

---

## Legal Updates & News

### Legal Updates

---

#### California Court of Appeal Issues Significant Decision on Constitutionality of Punitive Damage Awards

March 2007

by [Derek F. Foran](#)

#### Related Practices:

- [Litigation](#)

---

The Fourth Appellate District recently certified for publication a significant decision addressing the constitutionality of punitive damages awards under the Due Process Clause, *Jet Source Charter, Inc. v. Doherty*. The Court of Appeal held that, in cases involving economic damages only, and where the plaintiff is not particularly vulnerable, punitive damages should generally not exceed the amount of compensatory damages awarded.

In *Doherty*, the plaintiff was an aircraft owner, and the defendants were aircraft dealers who located and negotiated the purchase price on various aircraft that the plaintiff purchased over a two-year period. Plaintiff sued for fraud and breach of fiduciary duty, seeking undisclosed profits the defendants had made on these deals. The plaintiffs were awarded \$6.5 million in compensatory damages and prejudgment interest, and \$26 million in punitive damages.

On appeal, the defendants argued that the size of the punitive damages award was unconstitutional under the United States Supreme Court's decision in *State Farm Mutual Automobile Insurance Company v. Campbell*, 538 U.S. 408 (2003), which placed significant restrictions on the size of such awards under the Due Process Clause.

The Court of Appeal agreed, and reversed the punitive damages award "with instructions that the trial court limit them on a pro rata basis to an amount which in total does not exceed the compensatory damages awarded." The court held that "[w]here, as here, the conduct in question only involves economic damage to a single plaintiff who is not particularly vulnerable, an award which exceeds the compensatory damages awarded is not consistent with due process." The court noted that "the total of \$6.5 million in compensatory damages and prejudgment interest was, to say the least, substantial," and it specifically invited a comparison to other California cases where a "relatively small compensatory award justifies 9 to 1 ratio of punitives to compensatory damages."

*Doherty* is potentially a very significant decision on the issue of punitive damage awards in business tort-type cases. Since the United States Supreme Court decided *State Farm* in 2003, there have been several decisions issued by California appellate courts which have affirmed punitive damage awards that are nine or ten times the size of the compensatory damages awarded. As the court in *Doherty* points out, those cases have generally involved relatively small compensatory damage awards, and therefore, a higher ratio of punitive damages was justified. But where the compensatory damages are in the millions, and the harm is economic only (i.e., no one was hurt or injured), then *Doherty* holds squarely that the punitive damages award should not exceed the compensatory damages award.