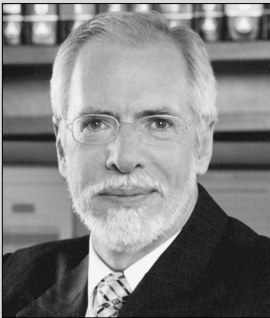

THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

Diskeeper Corporation



Software entrepreneur, **CRAIG JENSEN**, founded Diskeeper Corporation in 1981 with nothing more than an early personal computer for capital. Releasing his flagship product to an overwhelming public reception, Diskeeper® exploded onto the computer marketplace—ranking on the Inc. 500 list for four years in a row and Software Magazine’s list of the Top 100 Independent Software Companies in the World. Having won 231 product awards last year alone, Diskeeper is the software of choice for enterprise corporations looking to increase their computer systems’ performance and reliability.

TWST: We’d like to begin, if you will, with a brief historical sketch of the company, which I think in the case of your company will be very interesting, and a picture of the principal things you are doing at the present time.

Mr. Jensen: It is the classic story except instead of a garage, I started the company in my kitchen with a box of file folders and a small personal computer for capital in 1981 in Los Angeles. I spent the first few years doing contract programming and consulting. I do have a background in the computer industry since 1968, as a computer programmer. Then, while I was doing that I was looking for “What do people really need? What is really a big problem that I could sink my teeth into?” I found that something called “fragmentation” was driving system administrators and corporate computing departments nuts. Common symptoms of fragmentation include sluggish load times, slow saves & reboots, stability problems and random freezes. They were really beefed up about this and the problem was that the only way you could solve fragmentation back in those days was to backup a hard drive to tape, then reformat the drive, pray that the tape copy was valid and copy it back onto the disk. It was a very risky endeavor and also, the users had to be off the machine at that time. So, the guy would have to do it at night or on the weekend when his friends were out or his family was out having a good time. It was a really annoying problem and just cried out for an automatic solution. So, that is what I did, I created Diskeeper, an automatic defragmenter and the rest as they say is history. As a courtesy to your readers, I’d like to explain what a defragmenter is just to make sure that we are on the same page. The analogy I like to use is, if you store paper in a file folder and then put the file folder in a drawer of a file cabinet and then you add some more paper to that folder and add some more, eventually the folder gets too fat. So, you start another folder and that would be

like two fragments of your file, And you keep doing that and maybe you run out of space in the file drawer and have to put some folders in another drawer and you don’t want to rearrange the whole file system, so it goes into a drawer across the room. And this can get out of hand to the point where when you need a paper from the file, you have to run around the room looking in different folders and drawers. Computers do it the same way, but they do it with style and great quantity, so you could have a file that is in thousands or hundreds of thousands, even millions of pieces. Let’s say the file is a Word document for an article you are writing, that you have been researching for a while, and that got to be pretty fat. Fragmented, it could take minutes to load up and see on the screen. So, a defragmenter goes around and finds all the pieces of that file and puts them back together, so that it loads up at computer speed. Now it is only a fraction of a second before you see that file on screen. In the corporate workplace, heavy fragmentation can cause programs such as Microsoft® Word to slow down by as much as 15x; Internet Explorer web browsing by 2x and Outlook by 3x. This is where Diskeeper comes in. You get the files you need, and fast.

TWST: I have had the problem both with paper files and with the computer.

Mr. Jensen: Haven’t we all. I have met people who turn on their computer in the morning and go for coffee, it takes so long for the thing to boot up. And if it takes more than a minute to boot up, I can almost guarantee it is fragmented. You defragment it and boom, it should boot up in about 15 seconds.

TWST: Now you have a number of products at this time, correct?

Mr. Jensen: Yes, we have three main products. Diskeeper is the number one automatic defragmenter in the world. In fact, last week we

passed 18 million licenses sold. Then we have Undelete, which will automatically restore any file that has been deleted from your workstation or server, whether by accident or maliciously. And lastly, we have Sitekeeper, which is a method for keeping track of hardware and software inventories and particularly software license compliance on a network. It lets you manage your software licenses and software installations across the network.

TWST: Now, I think in your basic product, you have some very large percentage of the world market.

Mr. Jensen: Yes, we have over 95% market share in the corporate defragmenter space.

TWST: How is it that you've managed to gain such an extraordinary percentage of the world market? What are the other people missing?

Mr. Jensen: We were actually the fourth defragmenter on the market and three more came out within a few months. But I think because of my experience as a system administrator, I knew that people did not want a software product that they had to study the manual or go to school for a couple of weeks to learn how to use. They wanted to make the problem go away. So, we designed Diskeeper to be completely automatic. In fact we trademarked the phrase, "Set It and Forget It" because you just install the software, it takes a few minutes, you set the settings and forget about it. Our customers love that. They just want the problem to go away and ours is the only product that does that. Among the Fortune top 10 corporations, Diskeeper is the standard at nine, literally installed on tens of thousands of their desktops, laptops, and servers. And more than 300 of the Fortune 500 companies have chosen Diskeeper as their corporate standard.

TWST: And I would assume that the product has gotten much more sophisticated over the years.

Mr. Jensen: Yes, and you have to be careful when you say the word "sophisticated" because some people interpret that to mean that someone just adds features and features and you get this thing called "software bloat", where it has everything but the kitchen sink in it. You just want it to do one basic thing. So, we try to focus really carefully on performance and reliability as a result of defragmenting the critical files on the computer. And the challenges that have faced us are fragmentation, fragmentation, fragmentation. As the computer manufacturers and disk drive manufacturers make the computers more powerful and more capacious, the fragmentation just gets worse, and the complexity of defragmentation gets exponentially more difficult. So, our R&D challenge at Diskeeper Corporation is to keep making our product faster and lower overhead.

TWST: Does a time come with the computer when no matter how much defragging you've done, it's time to say goodbye?

Mr. Jensen: Yes. It's not so much that the computer wears out. You can throw the thing away and buy a brand new one for a relatively small amount of money that will give you an order of magnitude more performance or storage capacity. So, that's how things become obsolete in the computer industry. With Diskeeper on a PC or a server, it will perform like new indefinitely. The hardware doesn't really wear out, the software doesn't change; it's just the data storage and activity on that computer that causes it to slow down. So, we eliminate that problem and keep it going. After a while, you are going to want to upgrade. But there is a trick you should know about. A study by IDC showed that companies tend to upgrade their PCs every three years. But if they just defragmented them regularly, they could extend the life to four to five years.

TWST: And what would the numbers be for a home computer?

Mr. Jensen: I would think it would be similar.

TWST: Can you tell us a little bit on Undelete too?

Mr. Jensen: Windows comes with a recycle bin built in and if you accidentally delete a file, you are supposed to be able to go to the recycle bin and get it back. But most people don't find the file there when they look in the recycle bin because it doesn't catch everything. So, we decided to create a product that you could depend upon, no matter how that file got deleted, whether it's by accident or by a virus or just the normal course of events. Say, you create a Word document and you save it empty by mistake, our recovery bin and Undelete catches all of that stuff. So, no matter what you can get it back. We even have an emergency Undelete feature, where you can find a file on the hard drive even if it's not in the recovery bin and get it back. Undelete is an interesting product because people don't think about it until they need it; and then it becomes really important. So, some of the success stories we've gotten from customers bring tears to your eyes — jobs saved and historic documents recovered.

TWST: I think I read in preparing for the interview that even if Undelete hadn't been installed before the problem, in many cases, you can still get files back as easily.

Mr. Jensen: That's right. If you accidentally deleted a file and then realized it and you just turned off the computer and didn't do anything with that disk drive, you could take the Undelete CD-ROM and put it in your CD-ROM drive and run the emergency recovery procedure from the CD-ROM. So, we don't have to install any software on the hard disk, which could potentially overwrite your file.

TWST: What comes next to your company?

Mr. Jensen: Our main focus is to make Diskeeper better and better and better, keeping up with the increased storage demand. From a corporate point of view, I am working on Asia right now. I just spent several weeks in Japan, Taiwan, Hong Kong and Singapore, meeting with our largest customers, various government associations and Microsoft to build up our business in that area.

TWST: Are there any special challenges involved in working with these people?

Mr. Jensen: The challenges are the unbelievable increases in disk storage. You are familiar with Moore's Law, right, the 18 months of doubling performance? Did you know that disk drives are doubling in size every 12 months? It keeps our R&D guys up late at night trying to keep up with the disk drive manufacturers. It's amazing how much storage you can get for a few hundred dollars these days.

TWST: Now, when speaking of R&D guys, you are founder, you were the R&D guy, how closely can you be involved with all that now in view of the fact you have all these responsibilities?

Mr. Jensen: Really close. I'm an incorrigible techie. I wear the Chief Technical Supervisor hat. I insist on seeing every new feature, every new version. I've got a corporate network at home that a lot of companies would kill for. I really like to keep my hand in and I spend a lot of time with our R&D guys kicking things around and looking at the problems they are coming up with, and I like to come up with a whole new approach to something, instead of just an incremental improvement.

TWST: Let me ask you, after all this that developed in a certain way, where did you go to college and/or a grad school and how much did your training affect what you did and how much of what you did came out of your own creativity, shall we say?

Mr. Jensen: I went to Northeastern University in 1968 and studied electrical engineering. They did not have a computer science program and I don't think there were computer science programs in 1968. If there were, they weren't very well known. The general view at that time was that computers were going to take over the world and put people out of work en masse. So, it was not a socially acceptable thing to do to get into computers, and the University didn't offer any training. But they did have a computer there, and guess where I spent my time! I actually left college my freshman year and got a job working nights at a company as a computer operator so I could study the computer and figure out how to program it. Then I got a job at another place as a computer programmer, and so on. I learned what I know on the job by actually using computers and studying their manuals.

TWST: And may I ask you, I did read that you are involved with the Church of Scientology and then you apply some of their principles to your organization, can you explain how that works out within your company?

Mr. Jensen: I've been a Scientologist since 1974 before I even founded the company. And I really admire L. Ron Hubbard because he was an engineer like me, and he would research things to see what worked and what didn't, and then he would write up what worked and publish it. One of the things he researched was marketing. And when I was having trouble getting my first product off the ground, I read a paper by L. Ron Hubbard about market research surveys. And that's the secret behind how I found out about this fragmentation problem that was driving computing departments crazy. So, I said, "Well okay, if I can fix that, will you buy it?" And the answer was, "Absolutely". And the day we released the product, the phone literally rang off the hook and people said over and over again, "It sounds too good to be true. But if it does what you say it does, I will buy it." And of course it did. Diskeeper was a huge success and became the best-selling third party software product of all time in its market.

TWST: Now, what is your vision for the company? What would you like it to be like in three or four years?

Mr. Jensen: Three or four years is a long time in the computer business. I'd like to see fragmentation understood, not just in the data center, but in the boardroom. Companies spend a lot of money on computers and software and virtually every employee of the company spends a lot of time at the keyboard. And if they are losing 50% to 80% of their productivity at those computers, it is impacting their business. So, I don't like seeing fragmentation ignored as a corporate problem. I would like to make the true extent of it known. I would like people to see that if a company is not defragmenting their hard drive every day, there is something wrong.

TWST: Now, what problems or challenges could arise for your company over the next few years, if any?

Mr. Jensen: The challenges are going to be disk drives getting bigger and bigger. They have basically become a commodity now, and we are looking at new technologies for handling storage or dealing with storage. There is the concept of virtualization of storage, where storage all over the enterprise is collected together and treated as one big lump of storage. That introduces some challenges for keeping the performance up and Diskeeper Corporation will be there with the answers, I can promise you that.

TWST: Your company has been private for a long time and has its own special personality and vision. What are your feelings about alterations in that structure, about consolidations, IPOs, etc.?

Mr. Jensen: In the beginning, I was interested. I thought I needed a lot of money to make my company go, but it wasn't available to me. So, I had to make it on my own. We had to finance our growth by selling software. And today, we are big enough and making enough money that we don't really need outside investment. The only reason I can see for going public or taking outside investment would be to raise money to buy another company or something like that, and it is not part of my strategy. I like owning the company 100% and want to keep it that way.

TWST: By the way, one other thing, can you tell us a little bit about the expertise of a couple of your key colleagues?

Mr. Jensen: The Head of our R&D is Andrew Staffer and this guy is amazing. He lives and breathes computers and software. We've got a joke around our company that the R&D guys run on pizza and disk drives, but that is meant as a compliment. Andy really knows his stuff. I like to sit down with him and kick ideas around. Give him a problem and he will come back the next day with a prototype to show how we could fix it. Another key person is Lisa Terrenzi. She is the Chief Operating Officer and has been with the company now for 15 years. She was the first executive I ever had who waded into the techie area and confronted these guys and figured it out. Computer techies, a lot of them have an attitude of, "I know all about it and you don't" and they like to rattle off lots of confusing computer terms you don't understand to prove that they know all about it and you don't. What she said to these guys was, "Well, if you are an expert, you could explain it to me so I could understand it." And they did. So, she is one of those rare executives that knows how to run a business and understands the technical aspects as well, and I admire her a lot for that.

TWST: I picture your company as being very creative and as being perhaps somewhat informal. I just like to get a sense of how people do things on the floor, how they relate to each other, how they communicate, what time they come in, how they go about their work?

Mr. Jensen: Basically, we are open from eight to five for general office work. But because we are on the West Coast, the sales people get started at six o'clock in the morning, a lot of them, to deal with the East Coast. And then the computer techies, you can't define a schedule for them. These guys just want to work around the clock. The culture at our company, you have your traditional techie guys in darkened rooms with lots of monitors on their desks surrounding them and a lab to die for with every kind of computer and software under the sun to test things out on, and all the latest and greatest stuff and new things that people haven't even heard of yet. And then you have got the sales area, where these people are digging through the database and calling up customers to check on them, see how they are doing. A lot of people skills are brought to bear there, a lot of the interaction. And the rest of it is the corporate executive and finance professionals. What's uniquely different about their work is we staticize everything. We keep track of statistics – hundreds and hundreds of statistics – and we graph them. So any executive can look at any statistic and see what's cooking along normally and what's in trouble or what's suddenly doing way better than expected. And then they can go dig into those areas. This is an important point because it saves the executive at least two-thirds of their time. They don't have to watch everything, they can just watch the things that are booming or busting and go dig in and fix those. That's something I learned from Mr. Hubbard and it's one of the keys to our success.

TWST: To sum up everything that you have been saying, could you give us the two or three best reasons for a potential customer or to become a real customer, why they do business with you?

Mr. Jensen: The number one thing that sets my company apart from others is we practice a concept called “exchange in abundance”, which is something else I learned from L. Ron Hubbard. He says, “Here one does not give two for one or free service but gives something more valuable than money was received for. Example: The group has diamonds for sale; an average diamond is ordered; the group delivers a blue-white diamond above average. Also it delivers it promptly and with courtesy...Produce in abundance and try to give better than expected quality...Always try to — and deliver — a better result than was hoped for.” So we insist that customers get more than what they expected, that they get a better result than they expected and we use that across the whole company. If you call Diskeeper Corporation, I am sure you have noticed that a live person answers the telephone at reception; there is no automated attendant there unless it’s after hours. People love that. Our receptionist remembers peoples’ names that she hasn’t talked to in a couple of years. It impresses people, they like it, it makes them feel good. If you call our tech support, a person answers the phone, you don’t get put in a queue and told how many minutes it is going to be till you are answered. There is no DJ playing music for you to keep you occupied while you are waiting. There is a person there and that person is interested in the problem you are having and will help you get it sorted out even if it is not our fault because we know what that customer is going through and he needs help right then and there, so we help him out. I could go on and on, but that’s what someone would experience with our company. Our software works, it installs, it does what it is supposed to and it does it better than expected, and our employees are the same way.

TWST: I have often thought about that, the person within a hi-tech situation.

Mr. Jensen: It is easy to get lost. People are important and with everything being computerized these days, you can forget about what’s really important. It is the people that are important.

TWST: Does your vision extend at all beyond the company? In other words, of how businesses can be organized, etcetera?

Mr. Jensen: What we were just talking about was people and relationships. When we saw the dot-com boom and bust back in 1999, I think that’s what got lost and it seems to me that it is coming back, that companies are more interested in people. You hear “CRM” being bandied about customer relationship management. That’s important, it’s not just a buzzword. When people are contacted by a company, they have something in mind, they have a problem they want solved, they are looking for solutions to it. It’s not like buying a lawn mover at the hardware store and when the deal is done, it’s over. If you have a problem with that lawn mover, you want to know that the guy you bought it from is going to take care of you. I think that’s important, that’s where business is headed and that’s a good thing.

TWST: Is there anything you’d like to add to what we have talked about, particularly with regard to challenges, strategies, and long-term objectives?

Mr. Jensen: The most important thing I would want to stress is that fragmentation actually exists. It’s a real problem, you can’t just look the other way and ignore it. And it’s so simple and so inexpensive to do something about it and restore the full performance of all the computers in your company, that it’s a crime to not do so. IDC analysts report that corporations are losing as much as \$50 billion per year as a result of not using a defragmenter on every server and workstation on the network. So, I would just like to get that word out.

TWST: Speaking of it being inexpensive, could you give us some sense of the price structure in relation to a typical situation?

Mr. Jensen: The street price for our workstation product is about \$50 and for the server product, about \$200. We have a wonderful discount structure for volume licenses, purchasing in quantity. But even if we were to charge \$50 per system, the return on investment is measured in weeks, not years or even months. It is a simple calculation. We have a calculator on our Web site so you can see what the cost of fragmentation is in terms of lost productivity and wasted computer resources. So, if you want to talk ROI or total cost of ownership, we can return the cost of our product in a few weeks for a corporate customer.

TWST: Is there anything else you’d like to add?

Mr. Jensen: Computers are becoming a commodity and the problems of computer systems and production and performance are moving out of the data center and into the boardroom. A CEO or a CFO or a CIO needs to be aware of what’s going on in the computer area of his company because so much more depends upon it than ever before.

TWST: Let me ask you one other thing based on that, have you written many articles that are available to the public?

Mr. Jensen: I have written a few. I wrote a book called *The Craft of Computer Programming*; and another called, *Fragmentation: The Condition, the Cause, the Cure*. Articles of mine can be downloaded from Diskeeper’s web site.

TWST: Thank you.

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