

Dean's Executive Leadership Series - 2009-2010

Transcript of Presentation with John Coyne, president and CEO of Western Digital

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Start

Man 1: The Graziadio School of Business and Management at Pepperdine University proudly presents the Dean's Executive Leadership Series. This podcast invites top business practitioners and thought leaders to share their views on the real world of business.

Dean Linda Livingstone: It is so good to have you with us and we welcome you to our Dean's Executive Leadership series here in Orange County. We started, I think, about three years ago bringing some of these events down here because we have such a wonderful alumni base so we appreciate you coming out and being a part of this. I know you're going to learn a lot from our speaker and it's going to be a wonderful evening. I already had a fabulous time meeting so many of you and catching up on what you're doing. I do want to mention several things that are going on in the school and update you on some of the exciting new plans that we're working on, but before I do that I want to introduce Faye McClure who is with us. Faye is on our board of visitors and Faye is with Farmers Insurance group and she and Farmers are our gracious sponsors for the Dean's Executive Leadership series. This is the third year now that they have been doing that and we so appreciate it. It makes this series possible and allows us to bring in wonderful speakers and to host events like this this evening. We also have another one of our board of visitors here, Bill MacDonald. Where is Bill? There you are, Bill, so we appreciate you coming and joining us, and a very special treat tonight. We actually have one of the university board of regents with us, Joe Rokus. So you guys have got to really act really good tonight and impress him with our alumni of the Graziadio School. Just a couple of things that are going on in the school that are very new that we are just beginning to roll out, but that are important parts of our strategic plan that we're calling Distinctive Leadership 2015. One of our initiatives in that is to really enhance the learning process for our students and so a key initiative in that is to create a Center for Teaching and Learning Excellence. At the

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core of what we do we believe is doing an effective job of creating a rich learning experience for our students and in particular doing it for working professionals. And so our Center for Teaching and Learning Excellence will really build on the rich history that we have in doing that and really help our faculty getting more effective and really help others at other institutions to be effective at providing education to individuals like you. And so, Dr. Charla Griffy- Brown has just been identified as the director of that center and so we're really looking forward to some new initiatives coming out of that over the next several years as part of our strategic plan. And also as a part of that we are also rolling out our Center for Applied Research and that center will really help us focus on the type of research our faculty do that's applied to business that is very relevant to you in the business community, while also helping build our academic reputation. So we'll soon be making an announcement about the director of that center, and that is also an initiative as part of our strategic plan so we're really excited about the work we're doing there and the impact it's going to have, not only on our students but on our reputation as a school and on the influence we're having in the business community and in the academic community, not just here in southern California but certainly across the country and around the world. We this past year rolled out a new curriculum in our entrepreneurship program and I don't know if we have any students here that are a part of that, but we're really excited about that because entrepreneurship is such a core part of who we are at Pepperdine, having been founded as a university by an entrepreneur and then certainly the business school is named for a very successful entrepreneur, George Graziadio, and we have with us John Shearer and John, is our entrepreneur in residence and he is a technology transfer expert, and so he is working with our faculty and our students to help them really build strong and effective value- driven business plans and then helping them bring in the technology that will help them solve the problems that they want to with the businesses that they're developing. So John is from down here in this part of the world although we make him go to Malibu an awful lot to help us develop that program so you need to get to know him if you have entrepreneurial interest, if you're an entrepreneur. He's really doing wonderful things for us and we look forward to him continuing to be a part of that program in the years ahead. One of the things we're very proud of are our Graziadio Alumni Network local chapters and we have a very strong chapter here in Orange County. Jeff Rozic is here and he chairs that chapter, and so if you're not involved in what they're doing get to know Jeff, learn about the events and programs that they have coming up. It really helps us enrich the experience that you have and gives you opportunities beyond a speaker series like this to be engaged with us from an alumni networking perspective. I want to make one last announcement and then I will introduce our special guest this evening. This Dean's Executive Leadership series sort of travels around. We've had several events in central Los Angeles. We've come to Orange County. Next week we're actually in Malibu so we're going to hit the north and the south parts of Southern California with Leslie Margolin who is the President of Anthem Blue Cross, quite an interesting time to have her with us. I'm not sure she would have agreed to this if she had known what timing it was going to be with some of the challenges that they're facing, but clearly healthcare is such a huge issue right now so we're really pleased that she's going to be there and speak to some of the issues and challenges that they're facing. So if you can make it to Malibu we'd love for you to do that or certainly tell

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folks you know up on the north side of the area to join us for that. We then go to northern California for our last two events so it's a fabulous series this year and our speaker tonight just reinforces the quality of speakers, represents this series so well, so I would like to introduce now to you John Coyne who is the Chief Executive Officer of Western Digital. He has a wonderful background. He's been with the company for 26 years in two different stints, has been CEO since 2007. He is from Ireland so you will enjoy getting to hear about that. He's had a tremendous amount of international experience in Ireland, in Asia, in Malaysia and Thailand. We were fortunate to have him come to us through one of our alums, Arif Shakeel. You've got to stand up, Arif, please. Arif was his predecessor at Western Digital and we actually honored Arif about a year or so ago as a distinguished alum and he was very gracious to, I think, kind of twist John's arm and get him to come speak to us because he's not one that does a lot of this. He's much more focused on what the company's doing and making it successful, which they're doing very, very well right now. So please join me in welcoming John Coyne.

John Coyne: Thank you, Linda, and good evening and thank you, everyone, for coming. I should probably spank rather than thank my friend and mentor, Arif, who did indeed drag me into this speaking engagement tonight. He passed the baton as CEO three years ago but he still gives me assignments on a regular basis so I've been asked to talk this evening about almost four decades of experience in business and how that cumulative experience has influenced my leadership style and my professional success as well as how the nature of the companies I've worked for have influenced me in that journey. And at the risk of boring you, I need to start early in life in my native Ireland with some of the strong influences and formative experiences from that time. The first of those was my father who — he went to work at age 14, when his father died, to support the family. He started work as a mail clerk in the civil service, in the postal service, in Ireland, and he finished out his career as an assistant secretary in the post and telegraph department so significant progress over his lifetime. And he gave me the opportunity, in fact insisted on the opportunity, of putting me through college and I graduated as a mechanical engineer out of University College Dublin in 1971. Like many lads in Ireland at that time I was heavily influenced by my father's interest in motor sport and a particular branch of motor sport, rally racing as it's called here in America, but was not very popular in the U.S., but extremely popular in Ireland and in Europe in general. And as soon as I was legally able to hold a driving license I was participating in that branch of motor sport and did so for the following 15 years and during that time was national champion and won an international championship in Western Europe, so I'm pretty serious about that sport. And the sport consists of two people in a car, which is unusual for automotive speed endeavors, two people working together, typically driving over a course from 10 to 15 miles in length on remote public roads that are closed for the event but driving over at road speeds beforehand, making copious notes about speed, distance, surfaces and so on, and then in the actual competition being timed to a tenth of a second. At one-minute intervals the competitors are let out onto the course and the co-driver reads back the pace notes that we've made previously and the driver uses that input and the visual stimulus of what you see

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attempts to go faster than everybody else. So it's a very intimate team sport—highly competitive but not to the same extent as the typical U.S. racing sport where you can see the competition all the time. You have started a minute ahead of somebody and a minute behind somebody else and you'll only know how they've done when you get to the end of the 15 or 20 miles and then you'll go to the next place and do another 15 or 20 miles. And so you have to react to the unexpected, have to react to changes in weather, changes in road surface—and then you get regular updates of data, how your competitors are doing after each stage, your team—your broader team in terms of the preparation and service of the vehicle during the event, which in those days was—the major events were two- to three-day events. And the really big event was a five- day event, which included one 24-hour stint with only 30-minute stops for food and service, no sleep, probably wouldn't pass the safety legislation these days, but that whole environment in the first 15 years of my professional life, it was half-time professional business and half-time semi-professional rallying—taught me a lot of my style of how I address the business challenges. In both business and rallying, teamwork is a very critical element; high levels of trust within the team are a very critical element. You cannot always see what your competitors are doing. You get regular pulsing of what they've accomplished, but you don't see in real time what their strategies are and what their level of performance may be. You have to interpolate and interpret the data and alert responses and the ability to change very rapidly to changing stimulus and changing data is absolutely critical to success. And so, those tools of acceleration and braking and steering have become a key part of my leadership style in addressing business. If I then look at the other half of those formative years, in terms of the actual work I was doing to generate the income to support my rallying addiction, there's not a lot of money in the sport and the level of commitment—you can probably judge from the fact that in the year in which we won the national championship, I spent the equivalent of my total salary for that year supporting my habit and we beat out for the championship a professionally sponsored team that spent six times what we spent for the year. So when I left college, I left Ireland, went to England to a large general engineering company that was involved in automotive component manufacture, and in that two years that I spent there as a development engineer the primary learning opportunity was the fact that I—to access the equipment for development I had to work the night shift a lot of the time. I was working with craft workers, very experienced tool setters, machine operators in the shop floor—folks that we have in our businesses, which taught me that there is a huge cumulative experience and knowledge and a lot of intuition that can put the book learning to shame. And so it's extremely important to tap into that component of knowledge and capability in running any business. I then moved back to Ireland and worked for GE, managing 101 people, training 101, in an excellent, highly competitive environment. They hire three junior people for every promotional slot and they compete vigorously with very good training opportunities, compete those people vigorously and one will get promoted in the company, one will leave the company for an equivalent promotional opportunity elsewhere, and one will typically languish. Luckily, I was one who, having moved through engineering roles and then management of tens of technical people to management of hundreds of operations people, after five years took a promotional slot from manager to director level in Emerson Electric, another large U.S.- based conglomerate, multi-billion dollar company,

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and in Emerson the learning was different. Emerson was a very structured, disciplined, budget-driven company. The goal was 15 percent annual revenue growth profitably and every year you prepared your ABC budget and if you were making your 15% that was fine; you continued on plan A. If you were at 10 percent, you immediately implemented plan B, and if you were below 10—below five percent you had to implement plan C, which allowed a lot of slashing and burning involved, so that was the discipline on a corporate-wide basis. That tended to very significantly constrain freedom of action from individual subsidiaries and demand success so that was my first 12 years of experience, and at the end of that period with Emerson I was running a factory in Ireland with about 600 people for a multi-billion dollar corporation. Along came Western Digital. They wanted a factory established in Cork in Ireland, which is where I happened to be at the time, scrappy little company, about \$75 million in revenues, just out of chapter 11, full of vim and vigor and vision for the future, and I listened to the whole schpiel and I decided it was worth a trip to the U.S. The headquarters were right across this 405 from here, what is now the Entrepreneur Building, and of course, when I arrived in the parking lot and saw the Ferrari and the Porsche and the Corvette, I knew I was home so I signed up. Three years later, having built up our operation in Ireland, I came over here to the U.S. and worked here. It was an amazing experience. Here was a local California company with big ideas that wanted to be global. An example of our global thinking at the time: I got a phone call at 3 a.m. with a question from somebody here while I was in Ireland. Three o'clock the phone rings; I wake up; there's a question—what about this, this and this? So I said I didn't have the information at hand but I would get it as soon as I possibly could and I'd return the call so what was his home number just in case I needed to get him outside of business hours. Of course, I already knew the answer to the question but I waited until it was 3 a.m. California time the following day. I called back. The phone was answered by the wife. She was not pleased. I get the guy on the phone. I give him the information. He rips me a new one as to why I was calling in the middle of the night—did I not realize what time it was? I explained that I realized exactly what time it was, which was exactly the same time he had called me, and because he had called me at that time I assumed that the desire for the information was extremely urgent and since I had just gotten the information together I felt despite the hour I should call him immediately. We had no more problems on global communication. So in the early '90s I actually left the company and I went back to Europe into an opportunity running a contract manufacturing services company, being responsible for the total European activities of that company, which added sales, marketing, business development, and finance responsibility to my existing portfolio of operations and engineering experiences. But, like a lot of green hills, it wasn't quite as green as I thought it was when I left WD and I missed the WD culture of big dreams delivered by a team of highly collaborative, highly interactive, very apolitical, very transparent, team structures. And so I returned in 1996 and set off for Asia to run our Asian manufacturing operations and I lived out there for nine years running operations in Singapore, Malaysia, and Thailand. And finally Arif decided that he could see an opportunity to retire and continue to have somebody else do the heavy lifting, and so he persuaded me to come back as part of our succession planning. I came back in 2005 as COO and subsequently took over as CEO in 2007, and I think that says a lot about the company. Arif's predecessor, Matt Massengill, had joined the company

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Graziadio School of Business and Management

about the same time as we did in the early '80s, had left for a few years and come back just as Arif did, just as I did, and had been CEO with Arif as COO with a planned transition. And then we had the subsequent transition of me, very smooth, all the while refining on a core business culture and a core business plan that has been consistent for close to 20 years. So what has this whole life experience taught me about human nature and motivation and leadership? I think the most fundamental thing is that, no matter what the culture I've worked in across the world, whether it's Ireland, England, as a Dublin man from southern Ireland, the Republic of Ireland, I spent four years operating a plant in a Protestant area of Northern Ireland, living there, right, in the height of the troubles, and so I've had pretty wide experience of very diverse cultures—the most diverse being in my own country with the two sides of the equation, but at the bottom of it all, people seek out sincerity and consistency and commitment. It doesn't matter what the peripheral cultural issues are. They will find a fake in no time, and so building trust with people is absolutely critical to being an accepted leader and getting your ideas adopted and being able to liberate and develop their ideas. So the first thing that I learned was that it's got to be for real and you've got to actually enjoy what you're doing, be committed to the overall business outcome that you're seeking, and the folks will pick up on that really quickly and they'll follow you through hell and back if they believe you're content, competent, and committed to an outcome. The second thing is that leading individuals and teams to continually higher performance levels, setting aggressive goals that have previously been thought unachievable, and then creating the environment to go achieve them. If you set your goals too low, people's performance just deteriorates and they lose respect and they don't follow anymore. Of course, if you set them way too high, then they get discouraged and they also turn off, so developing a knack of setting goals in a band that is highly challenging but just achievable and then repeating often is a critical element of success. The other thing that I've discovered in my own career has been that focusing on doing the job you've currently been given to do and doing it to the best of your ability while ensuring that you understand the context in which that job contributes to the overall business is the surest way to achieve consistent and rapid promotion. I've seen way too many people who think that career progression is all about them mapping out a career plan and then telling their boss it's time to promote them now because their career plan demands it. The real thing is doing the assignment you've been given to a spectacularly successful level and allowing the business to find an opportunity to put you to work in a more productive way. So as I've worked my way through this last 40 years almost, refined my thinking about the culture of success in a competitive environment into a value set that in Western Digital we call PAPPIL. The choice of that acronym was a little bit influenced by the very paternalistic type environment in Asia so that that word would be very memorable, and PAPPIL stands for passion, action, productivity, perseverance, innovation, and integrity, and they're the values that have driven the success of WD over the years: Having a passion for what you do; actually wanting to go to work in the morning when you get up because you get a blast out of doing it every day; don't over-think things to death; take action to address the opportunities that present themselves and aggressively push for solutions, and of course not everything's going to go your way all the time so you got to be— have perseverance when things are against you. And then we always seek to refine what we do and have everybody be very productive, very

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Graziadio School of Business and Management

efficient, and that applies to both effective planning and effective execution, looking for new ways to do things all the time—that's the innovation piece, whether it be products, processes, people—and above all, acting with integrity, being open and direct with our people. I think WD, in my experience and in certainly a lot of feedback I get from colleagues outside in the industry, is that our level of openness and transparency and communication throughout the company of what we are trying to do, how we're trying to do it, what the current status is, and what remains to be done is probably open to a fault. We rely very heavily on our people's understanding of the need for discretion in keeping the company secrets secret but in knowing all of the company secrets, and that stands in our stead. We also seek to have our people treat each other and everybody they interface with respect. An example of PAPP II reaching for big goals and not giving up: When I was in Ireland in the—establishing the operations in the mid '80s, in the UK, Margaret Thatcher was in her second period as the leader of the English Parliament and she was pushing a privatization agenda and a union-busting agenda, which created an environment, a very unsettled labor environment, throughout the country. And during that period, Lord King who was the chairman of British Airways was—in line with that policy—was trying to privatize British Airways. During that process, there were many strikes. One of those strikes was a freight-handling logistics center at Heathrow Airport in London, which just happened to have some critical components for us to close the quarter locked up in this warehouse, which had all of the employees outside the warehouse with their "Strike On Here" signs. And so my materials and logistics manager came and told me that we couldn't get the parts and here was the implication—that we were going to miss this amount of shipments and so on and that he'd tried all forwarding people and he actually called directly to British Airways and of course there was a strike; nothing could be done. So I called my secretary and I asked her to get Lord King on the phone. Now I was currently managing director of Western Digital, Ireland. This was at that time 150 people in Cork in Ireland and we were probably .00001% of BA's freight movement. Give the girl her due. She did get Lord King on the phone, much to my surprise, not a flunky but the man himself, so I explained that I was a customer and I needed his help and I identified the particular package and the part—the freight waybill number and requested his help in getting this critical components to me the next day. And sure enough, a British Airways executive got on the line. They were still flying their passenger flights and carried the thing to Cork Airport and handed over the package and we met our commitments to the company and shipped our product on time for the quarter. And I got a tremendous amount of pleasure out of passing my materials director's office a couple of months later and overhearing him on the phone saying, "My name is John Coyne. I'm managing director of Western Digital Ireland," and he was talking to some senior person at some other company that needed to service our business. And of course the reason we managed to get that attention from British Airways is probably I was probably the only guy who actually called Lord King 'cause all the other people thought it couldn't be done, and this is part of the passion piece that we build into our people's expectations and the perseverance element. You do what it takes to overcome the challenges that prevent you from capturing the opportunities.

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Now I'll tell you a little bit about where Western Digital is and our industry and how that culture has driven our success. So the drive industry—the hard-drive industry today has grown from \$20 billion in the year 2000 to \$30 billion in the year 2009. That's a seven percent annualized growth rate and growth stalled a little bit at the end of '08, the beginning of '09 but has now resumed and, in fact, the industry last quarter shipped the highest number of hard drives ever in the history of the industry. It's a highly competitive market. In 2000 there were 10 significant hard drive companies in the business. Today there are five. Our business culture and the can-do culture of WD has enabled us since 2000 to today to capture two-thirds of the total growth of the industry, growing our business from 10 percent market share to 30 percent market share. That maps out to a 22 percent annualized revenue growth rate over the 10-year period and we even grew four percent last year when the rest of the industry shrank by four percent due to the recession, thankfully short lived in our industry, and we accomplished all that with consistent profitability, a unique achievement for any of the 10 companies that were participating in the industry. We're now about \$10 billion in annual revenue. We plan to continue to grow in the mid-teens at about twice the growth rate of the underlying industry with a gross margin model that's in the 12 to 23 percent range, an operating expense model—highly leveraged operating expense model of eight to nine percent, and so that maps down to a nine to 13 percent net income model that we've been consistently operating now for at least the last five years. And how have we achieved that? First is a passionate focus on cost leadership. Ours is a semi-commodity business and low- cost leadership is essential to freedom of action in addressing the markets. Superior product quality, excellence in supply-chain management, and creatively lean operations enable that low-cost achievement. Second fundamental focus point is speed and agility, back to our rallying model. High asset velocity is a significant competitive advantage not only for the financial benefits it brings but for the number of cycles of learning that we get by outperforming the rest of the industry by about 50 percent on asset velocity. We learn much more quickly and adapt more quickly to circumstances and implement improved process faster than our competitors. The third element of success is focusing on customer need and fulfilling your customers' requirements on—both for availability, product breadth and technology, so we pay a lot of attention to that also. The company has a hard-driving culture. We like to succeed, we like to set large goals, and we're in a wonderful business that is benefiting from the increasing generation of digital content in the world around us and the creation and consumption of that content. Every one of you in this room, I would bet, is helping the success of our business, every photo you take, every song you download, every video you download, every home video you create. It's going to be stored on multiple hard drives. Thank you. The amount of data generated and stored will increase fivefold between 2008 and 2012 and that's during a global recession. Already driven by the huge explosion in mobile devices and social media, individually created content already exceeds the amount of professionally generated content of video, TV, and movies. Personally generated content of movies and video clips and still images with all the mobile devices we all carry every day has now outstripped the whole professional industry combined. And the digitization of our lives, whether it be our business lives, our educational lives, or our entertainment, has turned what was a relatively sluggish commodity business into a high- growth, highly continuing competitive commodity business, but it's a

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high-technology one. For 50 years now we've been increasing the areal density of our products—an areal density is the amount of data that you can store on a square inch of media surface—at 40 percent per year. That's running the same as Moore's Law, which is the semiconductor line with reductions. It's a true nanotechnology industry. We measure things in billionths of an inch. The magnetic head that writes onto the rotating magnetic disk within a hard drive which you carry around in your laptop and you drop it and you do all sorts of nasty things to it, that's the equivalent to a 747 flying along the runway with only the width of a human hair between it and the runway. And the head in a drive flies at 100 miles an hour over the disk and it does it day in, day out for five plus years at a spacing that is less than the line widths that Intel put in to the processors in a highly controlled static environment in their factories. So this is just mind-boggling technology that all ends up in your pocket for 50 or 100 bucks. To maintain that technology we currently invest about \$1.4 billion a year, half of it in R&D and half of it in capital to support both the technology and the volume requirements of the business. We employ hundreds of PhDs. About 10 percent of our U.S. work force are PhDs and our U.S. work force is about 3.5 thousand people out of the 55,000 people that we have worldwide, but it's also a high-volume commodity. The industry is one of the highest volume industries in the world today. The highest is cell phones. We ship about two billion cell phones a year, hard disks ship 600 million devices a year, PCs are 300 million, televisions 200 million, so a pretty significant scale of things. Last quarter WD shipped just shy of 50 million units. That's over half a million drives a day manufactured in our facilities. I mentioned speed and agility. Happily, because of the way we've approached the business and because of the opportunities in that business, we've been driving with the gas pedal to the floor for about eight years now with just a short lift accompanied by a very sharp application of the brakes in November 2008 through March of 2009 where we saw an abyss opening with all of the financial meltdown that caused us to resize the business by 30 percent, thinking that there would be a sustained low in demand for our products. In fact, what has surprised us is the stickiness of the lifestyle requirements that have emerged around the whole digital content environment. So, in fact, once the inventory was shook out of the business, demand came roaring back. In fact, demand had never gone away. We had just been so busy taking inventory out of the system, fearful of a lack of demand and all of our customers and all of our suppliers were busy doing the same thing, that after a few months had passed, we suddenly realized that the demand was still there. And so it appears that the changes in lifestyle and our dependence on digital technology is so deep today that the priorities of purchases have significantly raised in relation to the whole communications and digital storage environment—fantastic news. So having braked rapidly as we saw the danger, again we think we saw the opportunity to get back on the accelerator a little earlier than competition and so, while in the 10 years from 2000 through 2009 we captured two-thirds of the total industry growth, in the past six months we have captured about 75 percent of it. And that's the speed and agility focus of the business—being able to look at the data, analyze the data quickly, and then go straight to the action piece and start to implement. It is a truly global company and we have sales and marketing operations in every one of the 24 time zones. We have very diverse cultures with people spread around the world, over 50,000 employees, the majority of those in Asia, but with over 50,000 employees in Asia we have less than 10

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full-time expats and most of those are technical experts. We seek out local competence in terms of the senior leadership of our operations overseas and seek to have those people who are familiar with local customs and requirements lead the businesses there. I guess the fact that within the company there's broad opportunity for talent is exhibited by Arif's term in the CEO chair, my stint in the CEO chair. Our CFO started as financial controller with me in Ireland in 1983 so we're—we are truly a global company that seeks out talent wherever it may be in the organization and attempts to put it to work to all of our benefit. And I've been very fortunate to have worked in many European countries, in the U.S., and extensively in Asia, and that has all led to the imparting to share these thoughts on leadership. You've got to lead with a set of values that you believe in and truly live it in your own professional life. People will smell a fake a mile off and will refuse to follow a leader who doesn't walk the talk. My principles that I try to exhibit in my own professional life and encourage all of the employees to follow are passion, action, productivity, perseverance, innovation, and integrity. You've got to focus on delighting customers. Customers are the reason the enterprise exists. Maintain a tight focus on your customers' needs and be repetitive and consistent in delighting them. Set difficult but achievable goals. Execute each job opportunity with focus and commitment and do the best that you can and further opportunities will follow. And also you've got to embrace change and be agile and rapid at adopting—or adapting to changing circumstance. Finally, before I leave the podium I have one request: Please continue taking pictures with your multi-megapixel cameras. Make home movies, lots of them with HD cameras, please. Keep adding to your digital music collection. Capturing and preserving the precious memories of your life is employing tens of thousands of people throughout the world and enabling WD to stay on the gas and keep our foot off the brake. Thanks for your attention.

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