Filed 11/19/26

CERTIFIED FOR PUBLICATION

IN THE COURT OF APPEAL OF THE STATE OF CALIFORNIA

SECOND APPELLATE DISTRICT

DIVISION SIX

YUNUEN S. CASTILLO ZAMORA, Plaintiff and Respondent, v. ART'S LABOR SERVICE et al., Defendants and Appellants.	2d Civ. No. B345212 (Super. Ct. No. 2024CUOE032406) (Ventura County)

An employer may require its employees to arbitrate claims arising out of or relating to their employment. But the arbitration agreement is subject to ordinary rules of unconscionability. Here we hold that an arbitration provision extending the preclusive effect of the arbitrator's award to employment claims that "could have been raised" is unconscionable. The provision would bar claims involving distinct primary rights simply because the employee could have asserted them in arbitration.

Appellants Art's Labor Service and Glass House Camarillo Cultivation, LLC (collectively Appellants) appeal from the trial

court's order denying their motion to compel arbitration. We affirm.

FACTS AND PROCEDURAL HISTORY

Art's Labor Service (Art's) is a staffing agency and Glass House is one of their clients. Glass House operates a cannabis business and owns several cannabis farms in Southern California. Respondent Yunuen S. Castillo Zamora was hired by Art's and staffed at Glass House's Camarillo location as a nonexempt employee from around April 2024 to September 2024.

Art's requires all new hires to sign an arbitration agreement (the Agreement) as a condition of employment. The Agreement required "[a]ny and all disputes, controversies or claims . . . arising out of or relating to this employment handbook, [the employee's] employment or the termination of . . . employment shall be settled by binding arbitration . . . unless otherwise prohibited by applicable law."

Castillo attended a new hire orientation. She was provided a packet containing English and Spanish versions of various onboarding documents, including the Agreement. Art's human resources manager spoke in Spanish and discussed some of the documents in Spanish. Castillo was allowed to take the onboarding documents home to review.

In October 2024, Castillo filed a complaint "on behalf of herself and others similarly situated," alleging various wage and hour claims. Castillo also submitted a notice to the Labor and Workforce Development Agency regarding potential claims under the Labor Code Private Attorneys General Act of 2004 (PAGA) (Lab. Code, § 2698 et seq.) based on the same Labor Code violations alleged in her complaint. Her complaint did not allege a PAGA cause of action.

Appellants moved to compel arbitration of Castillo's claims. Castillo did not dispute she signed the Agreement, but contended the Agreement was procedurally and substantively unconscionable.

The trial court denied the motion to compel. It found the Federal Arbitration Act (FAA) (9 U.S.C. § 1 et seq.) controls, but found the Agreement was unenforceable and "permeated with unconscionability" because of provisions regarding the arbitrator's award, prevailing attorney fees, and the PAGA waiver.

DISCUSSION

"Federal and California law treat valid arbitration agreements like any other contract and favor their enforcement." (*Ramirez v. Charter Communications, Inc.* (2024) 16 Cal.5th 478, 492 (*Ramirez*).) "A written agreement to submit a controversy to arbitration is valid, enforceable, and irrevocable, 'save upon such grounds as exist for the revocation of any contract.' (Code Civ. Proc., § 1281.) Unconscionability provides such grounds." (*Ramirez*, at p. 492.) A contract is unconscionable if " 'one of the parties lacked a meaningful choice in deciding whether to agree and the contract contains terms that are unreasonably favorable to the other party.' " (*Ibid*.)

Unconscionability includes procedural and substantive elements. "Procedural unconscionability 'addresses the circumstances of contract negotiation and formation, focusing on oppression or surprise due to unequal bargaining power.' [Citation.] This element is generally established by showing the agreement is a contract of adhesion, i.e., a 'standardized contract which, imposed and drafted by the party of superior bargaining strength, relegates to the subscribing party only the opportunity

to adhere to the contract or reject it.' " (*Ramirez*, *supra*, 16 Cal.5th at p. 492.) "[A]lthough adhesion alone generally indicates only a low degree of procedural unconscionability, the potential for overreaching in the employment context warrants close scrutiny of the contract's terms." (*Id.* at p. 494.)

"Substantive unconscionability looks beyond the circumstances of contract formation and considers 'the fairness of an agreement's actual terms.' " (*Ramirez*, *supra*, 16 Cal.5th at p. 493.) " 'This analysis "ensures that contracts, particularly contracts of adhesion, do not impose terms that have been variously described as ' " 'overly harsh' " ' [citation], ' "unduly oppressive" ' [citation], ' "so one-sided as to 'shock the conscience' " ' [citation], or 'unfairly one-sided.' [Citation.] All of these formulations point to the central idea that the unconscionability doctrine is concerned not with 'a simple old-fashioned bad bargain' [citation], but with terms that are 'unreasonably favorable to the more powerful party.' " ' " (*Stoker v. Blue Origin, LLC* (2026) 120 Cal.App.5th 91, 106–107 (*Stoker*).)

"Both procedural and substantive elements must be present to conclude a term is unconscionable, but these required elements need not be present to the same degree. [Citation.] Courts apply a sliding scale analysis under which 'the more substantively oppressive [a] term, the less evidence of procedural unconscionability is required to come to the conclusion that the term is unenforceable, and vice versa.' " (*Ramirez*, *supra*, 16 Cal.5th at p. 493.) Because the evidence here regarding unconscionability is undisputed, we review the Agreement's validity de novo. (*Ibid.*)

Procedural unconscionability

It is undisputed the Agreement is a contract of adhesion

because Art's requires its employees to sign it as a condition of employment. But as the trial court found, adhesion establishes a low degree of procedural unconscionability. (*Ramirez*, *supra*, 16 Cal.5th at p. 494.)

Substantive unconscionability

The trial court found the Agreement's following three provisions substantively unconscionable: (1) the arbitrator's final and binding award and decision, (2) attorney fees related to enforcing arbitration, and (3) the PAGA waiver. We agree these provisions are substantively unconscionable.

1. Arbitrator's award and decision finality

The Agreement states: "Any decision and award or order of the arbitrator shall be in writing and shall be final and binding between the parties as to *all claims, which were or could have been raised in connection with the dispute* to the fullest extent permitted by law. The arbitrator's decision shall be final and subject to judicial review only as provided by the California Arbitration Act." (Italics added.)

Castillo contends this language broadly extinguishes "all claims" between the parties, and the language "tracks language of a general release." The trial court found this language "suggests that an employee waives claims it fails to arbitrate, and this is not an appropriate condition of arbitration, nor is this waiver of rights clearly articulated."

We employ ordinary rules of contract interpretation to interpret the Agreement with the goal of giving effect to the mutual intention of the parties at the time of contract formation. (*Duran v. EmployBridge Holding Co.* (2023) 92 Cal.App.5th 59, 65.) We first examine the contract's plain language, giving words their usual and ordinary meaning. (*Ibid.*) And we interpret the

contract as a whole to give effect to every part, if reasonably practicable, with each clause helping to interpret the other. (Civ. Code, § 1641.)

"When interpreting the provisions in an arbitration agreement covered by the FAA, due regard must be given to the federal policy favoring arbitration and, as a result, ambiguities as to the scope of the arbitration clause should be resolved in favor of arbitration." (*Ford v. The Silver F, Inc.* (2025) 110 Cal.App.5th 553, 566.) But " '[w]e do not override the clear intent of the parties, or reach a result inconsistent with the plain text of the contract, simply because the policy favoring arbitration is implicated.' " (*Ibid*.)

Appellants contend the provision at issue is not unconscionable because it merely reflects ordinary res judicata principles.[1] Res judicata "prevents relitigation of the same cause of action in a second suit between the same parties or parties in privity with them." (*Mycogen*, *supra*, 28 Cal.4th 888, 896.) Because the provision does not "encompass all claims that could be raised on any issue," Appellants contend, the Agreement only encompasses claims that "arise from the same 'cause of action' or injury." (Italics omitted.)

But relevant to res judicata is the "primary rights theory." The invasion of a primary right gives rise to a single cause of action, even though there may be different legal theories or remedies. Because a cause of action is based on the harm

---

[1] The term "res judicata" has been used to refer to both claim preclusion and issue preclusion. Here, we use "res judicata" only to refer to claim preclusion. (*Mycogen Corp. v. Monsanto Co.* (2002) 28 Cal.4th 888, 897, fn. 7 (*Mycogen*).)

suffered, and not a particular legal theory (*Mycogen*, *supra*, 28 Cal.4th at p. 904), "all claims based on the same cause of action must be decided in a single suit; if not brought initially, they may not be raised at a later date." (*Id.* at p. 897.)

We conclude the language regarding the arbitrator's award does not merely encompass res judicata principles. According to the Agreement, the "disputes" must "aris[e] out of or relat[e] to the] employment handbook, [the employee's] employment or the termination of . . . employment." The plain language of the phrase "all claims, which . . . could have been raised in connection with the dispute" broadly encompasses more claims than what is permitted under res judicata because it implies an intent to include claims in connection with the employment dispute that were not raised. (Cf. *Villacres v. ABM Industries Inc.* (2010) 189 Cal.App.4th 562, 587–589 [the phrase " 'all claims' " includes " 'claims that are not expressly enumerated in the release' " and constituted a general release of all claims between the parties before the settlement agreement's effective date].)

The clause "in connection with the dispute" also encompasses a broad scope of claims which supports our conclusion the Agreement contravenes the primary rights theory. (*Rice v. Downs* (2016) 248 Cal.App.4th 175, 186 (*Rice*) [" 'A "broad" clause includes those using language such as "*any claim* arising from or *related to* this agreement" ' [citation] or ' "arising in connection with" the [a]greement' "].) Because the arbitrator's award here would bar employment claims that "could have been raised," it purports to extinguish distinct primary rights. (*Crowley v. Katleman* (1994) 8 Cal.4th 666, 681 ["the primary right is simply the plaintiff's right to be free from the particular injury suffered"].) Two claims which merely relate to or arise

from the same set of operative facts, including an employment relationship, may not necessarily trigger application of res judicata because they do not involve the same primary right. (*Agarwal v. Johnson* (1979) 25 Cal.3d 932, 954 (*Agarwal*), disapproved on other grounds by *White v. Ultramar, Inc.* (1999) 21 Cal.4th 563.)

For example, an employment discrimination claim under the California Fair Employment and Housing Act (FEHA) (Gov. Code, § 12900 et seq.) does not implicate the same primary right as claims for unpaid wages even if the latter arose from the same employment relationship because they do not implicate the same "harm suffered." (*Agarwal*, *supra*, 25 Cal.3d at p. 954.) Thus, the phrase "which . . . could have been raised in connection with the dispute" includes claims not limited to those sharing the same primary right as the specific cause of action a party raised in arbitration. It may include claims that " ' "touch matters" ' " upon the dispute relating to or arising from the employment relationship but which implicate a distinct primary right. (*Rice*, *supra*, 248 Cal.App.4th at p. 186.)

Had the parties here intended to adopt the principles of res judicata, they could have employed limiting language that only encompassed claims arising from the same cause of action or injury. We conclude the provision is substantively unconscionable. And as our Third District colleagues concluded in *Hasty v. American Automobile Assn. etc.* (2023) 98 Cal.App.5th 1041, 1062 (*Hasty*), the phrase "extent permitted by law" does not negate unconscionability because there is no evidence here that an employee would have knowledge about what this savings clause permits.

2. Attorney fees

The Agreement provides: "If any litigation is necessary to enforce the terms of this Arbitration Agreement, or if any legal action, even though prohibited, is brought with regard to this Employment Handbook, the prevailing party shall be entitled to reasonable attorneys' fees in addition to any other relief to which it may be entitled." The trial court found that this language "could discourage a plaintiff from raising legitimate issues as to the enforceability of the arbitration agreement." We agree.

Our high court in *Ramirez*, *supra*, 16 Cal.5th at pages 507 to 512, held that a similar attorney fees provision was substantively unconscionable. The provision required a " 'party resisting arbitration' " " 'to pay to the other party all costs, fees and expenses that they incur in compelling arbitration, including, without limitation, reasonable attorneys' fees' " if " 'any judicial action or proceeding is commenced' " to compel arbitration and arbitration is compelled. (*Id.* at p. 491.)

The plaintiff in *Ramirez* brought claims under FEHA. (*Ramirez*, *supra*, 16 Cal.5th at p. 490.) In a FEHA matter, a trial court has the discretion to award reasonable attorney fees and costs to the prevailing defendant, but only if the action was " 'frivolous, unreasonable, or groundless.' " (*Ramirez*, at p. 507.) The legislative intent behind this "asymmetric rule" is to not " 'undercut the Legislature's intent to promote vigorous enforcement of our civil rights laws.' " (*Id.* at p. 508.)

And " '[w]hen an employer imposes mandatory arbitration as a condition of employment, the arbitration agreement or arbitration process cannot generally require the employee to bear any type of expense that the employee would not be required to bear if he or she were free to bring the action in court.' "

(*Ramirez*, *supra*, 16 Cal.5th at p. 508, citing to *Armendariz v. Foundation Health Psychcare Services, Inc.* (2000) 24 Cal.4th 83, 110–111 (*Armendariz*).) This rule " 'ensure[s] that employees bringing FEHA claims will not be deterred by costs greater than the usual costs incurred during litigation.' " (*Ramirez*, at p. 508.) Thus, "an arbitration agreement imposed as a condition of employment cannot require an employee to pay attorney fees to the employer in the arbitration of a statutory claim, unless the arbitrator finds that the action was frivolous, unreasonable, or groundless when brought, or that the employee continued to litigate after it clearly became so." (*Ibid.*)

Because the provision in *Ramirez* "create[d] a potential obligation to pay costs only in an arbitral setting" and "would also undermine the public policy embodied in FEHA's asymmetric rule," "the clause [was] unconscionable." (*Ramirez*, *supra*, 16 Cal.5th at p. 508.) As in *Ramirez*, the Agreement here could potentially result in an unlawful award of attorney fees. The provision creates a potential obligation for an employee to pay attorney fees in arbitration—an obligation that would not exist if the action was litigated in superior court. And because the Agreement also requires an employee to pay prevailing party attorney fees in "any legal action" regarding the "Employment Handbook," the attorney fees provision could undercut or conflict with rules regarding attorney fees in FEHA matters and other claims under the Labor Code. (See e.g., Lab. Code, § 218.5.) We agree the potential obligation to pay prevailing party attorney fees could deter a plaintiff from bringing a legitimate lawsuit. (*Ramirez*, at p. 508.) The attorney fees provision is substantively unconscionable.

3. PAGA waiver

The Agreement also includes the following class action and PAGA waiver: "Employees are expressly precluded from filing any joint, class, representative or collective claims addressing their wages, hours or other terms or conditions of their employment against the employer in any forum, whether arbitral or judicial. This voluntary waiver includes claims under [PAGA] to the extent permitted by law."

The trial court found the provision unconscionable because a PAGA waiver "is not permitted by law." The court also found that "provisions that purport to waive rights 'to the extent permitted by law' raise unconscionability concerns because employees are unlikely to know what is permitted by law and what is not." We agree.

A waiver of representative PAGA actions is unenforceable and violates public policy. (*Adolph v. Uber Technologies, Inc.* (2023) 14 Cal.5th 1104, 1117.) Several of our sister courts have held that an arbitration provision waiving an employee's right to bring a representative PAGA action is substantively unconscionable. (See *Najarro v. Superior Court* (2021) 70 Cal.App.5th 871, 882–883; *Hasty*, *supra*, 98 Cal.App.5th at p. 1063; *Subcontracting Concepts (CT), LLC v. De Melo* (2019) 34 Cal.App.5th 201, 213–214; *Alberto v. Cambrian Homecare* (2023) 91 Cal.App.5th 482, 494–495 (*Alberto*); *Stoker*, *supra*, 120 Cal.App.5th at pp. 111–112.) We agree with these cases.

Appellants assert that PAGA actions may be divided into individual and nonindividual claims and that individual claims are arbitrable. But the fact that PAGA actions may be divisible does not mean a provision is not substantively unconscionable. The Agreement here precludes "representative" claims "whether

arbitral or judicial," and the "waiver includes claims under [PAGA]." (Italics added.) This language waives PAGA actions, whether individual or nonindividual. (*Hasty*, *supra*, 98 Cal.App.5th at p. 1063 [clear language of arbitration agreement precluded claims in PAGA capacity, either as an individual or as a nonindividual].) Such a "blanket PAGA waiver" is unconscionable. (*Alberto*, *supra*, 91 Cal.App.5th at p. 494.) Appellants also contend the phrase "to the extent permitted by law" is a "savings clause" that avoids unconscionability. But in our view, the phrase does not negate the unconscionability of the blanket PAGA waiver. (*Hasty*, at p. 1062.)

Severability

The Agreement contains a severance clause. Appellants contend the trial court erred when it found the Agreement was "permeated" with unconscionability and could not be cured by severing the unconscionable provisions. We are not persuaded.

We review the trial court's severance decision for abuse of discretion. (*Ramirez*, *supra*, 16 Cal.5th at p. 513.) A trial court has discretion to refuse to enforce the contract as a whole if it is " 'permeated by . . . unconscionability.' " (*Armendariz*, *supra*, 24 Cal.4th at p. 122.) In determining whether severance is appropriate, a court should consider the contract's purposes. "If the central purpose of the contract is tainted with illegality, then the contract as a whole cannot be enforced. If the illegality is collateral to the main purpose of the contract, and the illegal provision can be extirpated from the contract by means of severance or restriction, then such severance and restriction are appropriate." (*Id.* at p. 124.)

Our high court in *Armendariz* concluded two factors weighed against severance. First, the agreement contained more

than one unlawful provision. (*Armendariz*, *supra*, 24 Cal.4th at p. 124.) Second, an unlawful purpose permeates an arbitration agreement when "there is no single provision a court can strike or restrict in order to remove the unconscionable taint from the agreement." (*Id*. at pp. 124–125.) If reforming a contract would require "augmenting it with additional terms," a trial court cannot cure it through severance and must void the entire agreement. (*Id*. at p. 125.)

Here, the trial court could reasonably decline to sever the Agreement's unconscionable provisions because it found that the binding arbitration provision encompassing claims beyond those barred by res judicata principles was "central" to the Agreement's purpose. And like *Armendariz*, the trial court found there were multiple provisions that were unconscionable, and the court would have to, in effect, reform or "edit[]" the Agreement to make it lawful. "[U]pholding this type of agreement with multiple unconscionable terms would create an incentive for an employer to draft a one-sided arbitration agreement in the hope employees would not challenge the unlawful provisions, but if they do, the court would simply modify the agreement to include the bilateral terms the employer should have included in the first place." (*Mills v. Facility Solutions Group, Inc.* (2022) 84 Cal.App.5th 1035, 1045.) Under these circumstances, severance would not further the " ' "interests of justice." ' " (*Armendariz*, *supra*, 24 Cal.4th at p. 124.) No abuse of discretion has been shown.

We also reject Appellant's contention that the trial court ignored the FAA. The court expressly acknowledged that "the FAA controls." And nothing in the trial court's ruling regarding unconscionability contravenes the FAA. "The FAA seeks to treat interpretation and enforcement of arbitration agreements equally

with other contracts. Such treatment continues to recognize the severance of unconscionable claims as an option for the court's consideration. . . . [I]t was not Congress's intent to make arbitration agreements *more* enforceable than other contracts." (*Ramirez*, *supra*, 16 Cal.5th at p. 518.)

Because we conclude the court did not err in declining to enforce the Agreement based on its unconscionability, we do not discuss the other grounds raised in Castillo's brief.

Class waiver

Appellants contend the class action waiver should have been severed from the Agreement and independently enforced. We are not persuaded. The trial court correctly concluded the Agreement was unconscionable and did not abuse its discretion in declining to sever. And because the class waiver appeared in the same sentences as the infirm representative claims/PAGA waiver, the court could reasonably decline to enforce the class action waiver. (See, e.g., *Silva v. Cross Country Healthcare, Inc.* (2025) 111 Cal.App.5th 1311, 1317, 1331–1332.)

DISPOSITION

The order denying the motion to compel arbitration is affirmed. Respondent shall recover costs on appeal.

CERTIFIED FOR PUBLICATION.

BALTODANO, J.

We concur:

CODY, P. J.

YEGAN, J.

Ronda J. McKaig, Judge

Superior Court County of Ventura

Seyfarth Shaw, Michele J. Beilke, Julia Y. Trankiem, Galit Knotz and Steven A. Morphy for Defendant and Appellant Glass House Camarillo Cultivation, LLC.

Ventura County Agricultural Association and Robert P. Roy for Defendant and Appellant Art's Labor Service.

Lavi & Ebrahimian, Joseph Lavi, Jordan D. Bello and Brett Szmanda for Plaintiff and Respondent.