

View on [our website](#).

**GIBSON DUNN**



**Appellate and Constitutional Law Update**

**May 6, 2024**

## **California Supreme Court Holds That Employers Have A Good-Faith Defense To Statutory Penalties For Wage-Statement Violations**

*Naranjo v. Spectrum Security Services, Inc.*, S279397 – Decided May 6, 2024

**The California Supreme Court held today that an employer is not subject to statutory penalties for providing incomplete or inaccurate wage statements if it reasonably and in good faith believed the statements were accurate.**

*“[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.”*

**JUSTICE KRUGER, WRITING FOR THE COURT**

---

### Background:

California Labor Code section 226 requires employers to provide detailed wage statements to their employees. Employees can seek statutory penalties if they are injured “as a result of a knowing and intentional failure by an employer” to comply with the wage-statement requirement. (Lab. Code, § 226, subd. (e)(1).)

Gustavo Naranjo, a security guard for Spectrum Security Services, brought a putative class action alleging that Spectrum had violated section 226 by failing to report premium amounts due to employees who missed meal breaks. After an initial appeal in which the California Supreme Court clarified that section 226 required wage statements to list premium pay for missed meal periods (*Naranjo v. Spectrum Security Services, Inc.* (2022) 13 Cal.5th 93), the case was remanded to the Court of Appeal to determine whether Spectrum’s failure to list such premium pay on its wage statement was “knowing and intentional,” such that penalties could be imposed under section 226. The Court of Appeal held that because Spectrum had a reasonable, good-faith belief at the time that its wage statements were accurate (based on uncertainty in the law before the California Supreme Court’s initial decision), the violation was not “knowing and intentional” and could not give rise to section 226 penalties.

The California Supreme Court again granted review, this time to decide whether an employer knowingly and intentionally fails to comply with section 226 when it has a reasonable, good-faith belief that its wage statements complied with the statute.

### Issue:

Can an employer be held liable for statutory penalties under Labor Code section 226 if it issues incomplete or inaccurate wage statements with a reasonable and good-faith (but incorrect) belief that the statements were compliant?

### Court’s Holding:

No, because “an employer’s objectively reasonable, good faith belief that it has provided employees with adequate wage statements precludes an award of penalties under section 226.”

### What It Means:

- This decision represents a significant victory for California’s employers, who often face substantial liability for wage-statement violations predicated on other alleged violations of the Labor Code. After today’s decision, an employer will not be liable for penalties under section 226 for wage-statement violations if it had a reasonable and good faith belief that its wage statements complied with the statute.
- The Court noted that its holding was consistent with other provisions of the Labor Code that do not allow for statutory penalties where employers reasonably and in good faith

believe that they are complying with the law. Reading the Labor Code as a whole to adopt a consistent scheme on the issue of when penalties may be assessed makes sense, the Court reasoned, because claims related to deficient wage statements “are more typically raised as derivative claims of other Labor Code” sections.

- Because a good-faith defense based on a misunderstanding of law under section 226 is available only “where the employer’s obligations are genuinely uncertain,” the defense will not be available to companies that do not comply with well-established law. But in cases where the law is unsettled, employers will be able to use that uncertainty as a defense to section 226 penalties.

---

### Gibson Dunn Appellate Honors



---

The Court’s opinion is available [here](#).

Gibson Dunn’s lawyers are available to assist in addressing any questions you may have regarding developments at the California Supreme Court. Please feel free to contact the following practice leaders:

## Appellate and Constitutional Law Practice

Thomas H. Dupree Jr.  
+1 202.955.8547  
[tdupree@gibsondunn.com](mailto:tdupree@gibsondunn.com)

Allyson N. Ho  
+1 214.698.3233  
[aho@gibsondunn.com](mailto:aho@gibsondunn.com)

Julian W. Poon  
+1 213.229.7758  
[jpoon@gibsondunn.com](mailto:jpoon@gibsondunn.com)

Lucas C. Townsend  
+1 202.887.3731  
[ltownsend@gibsondunn.com](mailto:ltownsend@gibsondunn.com)

Bradley J. Hamburger  
+1 213.229.7658  
[bhamburger@gibsondunn.com](mailto:bhamburger@gibsondunn.com)

Michael J. Holecek  
+1 213.229.7018  
[mholecek@gibsondunn.com](mailto:mholecek@gibsondunn.com)

## Related Practice: Labor and Employment

Jason C. Schwartz  
+1 202.955.8242  
[jschwartz@gibsondunn.com](mailto:jschwartz@gibsondunn.com)

Katherine V.A. Smith  
+1 213.229.7107  
[ksmith@gibsondunn.com](mailto:ksmith@gibsondunn.com)

Jesse A. Cripps  
+1 213.229.7792  
[jcripps@gibsondunn.com](mailto:jcripps@gibsondunn.com)

## Related Practice: Litigation

Theodore J. Boutrous, Jr.  
+1 213.229.7804  
[tboutrous@gibsondunn.com](mailto:tboutrous@gibsondunn.com)

Theane Evangelis  
+1 213.229.7726  
[tevangelis@gibsondunn.com](mailto:tevangelis@gibsondunn.com)

*This alert was prepared by associates Daniel R. Adler, Sean Howell, Ryan Azad, and Matt Aidan Getz.*

Attorney Advertising: These materials were prepared for general informational purposes only based on information available at the time of publication and are not intended as, do not constitute, and should not be relied upon as, legal advice or a legal opinion on any specific facts or circumstances. Gibson Dunn (and its affiliates, attorneys, and employees) shall not have any liability in connection with any use of these materials. The sharing of these materials does not establish an attorney-client relationship with the recipient and should not be relied upon as an alternative for advice from qualified counsel. Please note that facts and circumstances may vary, and prior results do not guarantee a similar outcome.

If you would prefer NOT to receive future emailings such as this from the firm, please reply to this email with "Unsubscribe" in the subject line.

If you would prefer to be removed from ALL of our email lists, please reply to this email with "Unsubscribe All" in the subject line. Thank you.

© 2024 Gibson, Dunn & Crutcher LLP. All rights reserved. For contact and other information, please visit us at [gibsondunn.com](http://gibsondunn.com)