

FINAL TRANSCRIPT

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G00G - Google to Acquire Postini

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CORPORATE PARTICIPANTS

Maria Shim

Google - IR

Dave Girouard

Google Enterprise - VP, GM

Quentin Gallivan

Postini - President, CEO

Scott Petry

Postini - Founder, CTO, EVP of Product Development

CONFERENCE CALL PARTICIPANTS

Anthony Noto

Goldman Sachs - Analyst

Imran Khan

JPMorgan - Analyst

Matt Cain

Gartner - Analyst

Justin Post

Merrill Lynch - Analyst

James Niccolai

IDG News Service - Media

Mark Mahaney

Citigroup - Analyst

Tom Austin

Gartner - Analyst

Jim Friedland

Cowen & Co. - Analyst

Brian Pitz

Banc of America - Analyst

Youssef Squali

Jefferies & Co. - Analyst

PRESENTATION

Operator

Good day, and welcome, everyone, to the Google, Inc. conference call. This call is being recorded. At this time I would like to turn the call over to Maria Shim with Investor Relations. Please go ahead.

Maria Shim - Google - IR

Thank you. Good morning, everyone, and thank you for joining us today on such short notice. On the call to discuss the announcement are Dave Girouard, Google's Vice President and General Manager of Enterprise; Quentin Gallivan, President and CEO of Postini; and Scott Petry, Founder, Chief Technical Officer and Executive Vice President of Product Development of Postini.

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First, we will share some thoughts on the news today, and then we will take your questions. A webcast of the call as well as the press release are available on our Investor Relations website. Some of the comments we make today will include forward-looking statements within the meaning of Private Securities Litigation Reform Act of 1995, including statements regarding the expected timing of the closing of the acquisition, our ability to close the acquisition, the benefits we expect from the acquisition, the performance and features we expect of Postini and Google services, the impact of the acquisition on future innovation, and our expectation about future support and investment in existing and future products and services.

These statements are based on the current expectations or beliefs of management and are subject to uncertainty and changes in circumstances. Actual results may vary materially from those expressed or implied by the statements made in this call due to, one, changes in economic business, competitive, technological and/or regulatory factors; two, failure to receive regulatory approval for the acquisition; three, failure to compete successfully in this highly competitive and rapidly changing marketplace; four, failure to retain key employees; and five, other factors affecting the operation of the respective businesses of Google and Postini.

Please refer to Google's SEC filings, including Google's report on Form 10-Q for the quarter ended March 31, 2007, for additional risk factors that may affect the outcome of these forward-looking statements. Copies of these documents may be obtained from the SEC or at the Investor Relations section of Google's website. These forward-looking statements speak as of today, and you should not rely on them as representing our views in the future. We undertake no obligation to update these statements after the call.

I would also like to remind you that we are currently in our quiet period and we will not be answering questions regarding our quarterly performance until July 19th when we host our earnings call. Now I will turn it over to Dave for some opening remarks.

Dave Girouard - Google Enterprise - VP, GM

Thanks, Maria. I am just going to recap the news quickly, share a little bit of our thoughts with you about why this makes sense for Google, and then I'll turn it over to the Postini folks and then we will take some questions.

Just to recap, today we're really happy to announce that we've agreed to acquire Postini for \$625 million in cash, and that is subject to working capital and certain other adjustments. For those who don't know Postini, they are the global leader in on-demand or hosted solutions for security and compliance related to email, instant messaging, and other types of Web communication. They have more than 35,000 customers worldwide and more than 10 million end users. The deal is subject to customary closing conditions, and we do expect it to close in the third quarter.

Just a bit of background on this, I think probably the most important thing that I would like to say about this is that it really does reaffirm our commitment to delivering hosted applications to businesses, and that means small businesses as well as larger businesses. We've been in the enterprise business since back in 2002, when we started with our search appliance products, which we continue to market and sell today, and it's a very healthy and growing business.

Google Apps is our hosted applications that we recently introduced for businesses. It is made up of our email and calendaring and instant messaging, Google Talk, as well as our Docs & Spreadsheets and other applications.

The history of Google Apps really goes back more than three years ago to the launch of Gmail, which we launched in April 2004, really at the beginning of Google's forays into hosted applications, and at that time very focused on the consumer. In February of this year, we launched Google Apps premier edition, which was really our first initiative to bring these applications to businesses, and indeed to larger businesses.

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There is a fundamental premise to what we are doing here, and it really is centered on the idea that if you can combine the user-centricity and the simplicity of consumer applications with the manageability, the cost-effectiveness, and the security in enterprise technology, you would really have the best of both worlds.

Another important trend from our perspective really is that software as a service is really a better delivery method for technology, and Google didn't invent this. Others have been leading this charge for some time, but of course the need, there is nothing to install, there's nothing to maintain. The costs are much less, our products are platform neutral, and they are very, very scalable. So all in, we believe it is an incredible solution for businesses.

The interest in Google Apps since the February launch has been extraordinary and, in fact, more than 1000 businesses, predominately small businesses sign up for Google Apps every day. And I should also add that hundreds of universities have signed up to use Google Apps to deliver email and calendaring and such to their students and faculty and alumni, as well.

And we've seen a significant amount of interest from large businesses as well, and this is really one of the things driving our acquisition of Postini. Large businesses like small businesses want to deliver simple, easy-to-use applications, but they have a lot of complex business requirements behind the scenes.

They have information security mandates; they have a lot of business policies that they need to enforce; they have legal discovery processes. In some cases, they have regulation and regulatory requirements that they need to meet. And as we have to date really focused on partnerships in order to answer that part of the equation, but we really believe that asking customers to pull the parts together themselves quickly begins to drain some of the value out of this software as a service revolution.

And it's really in our interest to pull together a complete solution that delivers both compelling end-user applications, but also the back-office sort of requirements that these businesses need. So just a bit on why Postini and why we think this makes sense.

Google has always been very focused on the end-user experience in making it a phenomenal experience that is very simple and intuitive, doesn't require training, etc. And the interest in our applications, I think, has really demonstrated that. But, of course, as I said in bigger businesses, security and compliance requirements are a must and this is something that Google wants to really take a part in.

We are fundamentally here today because we believe this is a business that Google should be in. It's an adjacent business to our existing Google Apps products. It is really a fundamental part of delivering this type of technology to a large business, and we believe it will also accelerate the adoption of hosted applications by delivering a more complete solution.

In terms of Postini, we saw it as a very unique opportunity, a very, very strong technical and cultural fit between the companies. As we've gotten to know some of the Postini folks, we have just seen an amazing similarity to the types of people we have here at Google. They are a market leader. They have an incredible reputation with customers out there, and we've heard that again and again and have already heard that this morning from Google people around the world who have experience with them. And, of course, they're local. They're here in the Bay Area which makes it a great fit for us as well.

Just a few more things, and I will turn it over. For Google's customers I think first of all, first and foremost, this is a clear statement that we're very committed to this business and that we are going to continue to innovative and bring more and more applications and capabilities to businesses in this software as a service type of model. We can now deliver, or we will soon when this acquisition is closed, be able to deliver a more complete solution for security and compliance. And I think this will make the transition to hosted services even easier for customers.

And I also really believe that when you put these types of companies and these types of capabilities together you can actually deliver a system that will be more secure than existing systems. And that is really what gets me excited about this. And for Postini's customers I think there's also an exciting message in this, as well. First of all, we are fully committed to Postini's products and customers. We fully intend to develop them further and to support them. And I think Google has a lot to bring to bear in

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this regard in terms of scale, in terms of our cost infrastructure, in terms of our global reach. So there is a full commitment on our side to support customers regardless of whether they choose to adopt Google Apps.

Of course we're going to make it as easy as possible and as tempting as possible for Postini's customers to try Google Apps, and that is of course one of the reasons we are excited, another one of the reasons why we are excited about this transaction. So I think both for Google's customers and for Postini's customers this is going to be a great win, and we are extremely excited about it. So now I would like to turn things over to Quentin Gallivan who is the Chief Executive Officer of Postini. Quentin.

Quentin Gallivan - *Postini - President, CEO*

Thanks, Dave. Good morning, everyone. Well, team Postini is incredibly excited about the Google merger. This is a transformational event for Postini employees, customers and partners. From a Postini perspective this merger is all about strategic fit and shared vision. Both companies share the same vision for the future of on demand and software as a service as the preferred choice of how companies are going to continue to buy and deploy enterprise applications. Both companies share the same vision in building highly scalable, highly reliable and highly secure on demand services, supporting today hundreds of thousands of companies and millions of users with significant potential for larger scale in the future.

Postini and Google have a complementary presence in the enterprise space. Postini's 35,000 companies, over 10 million users nicely complements Google's 100,000 enterprise customers. Postini's solutions regarding communication security and compliance for email, instant messaging and Web communications are very complementary with Google Apps, including Gmail, Talk, Calendar, Docs and Spreadsheets.

And last, but not least, both companies share a similar culture and shared values on how to do business. The strategic rationale for Postini in merging with Google is the acceleration of our strategic growth initiatives, leveraging Google's operational scale, innovation and focus on the end-user experience. From a Postini customer perspective it will be business as usual in the first phase of this merger. In the future Postini customers will benefit from further innovation and new services regarding secure communication and collaboration solutions. This merger will create the next generation on demand and software to service company. With that, I would like to introduce the Postini CTO and founder, Scott Petry.

Scott Petry - *Postini - Founder, CTO, EVP of Product Development*

Thanks, Quentin, and thanks, Dave, also for the introduction. It is an exciting day to be here part of this announcement and to be part of Postini. When we started life in 1999 we started as an enterprise SAS company. Our founding principle was to build an Internet platform that would enable the delivery of multiple applications from a common infrastructure to a variety of businesses.

We represent a true SAS platform in that we are a multitenant architecture that was designed for enterprise-wide deployments across all types of customer types. We deliver multiple applications, serving a very broad set of customer needs across the security and the compliance requirements. Importantly, we also deliver a platform that allows us to configure the application set to meet the specific needs of the customer base. So while we are benefiting from the back-end common infrastructure, each customer can get a specific configured version of the product that meets their specific needs.

As Quentin points out, we've been very successful across market segments, across verticals and across geographies. It has really been an exciting time to be in the SAS space for the last eight years and see the market come to us and recognize that this is the preferred deployment model for customers trying to deploy IT solutions.

It shouldn't be a surprise that SAS is so popular. Delivering services means a good deal for customers. When a customer chooses Postini, they get freedom from having to manage on premise equipment, either hardware or software. They get freedom from having to chase version numbers, configuration numbers, platform compatibility issues. Service customers get the power of

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the Internet as a computing platform. Scale becomes their friend, and they get a suite of apps from a centrally managed and provisioned infrastructure, global command and control from a single Web interface. Every day millions of Postini customers benefit from these capabilities.

As I said, it has been a very exciting time to be in the SAS space for the last eight years. Working with Google over the last several months on integrating our applications with their enterprise applications initiative, we've seen the Company from a new perspective that's slightly different than what I saw from looking at them from the consumer lens.

Google is consistently and fanatically focused on the user experience, and I think Dave spoke to that. They are also focused on technical innovation. In solving SAS problems and trying to meet the scale requirements of business, off-the-shelf software doesn't work. And Google has truly made network scale and global reach part of their business. The distribution of their assets, their ability to bring resources to bear in these problems is awe inspiring.

These attributes of user experience, technical innovation and network scale are attributes that define Postini, as well. As a service provider we must focus on customer satisfaction. Switching costs are very low with services, and we need to earn our customers' business every day. But as a service provider we also need to invest in a technical platform, and Postini has built a technical platform that provides significant competitive advantage, both in functionality, as well as in data security.

Postini is the leader in providing services to enterprise companies where people are concerned about integrity of the data, performance of the application set and meeting quality of service metrics. And importantly, as a service provider, scale has to be our friend, as well. As a service provider we've benefited from the network effect of having millions of users share common infrastructure. Being a gravity center for multiple customers' data, it allows us to improve the application sets to meet the incremental needs of each individual user. So a service provider lends a specific -- being a service provider lends a specific advantage to delivering these applications. Google understands this, and these beliefs underpin their approach to the enterprise services market.

We are really excited about the combination of Google Apps and Postini. We've built a market-leading services infrastructure that addresses customer security and compliance requirements. Google is approaching enterprise SAS opportunity with the same intensity and fanaticism that they bring to all of their initiatives, and it is really exciting to be part of it.

I'm excited about this deal, not only because it will broaden the set of applications that are available to Postini customers, and it will allow us to sell Postini applications to Google applications customers, but I think this will fundamentally accelerate the adoption of SAS services in the enterprise marketplace. It is an exciting thing to be part of.

Maria Shim - Google - IR

Operator, can we take our first question please?

QUESTIONS AND ANSWERS

Operator

Anthony Noto, Goldman Sachs.

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Anthony Noto - *Goldman Sachs - Analyst*

Thank you. Two questions for Dave. Dave, up front you said that Postini helps create more of a unified solution given the number of back office functionality that small-medium enterprises or large enterprises look for. What other back office functionalities will you still not have that you believe would increase your adjustable market and increase the service to existing customers?

And then the second question, more strategically, as you've rolled out applications at your domain for more enterprise related customers over the last six months, do you have insight into whether or not the product over time will become more advertising driven business model as opposed to a paid for business driven business model? Thank you.

Dave Girouard - *Google Enterprise - VP, GM*

Thanks, Anthony. Let's see, the first part of your question in terms of additional back office functionality, it is probably not entirely clear to us at this point. The applications that are within Google Apps today have a very clear set of objectives, and then the kind of back office corollary to them are pretty clear, as well. When you have communication-related applications there is a lot of need to filter those, and in both directions there is a lot of need to keep copies of things for a lot of processes that you might have, such as legal discoveries, such as compliance. And that is really what we've been focused on to date.

I think as the set of applications within Google Apps grows out over time and expands into more areas there may well more back office functionality that we require. But I think we do feel very good as we go out to customers and talk about Google Apps today, particularly if you think about Google and Postini together, that it is a very complete solution that really works for the end-users very well. And it will also be very, very attractive in terms of the cost, the ease of management for the folks who have to work behind the scenes, the IT people.

So we're feeling very good about that. The second part of your question, you know we have a free version of Google Apps, and we have a subscription version of Google Apps. And we would anticipate having both in perpetuity. In essence we don't know. There are certainly businesses who will happily use a free product, and there are advertisements within the Gmail product today. That is the only application within Google Apps where ads appear.

But in effect we're letting the market decide. We are not here to tell everybody they should accept ads within their business applications, and we are also not here to say that it won't work either and you need to go a subscription route. So we very happily make both available. We think they can both work economically for Google in the long run. And we are going to let the market decide whether they would rather have a subscription type of product or whether they would have an ad supported product. And we view it either way the market moves will be a very good thing for Google.

Anthony Noto - *Goldman Sachs - Analyst*

Great. Thank you.

Operator

(OPERATOR INSTRUCTIONS) Imran Khan, JPMorgan.

Imran Khan - *JPMorgan - Analyst*

Thank you for taking my questions. Two questions. I was wondering if you can give us some color what kind of revenue you did in last year. And secondly, when you talk about the subscription model, do you charge people by the end-users or do you charge by the flat fee for the company? Thanks.

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Dave Girouard - Google Enterprise - VP, GM

I'll just answer the first -- this is Dave -- and turn it over to Quentin to address the second, assuming your question is about how Postini charges. We aren't actually -- we aren't providing any financial disclosures today about Postini other than to say that they have been a profitable business since 2004, and they are a healthy, strong business. But that is all we are going to be able to provide today. And for the second question I will turn it over to Quentin.

Quentin Gallivan - Postini - President, CEO

Thanks, Dave. Imran, we are a subscription-based business, and customers only pay for what they use. And they pay per user per year. That is the beauty of the on demand model, is that customers get immediate business value. They pay for what they use. They get immediate return on investment.

Imran Khan - JPMorgan - Analyst

Great. Thank you.

Operator

Matt Cain, Gartner.

Matt Cain - Gartner - Analyst

Hi, everybody. How many actual end-user customers does Postini have, and what is the average revenue per customer?

Quentin Gallivan - Postini - President, CEO

We have over 11 million users and 35,000 companies. And as a private company we don't reveal average per user pricing or revenue.

Operator

Justin Post, Merrill Lynch.

Justin Post - Merrill Lynch - Analyst

In today's release you provided some interesting detail on the adoption of Google Apps. Can you talk a little bit about whether it is ahead or behind your initial expectations and the mix of free versus paid and what kind of businesses are you really getting traction with? What verticals is it really gaining traction with?

Dave Girouard - Google Enterprise - VP, GM

We said today that more than 1000 small businesses sign up every day for Google Apps, and there are also hundreds of universities using Google Apps. And we are very happy with that. We aren't enormously in the business of trying to forecast things we can't have any real knowledge of before they happen. So it is not -- it is just not in our DNA to say we expected this many by this date.

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We are very, very pleased with the adoption rate. I think that sort of adoption by small businesses is something we're very, very pleased with. Sorry, the second half of the question?

Justin Post - *Merrill Lynch - Analyst*

Free versus paid, what is kind of the mix at this point?

Dave Girouard - *Google Enterprise - VP, GM*

That is not something that we are disclosing today.

Justin Post - *Merrill Lynch - Analyst*

All right. Thank you.

Operator

James Niccolai, IDG News Service.

James Niccolai - *IDG News Service - Media*

After you rolled out Google Apps the professional version I think some customers were complaining that you were unable to keep up with the 99.5% service level agreement. I wondered what changes you've made since then to ensure that you can keep those SLAs in place and what you can do in the future if you're signing people up at a pretty rapid pace.

Dave Girouard - *Google Enterprise - VP, GM*

That's a good question. We actually have met our SLA in the time that customers have paid. We had a very short trial period when we launched where customers were not paying for their product yet, and we had a couple of small outages at that time, but we have had a very good record overall. And we are always looking at our processes internally and our systems that we have in place in order to avoid or at least minimize outages that any customers might experience. So we are very happy with the track record, and there will always be more we can do to make the product more reliable, more scalable, and we have a lot of energy going into that.

James Niccolai - *IDG News Service - Media*

Can you give us an idea what some of the things you do are? Is it adding more bandwidth or more servers, or could you give us a clue?

Dave Girouard - *Google Enterprise - VP, GM*

Well certainly yes, it is making sure we have the capacity in order to support the customers that are coming on board, making sure we have redundancy, making sure we have the processes in place to escalate when issues are detected in the system. So it is really a combination of the infrastructure we have in place, the redundancy we have in place, the processes we build to deal with issues when they arise because they inevitably do. And those were all things that Google as a company has been

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doing for many, many years in other businesses. And I should also add that Postini has been doing this in their world for seven or eight years now.

So we are actually really excited. We think the combination of these two companies is going to allow us to provide business services even better than we can today. We have a lot we can learn from the Postini folks who have been delivering hosted applications to businesses for many years now.

James Niccolai - IDG News Service - Media

Thanks.

Operator

Mark Mahaney, Citigroup.

Mark Mahaney - Citigroup - Analyst

Thank you. Two questions. First, could you talk about how much overlap there is between the two solutions or how many Postini customers are also Google Apps customers, how that -- simply how much overlap there has been? And secondly, just from the Postini perspective, can you just talk about how you've gone to market? How have you signed up the number of companies, institutions that are using the service? Do you use a direct sales force? How many people are there particular channels that you've been using? Thank you.

Dave Girouard - Google Enterprise - VP, GM

I'll answer the first part of the question and turn it over to Quentin. We, of course, do have some spam and virus protection in our Gmail product today, so there is a bit of overlap in that regard. The technologies are different, and it is a relatively small overlap between us.

Mark Mahaney - Citigroup - Analyst

I apologize. I meant in terms of the customer base.

Dave Girouard - Google Enterprise - VP, GM

Right, okay. We do have some joint customers. It has only been a few months really since the partnership was announced and some integration between the products was done. So we don't -- it doesn't represent a huge percentage of either their customer base or ours. It is actually a very nascent stage in terms of customers using both. But we certainly know -- and one of the things driving us together really was just the pipeline of customers out there and the people who are interested in both technologies. But it is very early on, and it is a relatively modest number of joint customers. Quentin?

Quentin Gallivan - Postini - President, CEO

Yes, Mark, the question regarding how we go to market, again having large-scale number of customers, 35,000, we have a very coordinated multichannel strategy making sure we have the right channel strategy to get at the right customer segment. And so that is a combination of both a direct sales force selling over the phone to small and medium-size businesses, as well as a large field organization selling to large companies. And on the indirect side we have 1600 business partners, channel partners

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that support our services around the world to their customer base. And it's again those -- partner selection is tied to the right partner for the right size of customer, providing the right kind of support.

Mark Mahaney - Citigroup - Analyst

Thank you very much.

Operator

Tom Austin, Gartner.

Tom Austin - Gartner - Analyst

Question covered already. Thank you.

Operator

(OPERATOR INSTRUCTIONS) Jim Friedland, Cowen & Company.

Jim Friedland - Cowen & Co. - Analyst

Thanks. Dave, question on the -- follow-up on the enterprise sales force. Does the acquisition of Postini and just a more aggressive move into promoting Google Apps mean that having an enterprise sales force, will that become a material part of the Google cost structure? Will anything change as we look at the financials? And if you're not going to answer that question, can you tell us how many enterprise sales people you have today?

Dave Girouard - Google Enterprise - VP, GM

You were right, Jim, those aren't the kind of questions that we're going to answer today. I think probably if you wanted regarding the materiality of the costs of the Postini team and such, I think those are probably good questions to take up with the IR team later, but they are not questions that we are prepared to answer this morning.

Jim Friedland - Cowen & Co. - Analyst

Okay, fair enough. Thanks.

Operator

(OPERATOR INSTRUCTIONS) Brian Pitz, Banc of America.

Brian Pitz - Banc of America - Analyst

Two quick questions. Is something like an S3 that Amazon is doing of interest to you longer term in terms of hosted storage? And secondly, how much of a barrier has off-line availability of both data and applications been an issue up to this point? Thanks.

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Dave Girouard - Google Enterprise - VP, GM

I think what Amazon is doing with the S3 stuff is really interesting, and there's a lot of interest that companies have in outsourcing their computing infrastructure in very different sort of ways when they want to be able to run their own applications but potentially on someone else's infrastructure. It is not something we have in process or are actively working on. But I think is a very interesting area, and it is really a different sort of cut on outsourcing. And I think it's going to be very important in the future. I keep forgetting the second half of the questions.

Brian Pitz - Banc of America - Analyst

Second half, in terms of the barriers that off-line availability of data and applications.

Dave Girouard - Google Enterprise - VP, GM

Yes, off-line access is probably one of the first questions we get, and of course most of the world is getting online and fast, and the usual question, it's usually asked in the context of airplanes and flying on airplanes and can I do my email flying on airplanes. So it certainly is an objection today, and it's something we are addressing. We launched several weeks back a technology we call Google Gears, which is essentially a set of tools to allow any Web application to go off-line, and it's technology that we open sourced and made available to Web developers anywhere. But it certainly something we would expect to use on our own applications to begin to take those applications within the suite off-line as necessary.

Brian Pitz - Banc of America - Analyst

Great. Thanks.

Operator

Youssef Squali, Jefferies & Co.

Youssef Squali - Jefferies & Co. - Analyst

Thank you very much. A couple quick ones. Out of the 11 million users that you talked about, are all of them paying customers already, or is there a free component to that? And second, is it fair to assume that Postini's biggest cost of revenue is first sales and market and then hosting but hosting is an important piece of it? Thanks.

Quentin Gallivan - Postini - President, CEO

Regarding the Postini users, they are primarily paid customers.

Youssef Squali - Jefferies & Co. - Analyst

And on the cost?

Quentin Gallivan - Postini - President, CEO

And what was the question again on the cost?

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Youssef Squali - Jefferies & Co. - Analyst

On the cost I was just trying to understand the big kind of components of your cost of revenues, is it fair to assume that sales and marketing is number one, then hosting is number two?

Quentin Gallivan - Postini - President, CEO

Again, as a private company we don't reveal our cost structure.

Youssef Squali - Jefferies & Co. - Analyst

Fair enough. Thanks.

Dave Girouard - Google Enterprise - VP, GM

Well thanks, everybody, for joining us on really short notice this morning. This is Dave, and I just wanted to say again we are really excited about this transaction, and we think Google and Postini together is going to be a very exciting combination for both of our customers. So once again, thanks for joining this morning.

Operator

That concludes today's conference call. Thanks for your participation. You may now disconnect.

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