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# THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

The following report is excerpted from  
**THE WALL STREET TRANSCRIPT**

## 08.24.09: APPLICATION SOFTWARE REPORT

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# Proginet Corporation (PRGF)



**SANDY WEIL** is Director, President and CEO of Proginet Corporation. In this role, he is responsible for providing strategic leadership, direction and management to the company. Mr. Weil joined Proginet in spring 2008. Most recently, he served as a Partner and Senior Executive at Accenture, one of the world's leading global management consulting and technology firms. During his 14-year tenure at Accenture, he held senior management positions in the infrastructure outsourcing, BPO, and managed reference data service practices, with specific responsibility in sales, marketing, strategic alliances and general operations. Earlier in his career, Mr. Weil gained experience in the technology industry at various enterprise software and hardware companies. He holds a

B.A. in psychology from Hobart College.

## SECTOR — APPLICATION SOFTWARE

**(ANB621)TWST: Would you start with a brief historical sketch of the company and a picture of the things you are doing at the present time?**

**Mr. Weil:** Proginet is 23 years old, it went public about 14 years ago on the Calgary Stock Exchange and was moved about six years ago to the Toronto Stock Exchange. And then more recently, it has been moved to trade on the Nasdaq Bulletin Board. The company's original DNA was in the managed file transfer marketplace, and the original funding for the company came from the development of a product called XCOM, which was developed by our current Chief Technology Officer, Tom Bauer, and another technology guy named Joe Mohen. And that product was sold to Legent about 20 years ago. The seed funding for the company came from the sale of that product to Legent, which was bought by Computer Associates. XCOM today, by the way, is probably one of the most widely used file transfer products on mainframe systems in the world. From that initial seed funding, the company developed its own internal file transfer technology, which has evolved into CyberFusion, our core flagship product. From there, our company grew through acquisition. The company acquired the Microsoft asset data transfer product called TransAccess; the company acquired the Novell file transfer mainframe technology called IND\$File Plus. The company acquired a company called KnowledgeNet, which was one of the dominant AS/400 file transfer technologies, and a number of other file transfer companies, mostly smaller. A lot of that acquired technology was engineered and then embedded in the current versions of the CyberFusion. Then about eight months ago, we did a technology swap with a German company called Beta Systems. Proginet had a product line around security and identity management, and Beta Systems had a file-transfer technology called Harbor File Transfer. And we did a technology swap/outourcing deal so that we really are completely focused today on enterprise file transfer. We are following a similar

strategy, embedding the Harbor File Transfer products. The last 12 months have been a real change in the company. When I first joined the company, my original job was EVP of Sales and Marketing. And pretty rapidly the board promoted me to President and CEO. When I first joined the company, we were burning probably \$300,000 or \$400,000 a month more than we were making. We had \$2.5 million in the bank in terms of capital. So the last 12 months have been all about the transformation, and we've had lots of ups and downs. The economy obviously has been a real tough place to be, but I am certainly very happy with the progress that we have made over the last 12 months in terms of our revenues, in terms of our growth and, more importantly, with the reduction in expenses. There has been a lot of change and we will begin to really bear the fruits of that change over the next 12-18 months.

**TWST: Explain a little bit more about your own background and about the backgrounds of some of the key members of your team.**

**Mr. Weil:** I've been in the technology business since I graduated from college in 1984. My first number of jobs were selling both software and hardware in the commercial industry. In 1993 I joined Andersen Consulting as a Sales Manager in their enterprise software division. I had a 16-year career at Andersen Consulting, which then became Accenture. Basically, I have sold hardware, I have sold software, I have sold services. I have sold outsourcing, business process outsourcing, application outsourcing, call center outsourcing. I was doing a lot of corporate development, acquisition and structuring. It's really funny, it's like I have been training to run a technology company my entire career because I did everything from operations to sales to corporate development. The place I think I had some gaps were really, number one, in technology development and tech support, etc. So I recruited a colleague of mine, Steve Flynn, who was a 25-year veteran at Anderson Consulting and Accenture, one of the best technology people I have ever worked with. He became my Chief Operating Officer and has

been a huge asset to help make some of the changes that we had to make. Then we have some people from within the company that are still here that are core to our success. One of them obviously is our Chief Technology Officer, Tom Bauer, who is one of the original founders of Proginet and a fantastic resource. He has been in the file transfer development business for 20-plus years, and having somebody like that is just invaluable in helping to make sure that our products are on the cutting edge. Then there's Kevin Bohan, who literally started in this company before he got out of college, and he has worked here ever since. He's basically had every job in the company. He is a tremendous asset. Right now he is running my global sales and marketing group both in my indirect and direct business. He knows as much about file transfer as anybody, and he has really tried helping to drive the step change in our sales.

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**TWST: Tell me a little bit about the outlook for your industry and for your company in particular at the moment.**

**Mr. Weil:** I can't really talk about revenues because we haven't even done a pre-release yet in terms of fiscal 2009. But suffice it to say that I have been pleasantly surprised by the latter half of this year. In terms of the progress for next year, I don't do guidance, but I do feel that we're seeing more people talking to us, more people sending out RFPs than we were, let's say, nine months ago. So I think the prognosis feels like it's getting a little bit better. However, I would tell you this: In the last year of learning about our industry and learning about our business, file transfer is, in effect, the plumbing of the infrastructure industry. What our technology does and the other competitors that we see in the industry — file transfer is the way people send data between servers; it's plumbing. If you think about the work that you are going to do on your house in a recession that we are seeing right now, the last thing you focus on is fixing your plumbing unless it's broken. So that's a great metaphor for why people wouldn't make changes in things like infrastructure in this particular time frame. However, as people begin to come out of the recession and come out of thinking about simply cost saving and thinking about book cost saving, and the future of architectures and future vision, that's when I think people begin to think about making changes like that. There are not a huge number of major players in our industry, there are a couple. Then there are a variety of companies like us that are smaller to medium-sized. Gartner says that the overall marketplace for our software industry is \$250 million, and the B2B gateway marketplace probably increases by another \$500 million. So you can sit there and look at the very large numbers but the question is, "What's the inflection point at which time something is really how they're going to 'A,' change off a particular point solution or 'B,' change their

entire enterprise around one particular piece of technology?" The cost of change is all part of that process. So back to my original assessment: I think we are seeing some positive movement, but I don't think that we are completely out of the dark days yet.

**TWST: You just brought up my next question: What is the competitive landscape like and what do you see as your competitive advantages?**

**Mr. Weil:** The way I look at our competitive advantages there are a couple of different components. First of all, from a technology point of view, Proginet has always had extremely good, solid, mature file transfer technology. We are not a startup; we have been around for 20 years. And we have also, through acquisition and through development, been one of the solid players in the industry. And even with our sales engine not moving along as well as it probably should, Gartner has always kind of measured us as kind of a leader, and that has to deal with the basic technology that we have got. However, in the last 12 months we have been doing a lot of innovating, whether it's the deal we did with the Beta Systems guys to acquire the Harbor technology, whether it was embedding the RocketStream WAN acceleration technology — by the way, very quickly after we announced our RocketStream embedding deal, Sterling Commerce, which is one the big competitors in the industry, announced a similar kind of "me too." IBM additionally announced a similar "me too." I'm not saying they did it because of us, but it was interesting that 60-90 days after we announced WAN acceleration in our technology, some of the competitors in the industry did the same thing. Our Slingshot product is really beginning to get traction in the marketplace. So we have been doing a bit of what I would describe as kind of leading innovation, which I think is certainly a differentiator for us. But the really big change in what we are doing as a company is in who are we doing business with. I think this company had visions of building an organic business by itself and being able to compete with some of the big guys out there. We've really got a differentiated strategy now, which talks about the OEM business. We announced a deal with Software AG, a deal with Attachmate, of course a deal with Beta Systems and then very recently, a couple of weeks ago, we announced a deal with a company called Inovis, which is one of the biggest WAN service operators in the world, which competes directly with Sterling and some other large companies. So on the backs of these large companies — Inovis, a couple of hundred million, Attachmate, nearly half a billion, Software AG of course, a couple of billion — I mean, these are much larger companies that have significantly larger throw-weight and capability for sales and marketing, and the like. And so our OEM strategy, I think, is really going to be highly differentiated. Some would have said, let's say, six months ago that Inovis was a competitor, and I guess you can probably suggest they were because they also had a B2B integration platform. However, we are very much interested in working with anybody that wants to take our IP and then get it, and sell it and create value around it. And that's why we've got a much more open strategy around who we are doing business with now.

**TWST: With this OEM strategy are you bringing in new licensing revenues?**

**Mr. Weil:** Let me explain to you. Inovis has 20,000 customers; Attachmate has 10,000; Software AG has probably got

something like 20,000. So cross-selling our products through their existing channels gives us access to huge businesses. The Inovis guys, Software AG guys, I mean these are companies that have very large sales forces that are selling through the enterprise, and that's what they do today. And so it's a whole capability where we basically leapfrog way beyond some of the direct competitors we've had in the industry that have decent-sized sales forces. But when you take all the sales forces of the OEMs combined, we are now able to get our product in front of a whole new set of customers we never could in the past.

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**TWST: You’ve said that the last 12 months have been about transformation. What has Proginet accomplished in those 12 months, and what are your priorities as you look forward in that transformation?**

**Mr. Weil:** Transformation is kind of another word for optimizing the company in terms of making it more efficient and figuring out where you’re doing business, and who are the right people for the company, etc. So you can see it in our public statements -- our expenses have been reduced and by reducing expense base, you obviously provide yourself with a better ability to provide over time a more profitable business, a more flexible business. So that’s what this transformation has been about. Also transforming the company from developing software for direct sales business or developing software for an OEM business, that’s another kind of interesting twist — how our software works and where it’s going to be embedded, and the like. I would say that the last 12 months have been all about step change and transformation of this whole company. The next 12-18 months are really about execution on that strategy, and making sure that we make good on and develop those relationships that we’ve committed to. I don’t think it is about creating another 10 relationships; I think it is about executing and making sure that we make those guys that we’ve signed on as partners successful .

**TWST: You mentioned the Beta Systems Software partnerships. How is that going and what could mean for the company?**

**Mr. Weil:** Beta Systems has been a great opportunity for Proginet to gain real weight and access in core Europe. We had a strategy prior to me coming on; we had seven or eight different distributors that sold a variety of other products besides our products. They were generally smaller companies, and so we just didn’t have any kind of marketing, sales or technical throw-weight in those countries. Beta Systems has offices in 26 countries, and they employ sales and technical personnel in each of the countries

that are indigenous to those countries. So they’ve got a UK sales team that are all serviced from the UK; they’ve got a Swedish sales team, and those guys are from Sweden; they’ve got a French sales team, and those guys are from France. They understand those industries and they’ve been in the business for quite a long time. They understand how to sell mainframe software; they understand how to sell enterprise software; they understand how to sell infrastructure software. Our main focus has been getting them trained and getting them up and running. We were a part of their customer program in June. We went to their sales kickoff in January. We’ve held a variety of training sessions, and we’re beginning to bear the fruit from that investment in terms of transactions that we’re seeing through Beta Systems. So again, it doesn’t happen overnight, but having one partner in Europe that we can deal with, one that has enterprise capability, I think, is a better way to go. And you could invest and expect to get something back from that investment over time. But again, you learn that doing business in France is different from doing business in Spain, which is different from doing business in Eastern Europe and the like, and having a partner in Beta Systems that really understands those idiosyncrasies is important.

**TWST: Let’s talk about revenue mix. When you bring up Europe, how does your business break down by country or region? You’re in 30 countries.**

**Mr. Weil:** Yes, a lot of the original revenue came from, in the history of the company, the acquisitions that we’ve made. So a lot of that is historical in terms of a lot of legacy products that we acquired over the years. So that is where the original footprint comes in. What’s very interesting — and remember, the Beta Systems relationship, we started in October and really got it launched in January, and now we’re beginning to see fruition of it. Interestingly, we’re getting more traction in places like the UK and Sweden, and Benelux, and not as much in Germany. But I think a lot of that has to do with education and time. So that’s where I’m seeing more of the activity right now. But I do think over time we’re hopefully going to get a good distribution across that area. In terms of the business we’re doing overall, if you look at our business in the fourth quarter, we did some business in Asia, we have some business in Scandinavia, we did some business in core Europe, we did some business in US. I think there was a decent distribution across. So that’s what I was talking about in terms of seeing some light at the end of the tunnel here.

**TWST: How about revenue mix as far as where you’re taking in money? How do things break down and where do you see the focus turning as you look forward?**

**Mr. Weil:** First of all, government is going to be a big business for us. It has always been a big business for us. In 2009, we have good hopes for continuing to increase that business. It’s a kind of domino effect that occurs in the government business where if you get a large agency to move off a competitor’s product, there are people taking notice of it. Also, agencies send each other files so having the same software on both sides can be quite helpful in terms of some of the capability. There is some of that that goes on. So I do think that clearly our deal with the federal government has got us an introduction for example to states, and now we’ve got a copy of our software running in virtually every US State. So there

is some real strength moving to that business. It's to some degree recession-proof. It's really interesting people talk about the government business being recession-proof but that's actually not quite true: As the tax base goes down, the states and the government's ability to spend money goes down. It's not quite recession proof as the way people describe it. So the government business is a good area of growth for the coming year. Obviously with the OEMs and distributors, when you make changes the way we've made, there are things that you take on. You've got to train the sales people, you've got to train the technology people, you've got to get the product embedded, you've got to get the product out on the street in terms of their marketing and sales materials and into the cycle of how do those guys operate. So none of this happens overnight. So we've really got to continue to drive the core focus, direct business we've got here, focus on the government business, and focus on making sure that we make the OEMs that we've signed up successful and I think that's the strategy for 2010.

**TWST: You've got earnings coming up in late August. I know you can't say much, but can you give me a sense of the overriding message when you report results?**

**Mr. Weil:** Clearly, last year was a really tough year for us. We had a big dip in revenues, we reported a very significant loss, actually the biggest loss ever in the company's history. So to rebound from that in the worst economy of our adult lives, that's a tough thing to work through. Obviously, everybody knows what we've done in the last few quarters. Our first quarter was a great first quarter because of the Beta transaction, the second quarter wasn't too bad, third quarter was real tough. And so the fourth quarter, again I don't want to give guidance or really talk about that. I'm certainly pleasantly surprised with the things that we've been able to accomplish. In 2010 I'm not looking for any kind of major velocity or major growth. What I'm looking for is consistent and persistent business. I've used that term before in other messaging with our shareholders and with some of our clients. I'd like to see our company be profitable in 2010. I'd like to see our company really continue to engage and develop and focus on the OEM business. And that's what I'm going to talk about because I don't think we have to do a lot of transformation or change, nor do I think we have to do a whole lot more major innovation. What we've got to do is execute, that's kind of message of 2010. 2009 was about change and about refocusing our business, and 2010 is about executing on it.

**TWST: Last quarter you told investors, "We have not yet achieved the financial results I think that the company is capable of." What needs to happen for Proginet to get there?**

**Mr. Weil:** Clearly the OEM strategy. With these large partners that we've got, we're able to tap into those marketplaces and be able to cross sell to those customers, and also be able to take some of the bigger competitors that we've got in the industry head on. And I think executing on that strategy is what's going to be able to get this company to grow. This is not very complicated. Part of what occurred last year is we had to figure out what was wrong and what we had to do to fix it, and what the strategy was to fix it. And I think we've got that in place now. It's all about executing on the vision that we put in place over the last year to make that work. This company, given the OEM strategy really succeeding, given that the

government business succeeds, given that we get some of our newer products out the door, I think this company could be successful. But there is no voodoo, there's no black box, there's no magic. And so I've got a very pragmatic approach to how I run the company, and the goals and the targets that I put out in front of the company.

**TWST: Are there year-by-year milestones or indicators that potential investors might look for?**

**Mr. Weil:** I think what people have to look at in this company is where the revenue is coming from. If you see the OEM revenues, for example, beginning to really come up, the government revenues coming up, the expense base staying in a good solid efficiency, and then obviously that coming down to the bottom line and showing positive net income. I think it's not a very complicated business. Look, we're not that big of a company, but having enough cash in the bank and then having decent net income, and then showing some positive net income over a period of time, I think those are the things that people ought to look at. That's why I have said this again and again: If I had a dime for every time that our investor relations firm calls me up and says how they want to pitch the stock, I'd be very wealthy. The net of it is if we produce the results that people like, then people will buy our stock. It's pretty simple, and I think people make a big mystery out of the whole thing. I don't think it's very mysterious.

**TWST: What would be the two or three best reasons for a long-term investor to look closely at your company?**

**Mr. Weil:** I surely believe in the company, I've bought some of the stock. A lot of my compensation is based on the stock price with options. If you look across the management team, it's very similar. All of us are incented the same way. I think long-term investors want to look at a business that's relatively stable, produces income, and has core technology that people need to use and a business that's mature. That's certainly what I look at when I invest my money -- not just in technology, but in other companies. File transfer technology is core to the way that technology is used around the world. And it's not going away. The mainframe is also not going away. People have talked about the demise of the mainframe for 25 years and obviously IBM would tell you different. So long-term investors want to look at a company that seems like it's well run, seems like it's nimble and has core technology that's going to be used for a long time. I don't think the file transfer business is going away. I don't think the core enterprise is going away. And I think if we can really show that we're a well-run company, those would be good reasons to invest in our stock.

**TWST: Does the company give a great deal of attention to Investor Relations? Do you feel you're getting that message out there?**

**Mr. Weil:** As the CEO of the company, I talk to shareholders every week, and I try to make myself very accessible to people out there to talk about our company. I can't tell you the number of times I get a call from small shareholders, large shareholders and the like. Actually here's something quite interesting: There a number of message boards out in the industry where people can post things about the company, and there was a relatively interesting message board which people could look at about the company. If you look at the postings, relative now to what was probably a year ago, here's the thing: This company, prior to me

coming here, used to do a whole lot of press releases and did a lot of work in terms of trying to message about the company. My M.O. is basically, "I'll show you how we did when we come out with the quarter's results and you can make judgments about the company, and then you can certainly call me up and we could talk about it." So being accessible, producing results, doing press releases when they're warranted for good reason, when there's something to talk about, it's a very different way of running a company. I think that the Street is beginning to react well to us. We had a little bit of uptick in the stock in the last couple of weeks, and I think people are beginning to feel a bit better about who we are.

**TWST: Anything else you wanted to touch on?**

**Mr. Weil:** I did the same interview with you guys about a year ago. What's interesting is you'll probably note a bit of a different tenor in my voice, and my feelings about the company and

the change program that we've been through in the last year. I can't wait to have the same interview with you again next year to talk about kind of where we are in a year. Because my view of this industry and this company -- I am much more bullish I think on who Proginet is and what Proginet's prospects are, but a lot of change had to occur to make that happen.

**TWST: Thank you. (MJW)**

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