

A car manufacturer produced a car that was sold nationwide. Problems with the car's brakes allegedly caused several accidents and injuries. Two individual buyers of the car each filed a class action, in different states, against the manufacturer, asserting the same products liability claims on behalf of all buyers nationwide. One class action was filed in federal court and the other was filed in state court.

The parties in the federal action reached a court-approved settlement, and the court entered judgment dismissing the action with prejudice.

The manufacturer's attorney has moved to dismiss the state court action on the basis of res judicata (claim preclusion).

Should the state court look to federal or state law to decide the effect of the judgment?

- A. Federal law, because the judgment was entered in federal court.
- B. Federal law, because the judgment was the result of a nationwide action governed by the federal class action rule.
- C. State law, because the judgment is being asserted in a state court.
- D. State law, because there is no federal common law and preclusion is a common law doctrine.

### Explanation:

The doctrine of **res judicata** (ie, claim preclusion) provides that a valid final judgment on the merits precludes a party from litigating an identical claim against the same party in a second action. The court presiding over the second action must decide the **judgment's preclusive effect** by applying the correct law:

- If the judgment was entered in **state court**, then that **state's law** applies to the second action.
- If the judgment was entered in **federal court**, then **federal law** applies to the second action.

Here, a judgment dismissing the class action with prejudice (ie, on the merits) was entered in federal court. As a result, the state court presiding over the pending action should look to federal law to determine the preclusive effect of the federal court's final judgment.\*

\*Pursuant to federal common law, a federal court sitting in diversity will apply the law of the state in which the court sits.

**(Choice B)** The applicable claim-preclusion law depends on which court entered the judgment—not the law the judgment was based on. Therefore, the fact that the judgment was the result of a nationwide action governed by the federal class action rule (ie, [FRCP 23](#)) is irrelevant.

**(Choice C)** The court in which the judgment was entered (not asserted) determines the applicable law for evaluating the judgment's preclusive effect. Here, judgment was entered in federal court so federal law applies.

**(Choice D)** Federal common law does exist and includes the doctrine of claim preclusion.

### Educational objective:

If a valid final judgment on the merits was entered in state court, then the court presiding over a subsequent action involving the same claim and parties must apply that state's claim-preclusion law to the second action. But if judgment was entered by a federal court, then federal law applies.

**FRCP** = Federal Rule of Civil Procedure

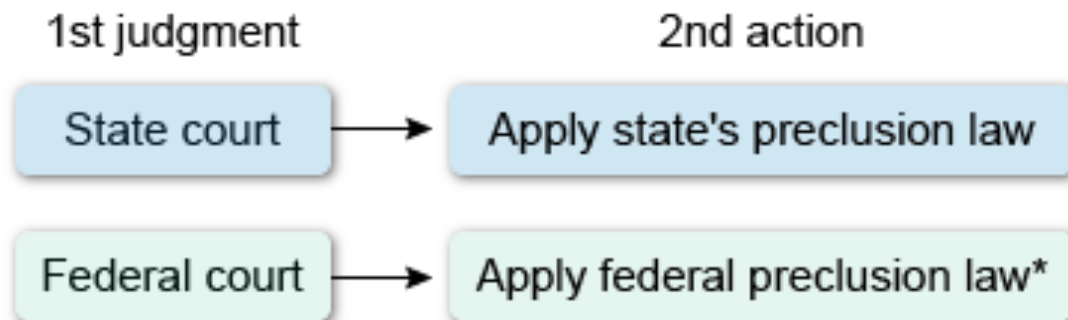
### References

- *Semtek Int'l Inc. v. Lockheed Martin Corp.*, 531 U.S. 497, 508 (2001) (holding that federal common law governs the preclusive effect of a judgment entered by a federal court).

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## Choice of law for preclusion



\*Federal court sitting in diversity will likely apply the law of the state where it sits

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