

EMPLOYMENT LAW UPDATE

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Employers May Settle Wage Claims When There Is A Bona Fide Dispute Regarding Whether The Employee Is Entitled To Those Wages

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*Chindarah v. Pick Up Stix Inc.* (February 26, 2009)

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California Labor Code §206.5 precludes employers from settling wage claims with current or former employees in exchange for a release of the employee's claim for the wages. This prevents an employer from withholding wages "concededly due" in order to coerce an employee into accepting a reduced settlement sum. However, in *Chindarah v. Pick Up Stix, Inc.*, the Court of Appeals made clear that the Labor Code does not prohibit the release of a claim for unpaid wages when there is a bona fide dispute over whether the wages were owed.

releasing Stix from all claims for unpaid overtime and other Labor Code violations, and agreed not to participate in any class action that included any of the released claims.

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In defiance of the terms of the Agreement, eight employees who signed the Settlement Agreement subsequently joined the class action and sought additional sums from Stix. These Plaintiffs contended that the Agreement was void pursuant to Labor Code §206.5, because, they argued, any settlement release including overtime compensation or wages necessarily ran afoul of this section.

Glen R. Olson

The issue arose when two former employees of Pick Up Stix ("Stix") filed a complaint alleging claims for unpaid overtime, penalties and interest due to the alleged misclassification of their positions as exempt from overtime pay. The complaint was amended to allege a proposed class action on behalf of several other categories of Stix's employees. Stix then attempted to settle the action with as many putative class members as possible. Over two hundred current and former employees accepted Stix's offer, signed an Agreement

The Court of Appeals disagreed. Relying upon dicta from two cases in the 1960s, along with the Legislative History of Labor Code §206.5, the Court determined that the prohibition applied only to claims for wages that were conceded to be due. Thus, when a good faith dispute exists regarding whether wages and overtime compensation are due, an employer is entitled to enter into an agreement to settle such claims. The Settlement Agreements were therefore

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valid and their terms were binding as a matter of law.

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