

Employee's Release of Wage Claims Enforceable If There Is a "Bona Fide Dispute" Over Wages Owed

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The California Court of Appeal has provided important guidance on the enforceability of employee releases of claims for unpaid wages. Under California Labor Code section 206.5, an employer may not require an employee to release a claim for "wages due" unless "payment of those wages has been made." Not only is such a release "null and void," but an employer who violates the statute is guilty of a misdemeanor.

In a recent decision, *Watkins v. Wachovia Corporation*, the California Court of Appeal clarified the scope of section 206.5, upholding a release of a claim for unpaid wages because there was a "bona fide dispute" over the amount of wages owed to the employee. *Watkins* was a class action lawsuit seeking payment of overtime wages from Wachovia Bank. One of the representative plaintiffs, Patricia Brown, had signed an agreement at the time of her termination releasing all known and unknown claims – including wage claims – in exchange for enhanced severance payments. Citing section 206.5, Brown's lawyers argued that the release was unenforceable because Brown had not received all the overtime wages that were due to her. The trial court rejected this contention, ruling that the statute does not prevent an employee from releasing disputed claims.

The Court of Appeal affirmed, holding that "Labor Code section 206.5 simply prohibits employers from coercing settlements by withholding wages concededly due." As support for this conclusion, the Court of Appeal looked to Labor Code section 206, which provides that, if there is a "dispute over wages," the employer must pay "all wages...concededly by him to be due, leaving to the employee all remedies he might otherwise be entitled to as to any balance claimed." The Court of Appeal concluded, "wages are not 'due' and unreleasable under Labor Code section 206.5, unless they are required to be paid under section 206."

As a result, the Court of Appeal determined, "we need consider only whether a bona fide dispute existed when Brown signed the release." The Court of Appeal found that such a dispute existed, and the release was therefore proper, because at the time Brown was terminated: (1) she received all the wages that Wachovia believed she was entitled to receive, (2) she believed she was entitled to additional overtime pay, and (3) she voluntarily chose to release her claim in exchange for additional severance pay.

The *Watson* decision provides helpful direction for an employer wishing to obtain an effective release of employee wage claims. Most importantly, employers should be careful to avoid requiring such a release as a condition to paying wages undisputedly owed to terminated employees.