

A plaintiff from State A sued a defendant from State B for allegedly breaching a contract formed and executed in State B. Suit was filed in a federal district court in State A for \$250,000 in damages. The defendant moved to dismiss the action for improper venue. A hearing was held so the parties could make arguments and present evidence of proper venue. During the hearing, the parties' arguments drifted beyond venue and into the more substantive aspects of their action, including the existence of a valid contract. After the hearing, the federal court granted the defendant's motion and entered a judgment dismissing the action based on improper venue. When announcing its judgment, the court mentioned that based on the arguments it heard at the hearing, it had doubts as to whether the parties formed a valid contract.

The plaintiff subsequently sued the defendant in a state court in State B on the same breach-of-contract claim. The defendant filed an answer in which it asserted the defense of res judicata (claim preclusion).

Is the defendant likely to succeed on this defense?

- A. No, because the judgment was entered by a federal court and the second lawsuit was filed in a state court.
- B. No, because the judgment was not on the merits.
- C. Yes, because the actions involve the same parties and the same claim.
- D. Yes, because the judgment was entered after a hearing in which both parties presented evidence.

## Explanation:

After a valid final judgment on the merits of a claim has been entered, the defense of **res judicata** (ie, claim preclusion) can be raised if the same parties raise an identical claim in a subsequent action. A **final judgment is on the merits** when it is based on the **substantive elements** of a claim or defense, rather than technical or procedural grounds. Therefore, judgments **not on the merits** include dismissals based on:

- lack of **subject-matter jurisdiction**—ie, a court's authority to hear a particular type of case
- lack of **personal jurisdiction**—ie, a court's authority over the parties before it
- invalid **party joinder**—ie, adding parties to a suit
- improper **venue**—ie, the geographical location of the court that will hear a suit

Here, the federal court in State A made an oral comment regarding the merits of the plaintiff's action, but it entered a final judgment dismissing the action for improper venue. Therefore, the final judgment was *not* on the merits and the defense of res judicata does not apply in the second action—even though it involves the same parties and the same claim (**Choice C**).

**(Choice A)** A state court must give full faith and credit to a prior judgment entered by a competent federal court. So had the federal judgment been a final judgment on the merits, the State B court would have been required to give the judgment preclusive effect.

**(Choice D)** The fact that the judgment was entered after a hearing in which both parties presented evidence is irrelevant. The determining factor is whether the hearing resolved the parties' dispute on a procedural or technical ground (*not* on the merits) OR on the *substantive* elements of a claim or defense (on the merits).

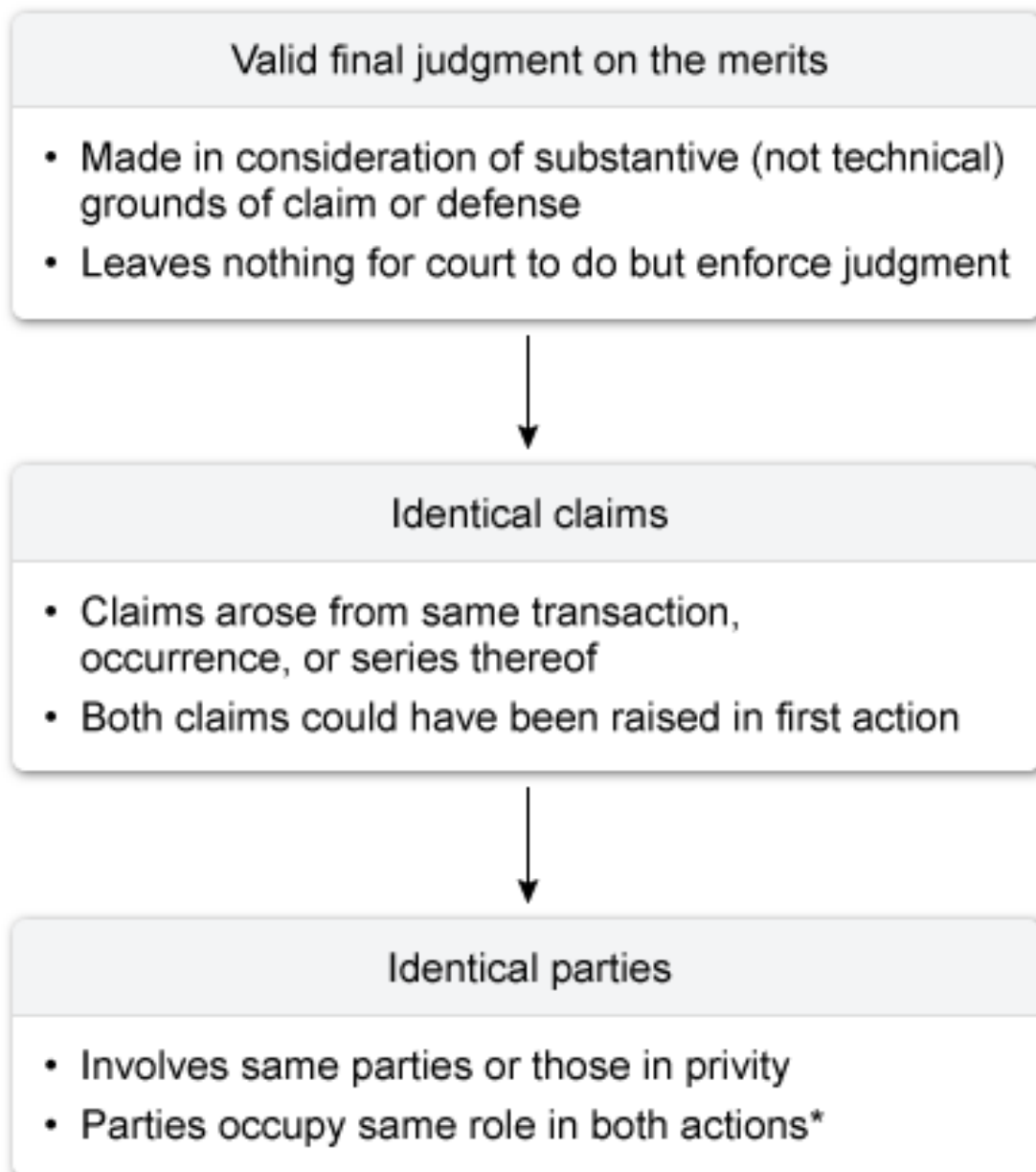
## Educational objective:

Under res judicata (ie, claim preclusion), identical parties cannot relitigate identical claims after the entry of a valid final judgment on the merits. A judgment on the merits is based on the substance of a claim or defense—not a technical or procedural ground (eg, lack of jurisdiction, invalid party joinder, improper venue).

## References

- Restatement (Second) of Judgments § 17 (Am. Law Inst. 1982) (defining claim preclusion).
- Restatement (Second) of Judgments § 20 (Am. Law Inst. 1982) (explaining that claim preclusion does not apply to a dismissal based on a procedural ground).

## Claim-preclusion requirements



\*Parties need not occupy the same role if a party violates the first court's compulsory counterclaim rule.

©UWorld