

Labor Law

Labor and employment law trends of interest to our clients and other friends.

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CLASS ACTION UPDATE: LARGE FAIR LABOR STANDARDS ACT COLLECTIVE ACTION MAY PROCEED

In *Perez v. RadioShack Corp.*, WL: 21372467, 8 Wage and Hour cases 2d BNA 1409 (N.D. Ill. 2003), United States District Judge Rebecca R. Pallmeyer of the Northern District of Illinois held that the named plaintiffs in a Fair Labor Standards Act (“FLSA” or “Act”) lawsuit could send notice of the suit to more than 10,000 RadioShack store managers, informing them that they may “opt-in” (*i.e.*, join) the lawsuit. The named plaintiffs claim that by erroneously classifying store managers as “exempt” under the FLSA, RadioShack has denied the managers overtime pay of more than \$100 million for hours worked in excess of forty per week. Specifically, the managers argue that they should not have been classified as “exempt” because management responsibilities comprised only a small portion of their time and all discretionary decisions were made by the corporate office.

Before granting plaintiffs’ motion to send the opt-in notices, Judge Pallmeyer took the unusual step of holding an evidentiary hearing to determine whether there was a basis for the claim that RadioShack’s store managers were not exempt from the Act. The judge noted that in the ordinary case plaintiffs would be permitted to give notice to potential “opt-ins” without a detailed analysis of the facts. However, she wrote, “[b]ased on a cursory reading of the Act, the court understands that persons responsible for retail management are likely exempt from the Act’s overtime provisions.” And, after the hearing, she had “grave concerns” as to whether the employees were non-exempt and entitled to overtime pay. Nevertheless, Judge Pallmeyer permitted the plaintiffs to send opt-in notices.

The general rule governing federal court class actions, Rule 23 of the Federal Rules of Civil Procedure, does not

apply to actions brought on behalf of groups of employees under the FLSA, (sometimes called “collective actions”). The *Perez* decision demonstrates that plaintiffs hoping to maintain a collective action under the FLSA have a lower burden to meet than plaintiffs bringing a class action under Rule 23. As Judge Pallmeyer explained, under the FLSA a “plaintiff need only show that he is suing his employer for himself and on the behalf of other employees ‘similarly situated,’ a requirement that courts have characterized as ‘considerably less stringent’ than the Rule 23 requirements.” The typical “similarly situated” analysis in a FLSA suit often involves a quick review of the facts by the Court, whereas a “class certification” under Rule 23 involves a detailed consideration of whether: (1) a class is numerous enough; (2) common questions of law and fact exist, (3) the named plaintiff’s claims are

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typical of the other class members; and (4) the named plaintiffs are adequate representatives of the class. As *Perez* shows, the initial burden is more easily satisfied in an FLSA collective action. Indeed, the *Perez* plaintiffs were allowed to send notice to other potential class members even after an evidentiary hearing that caused the court “grave concerns” about the merits of the plaintiffs’ claims.

The low initial burden makes it easier for aggressive plaintiffs to use the FLSA notice procedures to recruit potential plaintiffs and, ultimately, build large collective actions covering hundreds or thousands of employees. Because backpay of up to three years may be awarded under the FLSA, exposure in such cases can easily reach six figures and, if the case is large enough, seven or eight figures.

The *Perez* lawsuit is part of a growing trend. Similar suits for overtime pay are being filed around the country by employees classified as exempt by their employers. Over 450 FLSA suits have been filed in the last five years. Companies such as Rite Aid, Albertson’s and Bank of America have settled similar FLSA cases for over \$20 million dollars. The increase in the number of FLSA suits can be attributed to government’s renewed interest in enforcing wage and hour laws, the success some “exempt” employees have had in suing for overtime pay, and the aggressiveness of lawyers seeking to cash in on lucrative FLSA collective actions.

Of course, the *Perez* decision to allow notice is not determinative of the employer’s liability under the FLSA. It merely allows plaintiffs to proceed collectively through pretrial discovery. After discovery is completed, the employer can ask the court to rule that the case should not proceed as a collective action based on analysis of the evidence gathered in discovery regarding whether the named plaintiffs are “similarly situated” to the other plaintiff members of the collective action. If successful, the Court will decertify the collective action and dismiss the claims of the “opt-ins.” However,

any dismissed opt-in plaintiff would still be free to pursue his case on his own.

Perez is troublesome in that it signals the courts’ willingness to permit plaintiffs to initiate notice of an FLSA collective action in spite of substantial questions about the viability of the claims. It underscores that employers should regularly review their classification of employees as exempt or nonexempt in order to minimize potential exposure to such actions. And it shows that employers hit with a potential collective action must be prepared to litigate the case aggressively every step of the way.

Vedder Price is well experienced in defending FLSA collective actions and has challenged FLSA collective actions at all stages of litigation. If you have any questions about the Fair Labor Standards Act, or have received notice that an employee is suing under the FLSA, or have questions about class actions generally, please call Joe Mulherin (312/609-7725), Dick Schnadig (312/609-7810), Nina Stillman (312/609-7560), Mike Cleveland (312/609-7860), or any other Vedder Price attorney with whom you have worked.

SEVENTH CIRCUIT FINDS ARBITRATOR PERMITTED TO CONSIDER FMLA

The United States Court of Appeals for the Seventh Circuit recently held in *Butler Mfg. Co. v. United Steelworkers of America*, 336F.3d 629, 2003 (7th Cir. 2003) that an employer had granted an arbitrator the authority to consider the Family Medical Leave Act (“FMLA”) when resolving an employee grievance. The Court held that the employer, Butler Manufacturing Company (“Butler”), had granted this authority in two ways: first, by stating in its collective bargaining agreement (“CBA”) with the Union that it offered “continuation of employment to all qualified individuals in accordance with the provisions of law,” and second, by invoking the FMLA in its submissions to the

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* * *

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arbitrator. The Court's decision appears to have potentially broad application for employers whose CBAs or other arbitration agreements incorporate or reference federal or state laws or who take action in connection with those laws.

The Grievance

In February 2000 Butler terminated employee Michelle McMahill for excessive absenteeism, based on several absences it determined did not qualify for FMLA protection. The Union grieved McMahill's termination and the dispute was submitted to an arbitrator selected by both parties. The arbitrator held a hearing, at which witnesses testified as to whether McMahill's absences were covered under the FMLA. The Company also submitted a post-hearing brief in which it argued that McMahill's termination was justified because her absences were non-FMLA-qualifying.

The arbitrator determined that McMahill's absences did qualify for FMLA protection, and ordered her reinstated with half back pay.

The Lawsuit

Butler filed suit in federal court, seeking to have the arbitrator's award overturned. Butler argued that the arbitrator had exceeded his authority by considering whether McMahill's absences qualified for FMLA protection. The district court agreed with Butler and ordered the arbitrator's award vacated. The Union appealed to the Seventh Circuit Court of Appeals.

Agreement to Act in Accordance with Law Confers Arbitral Authority to Consider Appropriate Law

On appeal, the Seventh Circuit analyzed whether the arbitrator exceeded the scope of the authority conferred upon him by the CBA to resolve employment disputes. An arbitrator's award generally will be enforced as long as he does not exceed this authority, "even if the arbitrator's award contains a serious error of law or fact." The Court noted that to do otherwise would defeat the purpose of arbitration, which is to be an *alternative* to litigation rather than a first step toward litigation.

An arbitrator does not exceed his contractual authority as long as his award "draws its essence" from the CBA, that is, "the arbitrator's interpretation can in some rational manner be derived from the collective bargaining agreement." In determining if this is so, the Court

considers the language of the entire CBA, with special attention to the CBA's agreement to arbitrate disputes.

In *Butler* the Court noted that the parties agreed to arbitrate virtually any "differences as to the meaning and application" of the CBA. Moreover, the CBA stated that Butler "offers equal opportunity for employment, advancement in employment, and continuation of employment to all qualified individuals in accordance with the provisions of law . . ." The Court held that the reference to "the provisions of law" conferred arbitral authority to consider the FMLA in determining whether Butler had just cause to terminate McMahill for her absences.

Employer's Submissions to Arbitrator Also Conferred Authority

The Court held that, even if the CBA had not conferred authority upon the arbitrator to consider the FMLA, Butler's submissions to the arbitrator did so independently. Butler called hearing witnesses who testified as to the role the FMLA played in the Company's decision to terminate McMahill and submitted a post-hearing brief justifying her termination by arguing that her absences were not FMLA-protected. The Court held that these arbitral submissions constituted Butler's authorization for the arbitrator to consider whether McMahill's absences were or were not FMLA-qualifying. "In order to resolve the dispute that the parties submitted, the arbitrator had no choice but to consider whether the three absences that Butler relied on to justify terminating McMahill were FMLA-approved If he had not done so, he would have failed to discharge the duty delegated to him by the parties to resolve their dispute."

The Court noted with disapproval that Butler only challenged the arbitrator's authority to consider the FMLA *after* the arbitrator found in favor of McMahill, stating, "Butler cannot have it both ways." Having raised the issue of the FMLA, therefore, Butler was not permitted to back away.

Broad Ramifications

Although *Butler* involved a collective bargaining setting, there is nothing in the Court's opinion to indicate that its holding would not also apply in the context of individual agreements to arbitrate. The decision suggests that employers who agree to arbitrate claims should review those agreements to determine their scope. Under

Butler, if the scope of the arbitration provision is broad and the employer's defense involves a matter of federal or state law, the arbitrator may be permitted to interpret that law. This is particularly true if the CBA or other agreement contains a statement of the employer's commitment to act in accordance with applicable law.

It is not surprising that *Butler* has potentially broad application. Employers have long fought, with overall success, to establish that statutory claims can be submitted to arbitration if both parties agree. Therefore, arbitrators have been deemed capable of deciding statutory employment law issues. However, especially in the union setting, many employers feel that some arbitrators may be ill-equipped to determine issues of federal employment law correctly or consistently. If an arbitrator does make a legal error, the award generally will not be set aside unless it "actually orders the parties to violate the law." Therefore, the Court's decision in *Butler* highlights the importance of careful contract drafting and arbitrator selection.

If you have any questions about this case or arbitration generally, please call Alison Maki (312/609-7720) or any other Vedder Price attorney with whom you have worked.

HIPAA PRIVACY RULE COULD AFFECT A COMPANY'S ABILITY TO OBTAIN DRUG TEST RESULTS

The Standards for the Privacy of Individually Identifiable Health Information, issued pursuant to the Administrative Simplification provision of the Health Insurance Portability and Accountability Act (known as the "HIPAA Privacy Rule"), took effect on April 14, 2003. Although the HIPAA Privacy Rule is only one of four sets of regulations that have been issued as directed by HIPAA, the day-to-day activities of employers will be affected most by the far-reaching scope of this regulation. One activity that may be affected by the HIPAA Privacy Rule is workplace drug testing.

The HIPAA Privacy Rule limits certain disclosures of individually identifiable health information (often referred to as "Protected Health Information") from organizations that are "covered entities" to non-covered organizations such as employers, without express written permission of the individual who is the subject of the Protected Health Information. All information contained in drug test results

is Protected Health Information. To determine whether or not the HIPAA Privacy Rule will restrict disclosures of drug test results to an employer, two preliminary questions must be answered: (1) Is the collection facility a "covered entity" that is subject to the HIPAA Privacy Rule? (2) Was the drug test performed pursuant to the Department of Transportation Drug and Alcohol Testing Program, or a similar program mandated by state or Federal law?

Testing Facilities As Covered Entities

Many collection facilities, laboratories, and Medical Review Officers ("MROs") that perform or interpret the results of drug tests are "covered entities" under the HIPAA Privacy Rule. To be a covered entity, the facility must engage in one or more electronic standardized transactions with an insurance company, Medicare, or Medicaid. Covered entity determinations often are quite technical and are the responsibility of the facility. Employers may rely upon a facility's determination as to whether or not the facility is a covered entity. If the facility advises that it *is not* covered by the HIPAA Privacy Rule, an employer will not experience any changes to its drug testing procedures. If, however, the facility advises that it *is* a covered entity, an employer may find that the facility will refuse to disclose Protected Health Information, including employee or job applicant drug test results, to the employer without the individual signing a detailed, written authorization. The HIPAA Privacy Rule does not disturb any rights an employer presently may have to compel an employee or job applicant to sign an authorization permitting disclosure of drug test results.

If a collection facility, laboratory, or MRO is a covered entity, it most often will be necessary to document an individual's written permission before releasing drug test results. (The only exception would occur if the drug test is required by law, as described below.) Many forms currently being used for this purpose may not meet the requirements of the HIPAA Privacy Rule. A valid authorization must be signed by the employee or job applicant and contain at least the following information:

- A reasonably specific description of Protected Health Information to be used or disclosed;
- The name of the person or entity (*i.e.*, the facility, laboratory or MRO) authorized to make the requested use or disclosure;
- The name of the person or entity (*i.e.*, the

contact person at the employer) permitted to receive the information;

- A reasonably specific description of the purpose of the use or disclosure;
- An expiration date or expiration event;
- A statement of the individual's right to revoke the authorization and an explanation of the revocation procedure;
- An explanation of the consequences (if any) of the individual's failure to provide the authorization; and
- A statement that the information disclosed may be redisclosed to an individual or entity that is not subject to the HIPAA Privacy Rule and no longer protected.

Department Of Transportation Mandated Tests

The HIPAA Privacy Rule eliminates the need for written authorization where state or Federal law requires the use or disclosure of Protected Health Information. Thus, facilities that perform drug tests for employers in the Department of Transportation ("DOT") Drug and Alcohol Testing Program (the "DOT Program") are exempted from obtaining written employee authorization before they may disclose drug and alcohol testing information to a third party, provided the disclosure is made in accordance with DOT rules.

Protected Health Information relating to drug tests required by DOT may be disclosed to a variety of third-parties without employee authorization. For example, an employer does not need an employee's authorization to conduct DOT drug tests, and collectors do not need authorizations to collect specimens or send them to laboratories for testing. Similarly, laboratories do not need authorizations to perform drug and validity tests pursuant to the DOT Program, nor do they need authorizations to distribute test results to a MRO. MROs can verify drug test results, report results to employers, confer with evaluating physicians and substance abuse professionals, and discuss issues related to the tests or information provided by the employee with third parties absent an authorization.

In Other Words . . .

Although employers are not subject to the terms of the HIPAA Privacy Rule, many collection facilities,

laboratories, and MROs that are retained to perform and evaluate drug tests are covered by the regulation. Thus, if an employer uses a facility that is a covered entity to assist it with drug tests that are not required by law, it may find that the facility now requires documentation that the employee or job applicant has signed a more detailed, written authorization before it will disclose the results of a drug test to the employer or any third party. Despite the fact that the burden of complying with the HIPAA Privacy Rule falls solely on a collection facility that is a covered entity, many employers have begun to incorporate HIPAA-compliant authorization forms into their drug testing practices to streamline the process and eliminate the need for the employee or job applicant to sign two forms. Moreover, by completing an authorization form for an employee or job applicant to sign, an employer can ensure that the purpose of the disclosure is adequately described, and that the individual has been advised of the consequences of his or her refusal to sign the form, which in some cases may mean withdrawal of a conditional offer of employment or termination. A facility, on the other hand, may not be aware of the purpose of the test, nor will it necessarily have the foresight to advise the employee or job applicant in advance of potentially adverse employment consequences if he or she does not permit disclosure of the Protected Health Information to the employer.

Should you have any questions about the content of employee authorization forms, desire assistance in revising your company's current forms, or wish to speak at greater length about the impact of the HIPAA Privacy Rule on your company's drug testing program or any other activity, please call Kathryn L. Stevens (312/609-7803), Ted Tierney (312/609-7530) or any other Vedder Price attorney with whom you have worked.

AVON ASKS SUPREME COURT TO REVIEW SEVENTH CIRCUIT FMLA DECISION

In our last issue (Vol. 23, No. 2 - May 2003) we reported on the decision of the United States Court of Appeals for the Seventh Circuit in *Byrne v. Avon Products*. Avon discharged Byrne, a previously satisfactory worker, for misusing company time. The only third-shift engineer overseeing a steam system used to run manufacturing

equipment, Byrne had been caught on video tape sleeping and reading on the job in a restricted area well away from the boiler room. A review of company logs showed that he had been entering the area repeatedly for several weeks, sometimes two or three times a shift. Claiming illness, Byrne left work before he could be questioned by supervision. Calls to his home disclosed only that he was sick. After Byrne agreed to return to the plant for a meeting but failed to show, he was let go. Shortly thereafter Avon learned that he had been hospitalized. Weeks later a psychiatrist informed Avon that Byrne was being treated for a severe depression that may have affected his work.

Byrne sued Avon under the FMLA and ADA, and the district court granted Avon summary judgment on both counts. As we reported, on appeal the Seventh Circuit reversed as to Byrne's FMLA claim and remanded the matter for trial. The Court of Appeals concluded that if Byrne could prove either that the sudden change in his behavior was itself notice of a mental problem, or that he was unable because of his medical condition to give notice of his need for FMLA leave, Avon would have to reinstate him.

Despite long odds, Avon has petitioned the Supreme Court of the United States to review and set aside the Court of Appeals' decision (the Supreme Court grants only about 2.3% of the many petitions filed with it each term). Avon believes the decision rewrites the FMLA notice requirements and conflicts with decisions of the courts of appeals of other circuits. Avon also is concerned that the decision places an enormous burden on employers. As its petition points out:

The decision obligates employers to grant FMLA leave to employees who report to work impaired by an undisclosed medical condition which causes them to engage in workplace misconduct. Employers must now screen such misconduct for signs of serious underlying health problems and grant unsolicited FMLA leave to enable treatment. Like many employers, however, Avon's business is not medicine, its supervisors

are not psychiatrists, and its human resources department is not a walk-in health clinic.

VedderPrice has been representing Avon throughout this litigation. We will report on developments in an upcoming issue of our Newsletter. Meanwhile, if you have any questions about the case, please contact Dick Schnadig (312/609-7810), Jim Petrie (312/609-7660), Jim Bayles (312/609-7785) or any other VedderPrice attorney with whom you have worked.

NOT SO FAST—ANOTHER COURT WEIGHS IN ON FMLA WAIVERS

In our last issue (Vol. 23, No. 2—May 2003), we broke the news that a federal judge in Chicago concluded that waivers of Family and Medical Leave Act (the "FMLA") claims secured from employees were invalid. See *Dierlam v. Wesley Jessen Corporation*, 222 F. Supp. 2d 1052 (USDC N.D. Ill. E.D. 2003) (waiver of FMLA rights obtained by the company was unenforceable as a matter of law). This decision leaves employers in the Northern District of Illinois facing the prospect of Department of Labor claims and/or litigation even when they have obtained what they thought were iron-clad separation agreements.

A recent Court of Appeals decision, however, offers some hope. In *Faris v. Williams WPC-I Inc.*, 332 F.3d 316 (5th Cir. 2003), the United States Court of Appeals for the Fifth Circuit (covering Texas, Louisiana and Mississippi) reached the opposite result, concluding that employees may waive certain rights conferred upon them by the FMLA. Plaintiff Carol Faris worked as an occupational health specialist for Defendant. After Defendant discharged Faris, she was offered and accepted enhanced severance benefits in exchange for (surprise!) a release agreement in which she waived her rights to all claims arising under federal, state and local law. The release did not specifically mention the FMLA. After executing the release and receiving the payments set forth therein, Faris promptly sued Defendant, alleging she

“Employers must now screen such misconduct for signs of serious underlying health problems . . . Like many employers, however, Avon’s business is not medicine, its supervisors are not psychiatrists, and its human resources department is not a walk-in health clinic.”

was fired in retaliation for asserting her rights under the FMLA. Both sides filed motions for summary judgment, and the district court reached the same conclusion as the judge in *Dierlam*, holding that the regulations dictated that FMLA claims cannot be waived. The matter was then certified for appeal to the Fifth Circuit.

On appeal, the employer argued that (1) the regulation in question applies only to current employees; (2) the regulation extends only to the waiver of substantive rights such as leave, conditions of leave, and job restoration rights; and (3) that the release should be enforced because Faris failed to return the money paid to her. Deciding not to resolve the question of whether the regulations apply only to current employees, the Court closely examined the language of the regulations and concluded that they prohibited only the prospective waiver of substantive rights and not post-termination disputes or claims. The Court noted that its conclusion was bolstered by the public policy favoring the enforcement of waivers under other federal employment laws such as Title VII of the Civil Rights Act of 1964. Noting the favorable status accorded waivers of other employment-related claims, the Court reasoned that it would expect the Secretary of Labor to have specifically expressed an intent in the regulations that waivers of FMLA claims were to be viewed differently. Because no such intent was expressed, the Court interpreted the regulations as applying only to the waiver of substantive rights.

While this opinion directly affects only those employers in Texas, Louisiana and Mississippi, it may provide support to those courts (including those in the Northern District of Illinois) that do not agree with *Dierlam*. Until the Seventh Circuit Court of Appeals speaks on this issue, employers in the Northern District of Illinois (as well as employers in other jurisdictions beyond the Fifth Circuit) should not assume that a waiver of FMLA claims will be enforceable.

If you have any questions about FMLA waivers, or about the FMLA generally, please call Aaron Gelb (312/609-7844) or any other Vedder Price attorney with whom you have worked.

IMMIGRATION UPDATE: IMPORTANT CHANGES IN RULES FOR INTERNATIONAL EMPLOYEES AND BUSINESS TRAVELERS

Effective August 1, 2003, More Visa Applicants Must be Interviewed

Due to a change in U.S. Department of State policy, many employees now must schedule an interview at a U.S. Consulate or Embassy abroad in order to obtain a visa to enter the United States. This change will impact foreign business travelers, students, intracompany transferees as well as tourists, and may cause delays in travel.

Foreign Business Travelers May Require New Passports

Starting October 1, 2003, every business visitor entering the United States without a visa (pursuant to the Visa Waiver Program) must have a "machine-readable" passport, in accordance with the USA Patriot Act of 2001. Employees who are citizens of Visa Waiver Program countries are permitted to enter the United States for general business or tourist purposes for up to 90 days without a visa. The 27 countries currently in the Visa Waiver Program are: Andorra, Australia, Austria, Belgium, Brunei, Denmark, Finland, France, Germany, Iceland, Ireland, Italy, Japan, Liechtenstein, Luxembourg, Monaco, Netherlands, New Zealand, Norway, Portugal, San Marino, Singapore, Slovenia, Spain, Sweden, Switzerland, and the United Kingdom. Citizens of these countries who hold visas are not affected by this new requirement.

It's Back. . . The H-1B Cap

Beginning October 1, 2003, the number of new H-1B (specialty occupation) visas available will be reduced from 195,000 to 65,000. This means that organizations employing students on OPT should consider applying before October 1, 2003 for H-1B status for those employees to ensure that they can continue their employment without interruption.

New Rules Require Visas and Passports

Landed Immigrants of Canada and Bermuda who are nationals of British Commonwealth countries and Ireland are now required to present a passport and visa for entry into the United States, effective March 17, 2003.

If you have any questions about the above changes or immigration law in general, please call Gabrielle Buckley (312/609-7626) or any other Vedder Price attorney with whom you have worked.

ANNUAL EEO-1 REPORT IN THE MIDST OF CHANGE

On June 11, 2003, proposed modifications to the current EEO-1 Form were issued in the *Federal Register* by the EEOC. Written comments were submitted on or before August 11, 2003, and a public hearing will be held on the proposed changes on a date and at a time to be announced. As most of you are aware, employers in the private sector with 100 or more employees and some federal contractors with 50 or more employees are required to submit annual EEO-1 reports to the federal government on or before

September 30 of each year. These reports require a breakdown of minorities and females in various job categories.

Based on the proposed new rules, employers will continue to be encouraged to rely on employee self-identification to obtain the required EEO information. However, the proposed new reporting procedure takes into account increased diversity in the workplace. As an example, based on a sample questionnaire that has been developed, employees may be able to select more than one race.

The EEOC is also proposing to modify the current job categories. In this area, the current "Officers and Managers" category would be divided into three distinct sub-categories. Other changes also are recommended, but the new form will continue to be skill-based, rather than industry-based. The proposed EEO-1 form can be found at <http://www.eeoc.gov/eeo1>.

Stay tuned! In the meantime, the current EEO-1 form will remain in effect for 2003, and if you have any questions about the above, or about the EEOC or Title VII in general, please call Barry Hartstein (312/609-7745) or any other Vedder Price attorney with whom you have worked.

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