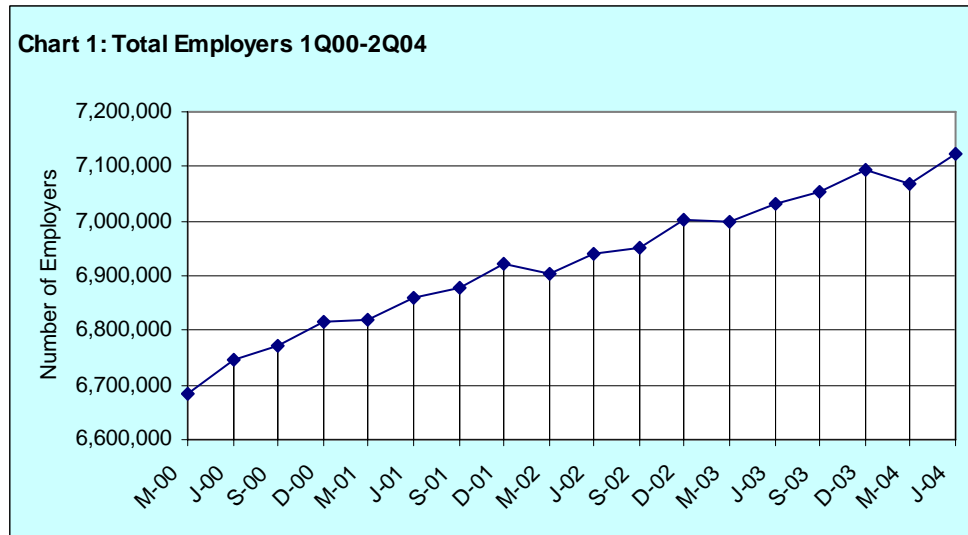


Analysis of ETA 581, Contribution Operations Data - Quarter Ending 06/30/2004

Subject Employers

During the Q/E June 30, 2004, the number of employers subject to state unemployment compensation laws rose to 7,123,106, an increase of 56,379 over the Q/E March 31, 2004, and an increase of 92,848 over the Q/E June 30, 2003. The steady growth shown on Chart 1 typically pauses during the March quarter; then continues through the last three quarters of the year.

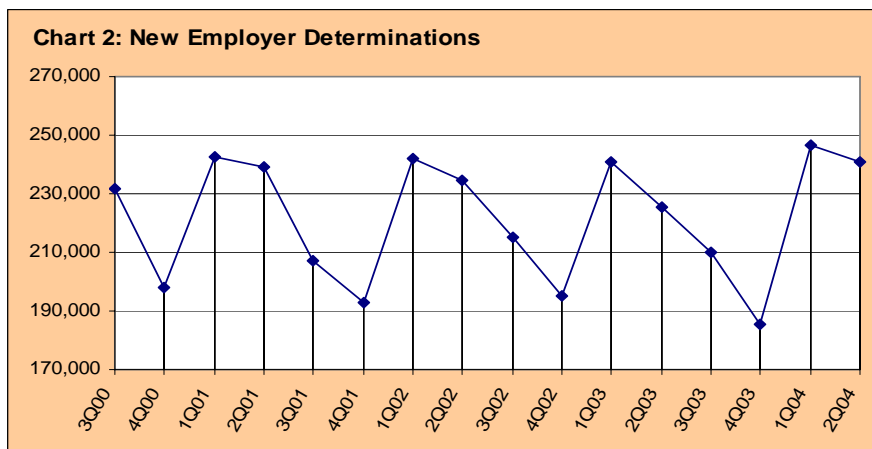


States reporting the most growth for the quarter were: California 27,904, Florida

10,989, Michigan 2,160 and Virginia 1,212. Nine states reported declines for the quarter led by Washington 3,763, Ohio 1,609, New Jersey 1,378, and Indiana 1,134. The totals include data from all 50 states, the District of Columbia and Puerto Rico. The Virgin Islands, with approximately 5,100 employers, has not reported data for this quarter.

Status Determination Promptness

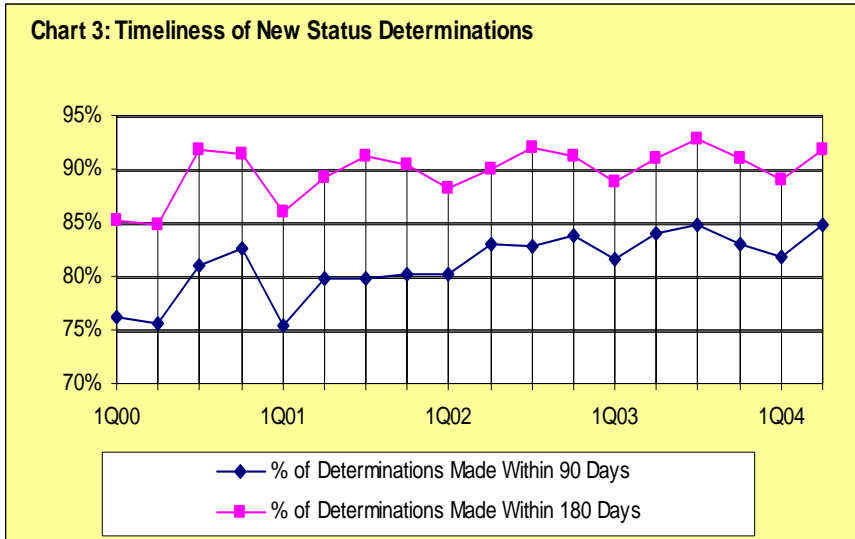
Status determinations establishing liability for new employers totaled 240,732, of which 84.7% were completed within 90 days or less from the end of the quarter in which the employer first



became liable. As shown on Chart 2, the quarterly totals follow a predictable trend each year. Workload for 2004 is increasing over the previous three years as shown on Chart 2. Nationwide 15,193 more determinations were made in the second quarter of 2004 than in the second quarter of 2003.

The promptness rate for new liability determinations increased from 81.7% in the first quarter 2004 to 84.7% for the second quarter 2004. However, 5,619 fewer determinations of new

liability were made in the second quarter. The lower workload may have helped the states improve their percentage of timely determinations. The quarterly percentages of determinations completed within the 90 and 180 day timeframes are shown graphically on chart 3.

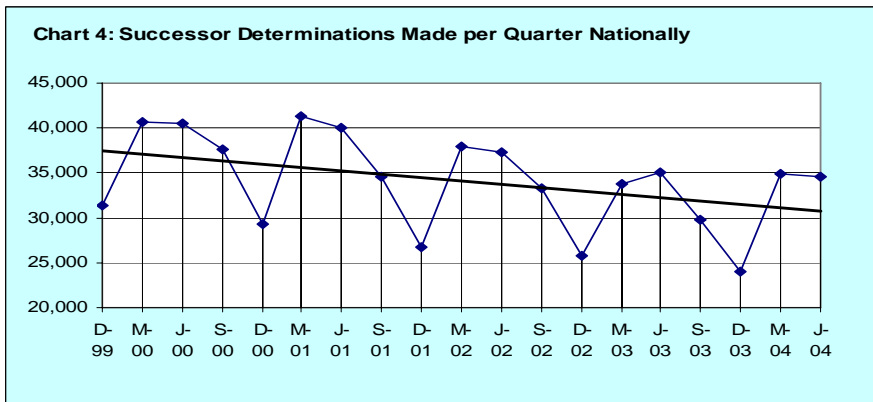


The consistency in the percentage differences between the 90-day and 180-day time frames is apparent on Chart 3. The average percentage difference for the 18 quarters shown on the chart for the period from 1Q2000 through the 2Q2004 is 8.6%. The spread between the two percentages has been gradually declining as the 90 day performance improves.

The State Quality Service Plan (SQSP) objective for timely completion of new status determinations for the Q/E 6/30/2004 was that at least 60% of New Status Determinations should be completed within 90 days of the end of the quarter in which the employer was determined to have met a threshold of liability under state law. Beginning with the Q/E 12/30/2004 SWAs are expected to complete 70% of their determinations within 90 days. Table 1, Status Determination Promptness, Q/E 06/30/2004, shows the US Total for the 90-day measure to be 84.7% and 91.7% for the 180 measure. Individually, 50 of the 52 reporting states met or exceeded the 60%, 90-day performance threshold; only Puerto Rico (50.3%) and Arizona (44.6%) reported not meeting expectations. Two states failed to make at least 80% of their determinations in 180 days: Puerto Rico (69.1%) and Montana (79.4%). A report was not received from the Virgin Islands.

Successor Determinations

For the Q/E June 30, 2004, UI agencies reported making 34,527 status determinations that

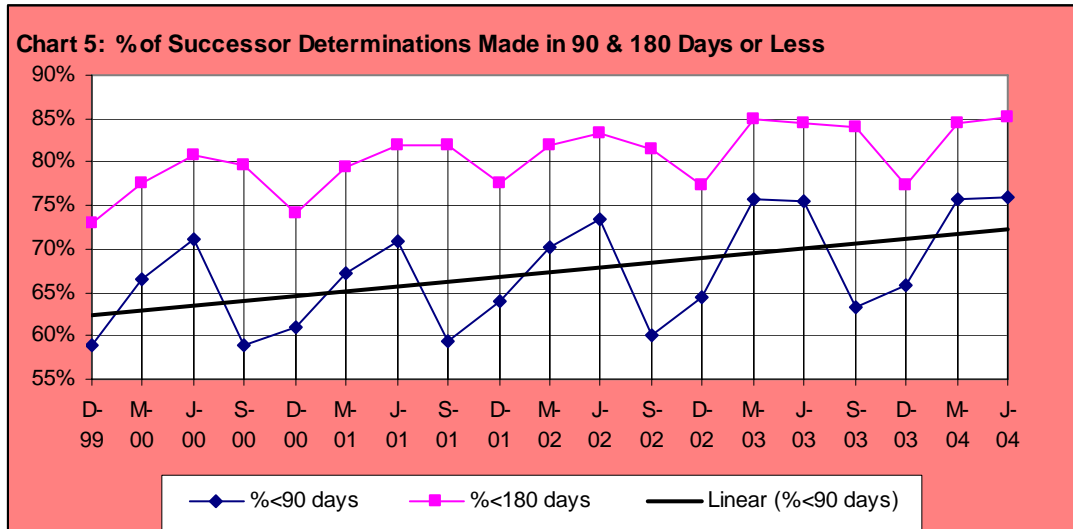


involved the successorship or transfer of the ownership of a business. The declining trend line shown on Chart 4 graphically illustrates the decline in the number of successorship determinations reported over the last 19 quarters. Although 37 states reported declines

in the number of successor determinations (comparing 4Q1999 to 4Q2003), the most dramatic

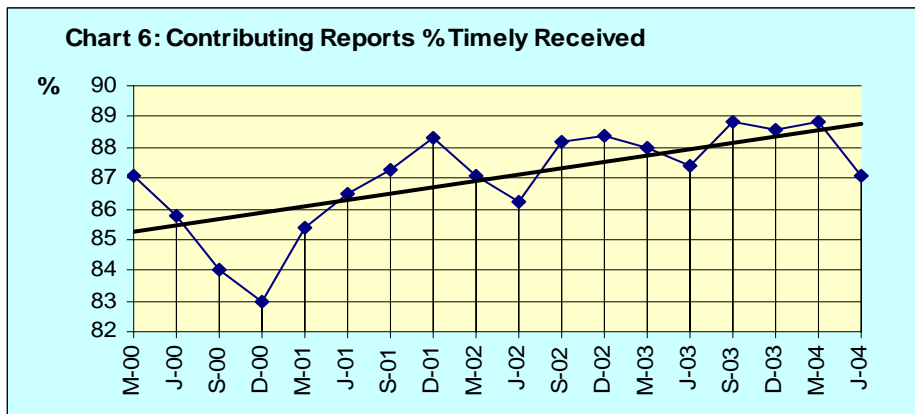
drops were in New Jersey (2,235 to 517) and California (1,939 to 643).

The trend line for successorship status determinations made within 90-days-or-less showing improvement for the 19 quarter period shown on Chart 5 may be influenced by the declining workload illustrated in Chart 4. Individual states with completion percentages of 90% or greater for the 90-day period were: AR, FL, MN, MT, NE, ND, OR, PA, SC, and WA. States reporting percentages of at least 95% for the 180-day period were: FL, MN, NE, NM, OR, SC, and WA. Performance percentages for each state for the Q/E June 30, 2004, are shown on Table 1.



Filing Reports – Contributory and Reimbursing Employers

Nationally, SWAs reported that they expected contributory employers to file 6,967,159 first quarter contribution and wage reports during the ETA 581 reporting period ending June 30, 2004. After all of the reports that were filed by the states' due dates (in most states April 30) were processed, a total of 6,065,763 contribution reports were counted as Received Timely (87.1%). By June 30, 2004, an additional 365,147 (5.2%) reports were Secured as a result of voluntary filing or through state enforcement efforts. The total of all reports Secured by the end of the quarter was 6,430,910 reports or 92.3%.



The trend line on Chart 6 shows that timely filing of contribution reports by employers has improved over the last 18 quarters. The decline in second quarter filing from 88.8% in first quarter to 87.1% in the second quarter is typical. The low

percentages reported for second quarters may be related to the high tax liability for the first quarter tax reports which are being filed during April, May, and June. Because a higher

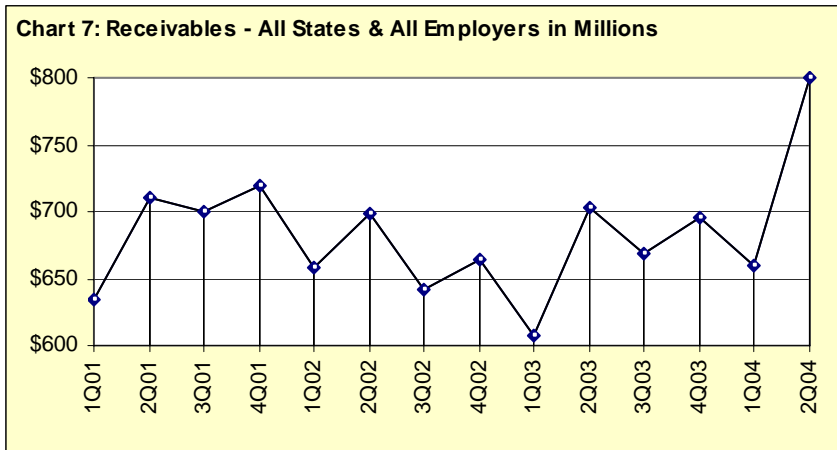
percentage of the employer's wages are taxable early in the year, tax liability is highest for the first quarter report. Some employers, who are experiencing a temporary financial crunch, may choose to delay filing until sufficient money comes in to pay all of the tax due at the time of filing.

Reimbursing employers filed 88.4% of their first quarter wage reports Timely, 94.2% of the reports due were Secured by the end of the quarter and 96.8% of the reports from two quarters preceding the ETA 581 report quarter were Resolved by the end of the report quarter.

Please see Tables 2 and 3 for percentages pertaining to the timeliness of tax report filings by contributory and reimbursing employers.

Receivables

Chart 7 shows that the accounts receivable total for all reporting states and all employers (contributing and reimbursable) normally increases in the second quarter due to processing the high-tax first quarter contribution reports during the second quarter.



However, the increase from \$659 million at the beginning of the quarter to \$800 million by the end of the quarter, a \$141 million increase, was higher than expected. The increase for the year was \$97 million. A review of individual state increases, comparing the second quarter ending balance with the ending

balance one year ago, found that 32 of 52 reporting states reported increases in receivables during the year. The largest year gains were reported by California -\$27 M, Florida -\$13 M, and Pennsylvania -\$13 M (comparing ending balances for 2Q2003 to 2Q2004).

The yearly growth in unpaid taxes of approximately \$97 million (14%) is probably due to the high volume of benefit claims experienced during the 2001-2003 years, which caused a decline in the state UI trust fund balances. Due to funding mechanisms written into the statutes of most states, the lower trust fund balances eventually bring about compensating increases in the tax rates. As the UI funding stream increases delinquency also increases. The average 2004 experience rate for employers nationally is estimated (final numbers are not yet available) to be 2.7% or about 24% higher than the 2.17% average in 2003. The lower trust fund balances also caused increases in the taxable wage bases in many of the states, which also increases tax liability and delinquency.

Comparing Receivables, Balance at End of Period, for the second quarter of 2003 to second quarter of 2004, reimbursing employers grew by \$15 million (19%) while contributing employers grew by \$82 million (approximately 13%).

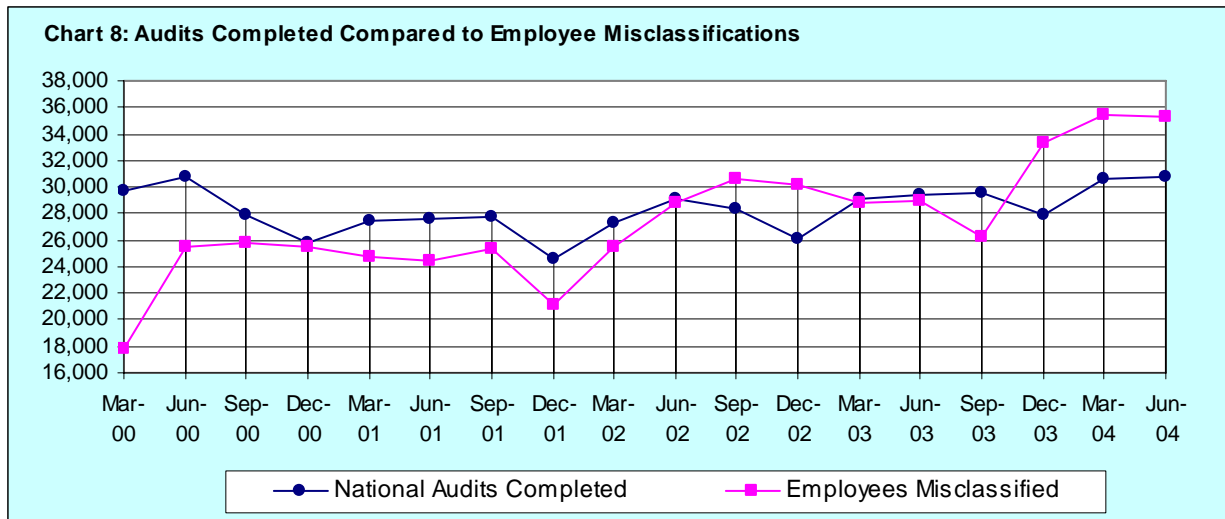
See Table 4 for collection activities and state receivable balances (contributing and reimbursing employers combined) for the period ending June 30, 2004.

Receivables that are 6 months old or less have averaged increasing about 2% per year over the last four years. The percentages reported were: 2Q2001= 42%; 2Q2002 = 44%; 2Q2003 = 47%; 2Q2004 = 49%. See Table 5 for the percent distribution of receivables by age for the Q/E June 30, 2004, for each state, region and the nation.

Audit Activity

States audited records of 30,835 employers during the quarter, an increase of 275 over the Q/E March 31, 2004, and 1,435 more than the second quarter one year ago. However, to be on target for reaching the 2% annual objective, the states should have completed 34,800 audits for the quarter.

The large employer target of 1.0% (0.25% quarterly), of the required 2.0% audit objective, was surpassed. For the Q/E June 30, 2004 states reported that they completed 781 large employer audits (2.24%) of the 34,800 audit objective for the quarter. Large employers are defined as those with 100 or more employees per year or taxable payroll (as defined in state law) of at least one million dollars per year.



The continuing growth in employee misclassifications discovered in audits is shown on Chart 8 along with the number of audits completed nationally per quarter. Employee misclassifications grew from 29,007 in 2Q2003 to 35,356 reported in 2Q2004, a 22% increase for the year.

Some of the growth in misclassifications shown on Chart 8 is the result of improved state counting and reporting capabilities. However, states also completed 1,435 more audits in 2Q2004 than in 2Q2003 which also contributed to the increase. A comparison of each individual state's misclassifications for 2Q2003 to 2Q2004 showed that 28 states reported increases in the number of misclassifications and 24 reported decreases or the same as in 2003. Consequently, it is difficult to determine confidently whether the growth in misclassifications is the result of improved state auditing and reporting procedures or the result of more employers attempting to avoid payroll taxes by utilizing employee misclassification techniques. Continued state improvement in counting and reporting misclassifications will enable a more accurate evaluation of this payroll tax evasion tendency. States that have not yet programmed the capability for reporting this required function into their systems are requested

to do so as soon as possible.

The US Total of \$735,408,591 for Over Reported total wages compared to only \$618,455,974 Under Reported total wages shown on Table 7 is unusually large. Normally Under Reported totals are much larger than Over Reported. The large Over Reported total, compared to the quarter ending June 30, 2003, of \$162,930,898, resulted primarily from unusually large Over Reported total wage adjustments submitted by Ohio (\$224,176,487) and Indiana (\$390,973,543). However, the totals for contributions over and under reported are close to the averages. Please review Tables 6 and 7 for detailed information concerning each state's performance in the audit function.