Stanford eCorner

To Hedge or Not to Hedge?

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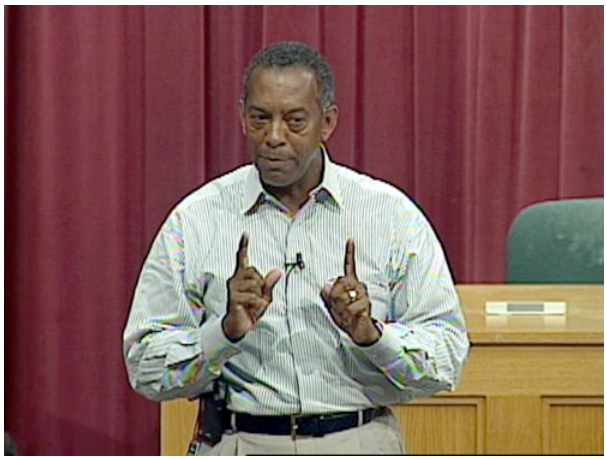
We don't use hedging, says Thompson. We have a typical planning process; we assume when we exit a quarter that the dollar will be same in the next quarter, he adds.



Transcript

On the first question regarding hedging, we don't use hedging for operational results. We think you run the risk whatever the dollar is or isn't in a give quarter and you try to plan for that. Our typical planning process would suggest that as we exit a quarter, we assume the dollar will be the same in the next quarter. So as we exit at the March quarter more recently, our assumptions about the exchange rate would be that they would be constant from quarter to quarter. What has happened this quarter, at least at this moment in time is the dollar is a bit weaker than it was as we started the quarter, hence we'll get some buoyancy, if you will, to our revenue forecast, assuming the dollar stays at the same rate that it is at this moment. So we don't hedge operational results. We do occasionally consider hedges on currencies or inventories that we might have in other countries, but that's a very, very small part of the overall financial profile. In the security space, there are problems that have not been solved yet that must be solved, and I'll give you a couple of examples. If you assume that the statistics are correct about how many active users there are on the web and you can pick the number, but it's somewhere between 300 million and 400 million. So on any given day, actively around the world, there are 300 million and 400 million banging away at the World Wide Web, trying to gain access to information, whatever the case may be.

The security technologies that we deploy today by and large assume the pre-occurrence of a problem before you can solve them a second time. It's a little bit like the flu. Once a new strain of the flu is detected, you analyze the strain and create a cure and hence, you can inoculate people from future occurrence, if you will, of that strain of the flu. Well, that's the same thing for antivirus. It's similar for firewall breaches. It's similar for hacker attacks. So imagine now a web environment where it's not 300 to 400 million people on it but it's a billion people on it. There are two billion people on it. You can't use the same technology approach of I have a problem, I wait to analyze it and then I inoculate the world. You have to have technologies that are more predictive in the way they operate then reactive in the way they operate.

So a lot of what we're doing in our own labs and what we're doing with government and research organizations are thinking about the proactive or predictive technologies that will be required in a web environment where there are billions of people on it and the proliferation of a problem occurs instantaneously, not in a wave effect, if you will, around the world like let's say Nimda did or Code Red or some of the more CIRCAMS, some of the ones that people probably heard about.