

California Law No Bar to Jury Trial Waiver in Arbitration Agreement, California Appeal Court Rules

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California law does not prohibit an employer from requiring an employee to waive his or her right to a jury trial in an agreement with an arbitration provision, the California Court of Appeal has ruled. *Pulli v. Pony Int'l, LLC*, No. D059137 (Cal. Ct. App. June 19, 2012). The Court held the law simply prohibits an employer from gaining an employee's release of a wage claim in certain cases. Accordingly, it reversed an order denying the employer's motion to compel arbitration of an employee's breach-of-contract and related claims.

Background

Pony International, LLC, offered Kyle Pulli, an athletic footwear designer, a .75 percent equity stake in the company, a salary, and other benefits to work for Pony. Pulli accepted the offer. Several months after Pulli started work, the company presented him with a written employment agreement memorializing the terms of employment. The agreement contained an arbitration provision providing that all disputes related to Pulli's employment, including any breach of the employment agreement, would be subject to arbitration. The company told Pulli that, if he refused to sign the agreement, he would not receive any equity in the company. Pulli signed the agreement.

Thereafter, the company terminated Pulli's employment. Pulli sued, among other things, for breach of contract. The company moved to compel arbitration and the trial court denied the motion. It found the agreement unenforceable under Section 206.5 of the California Labor Code. The company appealed.

Applicable Law

Labor Code Section 206.5(a) states, "An employer shall not require the execution of a release of a claim or right on account of wages due, or to become due, or made as an advance on wages to be earned, unless payment of those wages has been made. A release required or executed in violation of the provisions of this section shall be null and void as between the employer and the employee."

When construing a statute, California courts attempt to determine the legislature's intent in enacting the law in order to adopt the construction that best effectuates the law's purpose. *Doe v. Brown*, 177 Cal. App. 4th 408, 417-418 (Cal. Ct. App. 2009). Courts will examine the statute's language and give the words their ordinary meaning. If a statute is unambiguous, the plain meaning of the statute governs. However, if the statute is ambiguous, courts will adopt the construction that best harmonizes the statute with related laws, its purpose and legislative history.

Agreement to Arbitrate Claims Not Invalid Waiver of Right to Jury Trial

Pulli argued that Section 206.5 precluded the company from requiring him either to agree to an arbitration provision (thereby waiving his right to a jury trial) or to forfeit earned wages. The company contended that an arbitration provision did not constitute a release of a claim for wages.

The Court found the statute's language, prohibiting execution of a release unless "wages due" were paid, indicated that the subject of the release must be for a claim for wages. This interpretation, the Court explained, was consistent with the statute's legislative history and the statute's purpose, which was to address wage

payment abuses in the construction industry (where employees often received bad paychecks after they had waived their rights against their employers). The Court concluded that while Section 206.5 prohibits an employer from obtaining a release of a claim for wages, it does not preclude an employer from requiring an employee to waive his or her right to a jury trial in an arbitration provision. Therefore, because the agreement did not require Pulli to release any claim for wages due him, the Court determined Section 206.5 did not render it unenforceable and reversed the order denying arbitration.

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Pulli is welcome news for California employers, but employers should exercise caution in requiring arbitration agreements as a condition of employment and consult with experienced counsel to limit potential problems regarding enforceability. Jackson Lewis attorneys are available to answer inquiries regarding this case and assist in drafting employment agreements.

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