California Supreme Court Gives Employee Two Bites of the Class Action Apple

Article By

Betsy Johnson
Vi Applen

Ogletree, Deakins, Nash, Smoak & Stewart, P.C.
Our Insights

Related Practices & Jurisdictions

- Administrative & Regulatory
- Health Law & Managed Care
- Labor & Employment
- Litigation / Trial Practice
- California

Wednesday, July 6, 2022

On June 30, 2022, the Supreme Court of California issued a decision in Grande v. Eisenhower Medical Center, No. S261247, that could have a far-reaching impact on the relationships between staffing companies and their clients.
Background

FlexCare, a staffing agency, assigned Lynn Grande to work as a nurse at Eisenhower Medical Center for approximately one week. FlexCare and Eisenhower Medical Center were parties to a written contract that provided that FlexCare “‘retain[ed] … exclusive and total legal responsibility as the employer of Staff,’ including ‘the obligation to ensure full compliance with and satisfaction of’ wage and hour requirements.” The contract also provided that FlexCare would indemnify Eisenhower Medical Center. Grande brought a class action alleging violations of the California Labor Code against only FlexCare based solely on her work assignment at Eisenhower Medical Center. Grande claimed, among other things, that FlexCare had failed to provide the putative class with compliant meal periods and rest breaks and failed to pay overtime wages. Eisenhower Medical Center was not named as a defendant in this first action.

FlexCare settled with the class. Grande executed a release of claims against FlexCare and the trial court entered judgment against FlexCare. Following final approval of the class settlement with FlexCare, Grande filed a second class action against Eisenhower Medical Center only. The action against Eisenhower Medical Center contained the same claims as Grande’s lawsuit against FlexCare.

FlexCare intervened in the action, arguing that Grande was precluded from bringing a separate lawsuit against Eisenhower Medical Center because she had settled her claims against the hospital in the prior class action. The trial court ruled that Eisenhower Medical Center was not a released party under the settlement agreement and that res judicata did not bar the action because Eisenhower Medical Center was neither a party to the prior litigation nor in privity with the staffing agency. The court of appeal agreed with the trial court.

The California Supreme Court’s Decision

The issue before the California Supreme Court was whether “a class of workers [may] bring a wage and hour class action against a staffing agency, settle that lawsuit with a stipulated judgment that releases all of the staffing agency’s agents, and then bring a second class action premised on the same alleged wage and hour violations against the staffing agency’s client.”

The California Supreme Court held that because Eisenhower Medical Center was not named as a released party in the FlexCare settlement with Grande, Eisenhower Medical Center could not use the judgment against FlexCare as a shield (res judicata) against Grande’s subsequent claims. The court held that FlexCare and Eisenhower Medical Center did not have “‘an identity or community of interest’” in the first lawsuit and that Eisenhower Medical Center and FlexCare could not rely on the indemnification provision in their contract or the agency relationship between them.

Key Takeaways

While the court expressly stated that the Grande decision was “fact- and case-specific,” the plaintiffs’ bar will likely seek to adapt the logic and reasoning of the
decision to current and future litigation involving staffing companies and/or their clients.

To minimize the risk of a similar result in class and California Private Attorneys General Act (PAGA) actions, employers may want to ensure that contracts between staffing companies and their clients contain indemnity and other provisions that expressly detail the roles and responsibilities of each party to the agreement in the event that a current or former employee of the staffing company initiates a class and/or PAGA action. Employers may also want to review the release language in settlement agreements in these actions to ensure that the release covers, if appropriate, both the staffing company and the client.
