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THE \$5.4 TRILLION CORPORATE CASH CONUNDRUM

Chicago, Illinois, June 15, 2006 – Corporate cash and short-term investments in the U.S. continued to grow in 2006, surging 7.5 percent to \$5.4 trillion.

This \$400 billion increase since 2005 shows that, contrary to conventional wisdom, an accelerating economy and aggressive Fed tightening have done very little to slow the growth of corporate cash. Treasury Strategies announced these and other surprising results today from its annual survey of U.S. corporate liquidity, based on interviews with 650 companies.

Mid-sized companies drove the overall growth in corporate cash levels, accounting for 80 percent of the \$400 billion increase. While large corporations (annual sales of more than \$1 billion) reported 3 percent growth in cash levels, cash at mid-sized companies spiked 11 percent.

Privately held firms were far more likely to see increases in cash than their publicly traded counterparts, though it's the public companies that typically make headlines when their cash levels swell. Privately held companies grew cash and short-term investment balances 10 percent in 2006. Publicly traded companies reported 3 percent growth.

Removing shareholder pressure and some of the regulations facing

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public firms, privately held companies grew cash significantly. This implies other drivers of high cash levels.

65 percent of corporate treasurers told us the build up of cash is resultant of ongoing operations, not more deliberate actions like proceeds from debt issuance or sales of assets. According to Chrystal Pozin, Principal at Treasury Strategies, “this implies operational efficiencies have driven up cash levels, but companies have deliberately chosen not to re-deploy the cash. The big question is why. We originally hypothesized that rising rates and regulatory pressures drove record cash levels, but our research indicates other drivers are at play.”

While economists had predicted that market conditions would drain overall liquidity, that clearly did not happen and will likely not happen in 2006. Only 27 percent of U.S. companies expect their cash levels to fall during the next year. European companies share these expectations; only 20 percent anticipate a decrease in cash levels.

For U.S. companies expecting cash reductions, balance sheet restructuring via debt repayment and share buybacks were given as the primary uses of excess cash. Fewer than 20 percent of treasurers cited capital expenditures as their primary use of cash.

Recent corporate cash behavior defies conventional wisdom. With \$5.4 trillion in play, it is essential that investors, economists and analysts understand the drivers and rationale of this behavior:

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- Why are private companies, which we usually assume are more aligned to shareholder interests, also running excess cash balances?
- If monetary policy is designed to reduce corporate cash and encourage capital investments, why isn't this working?
- What will it take to reduce the \$5.4 trillion in liquidity?

Founded in 1982, Treasury Strategies, Inc. is a client-focused, management consulting firm serving corporations and financial institutions. As a thought leader in treasury, liquidity, payments and working capital management, we develop customized and actionable solutions unparalleled in the marketplace. For more information, please visit www.TreasuryStrategies.com.

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