



## **Proginet Corporation Investor Conference Call (Q2 – Fiscal 2009)**

**Wednesday, February 25<sup>th</sup>, 2009 @ 4:30 pm**

**Sandy Weil**  
*President and CEO*

**Debra DiMaria**  
*Chief Financial Officer and Corporate Secretary*

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### **Introduction – Sandy Weil**

Good afternoon everyone. I'm Sandy Weil, the President and CEO of Proginet Corporation.

The results from the second quarter were announced yesterday. We are making good progress and I believe they show we are heading in the right direction.

Before I get started I would like Debra DiMaria, our Chief Financial Officer, to read the Safe Harbor Disclosure to ensure everyone understands the information relating to the Regulation Fair Disclosure (FD) and the disclosure of information. Debra will then summarize our financial results for the second quarter of 2009.



## **Safe Harbor Disclosure – Debra DiMaria**

Regulation Fair Disclosure, FD, regulates how material news can be released to investors and the general public. FD also regulates that specific information must be disclosed publicly before it can be discussed privately. However, the SEC does allow corporations, like us, to provide complementary information to matters that have been publicly disclosed.

With the exception of certain current or historical information, the matters to be discussed in today's conference call include forward-looking statements that involve risks and uncertainties. The important factors that could cause actual results to differ from those indicated in the conference call are described in our SEC filings on Form 10KSB and Form 10Q and also include but are not limited to:

- The ability to succeed with Proginet's direct sales efforts domestically, our indirect channels internationally and our new OEM arrangements.
- The ability of Proginet's software development team to complete our planned projects in a timely manner.
- The ability of Proginet to support sales opportunities with the organizations to which we sell, and to support our distribution and OEM initiatives.
- The ability of Proginet to achieve a successful GA launch of the imbedded RocketStream CFI module, CFI EdgeServer, and Slingshot Vault.



Proginet disclaims any obligation to update any such forward-looking statements after the date of this conference call.

Lastly, the referenced financial information provided in this call does not contain the details and footnotes provided in our SEC filings. It is important that participants obtain and thoroughly review actual financial results in Proginet's 10Q when it is filed in March with the SEC.

Please consider these factors throughout our discussion today.

### **Financial Review – Debra DiMaria**

Over to a discussion on Q2 results:

On a quarter-over-quarter basis, revenues were about the same as last year. However, the sources of revenue have shifted. Last year, the major source of revenue (nearly 80%) was maintenance, but this year new license revenue represented 47% of total revenues.

This increase is a result of a combination of initiatives which include but are not limited to:

1. Meeting the acceptance criteria for a government contract, previously announced. Such recognition will continue through July 31, 2009.
2. Implementing the Master Distribution Agreement with Beta.
3. Continued add-on sales and cross selling to existing customers.
4. New product sales of Slingshot.

On a comparative basis, maintenance revenue declined from last year. As noted in the Q1 press release and conference call, that decrease is due to the first



quarter revenue recognition of deferred maintenance within the Secur-Line License Agreement with Beta Systems. The maintenance revenue we did earn in Q2 was consistent with our internal projections. Additionally, Proginet has now begun recognition of Harbor product billings related to the Beta transaction and expects software maintenance revenues to trend back in line with historical averages by July 2009.

On a comparative basis, expenses in the same quarter last year were very similar. However the types of expenses we were incurring last year were very different. For example, last year we were spending a large amount of money on marketing headcount, general marketing, and branding programs which were not generating the kind of opportunities relative to the investment we were spending. We were also spending well over \$1MM per year on our Canadian operations. We have initiated a number of programs in response to the current economic conditions which include: reducing headcount, eliminating a number of internal initiatives, and cutting back on any expenses except those that are absolutely critical. As a result, expenses have decreased by almost \$400,000 compared to Q1 of Fiscal 2009.

Since the start of the fiscal year our cash has declined however. In the months of November, December and January, as I just described, we have implemented a major cost reduction program which has improved our cash management program. We manage it on a daily basis and all expenses are reviewed and approved by senior management before being incurred. With the new Harbor product billings, maintenance revenue increasing back to historical averages, and our current license revenue projections for the next few quarters, we expect our cash flow will be adequate to meet the Company's needs for the next 12 months.



## **CEO Perspective – Sandy Weil**

Thank you, Debra. With the worst economy many of us have experienced in our working lives and increased stress on budgets around the country, we have moved our business into a mode of significantly decreasing our cash expenditure, while at the same time building on the indirect business model as the growth engine to the company.

## **Reduction in Expenditure**

The Beta transaction was a very important part of our expense reduction program in that they absorbed a significant portion of our Canadian workforce and also are sharing our Canadian workspace with us through the end of the lease. We have also trimmed our workforce across all areas of the company based on performance and relevance to our business in the US and now have 38 employees in our company. This is quite different from other reduction programs attempted in the past in this company which normally focused all of the reduction efforts in sales and marketing. The only areas of the company that were not as affected were the tech support group and our highly experienced core file transfer developers.



## **OEM Business**

In the last three weeks, we have signed two OEM transactions and are working on PR/Analyst briefing campaigns. It is important when working with large partners such as these two to ensure that we coordinate our activities together for maximum impact on potential prospects and the industry.

## **Government Success and Ongoing Opportunity**

As you know, we have talked repeatedly about a large government deal that we closed in July. That deal included enabling specific government partners, ranging from federal and state agencies to commercial entities, to communicate using a restricted CFI license. We made a strategic decision last October to convert those restricted licenses into full licenses. This will allow these participating agencies to use the products for file transfers unrelated to the government agency we originally sold to. This becomes an easy way for us to create relationships and expand that use to other needs across their technology platforms.

We have also finished the development of CFI version 6.5. One of the major upgrades in this version is FIPS 140-2 support which has enabled us to begin revenue recognition for our recent large government agency deal. This enhancement will increase our competitiveness in the government sector, a fairly stable market in this turbulent economy.



## **OEM/Distribution**

Our other key focus has been in the indirect area specifically our OEM deals. Last quarter I announced our agreement with Beta Systems, our exclusive distributor in Europe. This is not a new strategy but is a new focus while keeping the overall sales goal the same. We will still be going after key enterprise deals with our direct sales team but this indirect model allows us to have more feet on the street. Partnering with these larger organizations, which have thousands of customers with their own products, is a good first step to ensuring future success.

## **Web Site and Marketing Campaigns (Vtrenz)**

At the beginning of this quarter we launched our new Web site. This new Web site has all the features I talked about on past calls along with greater chat functionality and will soon be integrated with a new automated campaign manager, Vtrenz. This technology investment will integrate with Salesforce to allow us to more closely monitor our incoming leads, whether through cold calling or the Web site, and create automated campaigns to help us nurture our potential sales before they reach our direct or indirect sales teams.

We have also rebuilt our support Web site in an effort to offer more information to our current customers without them needing to contact support directly. As this year progresses, I plan on focusing more time and resources to better supporting those existing customers.



## **@task and Development Management**

In the past I have discussed our investment in technology that helps sales and marketing perform with more automation and accuracy. Recently, we have also invested in an enterprise grade project management system, @task. This system allows us to monitor where our resources are being devoted and see, in real time, what our resources in R&D, Development, and QA are working on. It also allows us to focus our efforts on projects that require more time and energy. The system has helped our Project Management function by creating more accurate forecasting for project completion as well as project cost. This is just one of many new technology investments that will help Proginet automate these critical tasks and allow us to focus our energy on growing and driving the overall business.

## **Summary**

From yesterday's board meeting, I can tell you that we are looking forward instead of focusing on the past. We will maintain our focus and drive to continue improving our performance and building our business for the future.