



california supreme court issues a rare “employer friendly” decision concerning employee wage statements

Gary M. McLaughlin, Jeremy Mittman, Sandra Hanian
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Earlier this month, the California Supreme Court unanimously held in *Naranjo v. Spectrum Security Services, Inc.* that an employer's good-faith belief that it provided complete and accurate wage statements bars statutory penalties for a knowing and intentional failure to comply with wage statement requirements under California Labor Code Section 226.

Background

Gustavo Naranjo worked as a security guard for Spectrum Security Services. In 2007, he filed a putative class action alleging, among other things, that Spectrum failed to pay a meal period premium for each non-compliant meal period and violated Labor Code Section 226(a) by failing to report the premium pay it owed on employees' wage statements. The complaint sought the statutory penalties prescribed for "willful" failure to comply with the timely payment requirements under Labor Code section 203 governing the late payment of final wages, as well as penalties under Labor Code Section 226(e) for the "knowing and intentional" failure to provide compliant wage statements.

In 2022, the case reached the California Supreme Court for the first time. Then, the Court held that meal period premiums are, indeed, "wages" under California law, which must be timely paid at termination and must appear on employees' wage statements. *Naranjo v. Spectrum Sec. Servs., Inc.*, 13 Cal. 5th 93, 125 (2022).

The California Supreme Court remanded the case to the Court of Appeal to revisit Naranjo's Labor Code Sections 203 and 226 claims, including whether Spectrum's failure to list meal premium pay on wage statements was "knowing and intentional" such that it would give rise to penalties under the Labor Code. The Court of Appeal held that because Spectrum had a reasonable, good-faith belief that its wage statements were accurate at the time they were issued

attorneys

Gary M. McLaughlin
Jeremy Mittman

practice areas

labor & employment



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(based on uncertainty in the law prior to the California Supreme Court's 2022 decision), the violation was not "knowing and intentional" and consequently could not give rise to applicable penalties. Naranjo appealed.

The California Supreme Court's Decision

In a 44-page opinion (and agreeing with the Court of Appeal), the California Supreme Court held that "if an employer reasonably and in good faith believed it was providing a complete and accurate wage statement in compliance with the requirements of section 226, then it has not knowingly and intentionally failed to comply with the wage statement law," and the employer is not subject to applicable penalties. Here, the inaccurate wage statements in question were issued between June 2004 and September 2007, but the question of whether premium pay had to be included on wage statements remained unsettled law until 2022. The Court found that "[g]iven the uncertainty and confusion, it was not objectively unreasonable for [the employer] to believe [during this period] it had no obligation to report meal premiums as wages."

In sympathizing with employers who it reasoned should not be expected to be clairvoyant (at least with respect to this issue), the Court therefore reasonably concluded that under such circumstances, to hold otherwise "would penalize [employers] not for failing to apprise itself of its obligations, but for failing to predict how unsettled legal issues would be resolved many years down the line."

Takeaways

This decision is a clear victory to California employers, who now have added ammunition to defend against lawsuits seeking penalties for alleged wage statement violations by citing to their good faith conduct, under certain circumstances. Specifically, to succeed in asserting the good faith defense in this context, employers can cite to evidence of an objectively reasonable mistake of law or to uncertainty in the law, where applicable. However, employers should be aware that California courts will no doubt carefully scrutinize the use of such defenses.

Employers are reminded and encouraged to conduct periodic audits of their wage and hour policies and practices, including their wage statements, to ensure compliance with California's laws. MSK's Labor & Employment team regularly conducts such audits and is ready to assist.