

WEIL'S SCOTUS TERM IN REVIEW

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Supreme Court Holds that Judgments Cannot Stand After Erroneous Dismissal

By Josh Wesneski and Max Bloom

Today, in a unanimous decision authored by Justice Sotomayor, the Supreme Court held in *The Hain Celestial Group, Inc. v. Palmquist* that a district court's final judgment must be vacated if the court created diversity jurisdiction by erroneously dismissing a party. While the decision is technical, it may create a significant risk for business defendants that remove to federal court on the basis of "improper joinder." If the district court agrees that removal is proper, and the defendant later wins the case outright, the entire case may need to be retried in state court if the federal court of appeals concludes the district court erroneously created jurisdiction at the outset.

The Court's opinion addresses a technical feature of jurisdiction in federal courts. Federal courts have "diversity jurisdiction" over many state-law cases between citizens of different states. But in order for federal courts to exercise diversity jurisdiction, the parties must be "completely diverse"—in other words, all of the plaintiffs must reside in different states from all of the defendants.

Hain Celestial concerns an unusual wrinkle in this framework. Plaintiffs in Texas had sued Hain Celestial Group (a citizen of Delaware) and Whole Foods (a citizen of Texas), alleging that Hain had made defective baby food, and that Whole Foods had sold those products to the plaintiffs. Hain removed to federal district court arguing that Whole Foods had been improperly named as party and, therefore, the parties were completely diverse. The district court agreed, dismissing Whole Foods from the lawsuit and thereby creating complete diversity where it was previously lacking. Years later, the district court entered judgment in Hain's favor. But, on appeal, the Fifth Circuit held that the district court had erred at the outset by dismissing Whole Foods and that there should never have been diversity jurisdiction to begin with. On that basis, the Fifth Circuit vacated the entire judgment in Hain's favor. Hain asked the Supreme Court to adopt a different rule and to let the judgment stand, since it had been entered when the remaining parties to the litigation—the plaintiffs and Hain—were completely diverse.

The Court held that the judgment could not stand and that the case should return to state court. As Justice Sotomayor explained, jurisdiction is usually determined at the time of removal. At the time of removal here, the parties were not completely diverse, so the district court lacked jurisdiction. And while the district court had dismissed Whole Foods from the case, thereby appearing to create complete diversity, that decision was erroneous, and an erroneous decision cannot remedy a jurisdictional defect.

The Court also rejected an argument by Hain that Whole Foods should now be dismissed under Federal Rule of Civil Procedure 21, which allows courts to “add or drop a party” “on just terms.” The Court held that this use of Rule 21 would be improper, because it “would force the [plaintiffs] to litigate this case in federal court against their wishes and despite their right to control the forum.”

Justice Thomas wrote a separate concurrence in which he expressed skepticism of the doctrine of “improper joinder,” which the district court had used to dismiss Whole Foods from the litigation. That doctrine, which is recognized in many regional courts of appeals, allows courts to dismiss defendants who they concluded were added to a lawsuit solely to destroy diversity jurisdiction. Because this analysis

turns on whether the claims against these defendants are weak, Justice Thomas concluded that it involves a merits analysis that a federal court cannot engage in when the parties before the court are not completely diverse.

Although it concerns technical procedural questions, *Hain Celestial* could make it more difficult for defendants sued in state court to remove to federal court. In particular, defendants often invoke the “improper joinder” doctrine to help secure complete diversity. *Hain Celestial* may make that a less attractive option: If the district court erroneously dismisses one of the parties at the beginning of the case, then its final judgment may be vacated years down the line, forcing the parties to relitigate in state court from the beginning.

The Court’s discussion of Rule 21 may also matter for defendants seeking to invoke “improper joinder.” While the Court included a footnote saying that the opinion “expresses no view” on this practice, many courts ground the application of that doctrine in Rule 21. The reasoning of the Court’s opinion could cut against the “improper joinder” doctrine if courts read the opinion to prohibit dismissals under Rule 21 that would require the plaintiff to litigate in federal court. And, of course, Justice Thomas’s concurrence explicitly rejects the practice.

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