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STATE OF WYOMING )

IN THE DISTRICT COURT

COUNTY OF CAMPBELL )

SIXTH JUDICIAL DISTRICT

Civil Action No. 26827

Patsy L. Larson and Duane D. Odegard, )

Plaintiffs, )

vs. )

Devon Energy Production Company, )  
L.P., an Oklahoma limited partnership, )  
and Devon Energy Management Company, )  
L.L.C., an Oklahoma limited )  
liability company, )

Defendants. )

FILED NO. )  
CIVIL [ ] PROBATE [ ] CRIMINAL [ ]  
ADOPT [ ] DEL [ ]

JUL 13 2006

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DEPUTY CLERK OF DISTRICT COURT

**MOTION FOR CONDITIONAL CONSIDERATION OF  
SETTLEMENT AGREEMENT AND PROVISIONAL CERTIFICATION  
OF THE DEVON SETTLEMENT CLASS**

Plaintiffs, on their behalf and as representative of all similarly situated persons, by and through one of their attorneys, moves this Court for an "Order on Plaintiffs' Motion for Preliminary Approval, Hearing and Provisional Certification of the Devon Settlement Class," and respectfully requests this Court to order that:

1. The above entitled action involving Devon Energy Production Company, L.P., an Oklahoma limited partnership, and Devon Energy Management Company, L.L.C., an Oklahoma limited liability company ("Devon"), which was severed from two actions that also included numerous co-defendants, can and should proceed as a settlement class action pursuant to Wyo.R.Civ.P. 23 on a provisional basis;

2. The settlement of the potential class claims, including those brought under the Wyoming Royalty Payment Act (W.S. § 30-5-301, et seq.), in accordance with the Settlement Agreement dated effective July 10, 2006 ("Settlement Agreement") together with all exhibits thereto (a copy of which is attached hereto as Exhibit 1), appears to be fair, reasonable and equitable; and

3. Dates shall be set by which class members may opt out of the class, file objections and revoke prior elections to opt out as well as for a final hearing.

In support of this Motion, the Plaintiffs present to the Court as evidence in this matter: (1) the Settlement Agreement - Exhibit 1; and (2) a copy of the proposed Notice of Proposed Class Action Settlement to be sent to class members - Exhibit 2.

#### **I. INTRODUCTION AND BACKGROUND**

Plaintiffs, on behalf of themselves and on behalf of those similarly situated, filed an Amended Complaint on November 14, 2005, against Devon Energy Production Company, L.P., an Oklahoma limited partnership, and Devon Energy Management Company, L.L.C., an Oklahoma limited liability company, the Defendants in this action, challenging valuation for royalty calculation purposes, deductions in volume and deductions of costs from their royalties on natural gas and associated hydrocarbons from coal bed seams ("Shallow Gas") in Campbell County, Johnson County and Sheridan County, Wyoming.

In the Amended Complaint, the Plaintiffs, on behalf of themselves and a class of royalty payees, sought declaratory and injunctive relief as well as monetary damages for Devon's alleged violations of leases, instruments and the Wyoming Royalty Payment Act.

Commencing in March 2005, Devon and the Plaintiffs began settlement negotiations. Subsequent to the execution of a Confidentiality Agreement and receipt from Devon of substantial data and information, those settlement negotiations accelerated. In October 2005, attorneys for the parties reached a proposed settlement framework for the compromise of disputed claims, which the attorneys then presented to their respective clients for consideration and general approval. Plaintiffs' counsel presented the proposed settlement framework to the named plaintiffs in person and by telephone conferences. Without exception, the named plaintiffs directed Plaintiffs' counsel to go forward with the proposed settlement framework.

The Settlement Agreement, as presented to the Court:

(1) establishes the potential class members;

(2) settles all past Gas Royalty Claims (including Valuation and Disputed Deductions), Reporting Claims and Interest Claims by (i) providing a settlement amount of \$585,000.00 from which each class member would receive a minimum settlement amount of \$100.00 plus the class member's pro rata share of the balance of the settlement fund measured by the members gas volume divided by the total gas volume, and (ii) confirming that Devon will continue in the future to use a Future Royalty Payment Methodology by which Devon will pay class members' royalties for future gas produced from Devon Wells based on the total proceeds received from the first arms-length sale of the gas with only specifically defined and limited Permitted Deductions; and

(3) provides for Devon to pay an additional amount in settlement of attorneys fees, costs, and settlement administration costs.

In addition to the benefits to class members stated in the Settlement Agreement, the agreement also contains provisions for all members of the class to release Devon and Additional Released Parties as defined in the Settlement Agreement for Settled Claims, excluding certain reserved claims which mainly consist of claims that could arise out of any clerical errors in accounting for the volumes, price, value or decimal interest reported by Devon. The entire terms of the release are contained in the Settlement Agreement. However, the release may be summarized as releasing Devon for: (1) all past Gas Royalty Claims; (2) past Reporting Claims; (3) Future Gas Royalty Claims, contingent upon Devon's compliance with the Future Royalty Payment Methodology; and (4) future Reporting Claims contingent upon Devon's compliance with the Future Royalty Payment Format.

Plaintiffs and Devon have agreed that Six Hundred Seventy-Six Thousand Seven Hundred Twenty-Five Dollars (\$676,725.00) shall be the settlement amount consisting of: (1) Five Hundred Eighty-Five

Thousand Dollars (\$585,000.00) to be distributed to class members ("Distribution Amount"), (2) Seventy-Five Thousand Dollars (\$75,000.00) to be distributed to Class Counsel in complete payment of attorneys fees and (3) Sixteen Thousand Seven Hundred and Twenty-Five Dollars (\$16,725.00) reimbursed to Class Counsel for costs and settlement administration expenses (items (2) and (3) collectively "Litigation Expenses").

Upon final approval of the Settlement Agreement, the Settlement Amount shall be paid by wire transfer to a trust account designated by class counsel. The distribution to class members shall be done by class counsel, and the costs of check preparation and mailing shall be paid by class counsel. All interest earned in the escrow, if any, shall be treated as interest earned on an IOLTA account and distributed accordingly. Should there be a change in the law regarding the interpretation of the *Wyoming Royalty Payment Act* either by the Wyoming Legislature or the Wyoming Supreme Court, Devon can not recover retroactively any Disputed Deductions or other Settled Claims.

## **II. POTENTIAL MEMBERS OF THE SETTLEMENT CLASS AND JURISDICTION**

With regards to the identity of potential members of the Settlement Class, counsel for Plaintiffs obtained from Devon a list of royalty payees that Devon has paid since first production. That list was reviewed by the parties to remove: (a) governmental entities; (b) royalty payees also having working interests deemed to be potentially antagonistic to the other class members; and (c) royalty payees whose leases or overriding royalty instruments contain provisions regarding deductions which are more stringent than those contained in the Wyoming Royalty Payment Act. A list of the royalty payees constituting the proposed Settlement Class is attached to the Settlement Agreement as Exhibit A. Devon also provided electronic information concerning the historical quantity, value and deductions for each class member. Devon has represented and warranted that the electronic data that it has produced is true

and accurate to the best of Devon's knowledge. Should the Court grant Plaintiffs' Motion, notices substantially in the form of Exhibit 2 to this Motion will be sent to each potential class member by priority mail with provision for electronic confirmation that the article containing the Notice has been delivered to the specified address.

### III. THE REQUIREMENTS OF RULE 23(a) AND (b).

#### A. Numerosity

Wyo.R.Civ.P. 23(a)(1) requires "[t]he class [be] so numerous that joinder of all members is impracticable." As identified in Exhibit A to the Settlement Agreement, there are over 1,115 potential members of the Settlement Class. This number of potential members of the Settlement Class meets the numerosity requirement. There is no fixed number of class members that is *per se* "numerous," but it was held in a pre-amendment case that a class of only 11 mineral owners was sufficiently numerous. Jones Oil Corp. v. Claro, 459 P.2d 858, 862 (Okla. 1969). On the other hand, 3 HERBERT B. NEWBERG AND ALBA CONTE, NEWBERG ON CLASS ACTIONS § 3.05 (3rd ed. 1992) advises that the numerosity test is satisfied by numbers alone when the size of the class is in the hundreds. See also Rex v. Owens, ex. rel. State of Oklahoma, 585 F.2d 432, 436 (10th Cir. 1978) (citing Arkansas Educational Ass'n. v. Board of Education, 446 F.2d 763 (8th Cir 1971) (17 to 20 persons are identified as a class); Afro American Patrolmen's League v. Duck, 503 F.2d 294 (6th Cir. 1974) (35 members are a class); McCown v. Heidler, 527 F.2d 204 (10th Cir. 1975) (262 lot purchasers are a class)' or Penn v. San Juan Hospital, Inc., 528 F.2d 1181 (10th Cir. 1975).

#### B. Commonality

Wyo.R.Civ.P. 23(a)(2) requires that "[t]here are questions of law or fact common to the class." The Rule 23(a)(2) "commonality" requirement is merely that there are common questions of law and fact, not that all issues need to be identical or even that the common issues predominate. As cases have stated, the Rule 23(a)(2) commonality requirement is satisfied if at least one question of law

or fact is shared by the named plaintiff and the prospective class members. Baby Neal v. Casey, 43 F.3d 48, 56 (3d Cir. 1994); Krell v. The Prudential Insurance Company of America, 148 F.3d 283, 300 (1998); and Tana Oil and Gas Corporation v. Bates, 978 S.W.2d 735 (Tex. App. 1998).

Here, Devon acknowledges treating royalty owners in the Settlement Class similarly for the purposes of settlement. There are also common questions of law that have governed the settlement. Lease Oil Antitrust Litigation, 186 F.R.D. 403, 420-421 (S.D. Tex. 1999). For a class to be certified, the legal and remedial theories for the class representatives and the proposed class members' claims must be similar, i.e., there must be a nexus between the injuries suffered by the representative and the injuries suffered by other members of the class. Lobo Exploration Company v. Amoco Production Company, 991 P.2d 1048 (Ok. App. 1999); Dresser Industries, Inc. v. Snell, 847 S.W.2d 367, 372 (Tex. App. 1993).

As part of the settlement, each member's claims are being resolved in a similar manner. Payments to settlement class members are based on a minimum \$100 payment with the balance of the settlement fund distributed among class members based upon the quantities on which each class member was originally paid. Distribution is done on a proportionate basis. Therefore, for settlement purposes, Plaintiffs claims are common and typical.

#### C. Adequacy of the Named Class Representatives

Another requirement under Rule 23(a) is that the representative parties fairly and adequately protect the interests of the class. The "adequacy" element is comprised of essentially two parts: (1) class counsel must be qualified and experienced; and (2) the proposed representative(s) must not have interests antagonistic to the proposed class members. 1 HERBERT B. NEWBERG AND ALBA CONTE, NEWBERG ON CLASS ACTIONS AT § 3.21 AT 1-113 (3rd ed. 1992).

#### 1. The Named Plaintiffs and Designated Class Representatives

All of the named Plaintiffs in this case own royalty interests in Devon Wells. The named Plaintiffs are receiving their settlement

under the same formula that will be employed to determine payments due to any other potential class member.

The Designated Class Representatives are the owners of mineral royalties and/or overriding royalties, reside within Campbell County, Wyoming, and are fairly representative of the Settlement Class.

## 2. Plaintiff's Counsel

Plaintiffs' attorneys have each been admitted to practice in Wyoming in excess of twenty-eight years, and have been extensively involved in oil and gas valuation issues for more than fifteen years. Freudenthal, Salzburg & Bonds, P.C. has represented numerous governmental entities in tax valuation disputes with oil and gas producers. Mr. Schrinar served as Commissioner of Public Lands for the State of Wyoming for approximately ten years where he had responsibility for administering the leasing of state minerals and royalty collections for state leases. Both Mr. Freudenthal and Mr. Salzburg were active participants in the statutory class action proceedings for the Big Horn Adjudication. The Plaintiffs request that their attorneys be designated as Class Counsel.

## D. The Superiority of a Class Action as a Fair and Effective Means of Settlement and Adjudication of This Controversy

Since the Plaintiffs have sought class certification against Devon both under Rule 23(b)(2) and Rule 23(b)(3), and the settlement provides for the distribution of the proceeds of the settlement, it is important to discuss the requirements of Rule 23(b)(3). The important considerations here are whether common issues predominate and whether a class action is superior to alternative methods of adjudication. As noted above, the distribution of settlement funds based on each member's gas volumes on which royalties have been paid necessarily involves an equitable resolution of the common issues from which the common settlement funds were developed. The requirements for Devon to continue the royalty payment methodology and reporting format will provide potential class members with certainty regarding the information concerning the calculation of their royalties in the future. These benefits extend to 1,100 plus

royalty payees. A class settlement is simply the only way such results can be obtained for such a significant group of individuals.

The questions of law and fact common to the members of the Settlement Class predominate over any questions affecting only individual members. A settlement class action under Wyo.R.Civ.P. 23 is superior to other available methods for the fair and effective settlement and adjudication of the controversy. For the purposes of this Motion, the Parties would ask that the Court find this matter meets the numerosity, commonality, adequacy and typicality requirements of Wyo.R.Civ.P. 23(a) as well as the requirements set forth in Rule 23(b)(3).

#### **IV. FAIRNESS AND REASONABLENESS OF THE SETTLEMENT**

Plaintiffs' counsel believes the issues before the Court are complex, and there is an uncertainty as to the outcome of the litigation should it proceed to trial or to the Wyoming Supreme Court. Should this matter proceed to trial, it is believed that many issues will be contested making the litigation of this matter extremely time consuming and costly. Pursuant to the terms of the Settlement Agreement, each potential member of the Settlement Class who elects to participate in the Settlement will receive a settlement amount proportionate to that member's gas volume which served as the basis for prior royalty payments; this amount will not be reduced by attorneys fees, costs or settlement administration expenses which are being paid by Devon in settlement of attorneys fees, costs, statutory interest and statutory penalties. For purposes of achieving settlement, Plaintiffs' attorneys have reduced the thirty percent (30%) contingent fee to an amount less than fifteen percent of the total recovery (after deducting costs and settlement administration expenses). While a number of class members in the Devon Settlement Class will receive a minimal settlement amount (but not less than \$100.00) as their interest are either very small, or such individuals only owned an interest for a short period of time and others have succeeded to their interests, in the absence of a class settlement, they would be unlikely to



recover anything because no single member's interest is large enough to justify the time and expense involved in pursuing the matter. The class members will receive their settlement amount after attorneys' fees, costs and settlement administration expenses which are stated in the Settlement Agreement and shall not exceed 15% of the Devon Settlement Amount.

As set forth above, the Plaintiffs and Devon believe the settlement is fair and reasonable considering the inherent risks of litigation and the probable delays to be encountered.

The certification of the Settlement Class and the Settlement Agreement, however, is only for the purpose of settlement and not for any other purpose in this litigation. This Court's certification would be subject to its further review of objections, if any, filed with regard to the class settlement. If settlement of the class claims is not finalized, the certification shall be void and have no further effect. As a result, Plaintiffs and Devon would ask the Court to recognize the contingent effect of the Settlement.

#### **V. NOTICE TO POTENTIAL MEMBERS OF THE SETTLEMENT CLASS**

Attached as Exhibit 2 is a proposed "Notice of Proposed Class Action Settlement" ("Notice") for the Court's review and approval. Should the Court enter the Order sought by Plaintiff, Wyo.R.Civ.P. 23 requires each potential member of the Settlement Class receive the "best notice practicable under the circumstances." The Notice attached hereto as Exhibit 2 assures that each potential class member will receive the individual information necessary to effectuate proper notice. The notice, among other things, (1) describes the terms of the settlement as well as provides an opportunity for class members to receive relevant documents either electronically or in paper copy; (2) describes the release that Devon and the Additional Released Parties will be given; (3) provides class members an opportunity to either opt out of the class or object to the settlement; and (4) provides that attorney's fees, costs and settlement administration expenses will be less than 15%

of the gross Devon Settlement Amount. Plaintiffs submit that the proposed Notice complies with Wyo.R.Civ.P. 23 and should be sent via priority mail to all potential members of the Settlement Class as identified in Exhibit A to the Settlement Agreement.

## **VI. CONCLUSION**

For the reasons described herein, the Plaintiffs respectfully requests that the Court find and order as follows:

1. Plaintiffs filed a suit against Devon alleging individual claims and class action claims. After extensive negotiations and exchange of information, the parties agreed to settle this action on the terms now memorialized in the Settlement Agreement, executed by and between the parties (the "Settlement Agreement"). The Settlement Agreement and its Exhibits A through D, as attached to this Motion as Exhibit 1, shall be incorporated into the Order by reference as if fully set forth therein. All capitalized terms used in the Order and not defined therein shall have the meanings set forth in the Settlement Agreement. In the event of any conflict between the descriptions in these paragraphs and the more detailed terms of the Settlement Agreement, the Settlement Agreement shall govern.

2. This suit involves claims brought under leases, other instruments and the Wyoming Royalty Payment Act, Wyo. Stat. § 30-5-301 et seq. for Disputed Deductions, Valuation Claims, Statutory Interest, Statutory Reporting Assessments and Attorneys' Fees, as those terms are defined in the Settlement Agreement.

3. The Court has jurisdiction and venue over this suit and the Settlement Class. Under Wyo.R.Civ.P. 23(e), this Court's approval of any settlement is required.

4. The Settled Claims as defined in the Settlement Agreement all arise from the same nucleus of operative facts and form part of the same case or controversy as alleged against Devon in Plaintiffs' Amended Complaint so that all of the claims approved for settlement by this Order were or could have been asserted as class claims in this Action.

5. There are in excess of 1,100 Settlement Class Members and they are so numerous that joinder is impractical.

6. There are questions of law and fact common to the Settlement Class Members and Plaintiffs.

7. The questions of law and fact common to the Settlement Class Members predominate over any questions affecting only individual members, and in the context of this settlement only, the settlement of Settlement Class Members' claims by a class action under Wyo. R. Civ. Proc. 23 is superior to other available methods for the fair and effective settlement and adjudication of this controversy.

8. Plaintiffs' claims are typical of the Settlement Class Members' claims.

9. Plaintiffs and Designated Class Representatives are appropriate representatives of the Settlement Class and have and will adequately represent the interests of the Settlement Class Members

10. Settlement Class Members have no special interest in individually controlling the prosecution of separate actions.

11. Class Counsel is experienced and fully qualified.

12. No significant difficulties are likely to be encountered in the management of the action as a class action for settlement purposes only.

13. Devon has acted or refused to act on grounds generally applicable to the class, thereby making appropriate final injunctive relief or corresponding declaratory relief with respect to the class as a whole.

14. Subject to the provisions of Paragraph 17 and in accordance with the provisions of Wyo.R.Civ.P. 23, the Court certifies as potential members of the Devon Settlement Class the Royalty Payees as set forth in Exhibit A to the Settlement Agreement ("Settlement Class").

15. The Court approves the Designated Class Representatives as representative of this Settlement Class and appoints Plaintiffs' counsel to represent the Settlement Class ("Class Counsel").

16. The Court finds that the proposed settlement as provided in the Settlement Agreement is fair and reasonable under the circumstances. This finding and determination is subject to the Court's further review of objections, if any, filed with regard to the class settlement according to the terms of the Settlement Agreement.

17. The certification of the Settlement Class is only for the purpose of settlement and not for any other purpose in this litigation. This certification is subject to the Court's further review of objections, if any, filed with regard to the class settlement according to the terms of the Settlement Agreement. If the settlement is not finalized, the certification provided herein shall be void and have no further effect.

18. The Court finds that reasonable and adequate notice will be given to potential Settlement Class Members by providing the notice found in Exhibit 2 attached to this Motion ("Notice").

19. The Court finds that reasonable and adequate notice of the settlement will be given to potential members of the Settlement Class if the Notice is sent by priority mail (with electronic confirmation of delivery) to each Potential Class Member's last known address.

20. A hearing to consider objections, if any, to the Settlement Class and to finally determine if the Settlement Agreement is fair and equitable shall be heard at the Campbell County Courthouse, Gillette, Wyoming on a time and date set by the Court ("Final Settlement Hearing").

21. Any Potential Class Member who desires to be excluded from the Settlement Class shall deliver in writing that Member's election to be excluded to Class Counsel and Devon Counsel on or before August 23, 2006 ("Deadline for Exclusion"). Any Potential Class Member may revoke that Member's election to be excluded from the

Settlement Class by delivering such written revocation to Class Counsel and Devon Counsel in writing at least six (6) days prior to the Final Settlement Hearing. Class Counsel shall file with the Court a report ("Class Counsel's Report") four (4) days before the Final Settlement Hearing to provide to the Court a compilation of (a) all Potential Class Members who have opted out of the Settlement Class ("Opt Out Claimants"), (b) all Opt Out Claimants who have properly revoked their election to opt-out and (c) those Potential Class Members who shall constitute the Settlement Class if finally approved by the Court at the Final Settlement Hearing.

22. Any objections to the Settlement Agreement or the Settlement Class shall be in writing and delivered to Class Counsel and Devon Counsel on or before August 23, 2006. Class Counsel shall file with the Court as part of Class Counsel's Report a compilation of the objections and Class Counsel's responses to the objections, if any.

WHEREFORE, the Plaintiffs respectfully request that the Court grant this motion and enter its "Order on Plaintiff's Motion for Conditional Consideration of Settlement Agreement and Provisional Certification of the Devon Settlement Class."

DATED this 12th day of July, 2006.

Plaintiffs:

BY:



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(307) 634-2240

ATTORNEYS FOR PLAINTIFFS

**CERTIFICATE OF SERVICE**

I hereby certify that on this 12th day of July, 2006, I served the foregoing by placing a true and correct copy thereof in the United States mail, postage prepaid and properly addressed (or as otherwise indicated) to the following:

Richard E. Day  
Williams, Porter, Day & Neville, P.C.  
159 North Wolcott,  
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P.O. Box 10700  
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**HAND DELIVERED**

Susan Stipe  
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**HAND DELIVERED**

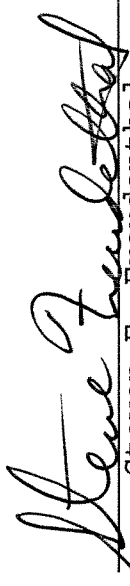
  
Steven F. Freudenthal

Exhibit 1: Settlement Agreement with Exhibits A, B, C and D  
Exhibit 2: Form of Notice of Proposed Class Action Settlement