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# new california supreme court case provides guidance to employers seeking to rely on the “good faith defense” to california wage and hour

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On August 21, 2025, the California Supreme Court unanimously held that the “good faith defense” to claims for liquidated damages for unpaid minimum wages requires proving that the employer “made an attempt to determine what the law required that was reasonable under the circumstances and a good faith effort to comply with the requirements of the law.”

This holding may make it more difficult to defend against such claims and will increase the burden on employers by creating a new obligation to avoid additional penalties for violations of minimum wage laws. Employers should consult with their trusted MSK counsel to ensure they are taking appropriate steps to evaluate the legality of any unusual compensation arrangements.

## **Background**

In *Iloff v. LaPaille et al.*, former employee Laurance Iloff lived and worked on a property owned by Bridgeville Properties, Inc. and managed by Cynthia LaPaille. Iloff had an informal agreement with Bridgeville and LaPaille to provide maintenance services on the property in exchange for rent-free housing. No other compensation or benefits were to be provided.

Following Bridgeville and LaPaille's termination of this arrangement, Iloff filed claims against them with the Labor Commissioner for wage violations to engage in what is known as the “Berman” process. The Labor Commissioner found that Iloff, as an employee, was entitled to unpaid wages, liquidated damages, penalties, and interest. Bridgeville and LaPaille thereafter sought de novo review of the Labor Commissioner's ruling in the Superior Court.

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Under California Labor Code section 1194.2, when an employer is found liable for failing to pay minimum wage, workers are able to recover liquidated damages in an amount equal to the amount of unpaid wages and interest. There are certain scenarios, however, where employers may avoid liability for liquidated damages. Specifically, the statute provides that when an employer demonstrates that the failure to pay minimum wage "was in good faith and that the employer had reasonable grounds for believing" its failure to pay was **not** a violation of the law, the court or Labor Commissioner may, in its discretion, refuse to award liquidated damages.

Both the trial and appellate court found that while Iloff was indeed an employee and therefore was entitled to unpaid wages, penalties, and interest, he was not entitled to liquidated damages because Bridgeville and LaPaille had acted in "good faith" in failing to pay him wages under the agreed-upon expectation that Iloff would perform services in exchange for housing, not pay.

### **The California Supreme Court Decision: A "Good Faith" Defense Requires Affirmative Action**

The California Supreme Court reversed, observing that the defendants did not put forth any evidence that they attempted to know what the law was before claiming that they acted in compliance with it. The California Supreme Court found this especially telling, stating that "[s]tatutory context . . . suggests that the [good faith defense] is best read as requiring the employer to" show it attempted to determine what the requirements of the law regarding minimum wages were in order to establish a good faith defense.

Indeed, the Court found that allowing employers to claim ignorance of the law as a valid good faith defense contravenes the purpose of the liquidated damages provision of the law "as an enforcement tool and a means of deterring minimum wage violations . . ."

### **Next Steps for Employers**

Moving forward, employers need to be careful and make sure they are up to date up to date with California wage and hours laws. Employers are also reminded to carefully examine any unusual pay practices to make sure they are compliant as failing to do so can lead to liability for significant damages. MSK's Labor & Employment team is, of course, abreast on all wage-related legal updates and is ready to assist in reviewing compensation structures and pay setups.