U.S. Supreme Court Clarifies Constitutional Limits on Punitive Damage Awards

Last week the United States Supreme Court issued its fifth decision in the last decade regarding the constitutional limits of punitive damages awards. In State Farm Mutual Automobile Insurance Co. v. Campbell, No. 01-1289, the Supreme Court struck down a punitive damage award of $145 million and reaffirmed that the Due Process Clause of the Fourteenth Amendment places limits on a state court’s ability to grant punitive damages. In doing so, the Court announced clearer guidelines for determining the constitutional limits of punitive damages.

In Campbell, Curtis Campbell and his wife filed a claim for bad faith, fraud and intentional infliction of emotional distress against State Farm, their car insurance company, for refusing to settle a claim against the Campbells, and then threatening to force them to pay the portion of a verdict that was more than $135,000 in excess of their insurance coverage. The jury awarded the Campbells $2.6 million in compensatory damages and $145 million in punitive damages. The trial court reduced these amounts to $1 million and $25 million respectively. On appeal, the Utah Supreme Court, after applying the guidelines set forth by the United States Supreme Court in BMW of North America, Inc. v. Gore, reinstated the jury’s punitive damages award of $145 million.

The Supreme Court, in a 6-3 decision, overturned the $145 million punitive damages award, holding that the award was neither reasonable nor proportionate to the wrong committed, and was an irrational and arbitrary deprivation of State Farm’s property. In reaching its decision, the Court clarified the three guidelines from Gore that courts are to consider in determining the constitutional propriety of punitive damages awards: (1) the reprehensibility of the defendant’s conduct; (2) the ratio between the compensatory damages award and the punitive damages award; and (3) the difference between the punitive damages award and the civil penalties authorized or imposed in comparable cases. The Supreme Court placed the greatest significance on the first two Gore guidelines.

DEFENDANT’S CONDUCT

In its discussion regarding State Farm’s conduct, the Court found that the Utah court should not have considered the dissimilar, out-of-state conduct of State Farm, which occurred over a 20-year span, in calculating the Campbells’ punitive damages award, because the conduct had no relationship to the harm suffered by the Campbells. Out-of-state conduct by the defendant should only be considered in calculating punitive damages if it has a direct relationship to the harm suffered by the plaintiff, or if it is so similar to the defendant’s conduct in the case that it establishes a pattern of repeated misconduct by the defendant. The significance of the Court’s reasoning is that it may preclude evidence of conspiratorial or group conduct, which may span long periods of time, that has no relation to the harm suffered by the plaintiff. For example, in toxic tort cases, plaintiffs often attempt to obtain punitive damages by alleging early knowledge of the harmful effects of a product and the failure to disclose the product’s dangers. This evidence is often presented even when the alleged exposure occurred after warnings were placed on the product or material safety data sheets were made available. Under the Campbell decision, defendants may be able to exclude this evidence from the punitive damages phase of the case.

RATIO OF PUNITIVE DAMAGES TO COMPENSATORY DAMAGES

While the Court fell short of imposing a bright-line ratio in determining the appropriate relationship between compensatory and punitive damages, the Court found that, in practice, few awards exceeding a single-digit ratio can satisfy the Due Process Clause. The Court indicated that punitive damages awards three to four times the amount of compensatory awards would be prima facie reasonable. However, there may be circumstances in which ratios greater than this would comport with the Due Process Clause. For example, where a particularly egregious act resulted in only a small amount of economic damage to the plaintiff, a ratio of greater than three or four may be appropriate. Conversely, the Court stated that when compensatory damages are substantial (the Campbells’ $1 million compensatory award was “substantial”) a lesser ratio, perhaps equal to compensatory damages, would reach the outermost limit of the Due Process Clause.

Notwithstanding the Court’s assertion that there is no rigid benchmark in calculating punitive damages awards, in holding that single-digit multipliers are more likely to pass constitutional muster than larger ratios, the Court has strongly indicated that only in rare circumstances will punitive awards in excess of a single-digit multiplier be justified. Moreover, in cases where plaintiffs are awarded “substantial” compensatory awards, which the Supreme Court has characterized here as being $1 million, punitive damages should not greatly exceed the amount of the compensatory award, if at all. In light of the Supreme Court’s holding, defendants in products liability, toxic tort and other civil cases have a strong weapon at their disposal to protect themselves from runaway awards.

The principles originally set forth in Gore, and clarified in Campbell, are those of reasonableness and proportionality. The Supreme Court’s holding in Campbell emphasizes the important role state courts have in ensuring that the measure of punitive damages is both reasonable and proportionate to the amount of harm suffered by the plaintiff and to the damages recovered. State courts now have significant guidance on the constitutional limits on punitive damage awards.

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