement without having first intervened in the action. Devlin was a victory for class action objectors and the integrity of class action procedure more generally. But there is a movement afoot to undermine Devlin by limiting it to the relatively small category of non-opt-out class settlements. The purpose of this article is to help stop that movement.2

Brian Wolfman is the director of Public Citizen Litigation Group, a public interest law firm in Washington, D.C. He can be reached at brian@citizen.org.

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1 536 U.S. 1 (2002).

2 As a matter of full disclosure, I was co-counsel for the victorious Mr. Devlin, and the result is one that my office had been urging in cases in which we represented objectors.
Introduction

Two preliminary points: First, class actions are enormously powerful tools for justice. For decades, they have righted wrongs and compensated victims of discrimination, provided a means for reforming oppressive or recalcitrant governmental institutions, and deterred a wide array of wrongful business conduct in situations where individuals would not have had the means to sue on their own. But class actions can be abused, which in turn poisons the public and provides fodder for politicians, jeopardizing the prospect of justice for ordinary citizens. Even just a handful of “sell out” settlements, and courts willing to approve them, can lead Congress to ill-advised “reforms,” such as the misnamed Class Action Fairness Act of 2005, which provides defendants with their choice of forum in most class actions, but will do little or nothing to curb abuses that occur when defendants seek out the most malleable lawyer to settle potentially meritorious class actions at bargain-basement prices.

Although the great majority of class actions are not abusive and most seek to address real problems, the potential for class action abuse is real. In individual litigation, the clients (the principals) usually can monitor their lawyer (the agent). By contrast, the agency relationship in class actions defies monitoring because the absent clients have no real relationship with their lawyers. And, even if they did, given the small amounts per person generally at stake in class actions, they would not rationally expend the time and resources to oversee their lawyers’ work. As a result, as one court put it, “the [class] lawyers might urge a class settlement at a low figure or on a less-than-optimal basis in exchange for red-carpet treatment for fees.” As for the defendants, they care only about minimizing their overall liability, and they are indifferent as to how the pot is split between lawyers and clients. Thus, if we are concerned about the potential for class action abuse, we will also be concerned about assuring that class action objectors—who do monitor the class lawyers’ conduct—have a full and fair opportunity to participate in the class action settlement process. 6

Second, lawyers representing objectors to class action settlements will never win a popularity contest. After all, objectors are very annoying to both the plaintiffs and the defendants. By the time objectors appear, the named parties have come to an agreement that will of ten affect the rights of tens of thousands of people, and involve tens or even hundreds of millions of dollars and a multi-million dollar attorneys’ fee request. By that time, the defendant has usually spent hundreds of thousands of dollars or more notifying the class, and it certainly does not want the deal to go sour. Even the district court, which has preliminarily approved the settlement and permitted the notice to be sent to the class, sometimes seems invested in approval. As Judge Richard A. Posner has put it, “with all the momentum that a settlement agreement generates, . . . the class members are presented with what looks like a fait accompli.” It is thus not surprising that, as one oft-cited Federal Judicial Center study found, 90 percent of federal class action settlements are approved without any substantive changes.

If we are concerned about the potential for class action abuse, we will also be concerned about assuring that class action objectors—who do monitor the class lawyers’ conduct—have a full and fair opportunity to participate in the class action settlement process.

One potential solution to the “fait accompli” problem is to insist that district judges carefully scrutinize class action settlements with such heightened awareness that they act as fiduciaries for the absent class. But that is not as easy as it sounds. The district court often cannot get the information it needs to fully assess the fairness and legality of the settlement. The settling parties, at one time adversaries, are now on the same side. Although Federal Rule of Civil Procedure 23(e) requires a “fairness hearing” at which the judge must assess the pros and cons of the settlement, the settling parties do not, of course, engage in an adversary presentation, but rather praise the settlement to the heavens, while ignoring its weaknesses or illegibilities. Judge Frank Easterbrook has bluntly put it:

"[A] settlement followed by a fairness hearing remains more like a contract than like litigation . . . [in which there is] a genuine contest. Representative plaintiffs and their lawyers may be imperfect agents of the other class members—may even put one over on the court, in a staged performance."

In sum, in this otherwise non-adversarial setting, objectors play an important role because they serve as counterweights to a process that heavily favors settlement approval and to participants who have an interest in cutting off debate.

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6 See, e.g., Deborah R. Hensler, et al., Class Action Dilemmas—Pursuing Public Goals for Private Gain 491-96 (Rand Inst. for Civil Justice 2000).
8 Mars Steel, 834 F.2d at 680-81.
10 See, e.g., Reynolds v. Beneficial Nat’l Bank, 288 F.3d 277, 280-81 (7th Cir. 2002); In re General Motors Corp. Pick-up Truck Fuel Tank Litig., 55 F.3d 768, 784 (3d Cir. 1995).
11 Kamilewicz v. Bank of Boston Corp., 100 F.3d 1348, 1352 (7th Cir. 1996) (Easterbrook, J., dissenting from denial of re-hearing en banc).
The Problem Pre-Devlin

To be sure, in the district court, objectors can try to counter this hydraulic pressure for approval, and occasionally they defeat settlements. But objectors’ counsel often find that, in fighting unfair and unlawful class action settlements, the appellate courts—which are more removed from these pressures—are more sympathetic to their arguments and more apt to establish legal principles that will protect the rights of absentees.

The settling parties understand this. So, for years, they waged an effort to prevent objectors from appealing, arguing that objectors did not have standing to appeal unless they first became intervenors in the district court. And, somewhat surprisingly, a fair number of circuit courts agreed. This reality made objector practice very difficult. At first, many objectors were caught unawares by the intervention requirements. After all, class action notices always affirmatively state that class members may object by filing a timely objection in the district court, and they never even hint that objectors must intervene to preserve their appellate rights. Moreover, even when absent class members were aware of the intervention requirement and did move to intervene, those motions were often denied on the ground that the objectors—the very people that the objectors opposed—adequately represented the objectors’ interests, or on the ground that the objectors’ intervention was untimely because they had not moved to intervene before the settlement was announced. Not only were appellate rights thus effectively undermined in many courts, but with appellate safety valves weakened, settling parties felt freer to make life even more difficult for objectors in the district court—filing their papers in support of the settlement on the eve of the fairness hearing, denying objectors access to relevant information, and making even more one-sided fairness hearing presentations.

Devlin to the Rescue

Then came Devlin. Writing for a seven-Justice majority, Justice Sandra Day O’Connor held that any class member who timely objects to a class action settlement may, like any other litigant facing an adverse final decision of a district court, appeal as of right to the court of appeals from the approval of a class action settlement. Devlin contained two key holdings. First, it rejected lower court decisions that characterized the issue as one of “standing.” Class members’ standing does not depend on having intervened in a class action in which they are already a member of the plaintiff class; they have standing to appeal, the Court held, for the same reason that they had standing to object: They are members of a class whose property or other interests are at stake in the approval of a class action settlement. Second, the Court rejected the notion, accepted by many courts of appeals, that class members must intervene as a prerequisite to appeal because, absent intervention, they are not “parties” to the action. To oversimplify somewhat, Rule 23(b)(1) and (b)(2) non-opt-out class actions generally involve claims solely for injunctive relief or similar relief that, as a practical matter, can only be afforded to the class as a whole. Devlin itself involved a Rule 23(b)(1) non-opt-out settlement. On the other hand, Rule 23(b)(3) class actions—which constitute the vast majority of class actions—apply to cases in which the class members have claims for monetary relief. In (b)(3) cases, class members must be allowed to opt out.

The effort to undermine Devlin began innocently enough, with a decision from the Arkansas Supreme Court holding that, under Arkansas’s counterpart to federal Rule 23, the right to appeal established in Devlin should apply only to members of mandatory class actions. Although Ballard interpreted only Arkansas Rule of Civil Procedure 23, it quickly had an effect in the federal courts. Just two months later, in In re General American Life Insurance Company Sales Practices


15 See, e.g., Cook v. Powell Buick Inc., 155 F.3d 758, 760 (5th Cir. 1998); Shulls v. Champion Intern. Corp.35 F.3d 1056 (6th Cir. 1994); Gottlieb v. Wiles, 11 F.3d 1004, 1006 (10th Cir. 1993).

16 For instance, in Bowling v. Pfizer Inc., 143 F.R.D. 141 (S.D. Ohio 1992), appeal dismissed, 1993 WL 533489 (6th Cir. Dec. 21,1993), the Sixth Circuit dismissed an appeal of a major nationwide settlement on the ground that the objectors had not intervened, even though prior reported decisions of that court held that non-intervening objectors had the right to appeal a class settlement. See, e.g., Sertic v. Clayhoga, Lake, Etc., Carpenters Dist. Council, 459 F.2d 579 (6th Cir. 1972).


18 Devlin, 536 U.S. at 6-7.

19 Id. at 6-7.

20 Id. at 8-9.

21 Id. at 9-10.

22 Id. at 10.

Litigation, the Eighth Circuit, relying on Ballard in dicta—dicta because the court dismissed the appeal as moot—proclaimed that limiting Devlin to mandatory classes “has considerable merit.” Last year, the Eleventh Circuit characterized “the point of Devlin” as “allow[ing] appeals by parties who are actually bound by a judgment, not parties who merely could have been bound by a judgment,” and explained that it was “this feature of Devlin” that led the Arkansas Supreme Court “to believe that it applies only to mandatory class actions.” The Eleventh Circuit also noted the Eighth Circuit’s “tentative approval” of limiting Devlin to mandatory class actions, but itself expressed no opinion on the issue, which was not presented in the case before it. And, recently, a Florida state appellate court, interpreting the Florida class action rule, held that Devlin applies only in mandatory class actions, expressing its agreement with the reasoning of the Arkansas Supreme Court and the Eighth Circuit.

Only two federal circuits have definitively decided the question, and, fortunately, both have held that Devlin applies to mandatory and opt-out classes. That being the case, this Article may seem alarmist. However, as explained further below, because it is now clear that settling parties will contest non-intervening objectors’ rights to appeal settlement approval in opt-out cases, objectors now find themselves in a difficult position. In most of the country, they must seek and be granted intervention, lest they risk losing their appellate rights down the road. That result is exactly what Devlin rendered unnecessary, and any movement in that direction should be nipped in the bud.

24 302 F.3d 799 (8th Cir. 2002); see also In re Wireless Telephone Federal Cost Recovery Fees Litig., 396 F.3d 922, 929-30 (8th Cir. 2005) (refusing to provide an advisory opinion on the issue because appellant only sought ruling on applicability of Devlin and did not object to settlement terms); Snell v. Alliance Life Ins. Co. of N. Am., 327 F.3d 665, 670 n.2 (8th Cir. 2003) (suggesting in dicta that Devlin does not apply to opt-out class actions).

25 Id. at 1310 n.7.


27 Churchill Village LLC v. General Electric, 361 F.3d 566, 572-73 (9th Cir. 2004); In re Integra Realty Resources Inc., 354 F.3d 1246, 1257 (10th Cir. 2004). The Seventh Circuit has considered the issue by objectors in an opt-out case, citing Devlin, without addressing a possible distinction between mandatory and opt-out class actions. In re Synthroid Marketing Litig., 325 F.3d 974, 976-77 (7th Cir. 2003). In an earlier pre-Devlin appeal in the same case, the Seventh Circuit reversed the district court’s denial of the objectors’ motion to intervene and heard the appeal on its merits. See In re Synthroid Marketing Litig., 264 F.3d 712, 715 (7th Cir. 2001). Moreover, at least two circuits have stated Devlin’s holding broadly, but have not addressed the mandatory vs. opt-out issue. See In re Rite Aid Corp. Securities Litig., 396 F.3d 294, 298 (3d Cir. 2005); In re Orthopedic Bone Screw Prods. Liab. Litig., 350 F.3d 360, 363 n.3 (3d Cir. 2003); In the Matter of Bridgestone/Firestone Inc. Tires Prods. Liab. Litig., 333 F.3d 763, 768 (7th Cir. 2003); see also Butchereld v. Kerr-McGee Corp., 246 F. Supp. 2d 525, 530 n.1 (N.D. Miss. 2003). A few state courts have also upheld broad no-intervention rules, relying on Devlin. See, e.g., City of San Benito v. Rio Grande Valley Gas. Co., 109 S.W.2d 750, 754-56 (Tex. 2003); Nicholson v. F. Hoffman LaRoche Ltd., 576 S.E.2d 363, 365 (N.C. App. 2003).

Devlin Means What It Says

The efforts at limiting Devlin to non-opt-out classes, and the Eighth Circuit’s “considerable merit” dictum, are based on one sentence from the Devlin opinion that, even allowed in isolation, does not support the limitation. Moreover, all other aspects of the ruling in Devlin indicate that it applies to opt-out, as well as non-opt-out, class actions.

First of all, the question presented on which the Supreme Court granted certiorari was not limited to mandatory classes, nor did it even mention that petitioner Devlin was a member of one.

More important, after describing the facts of the case and the procedures below, the Supreme Court explained why it had granted review: “We granted certiorari [citation omitted] to resolve a disagreement among the Circuits as to whether nonnamed class members who fail to intervene may bring an appeal of the approval of a settlement.” This statement of the question presented did not even hint that the ruling would be limited to mandatory classes.

The Court then cited the decisions that formed the split in circuit court authority. Almost all of the cases cited, including all of the decisions holding that intervention was not required to appeal from approval of a class settlement, were Rule 23(b)(3) opt-out class actions. It would have been spectacularly odd for the Supreme Court to have silently limited its holding to mandatory classes because such a holding would not have resolved the very question, and the very circuit split, that the Court claimed to be resolving.

Moreover, with the exception of its one reference to the non-opt-out nature of the Devlin case (discussed below), Devlin repeatedly described the issue before it broadly in ways that would encompass Rule 23(b)(3) opt-out class actions.
Finally, at the end of the Devlin opinion—the place where the Court tends to state its holding most definitively—the holding is not limited to mandatory class actions, but instead includes all class actions:

We hold that nonnamed class members like petitioner who have objected to approval of the settlement at the fairness hearing have the power to bring an appeal without first intervening.

The sole basis for the argument that Devlin applies only to mandatory classes is the following sentence from the Court’s opinion:

Particularly in light of the fact that petitioner had no ability to opt out of the settlement, see Fed. R. Civ. Proc. 23(b)(1), appealing the approval of the settlement is petitioner’s only means of protecting himself from being bound from a disposition of his rights he finds unacceptable and a reviewing court might find legally inadequate.

This sentence, even if it were the only indicator of the Court’s intent, does not support a limited reading of Devlin. The sentence describes Mr. Devlin’s difficult circumstances and thus was illustrative, in the Supreme Court’s view, of why an intervention requirement was unnecessary. The sentence includes no words of limitation. Quite the contrary, by premising the sentence with the word “particularly,” the Court indicated that the non-opt-out character of the Devlin class action was a special and additional, not a necessary, part of its rationale.

Limiting Devlin to Mandatory Classes Makes No Sense

Even if there were some doubt from the text of the opinion as to whether Devlin applies to all class actions, there would be no reason to resolve that doubt by limiting Devlin to mandatory classes. The argument in support of the limitation is premised on the notion that Rule 23(b)(3) class members who are dissatisfied with a settlement can opt out and, therefore, because they can escape the settlement’s binding effect, they do not need of taking an appeal.”

"Nor does considering non-named class members parties for purposes of bringing an appeal conflict with any other aspect of class action procedure.”

"To hold otherwise would deprive nonnamed class members of the power to preserve their own interests in a settlement that will ultimately bind them.”

"The ease with which nonnamed class members who have objected at the fairness hearing could intervene for purposes of appeal, however, it is difficult to see the value of the Government’s suggested requirement.”

Justice Antonin Scalia’s dissent gave no indication that he viewed the majority’s holding as applying only to mandatory classes. To the contrary, Justice Scalia decried the decision’s far-reaching effects on appellate courts, Devlin, 536 U.S. at 21-22 (Scalia, J., dissenting), a point hardly worth making if the decision were limited to the relatively few non-opt-out class actions.

Id. at 10-11.


37 Ballard, 79 S.W.3d at 837.


39 Id. at 11-14 (describing and rebutting government’s views, none of which made distinction between mandatory and opt-out class actions); id. at 12 (”Given the ease with which nonnamed class members who have objected at the fairness hearing could intervene for purposes of appeal, however, it is difficult to see the value of the Government’s suggested requirement.”).


41 See, e.g., Amchem Prods Inc v. Windsor, 521 U.S. 591,617 (1997) (“While the text of Rule 23(b)(3) does not exclude from certification cases in which individual damages run high, the Advisory Committee had dominantly in mind vindication of the rights of groups of people who individually would be without effective strength to bring their opponents into court at all.”) (quoting Kaplan, “A Prefatory Note,” 10 B.C. Ind. & Com. L.Rev. 497, 497 (1969)); Bell Atlantic Corp. v. Bolger, 2 F.3d 1304, 1309 (3d Cir.1993).

42 See Churchill Village, 361 F.3d at 572.

43 Cf. Devlin, 536 U.S. at 11-14 criticizing Solicitor General’s proposed intervention requirements in large part because it would engender wasteful litigation and provide little or no countervailing benefit.

First, except for so-called “settlement classes,” where certification and settlement take place simultaneously,38 class certification, and thus the right to opt out, occurs in advance (sometimes years in advance) of settlement. Under a recent amendment to the federal class action rule, district courts have discretion to allow a second opt-out when a case settles, but they are not required to do so.39 In opt-out cases where class members are not provided the right to opt out at settlement, it is difficult to see how an appealing objector’s situation differs at all from the situation in which Mr. Devlin found himself.

Second, and more important, it is well understood that in many, and possibly most, Rule 23(b)(3) class actions, the opt-out right is not meaningful. In the quintessential Rule 23(b)(3) class action, the class members have relatively modest amounts at stake. Take, for instance, a situation where class members claim that their credit card company defrauded them by imposing an unlawful fee or that they were victimized by stock price manipulation that, while providing a huge windfall to company insiders, harmed the class members for relatively small amounts per share. Absent unusual circumstances, these class members would not rationally opt out because their cases are not valuable enough to support individual litigation. Indeed, the main goal of the modern damages class action is to aggregate relatively small claims that otherwise would not be redressed.40 Thus, for all practical purposes, most class members in opt-out class actions facing an unfair or unlawful class action settlement find themselves identically situated to their counterparts in mandatory class actions.41 For both, the only practical way to fight the settlement is to object in the district court and appeal if the district court approves it.

Moreover, whatever one might have thought before Devlin about the question whether intervention should be required, one benefit of an all-inclusive, no-intervention rule is that it will avoid satellite litigation concerning intervention. Prior to Devlin, there was an enormous amount of such litigation.42 Devlin, it seemed, had put an end to all of that. Now, sadly, for objectors in Rule 23(b)(3) class actions—which, as noted, comprise most class actions—unless they are in the Ninth or Tenth Circuits, would be well advised to move to intervene, because they cannot be sure what the rule
Thus, the satellite litigation over intervention will continue, but with a new twist: It will involve another round of litigation concerning whether *Devlin* extends to opt-out class actions.

This is a most unhappy prospect. Although I am confident that most, if not all, appellate courts will eventually agree that *Devlin* applies to opt-out class actions, in the meantime, we are in for more litigation, with the potential to undermine objectors’ rights. And perhaps once is not enough. Ultimately, the Supreme Court may have to say again what it already said in *Devlin*: A non-intervening absent class member who files a timely objection to a proposed class action settlement has a right to appeal approval of that settlement to a federal court of appeals.

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43 See *Thompson v. Metropolitan Life Ins. Co.*, 216 F.R.D. 55, 69 (S.D.N.Y. 2003) (case in which, in light of Arkansas Supreme Court’s decision in *Ballard*, objectors “filed their motion to intervene out of an abundance of caution to preserve their right to appeal”).