

# Labor Law

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

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## **CLASS ACTIONS UPDATE: COURT CERTIFIES LARGEST EMPLOYMENT CLASS ACTION EVER**

On June 21, 2004, a federal court in San Francisco certified the largest employment class action ever against the world's largest employer. *Dukes, et al. v. Wal-Mart Stores, Inc.*, No. C 01-02252 (ND Cal). The class consists of approximately 1.6 million women who have worked for Wal-Mart in hourly and salaried managerial positions and were subject to Wal-Mart's "pay and management track promotions policies and practices." The lawsuit, filed in 2001, alleges that Wal-Mart violated Title VII by paying women less than men in comparable positions despite higher performance evaluations and greater seniority, and by promoting fewer women to in-store positions and making women wait longer than comparable men to advance. The *Dukes* plaintiffs and class representatives (Ms. Dukes and five other women) blame the severe disparity in pay and promotions on company-wide policies and practices that allow for "excessive subjectivity which provides a conduit for gender bias that affects all class members in a similar fashion."

While no determination of the merits of a case is made at the certification stage, a court must consider whether the evidence supports a finding that: (1) a class is numerous enough; (2) common questions of law and fact exist; (3) the named plaintiffs' claims are typical of the other class members; and (4) the named plaintiffs are adequate representatives of the class. If these requirements are met, the court then considers whether a class action is the appropriate vehicle for the remedies sought and whether the class action would be manageable.

### ***Numerosity***

Class members are included in the suit until they affirmatively "opt out." With well over a million potential class members, numerosity was easily satisfied.

### ***Commonality***

The plaintiffs satisfied the commonality requirement for their pay and promotion claims with evidence that Wal-Mart's company-wide policies reflected excessive subjectivity in personnel decisions, gender stereotyping

## IN THIS ISSUE

<i>CLASS ACTIONS UPDATE: COURT CERTIFIES LARGEST EMPLOYMENT CLASS ACTION EVER</i>	Page 1
ILLINOIS ATTORNEY GENERAL EMPOWERED TO BRING CLASS-ACTION LAWSUITS UNDER THE HUMAN RIGHTS ACT	Page 3
EMPLOYEE'S RIGHT TO BRING RETALIATION SUITS EXPANDED IN ILLINOIS	Page 3
SIXTH CIRCUIT SAYS TITLE VII PROTECTS TRANSEXUALS FROM SEX STEREOTYPING	Page 4
NLRB'S CROWN JEWEL TARNISHED, BUT ELECTION RESULTS STAND	Page 5
EMPLOYER BOUND BY MULTIEMPLOYER AGREEMENT PROVISION AFFECTING OTHER WORKERS	Page 6
FLSA WHITE-COLLAR EXEMPTION REGS IN EFFECT; LEGISLATIVE AMENDMENTS IN LIMBO	Page 7
CONTRIBUTORS' NOTE	Page 8

and a strong corporate culture that favored men. Store managers had a discretionary range for setting employees' pay, and women were typically assigned lower pay rates. Statistical evidence showed that pay for women was up to 15 percent lower than the pay of similarly situated men.

The plaintiffs also showed that Wal-Mart's promotion process relied heavily on subjective criteria and was essentially "a tap on the shoulder" grant at all management levels. Although women constitute 72 percent of the Wal-Mart workforce and 65 percent of hourly workers, they hold only 33 percent of all managerial positions and on average take a year and a half longer than men to reach higher management levels. Wal-Mart did not post promotional opportunities company-wide, and women were denied promotion or were delayed in promotion in percentages disproportionate to men.

The validity of this evidence was vigorously contested, but the court decided that, at the certification stage, the plaintiffs needed only to satisfy a minimum burden of presenting some evidence that there was company-wide discrimination. The ultimate validity of the evidence will be decided at trial by a jury.

### ***Typicality***

To satisfy the typicality element, the plaintiffs had to show that they possess the same interest as the class they want to represent and that they suffered the same injuries as the class. The court found typicality with regard to hourly employees because five of the six plaintiffs were hourly-rated. A tougher issue was whether the plaintiffs could represent salaried managerial positions since only one of them was a salaried manager. Because the class sought to represent only lower-level salaried managers, the court concluded that the distinction between salaried and hourly managerial employees was not significant at the class certification stage.

### ***Adequacy of Representation***

To satisfy the adequacy of representation element, the plaintiffs showed that they had no conflict of interest with the class and were represented by qualified counsel.

### ***Appropriateness of the Class Action***

A class action is appropriate when the party opposing the class (in this case, Wal-Mart) has acted or refused to act on grounds generally applicable to the class thereby making injunctive or declaratory relief appropriate for the class as a whole. Although the plaintiffs seek back pay and punitive damages, the court found that a class action was appropriate because the plaintiffs' primary claims were for injunctive and declaratory relief. The court noted that these claims, if successful, "would achieve very significant long-term relief in the form of fundamental changes to the manner in which Wal-Mart makes its pay and promotions decisions nationwide that would benefit not only current class members, but all future female employees as well."

### ***Manageability of the Class***

Wal-Mart argued that sheer size of the proposed class would make it completely unmanageable; because each employee's case was different, there would have to be thousands of individual mini-trials to resolve the claims of discrimination made by the class. The court rejected this argument, observing that "[i]nsulating our nation's largest employers from allegations that they have engaged in a pattern and practice of gender or racial discrimination—simply because they are large—would seriously undermine the imperatives [of Title VII]." The court acknowledged that determining the remedy for each class member would be difficult, but nevertheless found that it was manageable.

### ***What does the Wal-Mart Certification Mean to Employers?***

The significance of the *Dukes* certification, recently appealed to the Ninth Circuit, has yet to be determined. *Dukes* is nevertheless troublesome because it may spawn copycat actions against other large, nationwide employers. Given the ongoing wave of Fair Labor Standards Act collective actions filed against large retail employers, class actions like *Dukes* are an unwelcome development. *Dukes* suggests that courts will not shy away from certifying a class because of its massive size. If the *Dukes* plaintiffs are successful, the result could be a verdict of more than a billion dollars. A verdict of that size would threaten the economic well-being even of Wal-Mart, which reported over \$200 billion in sales last year.

Employers should take note of the *Dukes* decision and evaluate whether they have any corporate-wide practices that disfavor women or any other class of employees in pay or promotion. Any detailed examination should be conducted with the aid of legal counsel, and dissemination of results should be carefully limited to preserve attorney–client and work product privileges. Unprivileged results could be unearthed in discovery and used by the plaintiffs in a sex discrimination lawsuit as evidence of discrimination.

Vedder Price is highly experienced in defending against Title VII gender-based pay and promotion class actions, and has successfully challenged such actions at all stages of litigation. We are also uniquely skilled in assessing, drafting and revising compensation and promotion policies. If you have questions about Title VII or employment-related class actions, have received notice that an employee is seeking certification of a class, or have questions about class actions generally, please call Joe Mulherin (312/609-7725), Dick Schnadig (312/609-7810), Mike Cleveland (312/609-7860) or any other Vedder Price attorney with whom you have worked.

### **ILLINOIS ATTORNEY GENERAL EMPOWERED TO BRING CLASS- ACTION LAWSUITS UNDER THE HUMAN RIGHTS ACT**

On August 24, 2004, Illinois Governor Rod Blagojevich signed legislation that gives the Illinois Attorney General new powers to investigate and litigate class-based pattern and practice civil rights violations. The law amends the Illinois Human Rights Act to allow the Attorney General to bring civil actions on behalf of the State of Illinois for employment discrimination and harassment in violation of the Act. The Attorney General may also enforce conciliation or settlement agreements entered into pursuant to the Act. This law does not affect the right of individual claimants to seek relief by filing a charge with the Illinois Department of Human Rights.

Before initiating a class-action lawsuit, the Attorney General must conduct a preliminary investigation to determine whether reasonable cause exists, and whether the dispute can be resolved without litigation. An individual or entity alleged to have engaged in a pattern and practice of discrimination may avoid litigation by entering into an Assurance of Voluntary Compliance Agreement. The

Attorney General may file suit regardless of whether a charge was ever filed with the Department. In cases where the parties have entered into a conciliation or settlement agreement, the Attorney General's powers are limited to enforcing its terms. The law imposes a two-year statute of limitations.

The new law provides for equitable relief and civil penalties. For the first violation, a fine may be imposed up to \$10,000. The fines increase to \$25,000 for a second offense, and to \$50,000 for two or more violations. Civil penalties are to be deposited into the Attorney General Court Ordered and Voluntary Payment Projects Fund.

If you have questions about this new legislation or how to defend against a class-based discrimination action, please contact Dick Schnadig (312/609-7810), Mike Cleveland (312/609-7860), Angela Pavlatos (312/609-7541) or any other Vedder Price attorney with whom you have worked.

### **EMPLOYEE'S RIGHT TO BRING RETALIATION SUITS EXPANDED IN ILLINOIS**

Retaliation claims now make up 27.9 percent of all charges filed with the EEOC, up from 15.3 percent in 1992. Most employers are familiar with federal laws, enforced by the EEOC, which prohibit retaliation against an employee for reporting or opposing unlawful conduct in the workplace, such as racial discrimination or sexual harassment, and with their state counterparts (enforced in Illinois by the Department of Human Rights). An Illinois employee may also sue for retaliatory discharge under the *Kelsay v. Motorola* line of cases by alleging that he was discharged in retaliation for his activities and the discharge violates a clear mandate of public policy.

In our December 2003 issue, we updated you on Illinois' new Whistleblower Act, which became effective January 1, 2004. Under this law, employers are prohibited from enforcing a rule or policy that prevents an employee from disclosing information to a government or law enforcement agency if the employee has reasonable cause to believe that the information discloses a violation of any federal, state or local rule or law. The law has yet to be tested in court.

On January 1, 2004, the Hospital Report Card Act ("HRCA") also became effective. The purpose of the HRCA is to provide consumers information about the

quality of Illinois hospitals to help them make decisions about their choice of health care provider. The Act requires licensed hospitals each quarter to report such information as staffing levels, staff orientation and training requirements, vacancy and turnover rates for licensed nurses, and rates of infections resulting from hospital treatments unrelated to the patient's primary condition.

To promote compliance with the HRCA, the Illinois legislature included "Whistleblower protections" which prohibit hospitals from retaliating against employees (expressly including direct-care nurses) who in good faith engage in any of the following activities:

- (1) Disclosing a hospital activity, policy or practice that violates the HRCA or any departmental rule or law the employee believes poses a risk to the health, safety, or welfare of a patient or the public;
- (2) Initiating, cooperating or participating in an investigation concerning such matters;
- (3) Objecting to or refusing to participate in a practice that violates the Act or any departmental rule or law the employee believes poses a risk to the health, safety, or welfare of a patient or the public; or
- (4) Participating in a committee or peer review or filing a report discussing allegations of unsafe, dangerous, or potentially dangerous care within the hospital.

"Retaliation" covers an array of adverse actions including discipline, discharge, suspension, demotion, harassment, or denying employment or promotion. The Act also prescribes specific steps an employer must take in responding to an employee's report of a violation or potential violation of the Act.

An employer who violates the HRCA may be subject to a civil lawsuit brought by the employee. Although the Act does not specify the types of damages that may be awarded, it does provide that an employer may be liable "for such legal or equitable relief as may be appropriate to effectuate the purposes of the Act."

If you have questions about this new law or retaliation claims generally, please contact Paige Barnett (312/609-7676), Bruce Alper (312/609-7890) or any other Vedder Price attorney with whom you have worked.

## **SIXTH CIRCUIT SAYS TITLE VII PROTECTS TRANSEXUALS FROM SEX STEREOTYPING**

In a decision that may have consequences beyond its circuit of origin, the U.S. Court of Appeals for the Sixth Circuit has held that a self-identified transsexual can sue for sex discrimination under Title VII on the basis of discrimination due to nonstereotypical behavior and appearance. *Smith v. City of Salem*, 378 F.3d 566 (Aug. 5, 2004).

Smith was employed by the City of Salem, Ohio, as a lieutenant in the fire department. Biologically a male, Smith considered himself a transsexual and was diagnosed with Gender Identity Disorder. He began treatment, which involved expressing a more feminine appearance. After receiving complaints about his appearance from co-workers, Smith approached his supervisor and informed him of his diagnosis and treatment. The supervisor relayed this to the department's chief, who met with the City's law director and others. A plan was devised to require Smith to undergo a series of psychological evaluations in the hope that he would either resign or refuse to comply and be terminated for insubordination.

Smith learned of the plan, obtained a right-to-sue letter from the EEOC, and filed suit in U.S. District Court alleging Title VII claims of discrimination. The district court dismissed the claims, and Smith appealed to the Sixth Circuit arguing that the lower court erred in holding that Title VII protection is unavailable for transsexuals and that Smith therefore failed to state a claim of sex stereotyping pursuant to *Price Waterhouse v. Hopkins*, 490 U.S. 228 (1989). In *Price Waterhouse*, the Supreme Court held that Title VII's prohibition of discrimination "because of . . . sex" barred not just discrimination because of one's gender, but also sex stereotyping—discrimination because one fails to act like a member of one's gender.

Reversing the district court's decision, the Sixth Circuit held that Title VII's protection is available for transsexuals because its prohibition against sex discrimination extends to men as well as women. Having alleged that his failure to conform to sex stereotypes of how a man should look and

behave was the driving force behind the City's actions, Smith had sufficiently stated a claim of sex stereotyping and gender discrimination. While observing that other appellate courts have regarded Title VII as barring discrimination based only on "sex" (referring to an individual's anatomical and biological characteristics) but not on "gender" (referring to socially constructed norms associated with a person's sex), the Sixth Circuit declared that this approach had been "eviscerated" by *Price Waterhouse*.

Complicating the Sixth Circuit's holding in *Smith* is its earlier holding in *Johnson v. Fresh Mark, Inc.*, 98 Fed. Appx. 461 (May 18, 2004), that a comparable claim of discrimination on the basis of transsexualism could not be brought under Title VII. The plaintiff, Selena Johnson, was a male at birth, but presented herself and was hired by Fresh Mark as a woman. After receiving complaints that she had used both the men's and women's restrooms, Fresh Mark told her that she could not return to work without a note from the doctor stating whether she was male or female and whether there was any reason she should be using the restroom of the opposite gender. Johnson said that she was "not entirely male nor entirely female." Based on the sex specified on her driver's license, Fresh Mark decided she was male and would have to use the men's restrooms. Johnson refused to return to work under that condition and was terminated under the company's absenteeism policy.

Johnson filed suit charging sex stereotyping in violation of Title VII. The district court dismissed the Title VII claim on the ground that *Price Waterhouse* was inapplicable to the facts pleaded in the complaint. Fresh Mark had not required Johnson to conform her appearance to a particular gender stereotype. Instead, after making a good-faith effort to determine whether male or female restrooms were appropriate for Johnson and getting an ambiguous response, Fresh Mark had reasonably relied upon the designation "male" on her driver's license in requiring Johnson to "conform to the accepted principles established for gender-distinct public restrooms." Because Johnson did not allege that Fresh Mark challenged her appearance, she failed to state a valid claim for sex stereotyping. On appeal, the Sixth Circuit affirmed with little discussion of the underlying legal issues.

Although seemingly at odds with each other, *Smith* and *Johnson* both hold that transgender plaintiffs may pursue Title VII sex stereotyping claims. The main distinction between the cases is that whereas Smith raised a valid sex stereotyping claim in his complaint, Johnson did not because

she failed to allege that her employer took action against her on the basis of her appearance.

The Sixth Circuit's interpretation of Title VII is at odds with holdings in the Seventh, Eighth and Ninth Circuits that Title VII does not prohibit discrimination against transsexuals. *Ulane v. Eastern Airlines, Inc.*, 742 F.2d 1081 (7th Cir. 1984); *Sommers v. Budget Marketing, Inc.*, 667 F.2d 748 (8th Cir. 1982); *Holloway v. Arthur Andersen & Co.*, 566 F.2d 659 (9th Cir. 1977). These decisions, which predate the Supreme Court's holding in *Price-Waterhouse*, may be vulnerable to renewed challenges. Employers should proceed cautiously in dealing with employees exhibiting transsexual tendencies or declaring themselves to be transsexuals, and are encouraged to seek legal counsel on how to respond to issues as they arise. We note in passing that, in contrast to Title VII, the ADA specifically excludes transsexualism as a covered condition. 42 U.S.C. § 1221(b)(1).

If you have questions about these cases or sex discrimination under Title VII generally, please contact Christopher Nybo (312/609-7729), Bruce Alper (312/609-7890) or any other Vedder Price attorney with whom you have worked.

## NLRB'S CROWN JEWEL TARNISHED, BUT ELECTION RESULTS STAND

During a break in voting, the union's observer asked the National Labor Relations Board agent conducting the election why companies don't like unions. The Board agent said, "Companies don't like unions because they cannot fire or hire anyone, and they cannot take benefits from the staff." Later, the same observer told the Board agent that the company had spent \$60,000 on its consultant, to which the agent said, "Whoa, \$60,000." These remarks were heard by only one other person, the employer's election observer, who subsequently asked the Board agent why he had answered the union observer's question. He said, "I can just give my opinion because I'm not going to vote." The union won the election 38 to 22.

The employer filed objections based upon the Board agent's statements. All Board members found the statements inappropriate. However, all but the Chairman, who strongly dissented, determined that the election should not be overturned. *Ensign Sonoma LLC and Health Care Workers*

*Union, Local 250, SEIU*, 342 NLRB No. 93 (Aug. 31, 2004).

Board members split 2–2 in their rationale for upholding the election. Both camps were generally guided by the reasoning in *Athbro Precision Engineering Corp.*, 166 NLRB 966 (1967), where an election was set aside after a Board agent was seen, during a voting break, having a beer with a union representative at a café located about a mile from the plant. The test applied in that case was “whether the conduct of the Board agent in conducting the election tended to destroy confidence in the Board’s election process, or could reasonably be interpreted as impairing the election standards the Board seeks to maintain.”

Members Schaumber and Meisburg reasoned that, while a statement of personal opinion by a Board agent alone may be sufficiently partisan to justify setting aside election results, the remarks made in this case were not. The comments were not as public as the inappropriate conduct in *Athbro*, were in response to questions and were heard by only two employees, and did not rise to the level of such bias or impropriety as to destroy confidence in the election process.

Members Liebman and Walsh deviated slightly from the *Athbro* test, and in reliance on *NLRB v. Dobbs Houses, Inc.*, 435 F.2d 704 (5th Cir. 1970), found that “a mere statement of personal feelings to a limited audience will not taint an election, absent actions that reasonably create the appearance that the election procedures will not be fairly administered.” They observed that no actions accompanying the remarks could reasonably be construed as having tainted the election.

All members who upheld the election found it significant that the union had won by a wide margin, and noted that setting the election aside would thwart the will of the employees who voted.

In dissent, Chairman Battista observed that the election process is rightly called the “crown jewel” of the Board’s endeavors. Here, the Board agent had sent a message that employers are willing to spend lavishly to defeat a union, and that he was entitled to express his partisan opinion. This “tarnished” the crown jewel. “Worse,” said Battista, “it has been tarnished by the actions of the Board’s own agent. And, worse still, the Board puts its imprimatur on the result. I would preserve the crown jewel. I therefore dissent.”

If you have questions about this decision or NLRB election procedures generally, please contact Katie Colvin

(312/609-7872), Jim Spizzo (312/609-7705) or any other Vedder Price attorney with whom you have worked.

## **EMPLOYER BOUND BY MULTIEMPLOYER AGREEMENT PROVISION AFFECTING OTHER WORKERS**

Membership in multiemployer bargaining associations has long been a way for small and medium-sized employers to band together to offset the strength of large, powerful unions.

In typical multiemployer bargaining, a representative of the employer group negotiates with the union representing a bargaining unit of employees of the various employers. When a collective bargaining agreement (“CBA”) is reached, it applies to all employees in the unit. Employers give up some control over the negotiation process but gain bargaining power from the greater size and strength of the multiemployer group. The unions also benefit from the consistency in terms that results from negotiating a single agreement.

However, many employers deal with multiple unions (each representing only a portion of the employer’s workers), and therefore are obligated under several different CBAs. Some of their employees may not be represented by any union. One would think these employees are not affected by multiemployer bargaining done on behalf of their coworkers. Not so, according to a recent decision of the United States Court of Appeals for the Seventh Circuit. *Lid Elec., Inc. v. International Bhd. of Elec. Workers, Local 134*, 362 F.3d 940 (7th Cir. 2004).

Lid Electric appointed the Electrical Contractors’ Association of Chicago to bargain on its behalf with Local 134 of the IBEW, which represented Lid’s electricians. Lid also was signatory to a CBA with the Operating Engineers Local 150, which represented Lid’s engineers. And Lid employed some workers who were not covered by any CBA.

Lid had not expressly given the Association authority to negotiate terms of employment for any employees other than those represented by Local 134. However, the Association and Local 134 negotiated a drug testing program that required testing of *all* employees of each employer in the Association, not just bargaining unit employees covered by the CBA.

Believing that neither the Association nor Local 134 could negotiate binding terms of employment for employees who were not represented by Local 134, Lid applied the drug-testing program to its electricians but not to its other employees. The IBEW protested and the matter was arbitrated before the Electrical Joint Arbitration Board (“EJAB”), which issued an award that Local 134 would not refer any of its members to Lid for employment until Lid began applying the drug testing program to all of its employees.

Lid filed suit in U. S. District Court, and the court held that the arbitration award was invalid. On appeal, the Seventh Circuit vacated the district court’s decision and enforced the EJAB’s arbitration award to the extent that it requires Lid to apply the drug testing program to its unrepresented employees. The Court reasoned that Lid had given the Association authority to “adopt, on Lid’s behalf, any provision ‘pertaining’ to the electricians’ wages, working conditions, and other matters normally covered by a collective bargaining agreement.” Lid was stuck with all the terms the Association negotiated, even those dictating how the employers must treat non-bargaining unit employees.

The Court observed that Lid would be bound by the terms negotiated by the Association even if they required Lid to breach a contract and pay damages for the breach. However, the Court held that no arbitration award could require Lid to violate the National Labor Relations Act by applying the drug testing program to its employees covered by a different CBA, in this case, Lid’s operating engineers:

If that agreement. . . has its own drug-testing rules, Lid must follow them rather than anything in the agreement between the Association and the electricians’ union. If that agreement does *not* provide for drug testing, then Lid cannot institute testing unilaterally—for the operating engineers’ terms and working conditions are a mandatory subject of collective bargaining [with their union]. . . . [B]argaining—and either an agreement or an impasse—must precede any change in terms and conditions under which the operating engineers are employed.

The Seventh Circuit also stated that “[t]o the extent that the EJAB’s order requires Lid to implement drug testing for employees represented by Local 150, *without first bargaining*

*collectively with that union*, it commands a violation of federal law and must be set aside” (emphasis added). The operating engineers’ CBA expires in 2007. It is unclear from the Court’s opinion whether Lid will be required to try to negotiate the electricians’ drug testing program into its next agreement with the operating engineers.

*Lid* teaches that employers should carefully review their arrangements with multiemployer associations to ensure that the association does not negotiate terms and conditions for employees other than those covered by the CBA. If you have questions about multiemployer bargaining or bargaining in general, please call Alison Maki (312/609-7720), Larry Summers (312/609-7750) or any other Vedder Price attorney with whom you have worked.

## **FLSA WHITE-COLLAR EXEMPTION REGS IN EFFECT; LEGISLATIVE AMENDMENTS IN LIMBO**

As most employers now know, final regulations pertaining to the Fair Labor Standards Act white-collar exemptions for overtime eligibility went into effect on August 23, 2004. In a nutshell, four major changes were made: (1) the salary level for exempt employees was raised to \$455 per week or \$23,660 per year; (2) the salary basis test was revised to enumerate the deductions that can be made from an employee’s salary without loss of exempt status; (3) the administrative, executive, professional and outside sales “duties” tests were slightly modified; and (4) a “safe harbor” provision was created for employers.

Legislative amendments that would reverse a large majority of the new regulations have been added to 2005 federal appropriations legislation. The amendments have passed the House and Senate but are not expected to survive the joint committee responsible for hammering out a final version of the appropriations bill. Despite being the topic of countless media reports, the controversy over the new regulations is more an exercise in election year political posturing than a recall effort.

The best way to ensure compliance with the new overtime regulations is through an internal audit. This is a rare opportunity to get your house in order. The new regulations provide “cover” for correcting past misclassifications. Although no single audit model will work for every company, we recommend the following:

- Identify all exempt employees currently earning less than \$455 a week in guaranteed compensation. Either reclassify them as non-exempt, or increase their wages to meet the minimum salary level.
- Review your job descriptions to see if they accurately reflect what your employees do on a daily or weekly basis.
- Confirm the results of your review by interviewing your employees. If you quantify an employee's duties by allocating how much time he is expected to spend, err on the side of caution.
- Have your job descriptions reviewed by a third party or counsel to determine whether they comply with the letter of the law.
- Determine whether you employ any non-exempt employees earning more than \$100,000 a year in guaranteed compensation. If you do,

consider reclassifying them as exempt "highly compensated employees."

- Implement and disseminate a safe harbor policy.

With all the media attention the new regulations have received, employees (and plaintiffs' attorneys) have a heightened awareness of what it means to be exempt for purposes of overtime compensation. Actions for unpaid overtime continue to grow at an alarming pace and cost. Employers cannot afford to misclassify their employees. If you have questions about the new FLSA regulations or wage payment laws in general, please call Ethan Zelizer (312/609-7515), Tom Wilde (312/609-7821) or any other Vedder Price attorney with whom you have worked.

## CONTRIBUTORS' NOTE

Our esteemed editor, George Blake, is exercising his redaction skills from home where he is recuperating after repeat surgery to set a broken arm. We know our readers join us in wishing George a full and speedy recovery.

VEDDER, PRICE, KAUFMAN & KAMMHOLZ, P.C.

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