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CALIFORNIA DEALERSHIPS AND OTHER EMPLOYERS WIN WAGE-AND-HOUR CLARITY: COURT UPHOLDS HOURLY + FLAG-BONUS PLANS

Insights
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In a win for California automobile dealerships and other employers, the California Court of Appeal recently confirmed that paying service technicians by the hour, plus additional bonus compensation based on completed “flag hours” for work performed, complies with state law. The *Mora v. C.E. Enterprises, Inc.*, decision, released on November 18, reinforces and supports the practice of many auto dealerships and businesses that utilize hybrid hourly and bonus compensation plans. What do dealerships and other employers in California need to know about this decision, and what steps can you take to ensure you adopt the lessons learned?

Main Issue in a Nutshell

The case dealt with whether First Honda’s service-technician pay plan violated California’s strict wage-and-hour laws, including the “no borrowing rule” established in [Gonzalez v. Downtown LA Motors](#) and the requirements of [Labor Code § 226.2](#) governing piece-rate compensation.

Reminder of the “No Borrowing Rule” Mandated By Gonzalez

In 2013’s *Gonzalez v. Downtown LA Motors*, the dealership paid service technicians only for flag hours (i.e. specified sums corresponding to specific work performed on vehicles) but ensured that the overall compensation was sufficient to pay the employees for all hours worked and thus met minimum wage requirements.

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- The court held that this piece-rate system of paying automotive service technicians more than minimum wage for designated flag hours, but not making separate payments for non-flag hours, **violated** the state's minimum wage requirements.
- This was despite the fact that the technicians earned at least minimum wage when the employer averaged the flag and non-flag hours, even when the employer supplemented the technicians' pay if the flag hour pay fell short of the "minimum wage floor."
- In other words, this compensation method did not separately pay technicians for non-productive work time, such as rest periods and "down time" waiting for the next vehicle to service.

Service Techs Challenge Dealer's Compensation Plan

Two service technicians who worked in Simi Valley-based First Honda, Gustavo Mora and Mohammed Hanif, argued that First Honda's hourly pay plan was unlawful. In their view, it operated as an improper piece-rate system that used bonus earnings to indirectly satisfy minimum wage obligations.

They claimed that they experienced substantial "unproductive time" during which no flag hours accrued. They contended that the dealership failed to pay for this time in violation of both the minimum wage law and section 226.2. In short, Mora and Hanif argued the plan violated the no-borrowing rule established in *Gonzalez*, which prohibits employers from averaging or supplementing compensation across productive and nonproductive time to meet minimum wage requirements.

Court Rules for Dealership

The court rejected these arguments after examining the plan's actual structure and operation.

- The court found that the dealership's compensation plan did not violate the no-borrowing prohibition because employees were paid an hourly wage of at least twice the minimum wage. This included productive time, nonproductive time, and legally mandated rest and recovery breaks.



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- The dealership separately offered a flag-hour bonus program that rewarded technicians for efficient completion of repair tasks, but this bonus was entirely supplemental and never used to meet minimum-wage or overtime obligations.
- Because the hourly wage alone satisfied the minimum requirements and the bonus did not offset wages, the plan complied with California's minimum-wage structure.
- The Court emphasized that, unlike the unlawful averaging system in *Gonzalez*, the employer here did not rely on any bonus or piece-rate earnings to satisfy its statutory wage obligations.

Dealer Complied with Labor Code § 226.2

The Court also found that the compensation plan complied with section 226.2, even assuming the flag-bonus component resembled piece-rate compensation. Section 226.2 requires employers to separately compensate employees for rest breaks, recovery periods, and other nonproductive time when they are paid on a piece-rate basis.

In this case, the employer already paid technicians double the minimum wage for every hour on the clock, which inherently included rest and nonproductive periods. Mora and Hanif failed to identify any instance in which they were paid less than the required hourly amount or deprived of any bonus owed under the plan. Accordingly, section 226.2 did not provide a basis for liability. The trial court characterized the evidentiary presentation as an attempt to rely on broad, unsupported assumptions, which the appellate court agreed was insufficient.

Court Also Dismisses PAGA Claim

The court additionally affirmed dismissal of the plaintiffs' PAGA claims. It found that the plaintiffs' PAGA notice lacked the factual detail and legal theories required to place the employer and the Labor and Workforce Development Agency on notice of the alleged violations. The notice did not articulate the PAGA theories related to sales associates or technicians that plaintiffs later attempted to pursue in litigation.

The Court also emphasized that the plaintiffs failed to meet their evidentiary burden at trial. Although they introduced pay records, they did not link any purported discrepancies to actual underpayment and did not compare pay stubs to timekeeping data or to the pay plans applicable to different employee classifications. The trial court found the evidentiary presentation was an attempt to rely on broad, unsupported assumptions, which the appellate court agreed was insufficient.

Practical Implications for California Employers

This decision reinforces that employers may continue using hourly-plus-bonus compensation plans, provided the hourly rate independently satisfies all minimum-wage, overtime, and rest-period requirements. The ruling underscores the importance of clear written pay plans, accurate timekeeping, transparent paystubs, and careful alignment between documented wage policies and actual payroll practices.

We recommend employers take several proactive steps to ensure compliance with California wage-and-hour laws:

- First, review your existing pay plans to confirm that the plans are structured in a manner consistent with the court's decision, and don't violate the "No Borrowing Rule."
- Second, if you have technicians or similar employees who provide their own tools, you should verify that their compensation provides at least double the applicable minimum wage as required by California law.
- Third, ensure that your compensation structures are updated for 2026 in anticipation of [California's minimum wage increasing to \\$16.90 per hour](#), which will raise the required double-minimum-wage rate for employees who provide their own tools to \$32.80 per hour.

Conclusion

We will continue to monitor developments and provide updates so make sure you are subscribed to [Fisher Phillips' Insight System](#) to gather the most up-to-date information. If you have questions, please contact your Fisher Phillips attorney, the authors of this Insight, or any attorney in [our California offices](#) or [Automotive Dealership Team](#).

