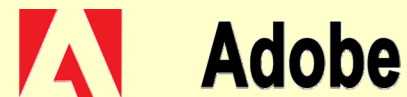


# Managing Treasury in a Fast Growth Environment

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**Tuesday, 10/17/2006, 10:30 a.m. - 12:00 p.m.**

**Barbara Hill, Vice President and Treasurer**  
**Adobe Systems Incorporated**  
[www.adobe.com](http://www.adobe.com)



**Linda Ruiz-Zaiko, President & Founder**  
**Bridgebay Financial, Inc.**  
Investment Consulting Services  
[ruiz-zaiko@bridgebay.com](mailto:ruiz-zaiko@bridgebay.com)  
[www.bridgebay.com](http://www.bridgebay.com)



**Ms. Ronni Horillo, Treasury and Risk Manager**  
**Google, Inc.**  
[www.google.com](http://www.google.com)



**Mr. Richard Caloca, CTP, Assistant Treasurer**  
**Seagate Technology, Inc.**  
[www.seagate.com](http://www.seagate.com)



# Adobe Systems Incorporated

ADBE (NASDAQ)

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- Adobe Systems Incorporated offers creative, business, and mobile software solutions that have revolutionized how the world engages with ideas and information. Adobe customers include enterprises, knowledge workers, creative professionals, graphic and web designers, professional photographers, professional videographers, OEM partners, developers and consumers worldwide
- Founded December 1982 by Charles Geschke and John Warnock, Initial Public Offering August 20, 1986
- Adobe Revenues: US\$1.996 billion (FYE Dec. 2, 2005)
- Approximately 5,678 employees worldwide
- Major products – Adobe Portable Document Format (PDF), Adobe Reader, Adobe Creative Suite (with Adobe Photoshop, Adobe In Design, Adobe Illustrator), Adobe Premiere, Adobe After Effects, Studio 8 (with Macromedia Flash Player, Macromedia Dreamweaver), Adobe Postscript

# Adobe Systems Incorporated

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- Flash® Player and Adobe® Reader® software installed on more than 600 million devices worldwide
- Adobe Reader software in 26 languages on 10 major platforms
- Top 10 PC manufacturers have PDF technology pre-installed
- 10% web content is Adobe Portable Document Format (PDF)
- PDF/Archive and PDF/X have been ratified by international standards bodies
- 1 million designers and developers use Macromedia Flash
- More than 3 million active users of Macromedia Dreamweaver® software
- Adobe® Photoshop® has over 90% of the digital image editing market

# Adobe Systems Incorporated

## Investment Management

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- Over \$2 billion in cash
  - In house liquidity portfolio
  - 4 outside money managers (SEC-registered investment advisors)
    - Backup liquidity portfolio
    - Intermediate duration portfolios
    - Longer term portfolios out to 3.5 years duration
  - Different guidelines and custom benchmarks for each portfolio based on duration target and expertise of money manager
  - Several additional money managers pre-approved for use as cash grows

# Determine Optimal Capital Structure

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- Key drivers of stock price return
  - Optimal cash/debt levels
    - Onshore versus offshore cash
      - Is holding a lot of cash a positive or negative for investors?
  - Volatility of operating results/cash flows
- Accessibility to additional capital
  - Potential use of debt
- Capital structure of peer companies

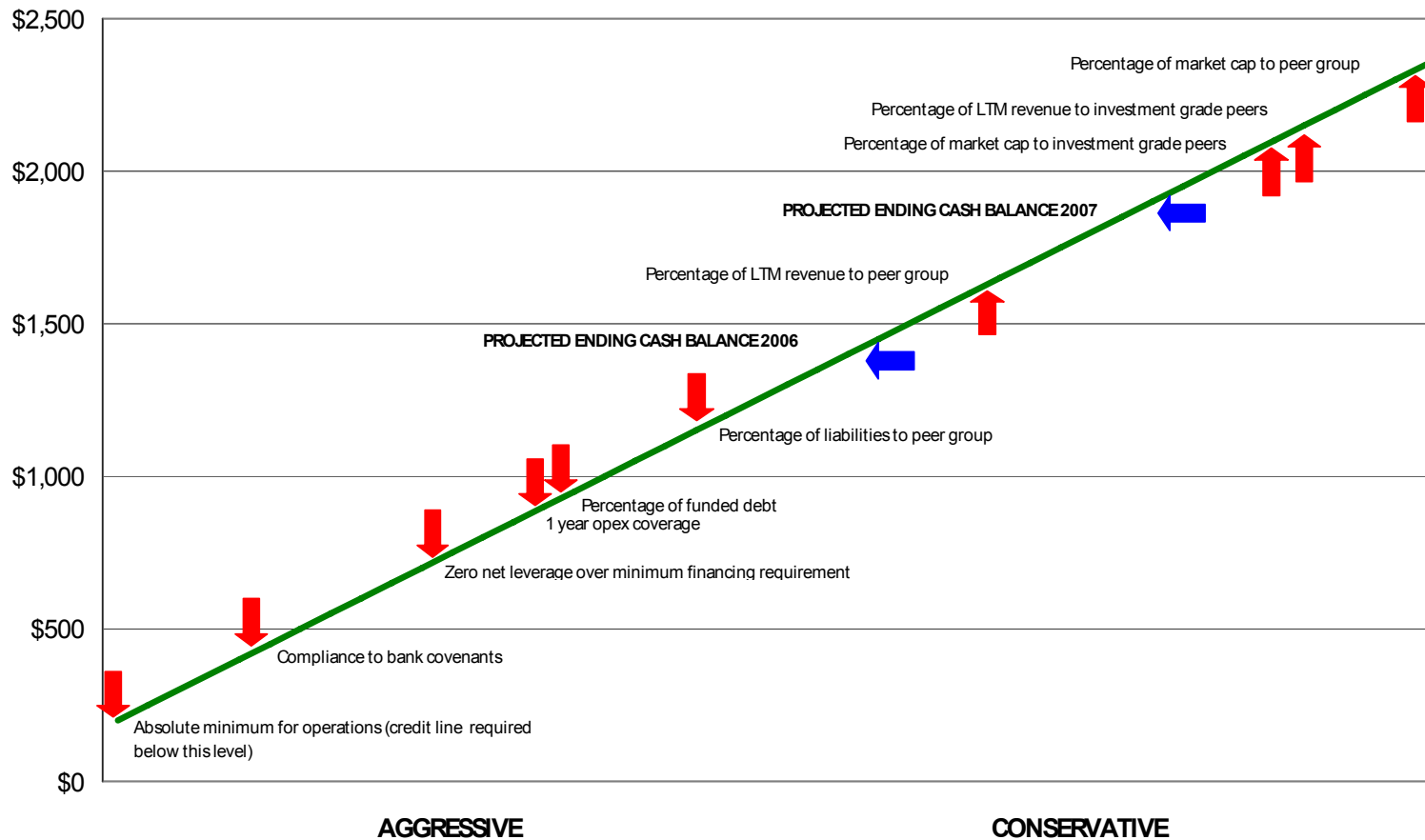
# Understand and Stress Test Liquidity

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- Successful investment management requires intimate knowledge of your cash flows
  - Sudden cash flow requirements can disrupt a well-constructed strategy
    - Lead to unforecasted realized losses
    - Accounting challenges
      - Latest interpretation of SFAS 95 and 115-1
    - Outside managers suboptimal execution
- Develop perfect storm downturn scenarios
  - Develop a minimum cash holding amount – Core cash – to facilitate execution on investment strategy with little disruption
    - Determine where cash will be located – onshore/offshore
    - Understand dividend strategy and implications
- Ratings agency considerations

# Benchmarks for Optimal Cash Levels

Benchmarks for Optimal Cash Levels



# Potential Eligible Domestic Securities

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- ***Tax-Advantaged Securities***
  - Variable Rate Demand Notes
  - Short-Term Notes
  - Tax-Exempt Put Bonds
  - Tax-Exempt Commercial Paper
  - General Obligations
  - Revenue Bonds
  - Pre-Refunded Notes
  - Municipal Bonds Transportation
  - Municipal Housing
  - Industrial Development Bonds
- ***Taxable Securities***
  - Money Market Instruments
  - Repo
  - Treasuries/Agencies
  - Corporate Notes
  - Floating Rate Notes
  - Taxable Municipals
  - Asset Backed Securities
  - Mortgage Backed Securities
  - CMOs
  - Commercial MBS
  - Cash Pay High Yield

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# Eligible Offshore Investments

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- Euro time deposits and CDs
- Euro floating rate notes
- Euro commercial paper
- Euro medium term notes
- Eurobond corporate securities
- Sovereign and supranational notes and bonds
- European Union government-sponsored agencies
- Repos with international counterparties, non-US securities collateral
- Euro Asset-backed securities
- Euro Mortgage-backed securities
- Pfandbriefe
- Pooled reference notes

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# Euro Medium Term Note Market

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- Broad selection of issuers
- USD pay bonds and multi-currency
- Similar to US MTN market but issued in Eurobond market by foreign issuers
  - Often registered in Luxembourg, Cayman, Netherlands
  - Multi-billion shelf registration, issued over time at different maturities, rated by S&P or Moody's
  - Diverse issues with 3-5 year maturities
  - Issuers: corporates, regional banks, local governments, supranationals
- Multiple Currencies: USD, Yen, GBP, EUR, A\$, CAD Dominated by AAA and AA rated issuers

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# Euro-Denominated Investments

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- Issuers
  - European governments and other sovereign issuers
  - Local government agencies, authorities, municipalities, provinces
  - Supranational organizations (World Bank, Asian Development Bank, African Development Bank, IMF, United Nations)
  - European and foreign corporations
  - European Union Government Treasury bills and notes
  - European Union Government sponsored agencies
  - Repurchase agreements
  - Euro commercial paper

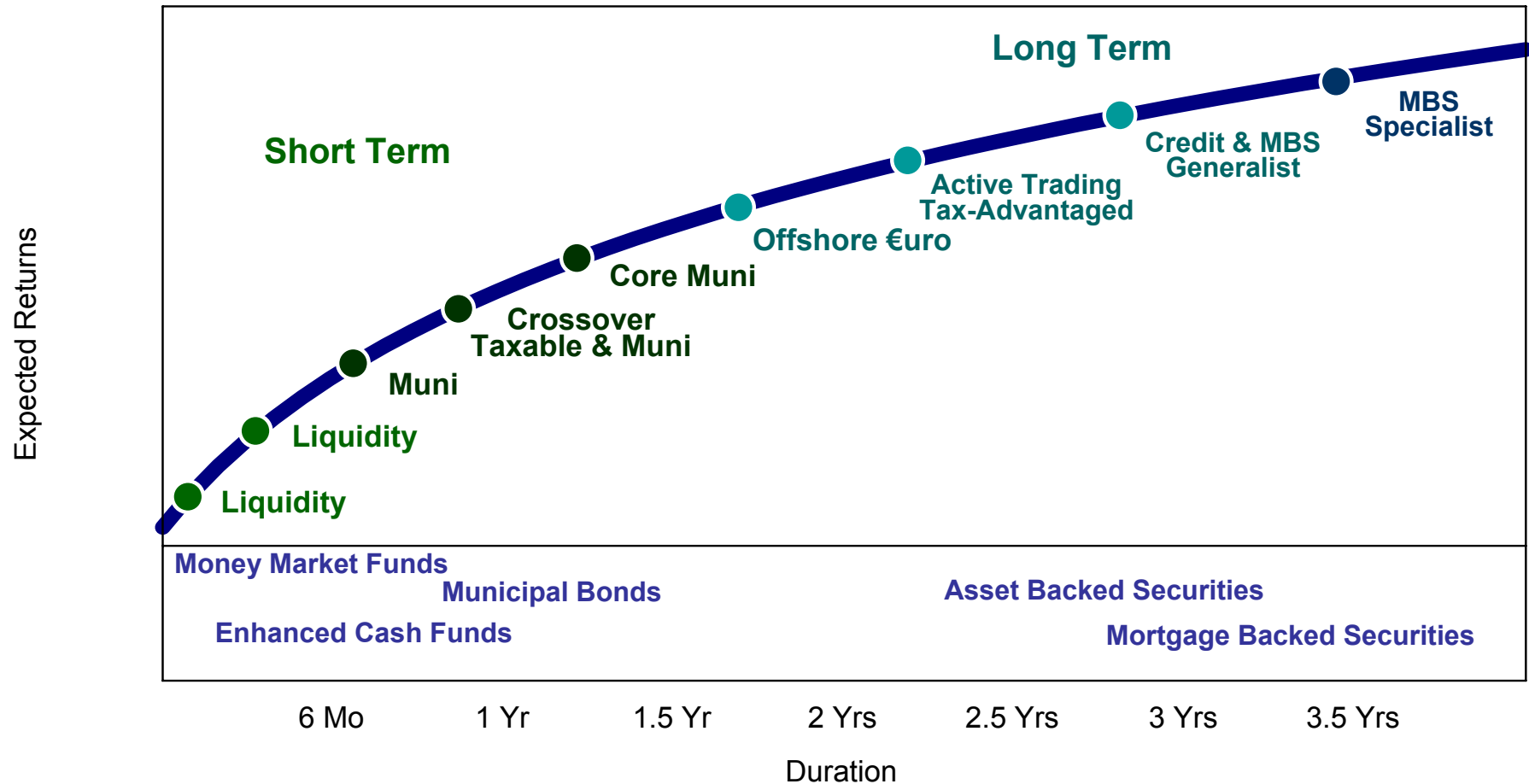
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# Develop a Strategic Investment Plan

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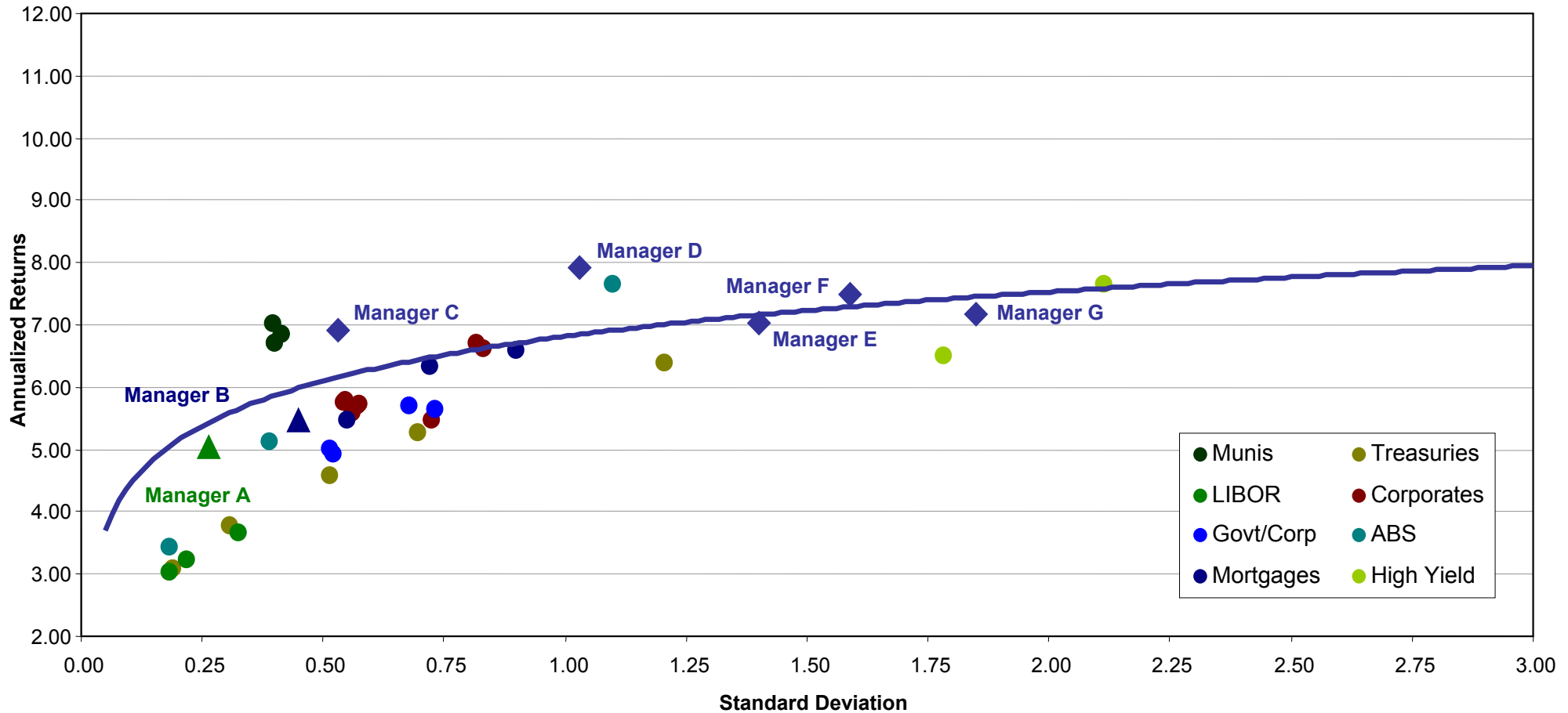
- Design a strategic investment plan for the overall investment structure of domestic and offshore cash
- Layer portfolio to deploy your cash
  - Determine core cash
  - Establish different cash pools based on liquidity and expected cash flows
  - Match debt maturities to fixed income duration as a hedge
- Consider multiple portfolio structure with different risk-return and volatility
  - Develop separate mandates for each cash pool
  - Determine duration, allowable securities, credit quality, structure
- Historical and forward-looking simulations
- Quantify expected range or returns
- Understand the tax consequences of various strategies
  - Tax advantaged strategy treatment of realized gain/loss and offsetting gain/loss can impact actual returns

# Optimal Investment Strategy



# Investment Opportunity Set

Annualized Returns vs. Standard Deviation



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# Understand Your Risk Tolerance

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- To optimize your strategy know:
  - Cash flow risk
  - Interest rate risk
  - Credit risk
- Quantify risk tolerance
  - Volatility analysis
  - Diversification by issuer and sector
  - Minimum credit quality
  - Downside risk
  - Allowable security sectors, complex vs. conventional
  - Loss constraints, unrealized loss tolerance
- Incorporate risk tolerance into guidelines and benchmarks
- Consider risk control techniques

# Design Flexibility into Strategy

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- Develop a strategy that is modular, flexible
  - Ability to expand over time
  - Add more investment disciplines, specialty managers
  - Include different managers with various strengths to adapt to changes in investment needs
    - Liquidity short-term and long term specialists
    - Managers have styles and approaches that permeate the whole organization (ie., aggressive total return, conservative principal preservation, MBS specialty, credit intensive)
    - Few managers excel in all investment approaches



# Managing Treasury in a Fast Growth Environment:

*Investment Company Act of 1940*

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**Ms. Ronni Horillo**

Treasury and Risk Manager

***Google, Inc.***

[www.google.com](http://www.google.com)



# Google, Inc.

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## Ticker: GOOG

- Google's mission is to organize the world's information and make it universally accessible and useful.
- Google's founders Larry Page and Sergey Brin developed a new approach to online search that took root in a Stanford University dorm room and quickly spread to information seekers around the globe.
- Google is now widely recognized as the world's largest search engine -- an easy-to-use free service that usually returns relevant results in a fraction of a second. When you visit [www.google.com](http://www.google.com) or one of the dozens of other Google domains, you'll be able to find information in many different languages; check stock quotes, maps, and news headlines; lookup phonebook listings for every city in the United States; search billions of images and peruse the world's largest archive of Usenet messages -- more than 1 billion posts dating back to 1981.
- We also provide ways to access all this information without making a special trip to the Google homepage. The Google Toolbar enables you to conduct a Google search from anywhere on the web, while the Google Deskbar (beta) puts a Google search box in the Windows taskbar so you can search from any application you're using, without opening a browser. And for those times when you're away from your PC altogether, Google can be used from a number of wireless platforms including WAP and i-mode phones.

# Google, Inc.

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## Ticker: GOOG

- Google's utility and ease of use have made it one of the world's best known brands almost entirely through word of mouth from satisfied users. As a business, Google generates revenue by providing advertisers with the opportunity to deliver measurable, cost-effective online advertising that is relevant to the information displayed on any given page. This makes the advertising useful to you as well as to the advertiser placing it. We believe you should know when someone has paid to put a message in front of you, so we always distinguish ads from the search results or other content on a page. We don't sell placement in the search results themselves, or allow people to pay for a higher ranking there.
- Thousands of advertisers use our **Google AdWords** program to promote their products and services on the web with targeted advertising, and we believe AdWords is the largest program of its kind. In addition, thousands of web site managers take advantage of our **Google AdSense** program to deliver ads relevant to the content on their sites, improving their ability to generate revenue and enhancing the experience for their users.

# Google, Inc.

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## Ticker: GOOG

- To learn more about Google, click on the link at the left for the area that most interests you. Or type what you want to find into our search box and hit enter. Once you do, you'll be on your way to understanding why others say, "[Google is the closest thing the Web has to an ultimate answer machine.](#)"
- **What's a Google?**
  - "Googol" is the mathematical term for a [1 followed by 100 zeros](#). The term was coined by Milton Sirotta, nephew of American mathematician Edward Kasner, and was popularized in the book, "Mathematics and the Imagination" by Kasner and James Newman. Google's play on the term reflects the company's mission to organize the immense amount of information available on the web.

# “Is Google becoming a mutual fund?”

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- Fast growth companies with minimal brick and mortar assets that are strong cash flow generators can be inadvertently trip into the Investment Company Act of 1940
- Press and misinformation about “Is Google becoming a mutual fund?”
  - Totally missed the point and misunderstood the issues encountered by fast growing, cash rich corporations
  - No - Google is not and has no aspirations of becoming a mutual fund
- Google encountered this arcane regulation in 3Q2005 after its secondary offering and cash flows far exceeded all forecasts
- Google’s phenomenal growth has caused it to face issues within compressed time periods that most corporations don’t encounter in over a decade

## Other Corporations that have Encountered the Investment Company Act 1940

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***Typically, biotech, high tech, and software companies that are cash rich but have relatively few other balance sheet assets encounter this definition.***

- Microsoft
- Adobe Systems Incorporated
- Yahoo! Inc.
- Gilead Sciences, Inc.
- McAfee, Inc.
- Symantec
- ICOS

# Investment Company Act of 1940

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- Investment Company Act passed by Congress in 1940 because
  - Investment trust abuses
  - Existing federal security laws insufficient
- Intent
  - Close a loop hole
  - Establish a standard to separate *investment companies* from operating companies
  - Implement regulatory oversight by the SEC
  - Impose disclosure requirements, prohibitions
  - Clarify criteria for organizing and operating investment companies

# 1940 Act Provisions

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Compliance with the provisions of the 1940 Act are burdensome for industrial or operating businesses and were not intended to address high operating cash balances of a company.

Investment companies are subject to:

- Custodial requirements for holding assets
- Restrictions on transactions with affiliates
- Restrictions on the granting of stock options
- Required to have at least 60% independent directors
- Various limitations on capital structures and investment policies



# Investment Company Definition

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Section 3(a)(1) of the 1940 Act defines an “investment company” as any issuer which:

- (1)** is, or holds itself out as being engaged primarily in the business of investing, reinvesting, or trading in securities;
- (2)** is engaged in the business of issuing face-amount certificates of the installment type or
- (3)** is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities, and owns or proposes to acquire Investment Securities having a value exceeding 40 percent of such issuer’s total assets (exclusive of Government Securities and Cash Items) on an unconsolidated basis.

# Investment Company - Not

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- To fall outside of the definition of an investment company under Section 3(a)(1)(A), a Company must be able to conclude that it:
  - is not **engaged primarily** in,
  - does not **hold itself out** as being engaged primarily in, or
  - does not **propose** to engage primarily in the business of investing, reinvesting or trading in Securities
- Whether an issuer “is” engaged primarily in the business of investing, reinvesting or trading in Securities depends on facts surrounding the issuer’s business activities
- Whether an issuer “holds itself out” as being or “proposes” to engage primarily in such business is a subjective determination which depends on the issuer’s intent

## Section 3(a)(1)(C) of 1940 Act

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Section 3(a)(1)(C) of the '40 Act defines “investment company”:

- 1) Engaged in the business of investing, reinvesting, owning, holding or trading securities
- 2) Owns investment securities >40% of its total assets on an unconsolidated basis:

Investment Securities

>40%

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Total Assets – (Cash + Government Securities)

# What's counted – What's not

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## Excluded Investment Securities:

- Government Securities (only U.S. Governments and Agency securities),
- Securities issued by majority-owned subsidiaries which are not investment companies
- Highly rated money market funds

## Included:

- The 1940 Act broadly defines Investment Securities to include almost every other financial asset.

# Managing Treasury in a Fast Growth Environment

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**Mr. Richard Caloca, CTP**

Assistant Treasurer

***Seagate Technology, Inc.***

[www.seagate.com](http://www.seagate.com)



# Seagate Technology, Inc.

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- Founded in 1979, first company to build 5.25-inch hard disc drives for PC
- World's largest manufacturer of disc drives
- Market leader with products in 1-inch, 2.5-inch and 3.5-inch form factors in internal and external formats.
- Capacities ranging from 2.5 gigabytes to 500 gigabytes
- Includes products for desktops market, consumer electronics devices (handheld to in-home audio/video), pocket and portable storage, notebook computers and enterprise-class network servers.
- Magnetic recording heads and rotating media are critical enabling technologies for advanced storage devices
- Seagate supplies the vast majority of its own components internally.
- Seagate's recording head operations manufactures advanced read/write heads for disc drives and tape drives, and is recognized as the world's highest volume manufacturer of magnetic recording heads.

# Company Milestones

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- May 2006 Seagate acquires Maxtor Corporation
- January 2006 [Named Forbes Magazine 2006 Company of the Year](#)
- October 2005 [New LG High Definition Plasma TV Has Built-In Seagate Hard Drive](#)
- September 2005 Seagate acquires Mirra Inc
- August 2005 Seagate wins “Company of the Year” and “Best Product Innovation” ARC Awards from VarBusiness Magazine
- July 2005 Seagate ships quarterly record 27.3 million hard disc drives
- June 2005 First perpendicular recording 2,5-inch drive, and first drive with Full Disc Encryption data security

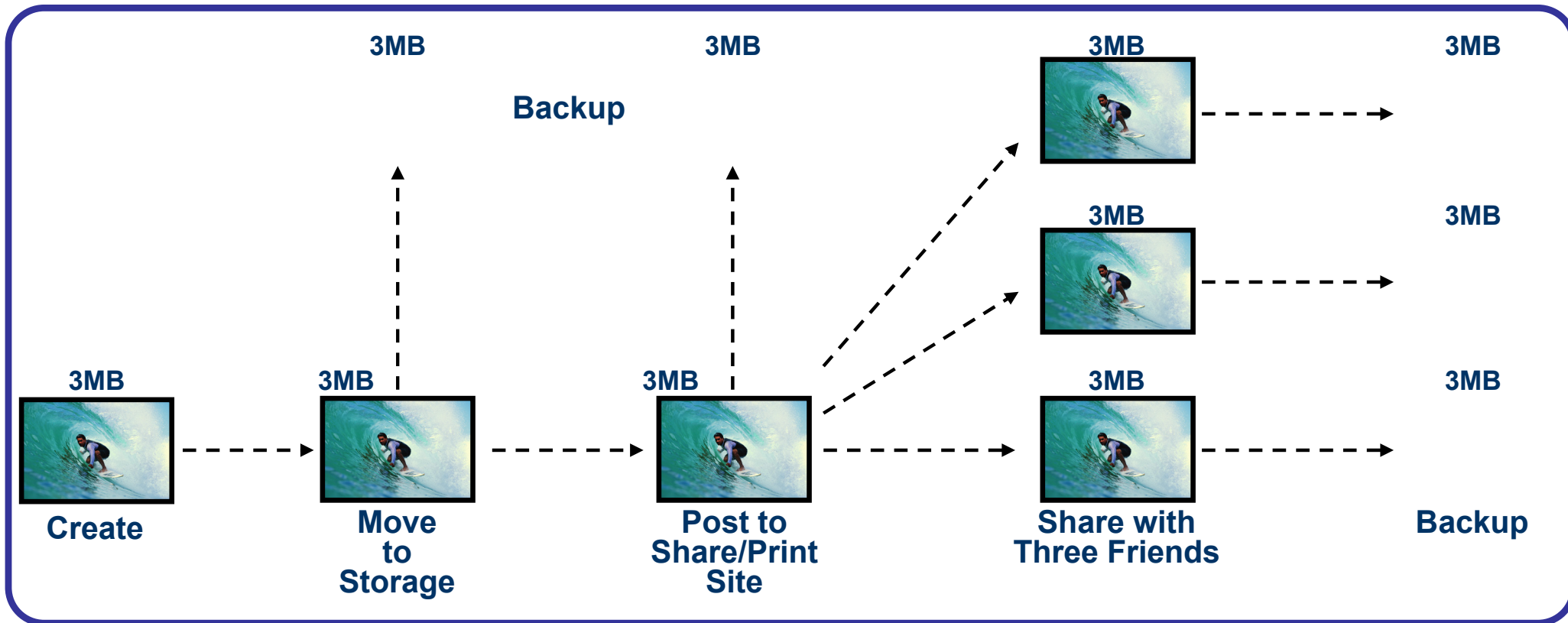
# Seagate Technology

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- The leading hard disc drive maker
- Revenue growth of almost 100% over the past three years
- Maxtor acquisition
- Public – Private - Public
- Named “Company of the Year” by Forbes



# The Life of a Digital Photo



**36MB from one image**

# Seagate Technology

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- 13 people
- FX – THB, SGD, GBP
- Investments – over \$2.0B, in-house
- Credit – globally centralized
- Real Estate – globally centralized
- Capital markets – \$2.5B debt
- Stock repurchase
- Risk management – ERM
- Cash and banking – 150 bank accounts over 50 divisions

# Seagate Technology

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- Treasury workstation
  - FX
  - Investments
  - Manual payments
  - Bank polling
- Leverage ERP
- Shared service center
- Look into outsourcing investment management
  - Reporting and compliance
- Global real estate partner

# Seagate – Global Financial Services

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- Located in Thailand
- Over 50 people
  - AP
  - AR
  - Billing
  - Other accounting functions

# Seagate – Growth Challenges

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- Personnel challenge
  - Difficult to find time for transforming change
  - Process managers vs transaction processors
- Build scalable processes now
  - Think across departmental lines
- SOX and other controls