

Ninth Circuit Affirms State Court's Authority to Approve Class Action Settlements

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March 28, 2022

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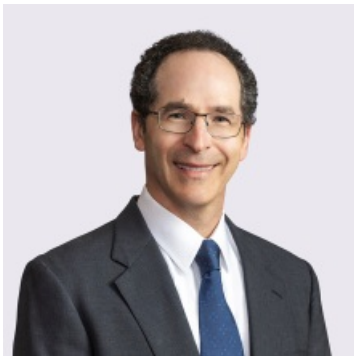
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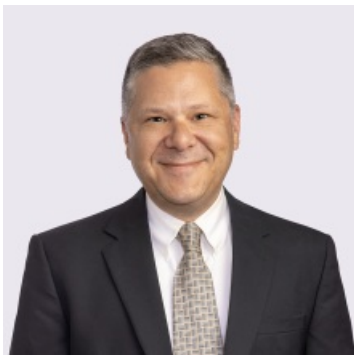


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Absent class members in state-court class actions cannot pursue individual claims in federal court when the class has entered into a settlement releasing all such claims and a state court has entered final judgment approving the settlement, a panel of the U.S. Court of Appeals for the Ninth Circuit has held. *Moreno v. UtiliQuest, LLC*, No. 21-55313 (Mar. 18, 2022).

In this case, a California superior court made specific findings that the appellant had been given proper notice of the state-court class action and the resulting settlement was “fair, adequate, and reasonable.” That was enough to satisfy the federal appeals court, which gave full faith and credit to the state court judgment.

The Ninth Circuit has jurisdiction over Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon, and Washington.

Background

After he was terminated from his field technician job at UtiliQuest, LLC, Cesar Moreno filed suit in federal court asserting wage claims for travel time and meal period pay. According to his complaint, he was not properly paid for time spent between his home and the first and last job sites of the day. He also claimed that, because of the nature of his job duties, he was unable to take uninterrupted 30-minute meal periods (and he was not compensated for these missed meal periods).

The district court dismissed his claims, finding that Moreno failed to assert a claim upon which relief could be granted.

Moreno appealed the dismissal of these and other claims related to his discharge. Days before oral argument, UtiliQuest informed the Ninth Circuit that it had settled a wage and hour suit brought in California court involving a class of employees who, like Moreno, had used company vehicles to commute to and from their worksites. The class settlement was finalized on November 29, 2021, and, on December 1, 2021, a California superior court entered an order granting final settlement approval. Pursuant to the settlement, the class members released all wage and hour claims.

Moreno did not opt out of that class settlement. Therefore, he was bound by the settlement, and his individual wage claims were moot, UtiliQuest argued.

Full Faith and Credit

The Ninth Circuit agreed with UtiliQuest. It held that the state court’s final judgment granting settlement approval was entitled to full faith and credit and precluded Moreno’s claims.

The U.S. Supreme Court’s decision in *Matsushita Elec. Indus. Co. v. Epstein*, 516 U.S. 367 (1996), controls the outcome, the appeals court explained. The plaintiffs in *Matsushita* (a

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securities class action) appealed dismissal of their claims to the circuit court. While that appeal was pending, a related state-court class action settlement was finalized. The plaintiffs had not opted out of the state-court class, and the operative settlement in that case expressly released the federal claims then on appeal. The Ninth Circuit in *Matsushita* held the settlement was *not* a bar to further prosecution of the federal court claims. The Supreme Court reversed, however, holding that the appeals court should have applied the federal Full Faith and Credit Act, which requires a federal court to give a state-court judgment the same effect the judgment would have in the courts in the state where the judgment was rendered.

The same principle applies in this case, the appellate panel explained. Therefore, it had to apply California law to determine what preclusive effect the state court's judgment would have in California courts.

California Claim Preclusion

In California, claim preclusion applies when:

1. There was a final decision on the merits in a prior proceeding;
2. The current proceeding is based on the same cause of action as the prior proceeding;
and
3. The parties in the current proceeding (or parties in privity with them) were parties in the prior proceeding.

These conditions were all met in this case, the Ninth Circuit ruled. The court-approved settlement constituted a final judgment on the merits. While California law provides that a judgment is not considered final if an appeal is pending or could as yet be filed, in this instance, the Ninth Circuit found the parties to the state-court settlement had agreed to waive any appeals unless the state court entered an order that altered the terms of the settlement in a material way. Further, the time to appeal the judgment lapsed on January 30, 2022, meaning the judgment was now final.

Moreno was an absent class member in the state-court action, and he did not contest that the settlement release covered his claims now before the Ninth Circuit. In addition, he conceded that he received notice of the settlement and had not timely opted out. Additionally, he had not formally intervened or filed a motion to vacate the judgment and been denied such relief. Therefore, the Ninth Circuit said, Moreno was not entitled to appeal that judgment — and he gave no indication he intended to do so, at any rate. Rather, Moreno argued he had implicitly opted out of that settlement by maintaining the present federal court action. Failing that, Moreno sought permission to file a late opt-out in the state-court case.

However, the Ninth Circuit said, “He raises these issues in the wrong court. A federal court’s broad collateral review of a state court class action judgment would be inappropriate.” Granting deference to the California superior court, the panel concluded Moreno had been given a “full and fair opportunity” in the prior case to litigate the underlying issue. That sufficed to withstand the appellate court’s limited review. Concluding that Moreno’s wage and hour claims were precluded, the appeals court affirmed dismissal.

The Ninth Circuit’s decision offers a measure of reassurance to employers that state-court

settlements resolving class action disputes and the underlying claims will be honored by federal courts, and that absent class members cannot evade the terms of such settlements by seeking recourse in a federal jurisdiction.

Please contact a Jackson Lewis attorney with any questions about this case.

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