

GIBSON DUNN



Appellate and Constitutional Law Update

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## Supreme Court Holds That Federal Judgments Must Be Vacated When A Defendant Was Wrongfully Dismissed Following Removal

*The Hain Celestial Group, Inc. v. Palmquist*, No. 24-724 – Decided February 24, 2026

Today, the Supreme Court unanimously held that a federal court’s final judgment must be vacated—and the case remanded to state court—when an appellate court later determines that the district court erred in dismissing a nondiverse defendant after the case was removed.

*“This Court has never held that a district court can create jurisdiction through its own mistakes. A rule to the contrary would permit courts to enlarge their jurisdiction beyond the limits Congress imposed.”*

JUSTICE SOTOMAYOR, WRITING FOR THE COURT

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### Background:

Cases brought in state court may be removed to federal court when the federal court would have had jurisdiction at the outset, including when the amount-in-controversy requirement is met and the parties are completely diverse. If a party believes a nondiverse party was named as a co-defendant only to defeat the right of removal, the party can remove the case and ask the district court to dismiss the nondiverse co-defendant as improperly joined.

Sarah and Grant Palmquist, Texas citizens, sued Hain Celestial and Whole Foods in Texas state court, asserting state-law product-liability and negligence claims. Because Whole Foods (like the Palmquists) is a Texas citizen, there was no complete diversity on the face of the complaint. But Hain, a citizen of Delaware and New York, removed to federal court, arguing that Whole Foods had been improperly joined. The district court agreed, dismissed Whole Foods on improper-joinder grounds, and denied the Palmquists' motion to remand. The case proceeded against Hain alone, and the district court ultimately granted judgment in Hain's favor.

On appeal from the final judgment, the Fifth Circuit held that Whole Foods was not improperly joined. The court of appeals concluded that complete diversity was lacking from the moment of filing, vacated the judgment in Hain's favor, and ordered the case remanded to state court.

### Issue:

When a removed diversity case includes a nondiverse defendant who, following removal, was erroneously dismissed as improperly joined, must the court of appeals vacate the resulting final judgment and order the case remanded to state court?

### Court's Holding:

Yes. When a properly joined nondiverse defendant is erroneously dismissed following removal, complete diversity is lacking from start to finish, and accordingly the district court never has jurisdiction over the case. A court of appeals that corrects the erroneous dismissal must vacate the resulting judgment and remand the case to state court; it may not salvage the judgment on the ground that the nondiverse defendant could be dropped on appeal.

### What It Means:

- The Court's decision adopts a bright-line rule for removed diversity cases: if an erroneous dismissal of a nondiverse party is not cured before final judgment, the judgment must be vacated once the error is corrected on appeal. Because this rule is jurisdictional, it applies "regardless of how efficient it might be to leave the judgment in place" or the inefficiencies that would result from a remand and retrial.
- The Court distinguished situations where a nondiverse defendant settles or is voluntarily dismissed in a final order before trial, thereby curing the jurisdictional defect and allowing the ultimate judgment to stand.
- The Court also highlighted alternative pathways parties may take in lieu of waiting until appeal from final judgment to address whether a dismissal was erroneous—for instance, partial final judgment under Federal Rule 54(b) or certification for interlocutory appeal under 28 U.S.C. § 1292(b).
- The Court separately rejected Hain's argument that Whole Foods could be dismissed as a dispensable nondiverse party under Rule 21, emphasizing that plaintiffs are generally

entitled to select the forum in which they sue and explaining that courts cannot use Rule 21 to override those choices absent plaintiffs' consent.

- Going forward, the Court's opinion may push district courts to resolve any doubts in favor of remand at the outset and to approach improper-joinder arguments with skepticism. Defendants contemplating removal on improper-joinder theories will have to assess the risk that, if a court of appeals later disagrees, a defense verdict after trial will be wiped out and the case restarted in state court. The opinion also likely will encourage interlocutory appeals of improper-joinder issues so the parties can avoid the potential waste of proceedings that later would have to be vacated.
- Justice Thomas separately concurred, questioning the doctrine of "improper joinder" (as opposed to outright fraudulent joinder) and urging the Court to consider that doctrine in a future case.

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The Court's opinion is available [here](#).

Gibson Dunn's lawyers are available to assist in addressing any questions you may have regarding developments at the Supreme Court. Please feel free to contact the following practice group leaders:

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