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Chindarah v. Pick Up Stix, Inc.: A Bona Fide Victory for Employers

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California law prohibits employees from waiving or releasing their rights to minimum wages, overtime, and other minimum protections. For example, Labor Code section 1194 prohibits agreements by employees to work for less than minimum wage or without receiving overtime. Section 206.5 prohibits releases of wages concededly due. Section 2804 prohibits an employee from waiving the right to indemnification under Labor Code section 2802 for expenses incurred in the scope of employment. Section 5001 bars the release of an employee's claim for workers' compensation benefits unless approved by the Workers' Compensation Appeals Board.

How, then, are employers and employees supposed to resolve wage disputes short of lengthy and expensive hearings or trial? Employment lawyers may have operated under the assumption that employee wage claims may be resolved through settlement agreements if a lawsuit or administrative claim is pending. But what about disputes that arise during or after employment, but before a formal proceeding is initiated? Employers commonly offer separation pay to departing employees in exchange for the employee signing a general release agreement. The employee typically waives "any and all claims" against the employer, theoretically encompassing claims for unpaid wages.

The Fourth District Court of Appeal's decision in Chindarah v. Pick Up Stix, Inc. examines the interplay between the above statutes and compromises of disputed wage claims. The court

ultimately held that the California labor law did not prohibit the release of a claim for unpaid wages where there was a bona fide dispute over whether any wages were owed. Although the court in Chindarah addresses the enforceability of an agreement reached in the context of a disputed claim for wages, the case cites several federal cases enforcing release agreements in the absence of a formal proceeding. The decision also explains what types of claims still may not be waived.

Chindarah v. Pick Up Stix, Inc.

Pick Up Stix, Inc. operates a restaurant chain. A class of current and former managers and lead cooks sued Pick Up Stix for alleged unpaid overtime, penalties, and interest. The employees alleged Pick Up Stix misclassified their jobs as exempt to avoid paying overtime.

Following an unsuccessful attempt at mediation, the employer attempted to settle with as many putative class members as possible. Approximately 200 employees signed settlement agreements. Under the terms of the agreement, employees acknowledged they spent more than half their time performing exempt duties. The employees also released Pick Up Stix "from all claims for unpaid overtime and any other Labor Code violations during the relevant time period." The release further precluded employees from participating in any class action that included any of the released claims.

After accepting the settlement payments, eight employees (the

"Chindarah plaintiffs") joined the class action and claimed that the agreements were unenforceable and unlawful. The trial court found the releases valid as a matter of law. The court reasoned that the Labor Code did not prohibit release of a claim for unpaid wages where there was a bona fide dispute over whether any wages were owed. The Chindarah plaintiffs appealed.

Labor Code Sections 206.5 and 1194

Labor Code section 206.5 provides in relevant part: "An employer shall not require the execution of a release of a claim or right on account of wages due, or to become due ... unless payment of those wages has been made. A release required or executed in violation of the provisions of this section shall be null and void as between the employer and the employee. Violation [of the provisions] of this section by the employer is a misdemeanor."

Section 1194, subdivision (a) provides:

Notwithstanding any agreement to work for a lesser wage, any employee receiving less than the legal minimum wage or the legal overtime compensation applicable to the employee is entitled to recover in a civil action the unpaid balance of the full amount of this minimum wage or overtime compensation, including interest thereon, reasonable attorney's fees, and costs of suit.

The Chindarah plaintiffs argued the release impermissibly waived claims for wages actually due and unpaid and

constituted an agreement to work for less than the overtime compensation actually due and unpaid. The plaintiffs claimed “wages actually due and unpaid” means wages that are disputed, if they are ultimately found to be owing. In other words, according to the plaintiffs, any settlement of a dispute over overtime compensation automatically violates Labor Code sections 206.5 and 1194.

The court held Section 206.5 did not apply. It reasoned that a bona fide dispute existed regarding the employees’ proper classification as exempt or non-exempt. Therefore, any overtime wages owed to them as a result of a misclassification were not “due” within the meaning of Labor Code Section 206.5 when the releases were executed. Moreover, the releases signed by the employees did not condition the payment of wages “concededly due.” Thus, the releases were enforceable because they did not violate Labor Code section 206.5’s prohibition. The court noted the release did not purport to exonerate Stix from future violations or to condition the payment of wages concededly due on the release’s execution.

The court acknowledged the statutory right to receive overtime pay embodied in Section 1194 is unwaivable. However, the court concluded there was no statute providing that an employee could not release a claim to past overtime wages as part of a settlement of a bona fide dispute over those wages. The Court relied on federal court decisions applying California law that upheld similar releases of disputed wage claims in the absence of a formal proceeding.

Indemnification Claims

The Chindarah plaintiffs argued the California Supreme Court’s recent decision in Edwards v. Arthur Andersen LLP supported their position that wage claims could not be waived. In Edwards, the employee

was required to sign, as a condition of release from a noncompetition agreement, a release of his employer for “any and all” claims, including ‘claims that in any way arise from or out of, are based upon or relate to Employee’s employment by, association with or compensation from’ [employer]” The employee refused to sign the release, claiming the release was wrongful because it required him to waive his right to indemnification from his former employer.

The Supreme Court upheld the release because a release of “any and all” claims does not encompass the employee’s nonwaivable indemnity rights. Labor Code section 2802 expressly states that an employer must indemnify the employee for any losses caused by the discharge of his duties, and any agreement to waive that indemnity protection is void under Labor Code section 2804. “Therefore, the waiver of ‘any and all’ claims would not encompass the right to indemnification, because we treat the [release] as expressly incorporating the law that the employee cannot waive that right.”

The Chindarah plaintiffs contended that because the Supreme Court in Edwards found that an employee’s statutorily nonwaivable indemnity rights could not be waived as part of a general release, a bona fide dispute over past overtime wages cannot be settled. The Court disagreed. The Court recognized “the statutory right to receive overtime pay embodied in section 1194 is unwaivable.” But the Court also concluded that, unlike Labor Code section 2804, which expressly prohibits waivers of claims under Labor Code section 2802, there is no similar companion statute to Labor Code section 1194. Therefore, there is no express statutory prohibition that an employee cannot release his claim to past overtime wages as part of a settlement of a bona fide dispute over those wages.

Fair Labor Standards Act (FLSA) Claims

The Chindarah plaintiffs argued the Court should adopt the reasoning of cases interpreting the federal Fair Labor Standards Act, in which courts have held that releases of wage claims obtained directly from employees are invalid. The Court again disagreed with the plaintiffs. The Court explained Congress intended to require any settlement of FLSA claims to be approved by the United States Department of Labor or a district court. California law, on the other hand, has no such administrative review requirement.

Workers’ Compensation Claims

The court in Chindarah pointed out that the Legislature is capable of expressly providing oversight for employee releases or compromises of claims. The Court made specific reference to Labor Code section 5001, which bars any compromise or release of such a claim unless approved by the California Workers’ Compensation Appeals Board. The Legislature did not enact a similar provision for wage claims, and therefore the Court concluded there is no statutory bar to such waivers and releases.

Recommendations

Some employee rights advocates may believe employers will abuse the Chindarah ruling by claiming a “bona fide” dispute any time the employer wants to trick an employee into waiving otherwise unwaivable statutory wage rights. The dissenting opinion in the Supreme Court’s Edwards v. Arthur Andersen opinion issued a similar warning.

However, the Chindarah court was careful to explain that a valid release of wage claims has two very specific requirements: (1) the complete payment of conceded wages due; and (2) a bona fide dispute regarding any other wages the employee claims are due. Therefore, application of the

Chindarah holding may be limited to very few wage disputes, such as those involving exemption issues. The Chindarah decision might also apply to disputes over whether bonuses or commissions are earned, because both involve very specific factual issues over which the parties may disagree. On the other hand, simply failing to pay an hourly employee a promised

wage or overtime because of a clerical error will not be considered a bona fide, i.e., good faith, dispute.

Employers incorporating wage claims into their separation and release agreements should therefore be sure to specifically describe the nature of the disputed wage claim as part of the release. Otherwise, the employee

could later challenge the release as invalid because there was no actual, good faith dispute regarding the amount owed. Employers must also be sure not to overreach when drafting general releases by including nonwaivable statutory rights such as indemnification, workers' compensation benefits, or wage claims under the FLSA.

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