

JUL 11 2007

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U.S. BKCY. APP. PANEL  
OF THE NINTH CIRCUIT

NOT FOR PUBLICATION

UNITED STATES BANKRUPTCY APPELLATE PANEL  
OF THE NINTH CIRCUIT

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In re:	)	BAP No. CC-06-1436-PaAK
	)	
MANUEL C. SANTOS and	)	Bk. No. LA 03-25686 SB
ROSARIO G. SANTOS,	)	
	)	
Debtors.	)	
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MANUEL C. SANTOS; ROSARIO G.	)	
SANTOS,	)	
	)	
Appellants,	)	
	)	
v.	)	<b>MEMORANDUM<sup>1</sup></b>
	)	
EMELITA PIAD; ROLANDO PIAD;	)	
MIGUEL CHAVEZ; SUSAN CHAVEZ,	)	
	)	
Appellees.	)	
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Argued and Submitted on June 21, 2007  
at Pasadena, California

Filed - July 11, 2007

Appeal from the United States Bankruptcy Court  
for the Central District of California

Honorable Samuel L. Bufford, Bankruptcy Judge, Presiding.

Before: PAPPAS, ALLEY<sup>2</sup> and KLEIN, Bankruptcy Judges

<sup>1</sup> This disposition is not appropriate for publication. Although it may be cited for whatever persuasive value it may have (see Fed. R. App. P. 32.1), it has no precedential value. See 9th Cir. BAP Rule 8013-1.

<sup>2</sup> The Honorable Frank R. Alley, Bankruptcy Judge for the  
(continued...)

1 This is an appeal from an order granting summary judgment and  
2 allowing the claims of appellees for unpaid wages in a chapter 13<sup>3</sup>  
3 case. We REVERSE the summary judgment and REMAND the action to  
4 the bankruptcy court for trial.

5  
6 **FACTS**

7 Appellants, Manuel and Rosario Santos, operated the Santos  
8 Family Home ("SFH"), a residential care facility housing between  
9 five and six developmentally disabled, although ambulatory, male  
10 adults. Appellees Emilia and Rolando Piad were employed by SFH  
11 between 1999 and 2001,<sup>4</sup> and Appellees Miguel and Susan Chavez  
12 (collectively, "Appellees") were employed by SFH between 2001 and  
13 2002. Appellees lived at the facility during their employment,  
14 and performed various duties relating to the care of the residents  
15 and SFH. There were no written employment agreements between  
16 Appellees and Appellants or SFH.

17 On May 7, 2002, Appellees filed a civil action in Los Angeles  
18 Superior Court, Piad v. Santos, no. BC 273511, seeking to recover  
19 unpaid minimum wages and overtime from Appellants and SFH,  
20 totaling approximately \$280,000. Trial was scheduled to begin in  
21

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22 <sup>2</sup>(...continued)  
23 District of Oregon, sitting by designation.

24 <sup>3</sup> Unless otherwise indicated, all chapter, section and rule  
25 references are to the Bankruptcy Code, 11 U.S.C. §§ 101-1330, and  
26 to the Federal Rules of Bankruptcy Procedure, Rules 1001-9036, as  
27 enacted and promulgated prior to the effective date (October 17,  
2005) of most of the provisions of the Bankruptcy Abuse Prevention  
and Consumer Protection Act of 2005, Pub. L. 109-8, April 20,  
2005, 119 Stat. 23.

28 <sup>4</sup> The precise dates of employment of the Piads are disputed  
by Appellants, but that dispute is not implicated in this appeal.

1 this action on June 12, 2003. The trial was stayed when  
2 Appellants filed a petition for relief under chapter 13 on June  
3 11, 2003.

4 Appellants listed the alleged debts owed to Appellees as  
5 contingent, unliquidated and disputed in an amount not to exceed  
6 \$100,000. On July 8, 2003, Appellees filed Proofs of Claim in the  
7 bankruptcy case in the total amount of \$533,307, for unpaid wages,  
8 overtime, meals period penalties, penalties for continuing wage  
9 violations, employer's failure to keep records, liquidated  
10 damages, and prejudgment interest.<sup>5</sup>

11 Appellants objected to the Appellees' claims on October 1,  
12 2003. Appellants alleged that, under the parties' oral employment  
13 agreements, Appellees had agreed to accept their living  
14 accommodations and salaries as full compensation for their  
15 services. Appellants argued that because SFH is a "residential  
16 care facility" as that term is used in California Industrial  
17 Welfare Commission Wage Order No. 5, that as live-in employees,  
18 federal labor law applies to their employer-employee relationship.  
19 29 CFR § 785.23. Under that standard, employees need only be

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20  
21 <sup>5</sup> Two proofs of claim were also filed by Robert R. Ronne,  
22 attorney for Appellees. Like the Appellees' claims, the Ronne  
23 claims were allowed by the bankruptcy court in a June 27, 2005  
24 order that was appealed to this Panel. As discussed below, the  
25 Panel reversed the bankruptcy court's order allowing the  
26 Appellees' and Ronne's claims in our memorandum decision in Santos  
27 v. Piad, BAP No. CC-04-1594 (9th Cir. BAP, December 20, 2005).  
28 Regarding the Ronne claims, we ruled "[b]ecause Ronne's claim is  
dependent on allowance of Appellees' claims, its allowance must  
also be reversed." Id.

The Ronne claims are not before us in this appeal. However,  
we note that on May 3, 2007, the bankruptcy court awarded  
\$270,548.75 to Appellees and Ronne for attorney's fees, which in  
Ronne's case included the amounts he had sought in his proofs of  
claim. Appellants have now appealed these awards of professional  
fees to the Panel, BAP No. CC-07-1186 (filed May 16, 2007).

1 compensated for "time spent carrying out assignments." Appellants  
2 submitted evidence concerning Appellees' duties, and the times  
3 established by the parties within which each task should be  
4 completed. Appellants also alleged that an oral agreement  
5 existed, that was later reduced to writing, under which the Piads  
6 accepted as compensation a credit for housing and board.

7 The claims objection hearing was initially scheduled for  
8 November 25, 2003, but was continued six times. Pre-trial  
9 conferences were held by the bankruptcy court on May 18, September  
10 21 and October 19, 2004. A final pre-trial conference was  
11 scheduled and held on November 18, 2004. Before this hearing, on  
12 November 3, 2004, Appellants had filed a "Motion in Limine Re  
13 Applicability of Wage Order No. 5's Healthcare Industry  
14 Exception." The bankruptcy court agreed to hear the Motion in  
15 Limine on November 18 along with the pre-trial conference.

16 Appellants' motion asserted that the wage hour standard for  
17 staff employed by SFH was established by the California Industrial  
18 Welfare Commission in Wage Order No. 5, which governs persons  
19 employed in the public housekeeping industry. Wage Order No. 5  
20 provides a special definition of "hours worked" that applies to  
21 the healthcare sub-industry within the public housekeeping  
22 industry. In other words, if SFH was a health care facility with  
23 live-in staff, Wage Order No. 5 would require the bankruptcy court  
24 to consider the wages and hours at issue in this case under  
25 special federal standards, rather than general California law.<sup>6</sup>

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26  
27 <sup>6</sup> Attached to Appellants' Motion in Limine was the  
28 Declaration of Rosario Santos, in which she provided additional  
(continued...)

1 At the hearing on November 18, 2004, the bankruptcy court  
2 first took up the Motion in Limine. A fair reading of the  
3 transcript shows that the bankruptcy court was skeptical of  
4 Appellants' argument that Appellees were employed in the  
5 healthcare industry for purposes of applying the federal  
6 standards.<sup>7</sup> However, the court never explicitly ruled on the  
7 Motion in Limine.

8 At the end of the hearing, the court and Appellants' counsel  
9 engaged in a colloquy regarding Appellants' suggestion that the  
10 schedules they submitted of Appellees' working time were evidence  
11 of a reasonable agreement about hours worked.

12 MR. CALSADA [Appellants' Counsel]: They're [Appellees]  
13 going to have to present evidence that - that there was  
14 something other than what these schedules show in terms  
15 of what hours actually worked are. We would be  
16 presenting -

17 THE COURT: And that's what the claims are, sir.

18 MR. CASALDA: I understand. And so but I am - I do  
19 believe that you would be incorrect in simply just  
20 saying, well, if they worked two hours more than what  
21 the schedule shows, that he wouldn't be entitled to  
22 those two hours. If the reasonable - if the agreement  
23 reflects a reasonable approximation of these hours, even  
24 if two hours, three hours more, whatever it may have  
25 been, I . . . would think that the agreement would be  
26 binding as between the employer and the employee even if  
27 it ends up to be short in terms of the - as compared to

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28 <sup>6</sup>(...continued)  
information about operations of SFH and the terms of employment  
for Appellees. Appellees objected strongly to the bankruptcy  
court's consideration of the Santos Declaration, arguing that, in  
it, she repeatedly contradicted her prior deposition testimony.  
Although Ms. Santos' statements in her declaration may be subject  
to impeachment with reference to her prior deposition testimony,  
her statements did not appear to be inadmissible.

<sup>7</sup> The court repeatedly pressed Appellants' counsel whether a  
cook or a janitor employed by, for example, a hospital should be  
considered to be a "healthcare employee."

1 the hours actually worked.

2 The bankruptcy court then abruptly granted a summary judgment to  
3 Appellees:

4 THE COURT: Okay. The claimants are entitled to  
5 judgment. That's not the law, and the Court finds that  
6 that's not the law, that they are entitled to be paid  
7 for hours actually worked. This is a case about hours  
8 actually worked. There is no defense that they didn't  
9 actually work the hours that they claimed to, and that  
10 disposes of the claim.

11 Tr. Hr'g 67:16 - 68:14 (November 18, 2004). The same day, the  
12 court issued a Minute Order with the single annotation, "Jgmt. For  
13 Claimants." The court entered a final Order Allowing Claims on  
14 June 24, 2005.

15 Appellants appealed the summary judgment to the Panel on  
16 November 29, 2004. On December 20, 2005, the Panel issued a  
17 memorandum decision, Santos v. Piad (In re Santos), (9th Cir.  
18 BAP), deciding that

19 [b]ecause the order allowing claims was entered sua  
20 sponte, without advance notice to the Santos that  
21 factual issues beyond whether or nor their business was  
22 a health care facility might be decided summarily, they  
23 were denied an adequate opportunity to "ventilate" their  
24 claims objection issues. See Portsmouth Sq., Inc. v.  
25 Shareholders Protective Comm., 770 F.2d 866, 869 (9th  
26 Cir. 1985) (federal rule and due process considerations  
27 apply where court enters summary judgment sua sponte).

28 Accordingly, we must reverse the [summary judgment  
for] allowance of the Employees' claims.

There is no indication in the record or docket that the  
bankruptcy court took any immediate action upon remand.<sup>8</sup> Then, on  
August 25, 2006, Appellees filed their Motion for Summary

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<sup>8</sup> Confirmation of Appellants' Chapter 13 plan has been  
continued several times and the next scheduled hearing is October  
2, 2007.

1 Judgment. Since the basis of their claims against Appellants were  
2 their assertions that they had worked hours for which they were  
3 not paid, and that some of those hours were overtime, Appellees  
4 argued that the only two material facts needed to be established  
5 to support a summary judgment were (1) the actual hours worked by  
6 the Appellees and (2) the "regular hourly rates" at which they  
7 were paid. Once those facts were established, in Appellees' view,  
8 the wage and overtime compensation owing to them may be determined  
9 as a matter of law based upon simple mathematical calculation.

10 Appellees submitted 23 exhibits to support their summary  
11 judgment motion, including declarations from all four Appellees  
12 describing their duties and compensation they had received. Each  
13 employee claimed to have worked an average in excess of 16 hours  
14 per day, seven days per week, but were paid for substantially less  
15 time. Appellees also submitted extensive excerpts from the  
16 deposition of Rosario Santos, which had been taken during the  
17 state court proceedings. In that deposition, Appellees argue,  
18 Rosario Santos admitted that she does not know, and cannot  
19 estimate, the hours or days worked by Appellees. In particular,  
20 • She kept no record of the days and hours worked by claimants.  
21 • She could not estimate the number of hours that each Employee  
22 worked during any workweek.  
23 • The facility was obligated to be open 24 hours a day, seven  
24 days a week.  
25 • She could not deny that two staff members were required to be  
26 present at the facility at all times when clients were  
27 present.  
28 • Someone had to stay every night at the facility.

1 • When clients were sleeping at the facility, it was  
2 Appellants' policy to make sure the facility was staffed.

3 • Appellants expected that Appellees would be working when  
4 clients were present in the facility.

5 Appellants responded to the Summary Judgment Motion in an  
6 Opposition filed September 18, 2006. Appellants asserted that  
7 triable issues of material fact remained, including:

8 • the number of hours worked per Employee - Appellants allege  
9 that none of Appellees worked in excess of 7.5 hours per  
10 weekday, or 4 hours per weekend day;

11 • whether Appellees were "healthcare industry employees" and,  
12 if so, that Appellants should be permitted to introduce  
13 evidence as to the existence of certain "reasonable  
14 agreements" as to the hours and wages of Appellees;

15 • nature of the Appellees' work.

16 Appellants also raised burden of proof issues, and submitted three  
17 groups of exhibits including declaration of counsel, transcript  
18 excerpts, excerpts from depositions of Appellees, and documents  
19 relating to employment records.

20 Both Appellants and Appellees submitted and exchanged  
21 proposed Statements of Uncontroverted Facts and Conclusions of  
22 Law.

23 The hearing on the summary judgment motion was held before  
24 the bankruptcy court on October 3, 2006. Appellees argued that,  
25 based on a decision of a California appellate court, Hernandez v.  
26 Mendoza, 245 Cal. Rptr. 36 (Cal. Ct. App. 1988), Appellants had  
27 not submitted any admissible evidence contradicting the number of  
28 hours worked by Appellees, and as a result, summary judgment



1 should be granted to Appellees. Appellants responded that there  
2 remained numerous controverted material facts. After the court  
3 invited Appellants' attorney to explain his views on the Hernandez  
4 case, the court announced its ruling:

5 Okay, I find that the language of the Hernandez -- that  
6 the Hernandez case is the controlling law and the  
7 language of the Hernandez case puts a substantial  
8 obligation on an employer.

9 Imprecise evidence by an employee is sufficient to  
10 put the employer to proof. An employee has carried out  
11 his burden if he proves that he has, in fact, performed  
12 work for which he was improperly compensated, and if he  
13 produces sufficient evidence to show the amount and  
14 extent of that work as a matter of just and reasonable  
15 inference.

16 The Court finds that the evidence by the Claimants  
17 here is sufficient to meet that standard. It's not a  
18 very high standard. The burden then shifts to the  
19 employer to come forward with evidence of the precise  
20 amount of work performed or with evidence to the  
21 negative, the reasonableness of the inference to be  
22 drawn from the employee's evidence.

23 The Court finds that the employer has not carried  
24 that burden. That is to say, that there is not  
25 sufficient evidence to -- for the Court to deny judgment  
26 to the Claimants based on the evidence they presented.  
27 When the burden shifted to the employer, the employer  
28 dropped it.

Tr. Hr'g 22:17 - 23:13 (October 3, 2006).

The bankruptcy court entered an order granting summary  
judgment and allowing Appellees' claims on December 1, 2006.  
Appellants filed a timely appeal on December 4, 2006.

23

24

25

### **JURISDICTION**

26 The bankruptcy court had jurisdiction pursuant to 28 U.S.C.  
27 §§ 1334 and 157(b)(2)(B). We have jurisdiction pursuant to 28  
28 U.S.C. § 158.

1 **ISSUE**

2 Whether the bankruptcy court erred in granting summary  
3 judgment and allowing the claims of Appellees.

4  
5 **STANDARD OF REVIEW**

6 The Panel reviews the granting of summary judgment de novo.  
7 Baldwin v. Kilpatrick (In re Baldwin), 245 B.R. 131, 134 (9th Cir.  
8 BAP 2000), aff'd, 249 F.3d 912 (9th Cir. 2001).

9  
10 **DISCUSSION**

11 A timely filed proof of claim is deemed allowed unless a  
12 party in interest objects. § 502(a). Garner v. Shier (In re  
13 Garner), 246 B.R. 617, 620-21 (9th Cir. BAP 2000). A proof of  
14 claim filed consistent with the Bankruptcy Rules constitutes prima  
15 facie evidence of the validity and amount of the claim. Rule  
16 3001(f). Id. If an objection to the claim is made, the  
17 bankruptcy court must determine the amount of the claim as of the  
18 date the petition was filed, and "shall allow such claim . . .  
19 except to the extent that (1) such claim is unenforceable against  
20 the debtor and property of the debtor, under any agreement or  
21 applicable law for a reason other than because such claim is  
22 contingent or unmatured." § 502(b)(1).<sup>9</sup> Heath v. Am. Express  
23 Travel Related Serv. Co., Inc. (In re Heath), 331 B.R. 424, 432  
24 (9th Cir. BAP 2005). Appellants, the objecting party in this  
25 claims dispute, have the burden of presenting evidence sufficient  
26 to overcome the prima facie validity of Appellees' claims. Litton

27 \_\_\_\_\_  
28 <sup>9</sup> Section 502(b) provides seven other exceptions to allowance of claims, none of which are relevant in this dispute.

1 Loan Servicing v. Garvida (In re Garvida), 347 B.R. 697, 706 (9th  
2 Cir. BAP 2006). If Appellants succeed, Appellees bear the burden  
3 of persuasion that the claims should be allowed. Id.

4 Summary judgment is available in bankruptcy proceedings under  
5 Rule 7056, applicable in contested matters under Rule 9014(c), and  
6 which incorporates Fed. R. Civ. P. 56: "A party seeking to recover  
7 upon a claim, counterclaim, or cross claim or to obtain a  
8 declaratory judgment may . . . move with or without supporting  
9 affidavits for a summary judgment in the party's favor upon all or  
10 any part thereof." FED. R. CIV. P. 56(a). Fed. R. Civ. P. 56  
11 places on the moving party the burden of demonstrating through  
12 admissible evidence the lack of genuine issues of material fact.

13 The judgment sought shall be rendered forthwith if the  
14 pleadings, depositions, answers to interrogatories, and  
15 admissions on file, together with the affidavits, if  
16 any, show that there is no genuine issue as to any  
material fact and that the moving party is entitled to a  
judgment as a matter of law.

17 FED. R. CIV. P. 56(c). A fact is material if it may affect the  
18 outcome of litigation. Anderson v. Liberty Lobby, Inc., 477 U.S.  
19 242, 248 (1986).

20 In this appeal, Appellees filed claims for unpaid and  
21 overtime wages. Appellants objected to the claims, arguing that,  
22 according to various oral and implicit agreements, Appellees had  
23 been properly compensated. Appellees replied to the objection,  
24 providing sworn declarations concerning the services they  
25 provided, the number of hours they worked, and other evidence in  
26 support of their claims. Then, Appellants responded with their  
27 own declarations and evidence in support of their objection.

28 In evaluating the burden of proof, the bankruptcy court

1 properly looked to the law of California as the applicable law for  
2 wage disputes in that state. Johnson v. Righetti (In re Johnson),  
3 756 F.2d 738, 741 (9th Cir. 1985) (validity of claim is determined  
4 under state law); Diamant v. Kasparian (In re S. Cal. Plastics,  
5 Inc.), 165 F.3d 1243, 1247-48 (9th Cir. 1999) (defenses to claims  
6 are determined by applicable state law); see also Fort Halifax  
7 Packing Co. v. Coyne, 482 U.S. 1, 21 (1987) (setting of labor  
8 standards and settling of labor disputes is primarily within the  
9 police power of the states). The court determined that, under  
10 what it considered controlling law in Hernandez v. Mendoza, 245  
11 Cal. Rptr. 36 (Cal. Ct. App. 1988), an employer has a statutory  
12 duty to maintain precise records of hours worked by its employees.  
13 CAL. CODE REGS., tit. 8, § 11070, ¶ 7, subd. (A) (3).<sup>10</sup> An employer  
14 who fails to maintain accurate records of an employee's hours must  
15 therefore bear the consequences of such failure in wage disputes  
16 with the employee. The bankruptcy court ruled that, in the face  
17 of Appellees' evidence that they worked a certain number of hours,  
18 Appellants were required to come forward with precise records to  
19 contradict that evidence. When Appellants could not, they failed  
20 to carry their burden of proof, and Appellees' were entitled to  
21 summary judgment for the amounts sought.

22 Hernandez concerned a dispute over unpaid wages and overtime  
23 between a butcher and his employer. The butcher attempted to  
24 prove the actual hours he had worked by presenting to the trial  
25

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26 <sup>10</sup> Title 8 of the Code of Regulations governs employees in  
27 the mercantile industry, such as the butcher in Hernandez. An  
28 identical regulation governing the public housekeeping industry,  
and SFH, is found at CAL. CODE REGS., tit. 5, § 11050, ¶ 7, subd.  
(A) (3)

1 court a calendar of his work he had prepared almost a year after  
2 completing the employment. He constructed the calendar entirely  
3 from memory. While criticizing the butcher's evidence, the  
4 employer conceded that it had not kept accurate records of the  
5 employee's hours. The trial court determined that the butcher's  
6 calendar was not adequate evidence, and therefore found that the  
7 employee had not carried the burden of proving up his claim for  
8 damages.

9 The California Court of Appeals reversed, holding that the  
10 employer's failure to keep adequate time records was a violation  
11 of California wage and hour regulations, and thus shifted the  
12 burden of proof to the employer to demonstrate with evidence of  
13 the precise amount of work performed that the employee did not  
14 work the hours he claimed.

15 Where the employer's records are inaccurate or  
16 inadequate and the employee cannot offer convincing  
17 substitutes a . . . difficult problem arises. The  
18 solution, however, is not to penalize the employee by  
19 denying him any recovery on the ground that he is unable  
20 to prove the precise extent of uncompensated work. Such  
21 a result would place a premium on an employer's failure  
22 to keep proper records in conformity with his statutory  
23 duty; it would allow the employer to keep the benefits  
24 of an employee's labors without paying due compensation.  
25 . . . In such a situation we hold that an employee has  
26 carried his burden if he proves that he has in fact  
performed work for which he was improperly compensated  
and if he produces sufficient evidence to show the  
amount and extent of that work as a matter of just and  
reasonable inference. The burden then shifts to the  
employer to come forward with evidence of the precise  
amount of work performed or with evidence to negative  
the reasonableness of the inference to be drawn from the  
employee's evidence. If the employer fails to produce  
such evidence, the court may then award damages to the  
employee, even though the result be only approximate.

27 Hernandez, 245 Cal. Rptr. at 40.

28 Hernandez is unquestionably good law in California regarding

1 wage disputes, and establishes that an employer who fails to  
2 maintain accurate records required by statute has a great burden  
3 in attempting to prevail over the employee's records. In the 19  
4 years since it was entered, Hernandez has been invoked by the  
5 state appellate courts for the proposition that, once a claimant  
6 submits evidence that he performed work for which he was  
7 improperly compensated and if he produces sufficient evidence to  
8 show the amount and extent of that work as a matter of just and  
9 reasonable inference, the employer then has the burden to produce  
10 precise evidence in support of its position or demonstrate the  
11 unreasonableness of the claimants' inference. Monzon v. Schaefer  
12 Ambulance Serv., Inc., 273 Cal. Rptr. 615, 633 (Cal. Ct. App.  
13 1990). Indeed, twice within the past two years the California  
14 Court of Appeals has invoked Hernandez to support that principle.  
15 Aguiar v. Cintas Corp. No. 2, 50 Cal. Rptr. 3d 135, 145 (Cal. Ct.  
16 App. 2006) (city failed its burden of proof when a contractor who  
17 commingled work records for multiple city projects could not  
18 isolate individual employee work records); Cicairos v. Summit  
19 Logistics, Inc., 35 Cal. Rptr. 3d 243, 253 (Cal. Ct. App. 2005)  
20 (disputed compensation for rest break time placed burden of proof  
21 on employer who was unable to document employee rest breaks). An  
22 oft-cited practitioner's guide also cites Hernandez for this  
23 proposition:

24       If an employee [in an action to recover wages or  
25       overtime compensation] proves that he or she performed  
26       work for which he or she did not receive the proper  
27       minimum wage or overtime compensation and produces  
28       sufficient evidence to permit a reasonable inference as  
      to the amount and extent of that work, the burden shifts  
      to the employer to come forward with evidence of the  
      precise amount of work performed or to negate the  
      inference drawn from the employee's evidence.

1 Richard P. Hill, 21-260 CAL. FORMS OF PLEADING & PRACTICE-ANNOTATED  
2 § 250.40 (2007).<sup>11</sup>

3 Interestingly, although the courts of California cite  
4 Hernandez for this proposition, the holding is not original to the  
5 Hernandez court. The text from Hernandez above is actually a  
6 quotation by the court from the United States Supreme Court  
7 decision in Anderson v. Mt. Clemens Pottery, 328 U.S. 680, 687  
8 (1946).<sup>12</sup> Both the California courts and federal courts examining  
9 wage disputes in California have cited Mt. Clemens for the same  
10 proposition as Hernandez. Motion Picture Indus. Pension & Health  
11 Plans v. N.T. Audio Visual Supply, Inc., 259 F.3d 1063, 1065 (9th  
12 Cir. 2001) (once evidence is entered raising genuine questions  
13 about the accuracy of the employer's records, the burden shifts to  
14 the employer to show either precise evidence as to hours worked or  
15 to rebut the reasonableness of the inference of claimant's  
16 evidence); McLaughlin v. Seto, 850 F.2d 586, 588-89 (9th Cir.

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18 <sup>11</sup> Appellants do not challenge Hernandez as controlling law,  
19 but argue that the bankruptcy court misapplied Hernandez by over-  
20 generalization and not allowing them to present evidence regarding  
21 the alleged agreements between Appellants and Appellees. The  
22 cases cited by Appellants do indeed suggest development of labor  
23 law after Hernandez. Brock v. City of Cincinnati, 236 F.3d 793  
24 (6th Cir. 2001) (a "broad zone of reasonableness" test for  
25 employment agreements); Shannon v. Pleasant Valley Cmty. Living  
26 Arrangements, 82 F. Supp. 2d 426 (W.D. Pa. 2000) (implied  
27 agreements satisfy test of § 785.23); Braziel v. Tobosa  
28 Developmental Servs., 166 F.3d 1061 (10th Cir. 1999) (implied  
agreements permissible under FLSA). However, those cases do not  
modify the central holding of Hernandez, that an employer who  
fails to maintain accurate records required by statute has a great  
burden in attempting to prevail over the employee's records.

<sup>12</sup> The California Supreme Court has ruled that when  
California's laws are patterned on federal statutes, including  
many of its labor laws, the California courts may look to federal  
court decisions for guidance. Bldg. Material & Constr. Teamsters  
Union, Local 216 v. Farrell, 41 Cal. 3d 651, 658 (1988).

1 1988) ("Where an employer failed to maintain accurate payroll  
2 records an employee carries his burden under the FLSA if he shows  
3 he performed work for which he was improperly compensated and  
4 produces some evidence to show the amount and extent of that work  
5 'as a matter of just and reasonable inference.'"); Brick Masons  
6 Pension Trust v. Indus. Fence & Supply, Inc., 839 F.2d 1333, 1338  
7 (9th Cir. 1988) ("An employer cannot escape liability for his  
8 failure to pay his employees the wages and benefits due to them  
9 under the law by hiding behind his failure to keep records as  
10 statutorily required."); Lynne Wang v. Chinese Daily News, Inc.,  
11 435 F. Supp. 2d 1042, 1061 (C.D. Cal. 2006) ("[W]here a company  
12 failed to keep records of hours worked, the presentation of  
13 evidence by the employees as to their own hours creates a  
14 rebuttable presumption that employees worked those hours."); Bell  
15 v. Farmers Ins. Exch., 115 Cal. App. 4th 715, 748 (Cal. Ct. App.  
16 2004) (recognizing precedential authority of Mt. Clemens on  
17 California court's interpretation of FLSA).

18 Finally, a leading treatise on California labor law cites  
19 both Hernandez and Mt. Clemens:

20 If an employer fails to keep required records or fails  
21 to keep accurate records, certain presumptions exist in  
22 favor of an employee bringing a claim for unpaid  
23 overtime or minimum wages. In such circumstances, if an  
24 employee can establish a right to certain wages, the  
inability to prove the exact amount with certainty will  
not bar recovery [citing to Mt. Clemens; elsewhere in  
treatise citing to Hernandez for the same principle].

25 Susan Spurlak, 1-7 CALIFORNIA EMPLOYMENT LAW § 7.02, 1-5 CALIFORNIA  
26 EMPLOYMENT LAW §§ 5.71, 5.81-82 (2006).<sup>13</sup>

27 <sup>13</sup> We present this discussion of Mt. Clemens here not only  
28 because it supports Hernandez, but also because we raise below the  
(continued...)



1 We agree with the bankruptcy court that, if Hernandez is  
2 applicable in this action, Appellees are entitled to a summary  
3 judgment. Simply put, under Hernandez, Appellants' proof is  
4 inadequate to overcome the presumption created by the combination  
5 of Appellees' evidence of hours worked, combined with Appellants'  
6 failure to keep precise records.

7 However, we conclude that the bankruptcy court erred in  
8 granting summary judgment to Appellees on the basis of Hernandez.  
9 This is because a significant question remains whether the  
10 Hernandez analysis applies under the facts of this case, or  
11 whether the issue of "hours worked" must be determined by  
12 standards established in the federal, not state, labor  
13 regulations.

14 The bankruptcy court should have decided whether the  
15 "healthcare exception" to California Industrial Welfare Commission  
16 ["IWC"] Order No. 5-98 Regulating Wages, Hours, and Working  
17 Conditions in the Public Housekeeping Industry applied in this  
18 instance. See CAL. CODE REGS. § 11050 (previously defined as "Wage  
19 Order No. 5").<sup>14</sup> This order regulates wages, hours and working  
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23 <sup>13</sup>(...continued)  
24 question whether the bankruptcy court should have applied federal  
25 labor law as the "applicable" law which may render Appellees'  
26 claims unenforceable under § 502(b)(1). However, we determine  
that this is of no moment, because federal and state law speak  
with one voice on the issue.

27 <sup>14</sup> The IWC is authorized by statute to promulgate orders  
28 regulating wages, hours, and conditions of employment for  
employees throughout California. CAL. LAB. CODE §§ 1173, 1182;  
Ghory v. Al-Lahham, 257 Cal. Rptr. 924, 925 (Cal. Ct. App. 1989).

1 conditions for the Public Housing Industry<sup>15</sup> in California. It is  
2 uncontroverted that SFH's operation fell within the public housing  
3 industry, and was therefore subject to Wage Order No. 5.<sup>16</sup>

4 While Wage Order No. 5 applies generally to the public  
5 housing industry, the order contains an important exception to the  
6 general law in determining hours worked by those employed in the  
7 "healthcare industry," which the order defines as including  
8 "hospital[s], skilled nursing facilities, intermediate care and  
9 residential care facilities, convalescent care institutions, home  
10 health agencies, clinics operating 24 hours a day, and clinics  
11 performing surgery, urgent care, radiology, anesthesiology,  
12 pathology, neurology or dialysis." Wage Order No. 5, Section 2K.

13 \_\_\_\_\_  
14 <sup>15</sup> "Public Housekeeping Industry" means any industry,  
15 business or establishment which provides meals, housing, or  
16 maintenance services whether operated as a primary business or  
when incidental to other operations . . . ." Wage Order No. 5,  
I(C).

17 <sup>16</sup> At the November 18, 2004 hearing, counsel for Appellees  
18 agreed that Wage Order No. 5 applied to SFH and Appellees:

19 THE COURT: I don't hear you addressing the issue of  
whether the Fair Labor Standards Act applies, sir.

20 MR. RONNE [Appellees' counsel]: The -- we have to back  
21 up on that also. Industrial Welfare Commission Order 5,  
22 it's -- it's kind of an insurance policy. You have a  
coverage portion and an exclusion portion. Industrial  
Welfare Commission Order 5 applies to this facility and  
the employees in it, but then you then --

23 THE COURT: Okay. So I take it it is agreed, okay.

24 MR. RONNE: Yes.

25 THE COURT: Very good.

26 MR. RONNE: You must then decide which employees within  
27 that facility are subject to the Fair Labor Standards  
Act definition of hours worked for . . .

28 Tr. Hr'g 32:14-33:3 (November 18, 2004).

1 For employees in the healthcare industry, Wage Order No. 5 defines  
2 "hours worked" as "the time during which an employee is suffered  
3 or permitted to work for the employer, whether or not required to  
4 do so, as interpreted in accordance with the provisions of the  
5 [Federal] Fair Labor Standards Act["FLSA"]." Id. at 2L.

6 The U.S. Dept. of Labor has issued an interpretive regulation  
7 of FLSA<sup>17</sup> governing the hours worked by live-in staff:

8 An employee who resides on his employer's premises on a  
9 permanent basis or for extended periods of time is not  
10 considered as working all the time he is on the  
11 premises. Ordinarily, he may engage in normal private  
12 pursuits and thus have enough time for eating, sleeping,  
13 entertaining, and other periods of complete freedom from  
14 all duties when he may leave the premises for purposes  
15 of his own. It is, of course, difficult to determine  
16 the exact hours worked under these circumstances and any  
17 reasonable agreement of the parties which takes into  
18 consideration all of the pertinent facts will be  
19 accepted.

20 29 C.F.R. § 785.23, under authority FLSA, 29 U.S.C. §§ 201-216.  
21 Our court of appeals instructs us that we are to look to § 785.23  
22 when examining the hours and compensation for live-in employees  
23 within the meaning of the FLSA. Brigham v. Eugene Water & Elec.  
24 Bd., 357 F.3d 931, 935 (9th Cir. 2004).

25 Our Court of Appeals has also recently examined implications  
26 of FLSA and 29 C.F.R. § 785.23 in the case of a police officer who

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27 <sup>17</sup> "The power of an administrative agency to administer a  
28 congressionally created . . . program necessarily requires the  
29 formulation of policy and the making of rules to fill any gap  
30 left, implicitly or explicitly, by Congress." Chevron U.S.A.,  
31 Inc. v. Natural Res. Def. Council, Inc., 467 U.S. 837, 843-44  
32 (1984). Most recently, in Long Island Care at Home, Ltd. v. Coke,  
33 551 U.S. \_\_\_\_\_, 127 S. Ct. 2339 (2007), the Supreme Court  
34 specifically noted that the Secretary of Labor is authorized "to  
35 prescribe necessary rules, regulations and orders with regards to"  
36 the Federal Labor Standards Act. No. 06-593, slip op. at 5 (June  
37 11, 2007) (quoting Fair Labor Standards Amendments of 1974,  
38 § 29(b), 88 Stat. 76).

1 was compensated for care of a police dog in his home. Leever v.  
2 City of Carson, 360 F.3d 1014) (9th Cir. 2004). The city paid the  
3 officer a flat fee of \$60 biweekly for overtime associated with  
4 the care of the dog pursuant to its collective bargaining  
5 agreement with the police union. The city did not inquire into  
6 actual hours worked and made no effort to approximate the time  
7 involved. After a cursory examination of the collective  
8 bargaining agreement, the trial court granted summary judgment to  
9 the city. The focus of the circuit court's analysis on appeal was  
10 whether the collective bargaining agreement was in any way related  
11 to the actual number of hours worked.

12 An agreement must take into account some approximation  
13 of the number of hours actually worked by the employee  
14 or that the employee could reasonably be required to  
15 work. The very purpose of an agreement pursuant to  
16 § 785.23 is to approximate the number of hours actually  
17 worked. Requiring parties to approximate the number of  
18 hours worked when forming an agreement pursuant to  
19 § 785.23 is consistent with the purpose of the FLSA,  
20 which is to ensure that employees are paid for "all  
21 hours worked."

18 Id. at 1019-20 (citations omitted).

19 In summary, SFH was subject to Wage Order No. 5. However, if  
20 SFH is a "residential care facility" for purposes of Wage Order  
21 No. 5, in determining the hours worked by its employees,  
22 California law defers to federal labor law. The pertinent federal  
23 regulations recognize that it is "difficult to determine the exact  
24 hours worked" for an employee who resides on his employer's  
25 premises, and that the trier of fact concerning an hours worked  
26 dispute must consider "any reasonable agreement of the parties  
27 which takes into consideration all of the pertinent facts . . . ."  
28 And twice within the last three years, in Brigham and Leever, our

1 court of appeals has struck down summary judgments in favor of  
2 employers in hours worked and overtime disputes where the trial  
3 court failed to examine carefully the agreements of the parties.<sup>18</sup>  
4 In this instance, if the FLSA standard of proof applies,  
5 Appellants' evidence of agreements between the parties governing  
6 the extent of Appellees' compensation raises an issue of fact for  
7 trial.

8 As early as the October 19, 2004, pre-trial hearing, the  
9 parties discussed the "health care exception" to the general  
10 California regulations on wages and hours. The bankruptcy court  
11 ruled at that hearing that the issue was not properly before the  
12 court. To get that issue decided, Appellants filed the Motion in  
13 Limine.

14 As discussed above, the bankruptcy court conducted a hearing  
15 on the Motion in Limine on November 18, 2004, the same date set  
16 for the continued pretrial conference. Counsel for Appellees and  
17 Appellants argued. In addition, Appellants retained special  
18 counsel, a specialist in labor law, who was heard and questioned  
19 by the court. Although the bankruptcy court appeared skeptical  
20 about the merits of the motion, it never ruled on the issue of  
21 whether Appellants' facility fell within the health care  
22 exception. Appellants again raised the health care exception in  
23 their opposition to the Summary Judgment Motion in 2006, but again  
24 the bankruptcy court made no ruling on the issue.

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26 <sup>18</sup> Unlike the present case, the trial courts in Brigham and  
27 Leever did examine the agreements between the parties.  
28 Nevertheless, the court of appeals found that the trial courts'  
analyses were flawed. Here, the bankruptcy court never examined  
the alleged agreements between Appellants and Appellees.

1 Appellants argue that, if SFH was a health care facility,  
2 they should have been allowed by the bankruptcy court to present  
3 evidence to establish the oral, written and other implied  
4 agreements of the parties concerning the extent of Appellees'  
5 hours worked under these circumstances. We agree. Until that  
6 determination was made, the bankruptcy court could not conclude  
7 which law, state or federal, was applicable to finding the number  
8 of hours worked by, and the amount of compensation required to be  
9 paid to, Appellees.

10 We take no position on the merits of whether SFH is a  
11 healthcare facility, and therefore, whether the federal labor  
12 regulations apply to resolution of the wage dispute.<sup>19</sup> However, we  
13 do observe that Appellants supported their argument with an  
14 opinion letter from the Division of Labor Standards Enforcement,  
15 Department of Industrial Relations, State of California, which  
16 classified a residential care facility comparable to SFH as a  
17 healthcare facility. Although such evidence is not necessarily  
18 dispositive, it is sufficient to show the existence of a material  
19 question of fact precluding entry of summary judgment.

20 The bankruptcy court has before it contradictory evidence  
21 material to the question of whether SFH is a healthcare facility.  
22 In addition to the opinion letter, the court has declarations from  
23 the parties differing on the nature of services provided by the  
24 employees, and whether medications were administered and by whom.  
25 Evaluating this evidence involves credibility determinations that

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27 <sup>19</sup> We could locate no case law interpreting, or providing any  
28 guidance concerning, the "healthcare exception" under Wage Order  
No. 5.

1 can only be made at trial. If the court at trial determines that  
2 Appellees were healthcare employees while working for Appellants,  
3 as those terms are used in Wage Order No. 5, the court should then  
4 turn to the issues of the amount of hours Appellees worked and the  
5 amount of compensation due to them from Appellants, which must be  
6 determined under standards established by the FLSA regulations.

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**CONCLUSION**

We REVERSE the bankruptcy court's order granting summary judgment in favor of Appellees, and REMAND for trial pursuant to Rule 9014(d) on the issues of whether Appellees were healthcare workers and, if so, the hours worked and compensation due to them from Appellants.