

CASH MANAGEMENT MIDDLE MARKET MONITOR™



2005 REPORT TO RESPONDENTS

PHOENIX-HECHT

ONE HUNDRED DOLLARS

INDEPENDENCE HALL



UNITED STATES OF AMERICA



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CASH MANAGEMENT MIDDLE MARKET MONITOR™

2005 REPORT TO RESPONDENTS

*This report presents
a basic overview of
the findings from the
2005 Cash Management Middle
Market Monitor™ Survey.*

*The report has been
especially prepared for
survey respondents,
who so graciously
lent their valuable
time and knowledge
of cash management
to this research project.*

*Phoenix-Hecht most
gratefully acknowledges
their contribution.*



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The Survey

From August to October 2004, Phoenix-Hecht conducted its biennial survey of middle market cash management services targeting public and private U.S. corporations with annual sales between \$40 million and \$100 million. The survey respondents were senior financial executives responsible for managing the bank relationships for cash management services.

The *Middle Market Monitor*[™] surveyed companies across a broad array of cash management issues, including pricing, quality of service, product usage, adoption of new technologies and future plans and intentions. Each participating company provided a detailed assessment of its banking relationships, as well as assessments on prospecting banks. The resulting survey combined with prior survey databases gives Phoenix-Hecht an unparalleled ability to analyze the cash management marketplace.

The objectives of the survey were to:

- Quantify buyer attitudes towards their banking relationships and the pricing of cash management services.
- Measure the quality of cash management services provided.
- Gauge the acceptance of new technologies in treasury management.
- Determine company plans for current relationships, product purchases and cash management projects.

This report has been augmented with select information from the 2004 Phoenix-Hecht *Cash Management Monitor*[™], a survey where respondents were segmented into two groups: the Upper-Middle Market and the Large Corporate Market.

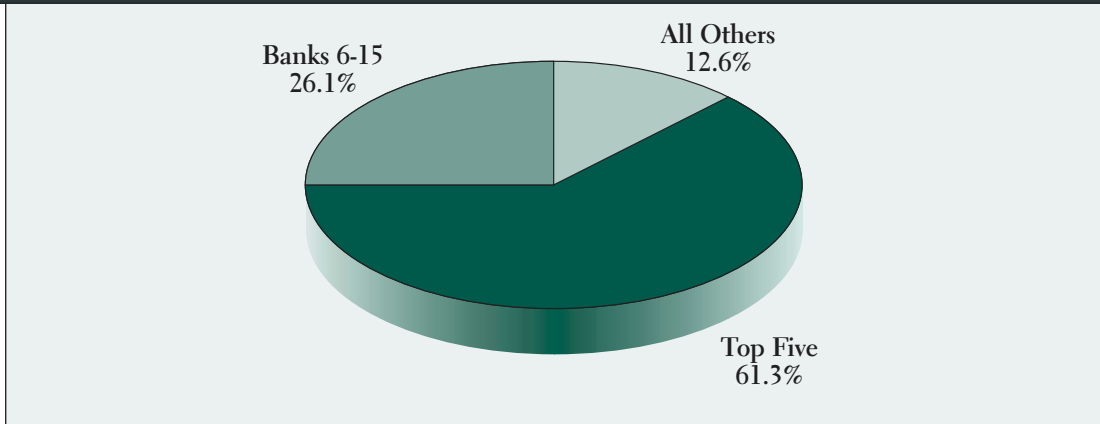
CASH MANAGEMENT MONITOR[™]

| Annual Sales | Studied Segment |
|--------------------------------|---------------------|
| \$40- \$100 Million | Middle Market |
| \$100- \$500 Million | Upper-Middle Market |
| Over \$500 Million | Large Corporate |

This report presents a basic overview of the findings from the 2005 Middle Market Monitor[™]. The report is prepared for the benefit of the survey respondents, without whose cooperation and participation the Monitor would not be possible.

Middle market corporations spend an estimated \$4.1 billion in total fees at the 34 surveyed banks. This is an increase of 7.9% for the two years since the last survey, or an annual rate of 3.9% in revenue growth. Due entirely to mergers and acquisitions, the revenue share of the five largest banks grew to 61%, up from 45% two years ago.

MIDDLE MARKET CONCENTRATION OF REVENUES



Phoenix-Hecht believes there are four dimensions corporations consider when purchasing cash management services. We address these in various sections of our analysis.

THE FOUR DIMENSIONS OF CASH MANAGEMENT



Credit. Credit is the cornerstone of the majority of middle market bank-corporate relationships.

Pricing. Because of the perceived intense competition for cash management services, banks aggressively price their services.

Quality. Although banks invest a great deal of time improving product quality, our research indicates that what really matters is the customer's perception of the primary cash management relationship manager.

Product Features. As banks have grown larger and products have matured, there has been a natural loss of distinctiveness in bank product offerings. Still, certain features do matter, such as imaging and Internet capabilities.



II. Key Findings

BANK RELATIONSHIPS

Credit remained as important in the current survey as in 2003, despite indications that banks were making credit somewhat more available – or at least less unavailable – to corporations in the middle market. A significant 30.2% of survey respondents indicated that they are seeking to increase their bank credit capacity, up from 21.8% two years ago.

The bank's responsiveness in resolving problems that arise is clearly the most important indicator of a bank's commitment to the relationship. Responsiveness is usually a *short-term* indicator, becoming most important when there is a problem to resolve. From the corporate perspective, willingness to provide credit is the most important *long-term* indicator of a bank's commitment to the relationship.

Responses to our latest survey show that middle market companies are paying attention to prices, but are not necessarily taking action by moving cash management business or changing banks based solely on pricing.

The trend in the banking industry for the last several years has been to reduce calling efforts on prospects and, correspondingly, increase efforts on existing customers. In-person calling by banks is still the preferred method for treasury managers to learn about the bank. The Internet, trade publications and trade meetings are no substitute for in-person calls when it comes to getting information.

QUALITY

Not only did treasury managers give quality ratings that were *quantitatively* higher than in 2003 and earlier years, they also perceived the overall quality of bank services to be *qualitatively* better than in previous years. When asked their opinion of the bank's overall service quality over the previous 12 months, almost three times as many said it had improved as said it had worsened. This is significantly better than two years ago.

In the latest survey, relationship manager ratings improved the most – significantly more than the improvement noted for product-specific quality measures.

PRODUCTS

Internet-based delivery, electronic images and fraud protection product features continue to gain acceptance by middle market companies. The use of Internet-delivered services continues to climb in the middle market, up to 73.6% of corporations versus only 35.5% in 2001.

The use of imaging technology is still much more important to larger corporations. Middle market companies perceive they receive the greatest benefit of imaging when it is applied to disbursement services, especially positive pay.

Over 25% of respondents reported a “major” fraud issue in the past two years. Corporate concerns are greatly focused on check fraud as opposed to fraud via wires or ACH. One reason for this focus was that, when there was a major fraud issue, it involved checks over 95% of the time. Check fraud issues are driving more middle market companies to utilize a positive pay service.

Corporations are unsure about the effects that the Check 21 legislation might have on them, and when those effects might begin to be felt. Just under half of the survey respondents expressed concern about Check 21’s effects in three areas: increased check fraud, loss of disbursement float and incompatibility with existing systems.

With the acceptance of the Internet, middle market companies saw the barriers to entry for e-commerce become smaller. B2B e-commerce with suppliers increased significantly to 43.6% from 31.3%. Approximately one in four corporations in the middle market is looking seriously at expanding B2B e-commerce with either suppliers or corporate customers.

III. The Banking Relationship

IMPORTANCE OF CREDIT

While the *Middle Market Monitor* is primarily a cash management survey, the strong relationship between use of banks for credit and cash management cannot be ignored. This is especially true in the middle market, where the vast majority of corporations have only one or two major bank relationships. Credit remains as important in the current survey as in 2003, despite indications that banks were making credit somewhat more available – or at least less unavailable – to corporations in the middle market. A significant 30.2% of survey respondents indicated that they are seeking to increase their bank credit capacity, up from 21.8% two years ago.

CREDIT

| Middle Market | 2005 |
|--|-------|
| Seeking to Increase Bank Credit Capacity | 30.2% |
| Recent Problems Negotiating Credit Covenants | 8.7% |
| Size of Credit Commitment Influences Use of Cash Management Services | 40.5% |

Even so, fewer corporations report problems negotiating covenants for that credit – 8.7%, down from 13.3%. Also, only 7.1% have had one or more credit banks reduce or withdraw commitments in the last year. In 2003, 12.5% reported such reductions or withdrawals.

Importantly, 61.8% of those corporations who had credit reduced or withdrawn moved cash management services. In 2003, only 43.9% took that action. In another indication that credit relationships affect cash management business, 40.5% of all respondents agree that the size of a bank's credit commitment influences their purchases of cash management services from that bank. That is also up from 2003, when it was 36.3%.

CREDIT AND ITS RELATIONSHIP TO CASH MANAGEMENT SERVICES

| | 2003 | 2005 |
|---|-------|-------|
| Credit Influence: | | |
| Have any credit banks reduced or withdrawn credit commitments in the last year? | 12.5% | 7.1% |
| Credit Decision: | | |
| If your credit banks reduced or withdrew credit commitments, have you moved cash management services? | 43.9% | 61.8% |

The bank's responsiveness in resolving problems is clearly the most important. This is usually a *short-term* indicator, becoming most important when there is a problem to resolve. From the corporate perspective, willingness to provide credit is the most important *long-term* indicator of a bank's commitment to the relationship with the corporation.

IMPORTANCE OF BANK'S COMMITMENT

| | 2003 | 2005 | Diff |
|---------------------------------------|------|------|--------|
| Scale 1 to 5 with 5= Very Important | | | |
| Problem Resolution Response | 4.53 | 4.57 | 0.04 |
| Credit Availability | 4.06 | 4.08 | 0.02 |
| Calling Officer Stability | 3.86 | 3.85 | (0.01) |
| Length of Relationship | 3.74 | 3.76 | 0.02 |
| Proactive in Introducing New Services | 3.61 | 3.68 | 0.07* |
| Frequency of Calling Officer Visits | 3.11 | 3.09 | (0.02) |

*Statistically significant change

Pricing of Bank Services

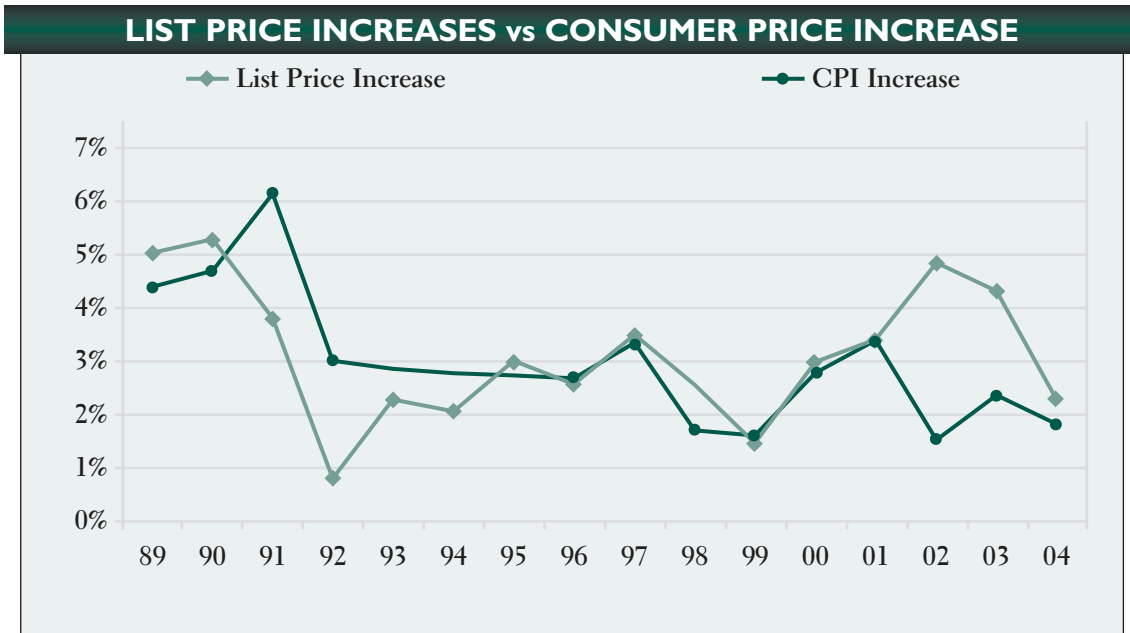
Responses to our latest survey show that middle market companies are paying attention to prices, but are not necessarily taking action by moving cash management business or changing banks based solely on pricing.

CORPORATE BUYING BEHAVIOR (Percentage Who Agree)

| Middle Market | 2003 | 2005 | Diff |
|---|-------|-------|-------|
| Company requests competitive bids for new cash management services | 37.5% | 46.4% | 8.9% |
| Company buys new services only from existing banks | 77.6 | 76.6 | (1.0) |
| Bank has won cash management business principally because of low prices | 20.5 | 19.4 | (1.1) |
| Company has changed banks primarily because of price increases | 12.0 | 12.0 | 0.0 |
| Company negotiates price guarantees for specific periods of time | 39.5 | 46.1 | 6.6* |
| Company annually reviews bank prices | 51.6 | 52.1 | 0.5 |

*Statistically significant change

Over the last 15 years, bank list prices measured by *The Blue Book of Bank Pricing*[™] have increased at approximately the same rate as overall inflation measured by the Consumer Price Index. There was a shift from this in 2002 and 2003 as banks were more aggressive in raising list prices, but 2004 saw a return to more typical inflation-based price increases.



Of note here is that, while list price increases were pronounced in 2002 and 2003, so too were price discounts. Both the frequency of granting discounts and the discount percentages increased. As list price increases abated in 2004, discounting fell off as well. Overall, when both list prices and discounts are taken into account, prices for cash management services continue to increase at roughly the same rate as overall inflation. In the latest Monitor survey, corporations expect price increases for 2005 to average 3%, or just a little more than most estimates of inflation.

Customer and Prospect Calling

The trend in the banking industry for the last several years has been to reduce calling efforts on prospects and, correspondingly, increase efforts on existing customers.

In-person calling by banks is still the preferred method for treasury managers to learn about the bank. The Internet, trade publications and trade meetings are no substitute for in-person calls when it comes to getting information.

INFORMATION SOURCES FOR CASH MANAGEMENT

| Scale 1 to 5 with 5= Very Important | Average Rating | Rated 4 or 5 |
|-------------------------------------|----------------|--------------|
| In Person Bank Call | 3.69 | 64.7% |
| Internet | 3.17 | 41.8% |
| Trade Publications | 2.74 | 25.8% |
| Trade Meetings | 2.32 | 12.9% |

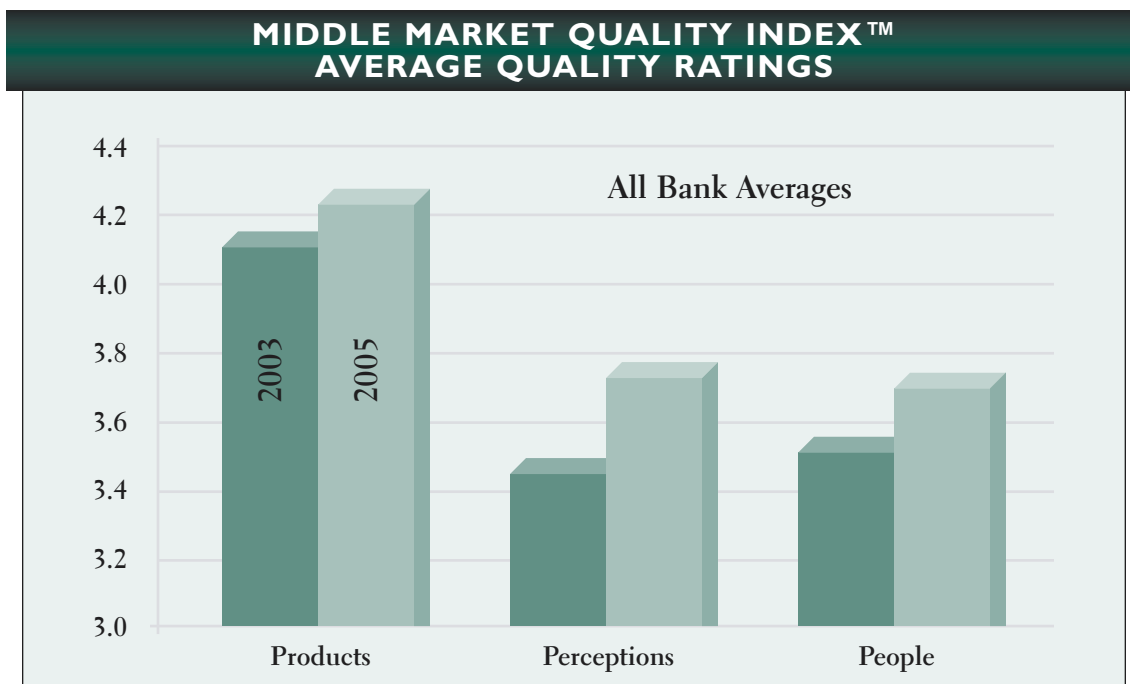
Identifying and calling on prospective customers is an expensive and often risky proposition for a bank. The trend by banks has also been to shift the prospecting calls away from the largest corporations, first to the upper-middle market, then to the middle market, and down to the even smaller commercial market.

CALLING ALLOCATION

| | 2004 Large Corporate | 2004 Upper-Middle | 2005 Middle Market |
|-----------|-------------------------|----------------------|-----------------------|
| Customers | 62.5% | 56.4% | 43.9% |
| Prospects | 37.5% | 43.6% | 56.1% |

IV Quality Assessments

In the late 1990s, quality scores trended downward. That has been reversed in the last few years, and our latest results now show a significant upward trend in quality ratings. Quality ratings for bank personnel, especially the primary cash management relationship manager, had the most room for improvement. In the latest survey, those relationship manager ratings improved the most – significantly more than the improvement noted for product-specific quality measures.



Not only did cash managers give quality ratings that were *quantitatively* higher than in 2003 and earlier years, they also perceived the overall quality of bank services to be *qualitatively* better than in previous years. When asked their opinion of the bank's overall service quality over the previous 12 months, almost three times as many said it had improved as said it had worsened. This is significantly better than two years ago, even though quality was improving then as well.

QUALITY PERCEPTION

| Middle Market | 2001 | 2003 | 2005 |
|---------------|-------|-------|--------|
| Improved | 19.7% | 21.9% | 22.2% |
| Worsened | 14.4% | 12.4% | 8.3%* |
| Same | 65.9% | 65.7% | 69.5%* |

*Statistically significant change

Impacting the perception of improved quality is that as banks continue to exit unprofitable relationships, they pay more and better attention to the relationships they choose to retain. We also believe that the increased acceptance and use of imaging technology and the Internet have improved processing and reporting for many cash management services. The frequency of processing errors, which can have negative impacts on quality ratings, may have also declined as a result of new technology, especially when it replaces or supplements manual processes. Finally, we suspect that the job market of the last few years has led to lower turnover at banks, resulting in bank personnel being more familiar with their corporate counterparts.

Quality Index[™]

Since 1992 Phoenix-Hecht has published a *Quality Index*[™] as part of its *Cash Management Monitor*[™] series. The purpose of the *Quality Index* is to provide a simple means of comparing individual bank performance ratings.

The 2005 *Quality Index* covers 41 different dimensions:

- 26 questions relating to products (wholesale lockbox, wire transfer, balance reporting, controlled disbursement, ACH, depository services and Internet services)
- 6 relating to corporations' perceptions about their banks
- 9 dealing with relationship management

The *Index* has five rating categories, with A+ being the highest and D the lowest. The specific numeric rating required to achieve each grade is calibrated to achieve a target distribution of 20% A+, 20% A, 40% B, 10% C and 10% D. The assignment of grades is based not only on how well a bank does relative to its peers in a category, but also on how a category scores overall in the survey. These two factors are weighted equally in the grade assignment process. Finally, no grade is calculated and reported unless there are sufficient evaluations for a specific category.

Achieving a specific grade is somewhat easier in certain products than in others. For example, wire transfer services consistently receive higher grades than do other product categories. Similarly, products tend to receive higher grades than those received by relationship managers, which in turn are higher than general bank perceptions.

RATED BANKS

| | |
|-----------------------------------|-------------------------------|
| ABN AMRO/LaSalle/Standard Federal | Huntington |
| AmSouth | JP Morgan |
| Bank One | Key Bank |
| Bank of America | M & T Bank |
| Bank of New York | Marshall & Ilsley (M&I Banks) |
| Citibank | Mellon |
| Citizens Bank (RBS Group) | National City |
| Comerica (Imperial Bank) | Northern Trust |
| Commerce Bancshares K.C. | PNC Bank |
| Commerce Bank NJ | Regions Bank |
| Compass Bank | SunTrust |
| Deutsche Bank | UMB Banks |
| Fifth Third | Union Bank of CA |
| First Tennessee | Union Planters |
| Fleet | US Bank |
| HSBC (Bank USA) | Wachovia |
| Harris | Wells Fargo |

A bank's *Quality Index* grades may be obtained by contacting the individual bank(s) directly. Phoenix-Hecht is not permitted to release individual bank results.

MIDDLE MARKET QUALITY INDEX AVERAGE

| | 2003 | 2005 | Difference |
|---|------|------|------------|
| PERCEPTIONS ABOUT BANK | | | |
| Innovation | 3.77 | 3.91 | 0.14 |
| Service customization | 3.50 | 3.65 | 0.15 |
| Product specialists | 3.69 | 3.88 | 0.19 |
| Customer service | 3.68 | 3.91 | 0.22 |
| Customer calling program | 3.40 | 3.49 | 0.09 |
| Prospect calling program | n/a | 2.43 | n/a |
| PRIMARY CASH MANAGEMENT RELATIONSHIP MANAGER | | | |
| Calling officer knowledge | 3.82 | 3.99 | 0.17 |
| Understands international cash management | 3.43 | 3.66 | 0.23 |
| Anticipates service needs | 3.28 | 3.43 | 0.15 |
| Informative on new services | 3.28 | 3.51 | 0.23 |
| Prompt call follow-up | 3.69 | 3.84 | 0.15 |
| Problem resolution | 3.75 | 3.91 | 0.16 |
| Accessible when needed | 3.68 | 3.83 | 0.15 |
| Understands your business and industry | 3.53 | 3.71 | 0.18 |
| Overall effectiveness | n/a | 3.74 | n/a |

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| | 2003 | 2005 | Difference |
|---|------|------|------------|
| PRODUCTS | | | |
| Wholesale Lockbox | | | |
| Speed of processing | 4.00 | 4.13 | 0.13 |
| Accuracy of processing and reporting | 3.96 | 4.10 | 0.14 |
| Timeliness of receiving images | n/a | 4.06 | n/a |
| Quality of images | n/a | 4.09 | n/a |
| Overall features and capabilities | 3.80 | 4.06 | 0.26 |
| Wire Transfer | | | |
| Timeliness of initiation and processing | 4.35 | 4.47 | 0.12 |
| Accuracy and reliability | 4.43 | 4.54 | 0.11 |
| Overall features and capabilities | 4.16 | 4.32 | 0.16 |
| Balance Reporting | | | |
| Timeliness of information | 4.19 | 4.37 | 0.18 |
| Accuracy and reliability | 4.26 | 4.42 | 0.16 |
| Overall features and capabilities | 4.06 | 4.25 | 0.19 |
| Controlled Disbursement | | | |
| Timeliness of notification | 4.21 | 4.23 | 0.02 |
| Consistency of notification | 4.18 | 4.28 | 0.10 |
| Accuracy of notification | 4.24 | 4.36 | 0.12 |
| Retrieval of archived images | n/a | 4.09 | n/a |
| Quality of images | n/a | 4.16 | n/a |
| Overall features and capabilities | 4.10 | 4.17 | 0.07 |
| ACH | | | |
| Speed of error correction | 4.13 | 4.20 | 0.07 |
| Accuracy of processing and reporting | 4.30 | 4.35 | 0.05 |
| Overall features and capabilities | 4.15 | 4.21 | 0.06 |
| Depository Services | | | |
| Accuracy of processing and reporting | 4.19 | 4.32 | 0.13 |
| Timeliness of processing & reporting | n/a | 4.31 | n/a |
| Internet Services | | | |
| Reliability | n/a | 4.27 | n/a |
| Ease of use | n/a | 4.09 | n/a |
| Security | n/a | 4.40 | n/a |
| Overall features and capabilities | n/a | 4.14 | n/a |

V Product Usage

Internet-based delivery, electronic images and fraud protection product features continue to gain acceptance by middle market companies. The use of Internet-delivered services increased markedly in the middle market, up to 73.6% from only 35.5% in 2001. While the rate of increase is slowing, we anticipate that usage will continue to move up until the percentages match those of depository services and other ubiquitous cash management offerings. On a negative note, the use of sweep accounts in this market declined to 65.3% from 72.8% due to the extremely low interest rates of the last two years. Sweep account usage should return to prior levels if interest rates continue to rise.

PRODUCT USAGE

| | Middle Market |
|-------------------------------|---------------|
| Depository Services | 85.3% |
| ACH | |
| Direct Deposit of Payroll | 88.0 |
| Automated Tax Payments | 77.0 |
| Debits for Cash Concentration | 51.6 |
| Corporate Trade Payments | 49.6 |
| Internet-delivered Services | 73.6 |
| Sweep Accounts | 65.3 |
| Controlled Disbursements | 60.0 |
| Letters of Credit | 48.4 |
| Wholesale Lockbox | 45.7 |
| Foreign Exchange | 26.9 |
| Purchase Cards | 24.1 |

INTERNET AND IMAGING APPLICATIONS

As corporate acceptance and usage of Internet applications has increased, the importance of those applications has increased as well. Far from being just a novel way of getting information and initiating transactions, the Internet is now becoming a “must-have” product delivery method for corporations. When asked to rate the importance of various Internet applications, survey respondents gave several application ratings that lead us to believe that the corporations simply cannot do without them.

IMPORTANCE OF INTERNET APPLICATIONS

| Middle Market | 2003 | 2005 | Diff |
|--|------|------|--------|
| (1=least important, 5=most important) | | | |
| Retrieving Previous Day Bank Account Information | 4.40 | 4.50 | 0.10* |
| Retrieving Same Day Bank Account Information | n/a | 4.11 | n/a |
| Receiving Transaction Details | 4.29 | 4.28 | (0.01) |
| Initiating Stop Payments | 4.03 | 4.32 | 0.29* |
| E-mail Bank Contacts or Customer Service | 3.79 | 3.82 | 0.03 |
| Initiating Wire Transfers | 3.96 | 4.28 | 0.32* |
| Initiating ACH Transactions | 3.93 | 4.20 | 0.27* |
| Initiating Investment Transactions | 2.91 | 3.17 | 0.26* |
| Delivery of Lockbox Information | 3.11 | 3.27 | 0.16* |
| Monitoring Letters of Credit | 2.39 | 2.59 | 0.20* |
| E-mail Notification of Incoming Wires | n/a | 3.50 | n/a |

*Statistically significant change

While the use of imaging technology is still much more important to corporations in the upper-middle and large corporate markets, those in the middle market indicate that it is growing in importance. This heightened importance shows up across all major imaging applications.

NEW TECHNOLOGIES IMPORTANCE OF IMAGING

| Middle Market | 2003 | 2005 | Diff |
|---|------|------|-------|
| Scale: 1 to 5 with 5=Very Important | | | |
| On-line Approval of Positive Pay Items | 3.31 | 3.69 | 0.38* |
| Immediate Retrieval of Paid Items | 3.27 | 3.56 | 0.29* |
| Long-Term Storage of Paid Items | 3.49 | 3.76 | 0.27* |
| Imaging of Checks | 3.27 | 3.43 | 0.16* |
| Imaging of Return Documents as well as Checks | 3.23 | 3.36 | 0.13* |
| Same Day Access to Remittance Documents | 3.15 | 3.24 | 0.09 |

*Statistically significant change

CONCERNS ABOUT FRAUD

The growing use of images and the ability to easily create them has increased concerns about fraud. Fraud in the payment system, especially with regard to checks, has become a major concern over the last decade. An estimated 1.2 million worthless checks enter the banking system each day. The Nilson Report advises that annual check fraud losses now exceed \$20 billion, which is up from \$12 billion in 1996 and \$5 billion in 1993. Respondents to the *Middle Market Monitor* survey are not unaware of this problem.

CONCERN ABOUT FRAUD FROM SPECIFIC SOURCES

(1=Not Important, 5=Most Important)

| | |
|----------------|------|
| Checks | 4.22 |
| ACH | 3.59 |
| Wire Transfers | 3.37 |

Over 25% of respondents reported a “major” fraud issue in the past two years. Corporate concerns are very much focused on check fraud as opposed to fraud via wires or ACH. One reason is that when there was a major fraud issue, it involved checks over 95% of the time.

INCREASING CONCERNS

Over the past two years has your concern about check fraud increased?

(1=Very Little, 5=Very Much)

| | |
|------|------|
| 2001 | 3.02 |
| 2003 | 3.29 |
| 2005 | 3.51 |

On the issue of fraud, bear in mind that checks are still the most prevalent method of both receipts and disbursements.

PAYMENT TRANSACTIONS

| Method | % of Payments Made BY Corporation | % of Payments Made TO Corporation |
|---------------------|--------------------------------------|--------------------------------------|
| Check | 76.1% | 68.1% |
| ACH | 12.2 | 12.1 |
| Wire Transfer | 7.9 | 9.6 |
| Credit / Debit Card | 3.1 | 5.6 |
| Cash | n/a | 3.6 |
| Other | 0.6 | 1.0 |

What constituted “major” fraud differed significantly from corporation to corporation. Almost 40% of respondents still considered fraud to be major when individual check amounts were under \$1,000 while another 40% regard check amounts between \$1,000 and \$10,000 as major fraud.

A standard reaction to concerns about check fraud is to implement positive pay. Corporations in the middle market are just beginning to catch up with larger corporations in their adoption of positive pay.

POSITIVE PAY

| Percentage of Corporations Using Positive Pay | 2003* | 2005* |
|---|-------|-------|
| Middle Market | 32.1% | 43.4% |
| Upper-Middle Market | 51.8 | 61.6 |
| Large Corporate | 82.2 | 88.5 |

*2002 and 2004 for Large Corporate and Upper-Middle Markets

We asked those corporations who do not yet use positive pay to give some indication of the importance to them of the main reasons for not adopting the service. Based on their responses, there is no overwhelming obstacle to using positive pay.

REASONS NOT TO USE POSITIVE PAY

(1=Not Important, 5=Most Important)

| | |
|-------------------------|------|
| Cost of Service | 3.42 |
| Low Risk of Check Fraud | 3.31 |
| Complexity of Service | 3.17 |

The concern about cost, while perhaps not surprising, is still interesting in light of the concern about fraud for checks of \$1,000 or less expressed by these same respondents. The latest *Blue Book of Bank Prices* reports the cost of positive pay on a disbursement account to be just over \$0.02 per item.

Another tool that corporations can use to detect and combat check fraud is more frequent reconciliation of bank statements. A large majority of middle market corporations – 80.5% – have not done this, and still reconcile monthly. However, 16.3% do report daily reconciliation.

CHECK 21 AND FRAUD

Corporations are unsure about the effects that the Check 21 legislation might have on them, and when those effects might begin to be felt. Just under half of the survey respondents expressed concern about Check 21's effects in three areas: increased check fraud, loss of disbursement float and incompatibility with existing systems.

CONCERNS RELATED TO IMPLEMENTATION OF CHECK 21

| | |
|--|-------|
| Increased check fraud | 45.6% |
| Loss of float on disbursement checks | 44.2% |
| Incompatibilities between original items and Check 21 replacements | 52.7% |

E-COMMERCE

In our survey, we defined e-commerce as business transactions between either business and consumers (B2C) or business and other businesses (B2B), **using the Internet**. This includes (1) ordering goods and services, (2) electronic presentment of bills, invoices or statements, and (3) electronic payments. The stipulation that e-commerce be done over the Internet as opposed to over proprietary networks as in past years is especially important to middle market corporations.

Before e-commerce became widely available over the Internet, most B2B and B2C exchanges were in standard formats (EDI) over proprietary networks (VANs), and required substantial up-front investment of time and money. This presented a formidable barrier to adoption of e-commerce by middle market companies, which often just adopted it because they were strongly encouraged or forced to by much larger customers or suppliers.

With the rise of the Internet, middle market companies saw the barriers to entry become smaller and have really begun to embrace the Internet. Use of e-commerce increased significantly in all three areas. Of particular interest is the large increase in B2B e-commerce with suppliers, which moved to 43.6% from 31.3%. It is now higher than the percentage with corporate customers, which was not true two years ago. We can only speculate that the reason for this is that these companies are finding there is more economic value in doing e-commerce with their suppliers than with their customers.

COMPANIES DOING E-COMMERCE

| | 2003 | 2005 | Diff |
|---------------------|-------|-------|--------|
| Corporate Customers | 36.0% | 40.9% | 4.9%* |
| Suppliers | 31.3% | 43.6% | 12.3%* |
| Consumers | 18.9% | 21.3% | 2.4%* |

*Statistically significant change

Even though corporate use of e-commerce has increased over the last two years, involvement of the corporate treasurers with e-commerce has stayed the same. Treasury's role in e-commerce appears to be more as a facilitator to other business units, where the benefits are more likely to accrue, such as inventory control. We believe that simply paying electronically, as opposed to by check, is not a compelling argument for e-commerce.

TREASURY INVOLVEMENT

| | Planning | Implementing |
|----------------------------------|----------|--------------|
| B2B Electronic Order Entry | 14.7% | 14.7% |
| B2B Electronic Invoicing | 13.8 | 14.6 |
| B2B Electronic Bill Presentation | 12.7 | 9.0 |

VI Future Plans and Intentions

The *Middle Market Monitor* survey explores corporations' plans and intentions. This information gives some indication as to what topics will be relevant for discussion by banks with their middle market customers for the next 12 to 24 month period.

Two years ago, corporations expected the number of bank relationships to remain almost the same. That number actually increased, albeit very slightly to 2.30 from 2.14. Of interest is that middle market corporations are now expecting to decrease the number of bank relationships by almost 5% over the next two years.

In this year's survey, respondents gave a rating from 1 to 5 for various treasury management projects they may be contemplating. Approximately one in four corporations in the middle market is looking seriously at expanding B2B e-commerce with either suppliers or corporate customers. The vast majority of those looking to expand are *already* engaged in that type of e-commerce. Seventy-nine percent of those looking to expand e-commerce with suppliers already engage in e-commerce with those suppliers. Seventy-seven percent of those looking to expand e-commerce with customers already engage in e-commerce with those customers.

MIDDLE MARKET PLANS AND INTENTIONS

| | Percentage Assigning 4 or 5 Rating |
|---|---------------------------------------|
| Scale: 1 to 5 with 5=Likely | |
| Expand Use of E-Commerce with: | |
| Suppliers | 27.9% |
| Corporate Customers | 27.1 |
| Consumers | 15.9 |
| Do a Treasury Review | 22.1 |
| Add Positive Pay to Disbursement Account | 22.0 |
| Add E-Commerce Using the Internet | 19.0 |
| Expand Number of Credit Banks | 13.4 |
| Add or Change an ACH Bank | 12.4 |
| Add or Change a Controlled Disbursement Site | 12.2 |
| Add or Change a Lockbox Bank | 10.3 |
| Reallocate Cash Management Business at Existing Banks | 10.4 |
| Add or Change International Services Bank | 7.8 |
| Use ACH to Process Re-Presented Checks | 7.6 |
| Convert Retail Lockbox Checks to ARC | 6.7 |
| Consolidate Depository Relationship Using Image Capture | 5.7 |

Also, about one in four corporations are planning to do a treasury review or add the positive pay service to a disbursement account. Just over 26% of corporations who are planning to add positive pay have had a major fraud issue in the past two years, while only 15.3% of corporations *not* planning to add the service have had such an issue. Not surprisingly, those planning to add are much more concerned about check fraud than those that are not planning to add – 4.51 on a scale of 1 to 5 vs. 3.92.

SURVEY METHODOLOGY

From August to October of 2004, Phoenix-Hecht conducted its biennial survey of middle market cash management services. The survey respondents were senior financial executives responsible for managing the bank relationships for cash management services. The survey targeted public and private U.S. corporations with annual sales between \$40 million and \$100 million.

SURVEY QUESTIONNAIRE DESIGN

The *Middle Market Monitor* was conducted using a written questionnaire. Prior to implementation, Phoenix-Hecht reviewed the 2003 *Middle Market Monitor* questionnaire and incorporated refinements as identified throughout the previous year.

As part of the survey, respondents were asked about their cash management relationships with 34 leading banks in the United States (thirty-two after mergers). The purpose of this methodology was to obtain representative coverage of these banks, listed in Table 1.

SAMPLE METHODOLOGY

The *Middle Market Monitor* targeted corporations with annual sales of \$40 million to \$100 million. A total of 1,335 responses were completed from the sample universe of 32,273 corporations. This is equivalent to 4.1% of the sample universe.

Phoenix-Hecht guaranteed confidentiality to all respondents. In appreciation for their participation, respondents receive a copy of the “Report to Respondents,” a detailed summary of the non-bank-specific survey results of particular interest to treasury professionals.

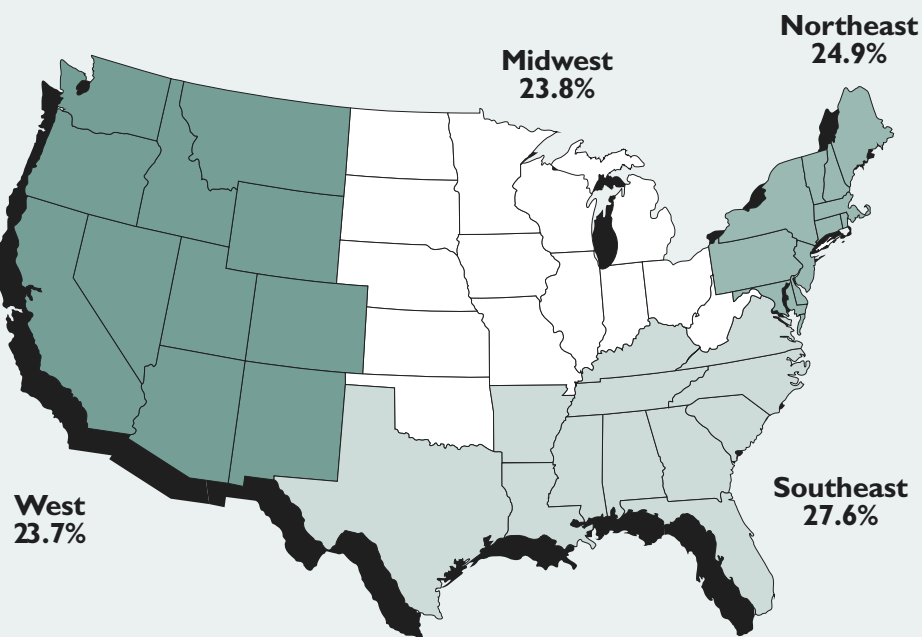
WEIGHTING

Phoenix-Hecht assigned weights to each of the 1,335 respondents in the survey to make the final sample representative of all qualified companies. These weights are based on geographic region. The weighted total thus represents the universe of 32,273 companies.

TABLE I – BANKS SURVEYED

| | |
|-----------------------------------|-------------------------------|
| ABN AMRO/LaSalle/Standard Federal | Huntington |
| AmSouth | JP Morgan |
| Bank One | Key Bank |
| Bank of America | M & T Bank |
| Bank of New York | Marshall & Ilsley (M&I Banks) |
| Citibank | Mellon |
| Citizens Bank (RBS Group) | National City |
| Comerica (Imperial Bank) | Northern Trust |
| Commerce Bancshares K.C. | PNC Bank |
| Commerce Bank NJ | Regions Bank |
| Compass Bank | SunTrust |
| Deutsche Bank | UMB Banks |
| Fleet | Union Bank of CA |
| Fifth Third | Union Planters |
| First Tennessee | US Bank |
| HSBC (Bank USA) | Wachovia |
| Harris | Wells Fargo |

DISTRIBUTION OF RESPONDENTS





Phoenix-Hecht is one of the country's foremost providers of research and education in the field of cash management and corporate banking. Since 1968 Phoenix-Hecht has been known for its insightful study design and focused analysis. Industry benchmarks such as the *Postal Survey*[™], *Check Clearing Study*[™], the *Quality Index*[™] and *The Blue Book of Bank Prices*[™] are hallmarks of Phoenix-Hecht research.

For further information on treasury management issues, visit the award-winning web site:

www.phoenixhecht.com

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