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May 13, 2024

### California Supreme Court Permits Good Faith Belief Defense on Wage Statement Violations



As most employers are aware, California law requires employers to furnish employees with accurate and itemized wage statements that contain numerous required components. This requirement is enumerated in Labor Code section 226. Further, under the Labor Code, an employee who suffers injury due to an employer's "knowing and intentional failure" to comply with wage statement requirements is entitled to penalties.

On May 6, 2024, the California Supreme Court issued a ruling in *Naranjo v. Spectrum Security Services, Inc.*, which addresses the sole remaining issue in this long-litigated case: whether an employer "knowingly and intentionally" failed to provide complete and accurate wage statements to employees, where the employer reasonably and in good faith believed it was complying with section 226's requirements. In an apparent victory for employers and affirming the ruling by the Second Court of Appeal, Division Four, the California Supreme Court held where the employer has an objectively reasonable and good faith belief it provided employees with accurate wage statements, the employer has not knowingly and intentionally failed to comply with the wage statement law. As such, employees cannot recover penalties under Labor Code section 226(e)(1).

#### **Background**

In May 2022, as summarized [here](#), the California Supreme Court determined that "missed-break premium pay constitutes wages" for purposes of waiting time penalties pursuant to California Labor Code section 203. The California Supreme Court also found that employers must include missed-break premium pay on wage statements. It then remanded the case to the appellate court to determine (1) whether the trial court erred in finding the employer acted "willfully" in failing to timely pay employees premium pay and (2) whether the failure to include missed-break premium pay on a wage statement was "knowing and intentional."

In March 2023, discussed [here](#), the appellate court held on remand that (1) the employer's failure to pay meal premiums was not "willful" pursuant to Labor Code section 203 and (2) "because an employer's good faith belief that it is in compliance with section 226 precludes a finding of a knowing and intentional violation of that

statute, the trial court erred by awarding penalties, and the associated attorneys' fees, under section 226." *Naranjo* appealed the appellate court's ruling.

## **The California Supreme Court's 2024 Decision**

On May 6, 2024, the California Supreme Court affirmed the appellate court's holding. In doing so, the court analyzed the meaning of "knowing and intentional" as set forth in Labor Code section 226(e)(1) based on (1) the operative statutory language and (2) the relationship between section 226 and other provisions of the Labor Code.

First, the court placed weight on the fact that the operative "knowing and intentional" language appears not in the liability provision of section 226(h) but in the penalty provision of section 226(e). This "two-tier remedial structure, with steeper penalties based on the employer having knowingly and intentionally violated the law," signaled to the court that the Legislature did not intend to impose additional penalties on those who have made good faith mistakes about what the wage statement law requires.

Second, the court placed "equally critical" weight on the fact that section 226 wage statement violations are typically raised as derivative claims of other Labor Code claims. Moreover, section 226 claims often are asserted in concert with Labor Code section 203, which authorizes "heightened mental state" penalties for a "willful" failure to make timely payment of final wages. Because section 203 case law has long held that an employer's "good faith dispute that any wages are due will preclude waiting time penalties under section 203[.]" the court explained that permitting a good faith dispute defense with respect to wage statement violations would harmonize the two claims (i.e. those under Labor Code sections 226 and 203), that "derive from the same primary violations of the Labor Code[.]"

Ultimately, based on the statutory language, legislative history, and connection to other Labor Code provisions, the court held:

[A]n employer's objectively reasonable, good faith belief that it has provided employees with adequate wage statements precludes an award of penalties under section 226, subdivision (e)(1). An employer that believes reasonably and in good faith, albeit mistakenly, that it has complied with wage statement requirements does not fail to comply with those requirements knowingly and intentionally.

Applying the holding to the facts, the court determined "[t]here is no genuine question that Spectrum had a reasonable, good faith basis for believing it was complying with California wage and hour law."

While *Naranjo* held that an employer's good faith belief that it is complying with the wage statement law precludes penalties under Labor Code section 226(e)(1), employers should continue to carefully review their wage statements and proactively consult with legal counsel with questions regarding payment of wages, meal and rest premiums, or wage statements.

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