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BI Boat Basin Assocs. v. Sky Blue Pink, 242 A.3d 462 (R.I. 2020)

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Civil Procedure. *BI Boat Basin Assocs. v. Sky Blue Pink*, 242 A.3d 462 (R.I. 2020). Issues that pragmatically arise from the same transaction or series of transactions previously litigated, which were or could have been raised in a previous proceeding, are precluded from relitigation by the doctrine of *res judicata*. Under Rhode Island law, there is no *res judicata* exception for interests arising after a complaint is filed.

FACTS AND TRAVEL

James Mott, John Mott, George Mott, and Susan Mott Pike filed a petition to partition real estate against their brother Peter Mott, with whom they held ownership interests as tenants in common over certain properties in New Shoreham, R.I.¹ The court appointed a special master and commissioner to lease and sell the properties in dispute.² The special master, on behalf of the parties in the partition action, executed a two-year lease for the marina property in dispute with the plaintiff in the instant action, BI Boat Basin Associates, on February 3, 2018.³ Section 7 of the lease agreement provided that “[t]he Landlord * * * reserves his right to terminate this Lease after one (1) year or any renewal thereof in the event that Landlord secures a bona fide purchaser of the premises.”⁴

The court-appointed commissioner held an auction to sell the properties in the partition proceeding.⁵ James Mott, John Mott, and George Mott placed a bid to purchase the marina property for \$19 million.⁶ The plaintiff submitted a bid for \$19.5 million, but the Motts matched the bid and stipulated, among other things, that

1. *BI Boat Basin Assocs. v. Sky Blue Pink*, 242 A.3d 462, 463 (R.I. 2020).

2. *Id.* at 463–64.

3. *Id.*

4. *Id.* at 464.

5. *Id.*

6. *Id.* The court recognizes the defendants’ “apparent attempt to buy out their siblings.” *Id.*

the closing would occur within ninety days—a term that the plaintiff was “unwilling” to offer.⁷ The court accepted the Motts’ bid after finding it was “in the best interest of all parties[.]”⁸ However, in June 2018, the Motts moved for an extension to close on the marina property.⁹ In response, the plaintiff entered a petition for reconsideration of its bid to purchase the property.¹⁰ The plaintiff’s counsel entered an appearance in the partition proceeding during the Motts’ hearing for a closing date extension, and though the plaintiff did not formally intervene, the hearing justice allowed the plaintiff’s counsel to be heard on its petition for reconsideration *both* as a bidder and leaseholder in interest.¹¹ Ultimately, the hearing justice denied the plaintiff’s petition for reconsideration and extended the Motts’ closing date by thirty days.¹² While the court invited the plaintiff to file a formal motion to intervene, the plaintiff never filed the motion.¹³

After the closing date, the special master issued a deed for the property to defendant Sky Blue Pink, LLC (Sky Blue) as the Motts’ nominee, and delivered a notice of lease termination to the plaintiff, which provided that “[p]ursuant to Section 7 of the Lease * * * the Landlord is exercising the option to Terminate the Lease[.]”¹⁴ The plaintiff then filed this action on November 13, 2018, challenging defendant Sky Blue’s status as a bona fide purchaser.¹⁵ The defendants filed a motion to dismiss, asserting that *res judicata* barred the plaintiff’s claims, which the court converted to a motion for summary judgment.¹⁶ The lower court held that *res judicata* did bar the plaintiff’s claims and therefore granted the defendants’

7. *Id.*

8. *Id.*

9. *Id.*

10. *Id.*

11. *Id.*

12. *Id.*

13. *Id.*

14. *Id.* at 464–65.

15. *Id.* at 465. Other defendants included the Motts and Peregrine Group, LLC, with Nekick Associates, LLC named as an intervenor defendant. *Id.*

16. *Id.* The defendants also argued that the collateral estoppel barred the plaintiff’s claims, but the Court did not address this issue because it held that *res judicata* barred the plaintiff’s claims. *Id.* at 467 n.6.

motion for summary judgment.¹⁷ The plaintiff timely appealed the entry of summary judgment to the Rhode Island Supreme Court.¹⁸

ANALYSIS AND HOLDING

On review, the Supreme Court first defined the doctrine of *res judicata*, stating that “*Res judicata*, or claim preclusion, bars the relitigation of all issues that were tried or might have been tried in an earlier action.”¹⁹ The Court focused its analysis solely on whether the issue the plaintiff sought to litigate in the current action—whether Sky Blue was a bona fide purchaser—was, or could have been, litigated in the partition action.²⁰ The Court explained that Rhode Island has adopted the “transactional rule to governing the preclusive effect” of *res judicata*, which “provides that all claims arising from the same transaction or series of transactions which could have properly been raised in a previous litigation are barred from a later action.”²¹ Further, the Court described the pragmatic approach Rhode Island law applies to the “transaction” analysis:

What constitutes a transaction or a series of connected transactions is to be determined pragmatically, giving weight to such considerations as whether the facts are related in time, space, origin, or motivation, whether they form a convenient trial unit, and whether their treatment as a unit conforms to the parties’ expectations.²²

Therefore, the preclusive effect of *res judicata* in this action turned upon whether the plaintiff litigated, *or could have* litigated, the issue of Sky Blue’s status as a bona fide purchaser in the partition action, in which the plaintiff’s counsel entered an appearance during the motion for extension hearing.²³

The Court determined that plaintiff could have raised the issue of Sky Blue’s status as a bona fide purchaser in the partition

17. *Id.* at 465.

18. *Id.*

19. *Id.* at 466 (quoting *JHRW, LLC v. Seaport Studios, Inc.*, 212 A.3d 168, 177 (R.I. 2019)).

20. *Id.*

21. *Id.* (quoting *Seaport Studios*, 212 A.3d at 178).

22. *Id.* (quoting *Seaport Studios*, 212 A.3d at 178).

23. *Id.*

proceeding.²⁴ The plaintiff knew, at the time it entered an appearance in the proceeding, of the potentially adverse effect of the partition court's determination that Sky Blue was a bona fide purchaser on its interests as both a bidder and a leaseholder.²⁵ Not only did the hearing justice allow the plaintiff to enter an appearance, but the justice invited the plaintiff to formally intervene in the partition proceeding.²⁶ The Court concluded that nothing prevented the plaintiff from raising the issue of Sky Blue's status as a bona fide purchaser in the partition proceeding.²⁷

Applying the "pragmatic approach," the Court determined that the issue of Sky Blue's status as a bona fide purchaser arose from the same transaction or series of transactions litigated in the partition proceeding.²⁸ The existence of the leasehold was a product of the partition proceeding, and the hearing justice allowed the plaintiff to be heard in its interest as both a bidder and a leaseholder in the proceeding after noting that the lease was subject to termination by sale of the property.²⁹ The Court concluded that it was "entirely within the contemplation" of the partition court and the parties that the plaintiff would use the opportunity to be heard or intervene to protect any interests it had as both a bidder and a leaseholder.³⁰ Therefore, the Court held that the issue the plaintiff sought to litigate in this subsequent action was pragmatically part of the same transaction litigated in the prior partition proceeding and was, therefore, precluded by the doctrine of *res judicata*.³¹

Finally, the Court rejected the plaintiff's argument that it should adopt a *res judicata* exception for "claims stemming from new rights acquired in the same transaction, but after the complaint was filed in the first action."³² Reasoning that adoption of the exception would undermine the underlying principle of *res judicata*—judicial economy—the Court "decline[d] to adopt an

24. *Id.*

25. *Id.*

26. *Id.* at 466–67.

27. *Id.* at 467.

28. *Id.*

29. *Id.*

30. *Id.*

31. *Id.*

32. *Id.* (quoting *JHRW, LLC v. Seaport Studios, Inc.*, 212 A.3d 168, 178 (R.I. 2019)).

exception that would allow a party to consciously elect to forgo a fair and full opportunity to be heard and then raise that very claim in a new complaint at a later date.”³³

COMMENTARY

While the plaintiff ostensibly sought to be heard solely as a bidder in the partition proceeding, both the partition court and the Rhode Island Supreme Court in this action recognized that when the plaintiff entered its appearance in the partition proceeding, it stood in interest as *both* a bidder and leaseholder. Therefore, the preclusive effect of the partition action applied equally to the plaintiff's interests as a bidder *and* leaseholder. In other words, BI Boat Basin Associates could not bifurcate its interests as separate identities and seek to protect the other interest pragmatically connected to the initial proceeding in a subsequent action.

Furthermore, the Court reaffirmed its rejection of other jurisdictions' exception to the doctrine of *res judicata*, which dictates that interests that arise after a complaint is filed are not affected by the preclusive effect of the associated proceeding.³⁴ Here, the plaintiff's interest as a leaseholder of the marina property could only have arisen after the Motts filed their partition complaint and the special master executed the lease for the property. Notwithstanding the post-complaint establishment of a leaseholder interest, the Court held that when the plaintiff entered an appearance in the partition proceeding, not only could the plaintiff have raised the issue of Sky Blue's status as a bona fide purchaser of the marina property, but it must have raised that issue lest it be bound by the doctrine of *res judicata* for all its associated interests. The Court's reaffirmed rejection of the *res judicata* exception indicates its strong preference for the judicial economy stemming from the doctrine.

With the Court's analysis in mind, litigants in Rhode Island courts should recognize that when they enter an appearance in a proceeding, they stand in all interests contemplated in connection with that proceeding—regardless of when those interests arose—and should raise all issues that affect any interest they have in connection with the transaction or series of transactions litigated.

33. *Id.* (citing *ElGabri v. Lekas*, 681 A.2d 271, 275 (R.I. 1996)).

34. *See Seaport Studios*, 212 A.3d at 178.

CONCLUSION

Despite the post-complaint establishment of a leaseholder interest, the Rhode Island Supreme Court held that the doctrine of *res judicata* precluded the plaintiff from litigating the issue of Sky Blue's status as a bona fide purchaser because it could have litigated that issue when it entered an appearance in the Motts' partition proceeding. The Court reaffirmed its rejection of the exception to the doctrine of *res judicata* adopted in other jurisdictions, which dictates that interests that arise after a complaint is filed are not affected by the preclusive effect of the associated proceeding.

Colten H. Erickson