

California Supreme Court Holds Meal Period Premiums Are “Wages” and May Trigger Wage Statement and Waiting Time Penalties

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On May 23, 2022, in [Naranjo v. Spectrum Security Services, Inc., P.3d \(2022\)](#), the California Supreme Court issued an important wage-and-hour decision. In *Naranjo*, the Court held that meal break premiums that an employer pays to an employee for missed, late, or short meal breaks constitute wages. Consequently, an employer must report those premium payments on an employee’s wage statement pursuant to Labor Code section 226 and must promptly pay any owed premiums when an employee terminates employment or face waiting time penalties under Labor Code section 203. *Naranjo* also concluded that the California Constitution’s default prejudgment interest rate of seven percent applies to calculating the prejudgment interest on claims for meal and rest break premiums.

Background

The trial court entered a directed verdict for Spectrum’s former employee, Gustavo Naranjo, on his class-wide meal break claim, for the period from June 2004 through September 2007, because Spectrum did not have a valid on-duty meal break agreement with its employees and, thus, was deemed to have not properly provided meal periods to its employees on any day during the applicable period. As such, under Labor Code section 226.7 and the Wage Orders, Spectrum owed its non-exempt employees one hour of meal break premium pay for each day it failed to provide an individual with a proper meal break. Along with seeking meal break premium pay for all of the class members, Naranjo also sought derivative penalties for Spectrum’s alleged failure to provide accurate wage statements under Labor Code section 226 (the wage statements did not show any premium payments since the employer never paid them) and failure to timely pay all owed premiums upon termination under Labor Code section 203. The trial court awarded statutory penalties under Labor Code section 226 to Naranjo and the class, finding Spectrum’s wage statement omissions qualified as “knowing and intentional” violations. But, the trial court declined to award Labor Code section 203 penalties, finding that Spectrum’s failure to pay premium pay was not “willful” under the statutory definition of the term.

The Court of Appeal affirmed that Spectrum violated the meal break laws between June 2004 and September 2007. But, it held in favor of the employer on the wage statement and waiting time penalty claims, concluding that a failure to pay meal break premiums could not support claims for failure to provide accurate wage statements or failure to timely pay all wages upon separation of employment. The Court of Appeal reasoned that the meal break premium pay did not qualify as “wages” for purposes of those two statutes and, as a result, the failure to provide meal premiums did not implicate either Labor Code section 203 or 226.

California Supreme Court Holding

The California Supreme Court reversed the Court of Appeal, holding that meal break premium pay is a “wage” under California law and specifically with respect to Labor Code sections 203 and 226. The Court reasoned that meal break premium pay is an amount that an employer owes to an employee because the employee either worked too many hours before receiving a break or was required to work during a break. Because it was, in that respect, payment for work performed, it qualified as wages under Labor Code section 200. In turn, that finding meant that the employer had a duty to list any premiums paid as wages on the employee wage statements and to pay any premiums owed within the time limits for paying final wages to a terminated employee under Labor Code sections 201 and 202 or else face waiting time penalties. Although there was no rest break claim at issue in the appeal, the Naranjo Court’s reasoning and references to rest break premiums seem to indicate that rest break premium pay also similarly should be treated as a wage.

However, the Naranjo Court emphasized the limits of its holding, explaining that it was not deciding whether Labor Code section 203 or Labor Code section 226 penalties actually were owed by the Company in this case. The Court declined to address the issue of whether the employer’s failure to pay premiums qualified as a “knowing and intentional” violation of the wage statement law or a “willful” failure to timely pay final wages. Those issues may be addressed by the Court of Appeal on remand.

Key Takeaways

Going forward, employers must ensure that they list meal period and rest break premium pay on employees’ wage statements and timely pay all premiums upon separation of employment. Failure to do either could lead to significant liability, as these claims may be susceptible to class or representative treatment, resulting in the imposition of substantial penalty amounts. But, through the date of this new decision, even if an employer had not been including meal break premium pay on employees’ wage statements and not been timely paying the meal (and rest) break premiums upon separation, the employer might still have a valid defense to those claims for derivative penalties, based on the argument that its failure to do so was not “willful” (as is required for the imposition of penalties under Labor Code section 203) and not done “knowingly and intentionally” (as is required to impose penalties under Labor Code section 226). Through the decisions rendered in this case after remand, and other cases facing these issues hereafter, we likely soon will find out if those defenses will prevail against the imposition of penalties for such past actions.

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