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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Rackspace Hosting Second Quarter Earnings Conference Call. As a reminder, this call is being recorded. At this time all lines are in a listen-only mode to prevent background noise. After the prepared comments, there will be a question and answer session.

(Operator Instructions)

It is now my pleasure to introduce Jason Luce, Vice President of Finance for Rackspace. Mr. Luce, please go ahead.

Jason Luce - *Rackspace Hosting, Inc. - VP - Finance*

Thank you. Thank you for joining Rackspace's Second Quarter Conference Call. I'm here with Lanham Napier, Rackspace's CEO, and Bruce Knooihuizen, Rackspace's CFO. We issued a press release today with our unaudited financial results for the second quarter of 2009. If you do not have a copy, please visit the Investor section of our website at www.rackspace.com where this call is also being webcast.

Some of our comments today are forward-looking statements that involve risks, uncertainties and assumptions. If the risks or uncertainties materialize or assumptions prove incorrect, our results could differ materially from those expressed or implied by the forward-looking statements and assumptions.

All statements other than historical facts are statements that could be deemed forward-looking statements, including any statements concerning expected operational and financial results, long-term investment strategies, growth plans, the performance or market share relating to products and services, any statements of expectation or belief and any statements of assumptions underlying any of the foregoing.

These risks, uncertainties and assumptions include infrastructure failures, the potential continuation or further deterioration of the current difficult economic conditions and other risks that are described in our first quarter Form 10-Q filed with the SEC on May 12, 2009, and our Form 10-Q for the second quarter that will be filed later this week.

These forward-looking statements speak as of today. Except as required by law, we assume no obligation to updated these forward-looking statements publicly or to update the reasons actual results can differ materially from those anticipated in these forward-looking statements even if new information becomes available in the future.

During today's discussion, we will be using GAAP as well as non-GAAP financial measures such as adjusted EBITDA. Our GAAP results and GAAP to non-GAAP reconciliations can be found in the earnings release we issued earlier today.

After Lanham and Bruce's remarks, we will field your questions. Lanham?

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Thank you, for joining us. We are excited to discuss Rackspace's second quarter results as we had a strong quarter and continue to see positive momentum. During the second quarter, we continued to tune our business model in order to remain flexible with market conditions.

Given the macroeconomic challenges over the past year, we have been running the business to scale the profits and returns on our managed hosting offering, while investing in the long-term game-changing offerings in our Cloud business. Our focus over the partnership year has been to scale the business and improve profits, strengthen our competitive position in the marketplace and position our business for a return to growth. We're proud to say that our business model is working.

We have improved the adjusted EBITDA margins for the fourth consecutive quarter and turned in a new company record at 31.7%. This is an increase of nearly six full percentage points compared to this time last year, so we feel that we've proven that we can scale our margins.

Because of the improvements made over the past year, we are a stronger, more profitable, tougher competitor. As we position for another cycle of growth, we are making good traction on the enterprise opportunities that we've talked about, and we have some nice wins that we'll share with you.

Our Cloud offering has grown over 145% in the last year, and we are gaining traction as a real leader in the cloud computing category. We have added additional runway at our new data center in Chicago to meet demand as we continue to grow. Exiting the second quarter, we believe we are even better positioned for rapid, profitable growth as the economy improves. We continue to track well against the 2009 operational plan that we shared with you earlier this year.

Growth actually accelerated in the second quarter, and this was the 42nd consecutive quarter that we've grown our business. Total revenue grew more than 16% year-over-year and close to 5% sequentially. For the second quarter in a row, our Cloud revenue grew 145% year-over-year.

We continue to improve on our goals to scale the cost side of our business. Prudent expense management continued to drive another quarter of improved margins. Adjusted EBITDA grew in excess of 42% year-over-year and accelerated on a sequential basis by growing close to 7%. We continue to maintain a strong balance sheet and liquidity position. We maintain a very well leveraged position, which we believe is still prudent in today's environment.

Once again, allow me to start by thanking the Rackers for all of their work over the past few months. Rackers are a special breed of people who volunteer their best every day. They are committed to delivering Fanatical Support to our customers, and they are the reason our company continues to win in our competitive marketplace.

We are a stronger company today because of the effort of our Rackers, and we are closer to our goal of building one of the world's greatest service companies. Also, we would like to thank our loyal customers who continue to place their trust in us by asking us to run their mission-critical IT systems and applications.

With that, I will hand the call over to Bruce to take you through the numbers. Bruce?

Bruce Knooihuizen - *Rackspace Hosting, Inc. - SVP, CFO, Treasurer*

Thank you, Lanham. Let me get started with some of the detail on the growth side. Total net revenue for the second quarter was $152.0 million, up 16.2% from the second quarter of 2008 and 4.8% from the first quarter.

2Q revenue was impacted by $2.4 million in service credits, relating to service interruptions in a portion of our DFW Data Center, offset by a lift of $2.7 million in currency exchange rate fluctuation. The $2.4 million represents the total amount of service credits that we expect to incur for the DFW service interruptions in the quarter.

We experienced improvements to almost all of our key revenue metrics in the second quarter. Installed base growth for the quarter increased from a negative 0.2% to a positive 0.2%. This was the first time in the last four quarters that growth in the installed base had improved sequentially.

The ability to keep churn rates in check is one of the best indicators of how Rackspace will benefit as the economy begins to stabilize. Churn was 1.0% in the quarter, which is an improvement for the second quarter in a row. This is the lowest churn rate that we've seen in six quarters when churn was 0.8% in the quarter ended December 31, 2007.

We added 315 net Managed Hosting customers and 8,410 net Cloud customers during the second quarter and ended the quarter with close to 71,000 total customers, up from 62,000 customers at the end of Q1.

As Lanham mentioned earlier, our Cloud business grew 145% year-over-year for the second quarter in a row. Cloud revenue for the quarter was slightly north of $13 million, up from $11 million in Q1. Adjusted EBITDA grew to $48.1 million, representing a sequential increase of 6.8% and a year-over-year increase of 42.2%.

We continued on our path to improve the cost side of our business for enhanced profitability. Adjusted EBITDA margins, adjusted for share-based compensation, increased for the fourth consecutive quarter to 31.7% in Q2. This is an increase from 31.1% in Q1 2009 and up 580 basis points from 25.9% in Q2 of 2008. Gross margin and sales and marketing both improved sequentially. The sales and marketing spend as a percent of revenue decreased as we continue to focus on areas that generate more efficient growth opportunities.

Expenses also increased due to a full --. G&A expenses increased. The primary reason for the increase in the expenses were due to a full quarter of stock-option expense for options and restricted stock awards that were granted back in February, which mostly affected G&A expense.

We recently announced signing a new lease for data center space in Chicago. Regarding our latest data center leases in Chicago and Virginia, we believe that this structure provides better returns to our shareholders, as well as it better matches the timing of cash expenditures with revenue.

The actual cash payments ramp over three years to meet demand, however the lease accounting rules under GAAP will require us to begin straight-lining the rent expense when we begin building out the Chicago facility this month, and we begin recognizing the Virginia costs in June.

We expect to incur a non-cash, deferred rent expense of approximately $2 million in the third quarter, $3 million in the fourth quarter and approximately $6 million to $8 million in 2010 for the two data centers combined.

In the near term, increasing margins beyond the 31.7% level that we posted in Q2 will be difficult because, one, we have some new cash costs that are hitting margins as we spend more on preparing for growth and, second, the non-cash rent expense will also hit adjusted EBITDA margins because we are not adjusting for this, meaning not changing the way we define adjusted EBITDA.

So even though we believe the improvements we've made will continue to help us scale and operate more efficiently, there are a few factors that will impact aggregate margins, especially the timing non-cash issue related to the deferred rent. In the long run, we believe there is still opportunity to improve margins. Margins will be influenced by our rate of growth, the mix of higher-cost new customer growth versus the lower cost of installed base growth and the rate of productivity improvements.

Net income for the quarter was $7.0 million, up 67.2% from last year and up 6.1% from Q1. Return on capital remained flat at 9% in the second quarter. Total CapEx for the second quarter was $54.7 million, up from $37 million in the first quarter.

The $17 million difference was mainly due to a $13 million increase in customer-geared CapEx, which included $3 million related to up-front cost associated with bringing our new Virginia data center space on line, $3.5 million of storage device maintenance and approximately $3 million for some catch-up for under-investment in Q1. The increase also included higher data center spend relating to the completion of phase 2 of our UK facility, the Virginia facility and additional capacity spend in our DFW facility.

Adjusted free cash for the quarter was negative $8 million, though our actual cash balance increased by $12 million sequentially. We still expect, for the year, to have minimal cash burn, if any. In May, we revised our expectations for the 2009 CapEx range to be closer to $120 million to $160 million. Today, our expectations for growth over the next 12 months are better than they were back in May. We now expect to spend approximately $165 million to $185 million in total CapEx for 2009.

The increase in our range primarily relates to increased spend on customer gear tied to increased growth expectations, as well as increasing our data center footprint by leasing space in the Chicago data center. We intend to begin operation in this facility as early as the fourth quarter. We now expect to spend customer gear CapEx of $100 million to $115 million, versus our prior range of $75 million to $100 million and data center CapEx of $30 million to $35 million, up from the $25 million base on our prior estimate.

We now expect for CapEx for office build-up to come in at the high end of the $10 million to $15 million range, so the full $15 million capitalized software and other at the high end of the $10 million to $20 million, so closer to $20 million.

As of June 30th, we had $148 million of cash and cash equivalents on our balance sheet, up from $135 million at the end of Q1. In July, we repaid $50 million of our revolving credit facility. Adjusting for the $50 million we repaid, we have access to an undrawn amount of approximately $194.3 million.

Our net leverage is less than 0.4 times. Our strong generation of operating cash, together with our existing cash balances, the additional amount available under our revolving credit line and vendor financing arrangements, provide us with a strong liquidity position to pursue growth opportunities. Our business today is fully funded. We have no need to access the capital markets for additional primary capital, given our strong balance sheet and liquidity.

We feel good about the improvements we made in the second quarter. April was a record bookings month for us, so we're pleased about that. However, companies are still conservative about technology spending. Even though the installed base growth has picked up and our key revenue metrics trended in the right direction in Q2, we are not seeing a major change in discretionary versus mission-critical IT spending yet.

With that, I'd like to turn the call back to Lanham.

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Thank you, Bruce. We believe our first-half improvements have better positioned our company for profitable growth once economic conditions change. Keeping loyal customers should drive the top line as things improve, and the efficiencies we are working on means that we should capture more incremental value.

We have continued to build upon our leadership position in the hosting and Cloud computing category. Our market opportunity is large and growing. We believe that our competitive advantage, meeting the IT needs of businesses by delivering our Fanatical Support experience at a compelling value and with the best tools and best technical capabilities is differentiated and durable.

These components drive businesses to choose the hosting and Cloud computing category. The criteria set for selecting Rackspace are focused around our suite of IT services, service capability, our scalability and the compelling value we deliver. We have committed to being the best for more than ten years, and today we hold a leadership position in the industry and have become the provider of choice. We are 100% focused on continually improving on these components, and we believe this strategy will maximize our growth opportunities.

I'd like to share some examples of recent customer wins to better clarify why businesses are choosing to trust Rackspace with their important IT needs. A few months ago, we talked about a new pocket of demand on the enterprise side and how we're becoming part of a new consideration set. We said that the recession has become a tipping point allowing us to compete for larger enterprise deals, and that we would update you on how we are meeting that demand.

To give you a sense for our momentum in the enterprise space, over the past quarter we have won key customers including Aon, ARAMARK and CORE K12. And on the international front, recent enterprise wins include FIFA and Vodafone.

CORE K12, formerly a division of the Princeton Review, provides a range of products and services to school and school districts that helps students and teachers improve academic performance. They serve more than 2 million students across 2,500 urban, suburban and rural schools across the country, including 18 of the 25 largest districts.

CORE K12 recently selected us to run its entire customer-facing web applications because of our capability to rapidly deploy to meet the quickly growing needs of CORE K12 and its customers and to provide the level of support required to trust a strategic name with an on-demand provider. We now manage all of CORE K12's change of management and application deployments.

Aon Corporation is the leading global provider of risk management services, insurance and reinsurance brokerage and human capital consulting. Aon's footprint with Rackspace includes back office internal and external-facing applications. Rackspace manages applications for Aon in all three of its primary businesses.

ARAMARK is a leader in professional services providing award-winning food services facilities management and uniform and career apparel to healthcare institutions, universities and school districts, stadiums and arenas and businesses around the world. ARAMARK is hosting several enterprise applications with us.

Most of these -- both of these enterprise customers select Rackspace for our Fanatical Support response times and reliability. Our ability to meet demand rapidly and scale with our customers significantly increases the customer value proposition we deliver and drives industry-leading profits and returns for our business. Fanatical Support is part of our economic advantage, and it positions us to be the long-term market winner.

Another critical competitive advantage is the ability to deliver a full suite to meet the different IT workloads that businesses are running. Today, we offer a complete Cloud suite, Cloud Sites plus Cloud Files plus Cloud Servers, and are the only major Cloud provider with a comprehensive offering, combining a server and storage-on-demand service, as well as dotnet and lamp platform as a service offer.

Combined with our traditional dedicated offering and reputation for customer service, we are in a good position to be the hybrid hosting leader as these technologies are more widely adopted by IT managers and businesses around the world.

Over the past six months, we have spent a lot of time speaking with industry experts, customers and the investor community about Cloud computing. A lot of people are talking about this new revolution, and there are different views on this new paradigm. We think about this revolution as a paradigm shift in the way computing is consumed by businesses and a set of technologies that are making the paradigm shift accelerate.

The paradigm shift is the idea that companies will consume computing power over the web. This means companies should not buy or run their own servers. The vast majority of businesses will consume IT from service providers; centralized at scale service providers. This paradigm shift is happening faster today, because a new set of technologies are making this super compelling. It is both radically less expensive and more automated.

There are, in our view, three basic flavors of Cloud computing, and we have a big presence in each. First, in terms of infrastructure as a service, we feel like we are in the number two spot behind Amazon. Second, in terms of platform as a service, we believe that we are the largest. Google has a platform as a service offer called App Engine. They announced that they are supporting 80,000 applications. We are supporting over 130,000 applications today.

Third, in terms of software as a service, we are an email provider for businesses and we believe we hold the number one or number two spot there. It's hard to tell how many paying business class service customers that Google is running, but we are supporting over 1.2 million business seats today.

We think this suite of services provides an amazing tool kit for IT departments to solve their computing needs, and we think the combination of these Cloud services with our dedicated on-demand solution supported with Fanatical Support, really sets us up to take advantage of this great paradigm shift that is happening.

Building our Cloud momentum, we recently announced two key initiatives. The first was the launch of the Open API for Cloud. This will allow Rackspace Cloud customers to programmatically manage their Cloud Servers, allowing for deep integration between applications and infrastructure, which makes on-demand scaling a reality. The second was the Private Cloud launch, which allows customers to run and essentially manage VMware virtualization platform on private, dedicated hardware environments.

As Bruce noted earlier, Rackspace added 8,410 customers to the Cloud in the second quarter. Allow me to highlight two quick examples. First, Carlsberg Group, the Danish brewing company is using the Rackspace Cloud to host promotional websites; a common-use case for Cloud computing, given the unpredictable nature of traffic to these sites.

Second, Glam Media, the pioneer and global leader of vertical content networks recently joined Rackspace as a hybrid hosting customer. Glam Media is leveraging a blend of managed hosting and Cloud hosting solutions to power their applications; something they could not do previously as an Amazon customer.

Rackspace's ability to deliver the benefits of a dedicated configuration, together with the scalability and cost efficiency offered by Cloud computing and back it with Fanatical Support, is a key competitive advantage.

On our last conference call in May, we told you that things felt better than they did in February. We feel confident saying that today it feels better than it did three months ago. We continue to improve our business, and are continually delivering more value to our customers. We are expanding our leadership position in the industry by taking market share today, and positioning ourselves to build upon our leadership position in the category into the future.

Our business grew faster in the second quarter. The installed base grew due to improvements in both net upgrades and churn. We have strengthened pipeline by competing for larger opportunities. We are making good progress with our new enterprise strategy, and have some good wins to build upon as that demand continues to ramp. Our Cloud business is gaining significant momentum. It is now operating as a true extension of our core Managed Hosing solution.

We continue to show how much control we have over scaling our cost structure and improving margins. We turned in a company record adjusted EBITDA margin of 31.7%, almost six fold percentage points higher than we were one year ago. These results show that good companies can differentiate during challenging times.

Two days ago on August 8th, we marked our one-year anniversary of becoming a public company and listing on the New York Stock Exchange. One year ago, we set out to raise the capital needed to grow our business and become a real global force in the Cloud computing and computing as a service revolution.

In our first investor letter, we emphasized our philosophy around being transparent and our commitment to being excellent stewards of your capital. It has been a tough year, but with the swart of our customers, Rackers and our new shareholders, we have come a long way and have become a much stronger competitor in this very large market. We would like to conclude by thanking you for your continued support and trust in us.

With that, we are now ready to take your questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Let's go to James Breen with Thomas Weisel.

James Breen - *Thomas Weisel Partners - Analyst*

Thank you, very much for taking the question. With respect to the customer count this quarter, the Managed Hosting customers went up about 315, yet the revenue came in stronger than expected. Can you just talk about some of the trends in that business? It seemed as though the ARPUs may be trending up there. Thanks.

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Yes. This is Lanham. We basically have a portfolio approach with respect to winning customers. And so, we want to figure out the right solution, given the customers' IT workload, and then serve them properly. So within our Managed business, we are tending to attract larger, more complicated solutions. With that service set, a higher ARPU is part of the solution that we're providing those customers.

So basically, we talked in the call about the enterprise opportunity. We are seeing continued momentum there, and so today we are attract -- within our Managed business, we are attracting a higher revenue per customer.

James Breen - *Thomas Weisel Partners - Analyst*

But, do you think that the trend is going to continue so the net customer adds in the Managed Hosting side may be in the range that they are now, but the average revenue on the customer side is going to be -- continue to be higher?

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Well, we'll see how it all plays out. Right now, we are certainly seeing the opportunity in enterprise and believe that that opportunity is there and will continue to be there. With simpler solutions, we are using our portfolio approach in asking -- serving those customers out of our Cloud offering. So, you can see our Cloud business is growing at a very rapid rate. So really, it depends on the type of IT workload that the customer wants us to serve for them, and then we make sure we go have the right fit.

James Breen - *Thomas Weisel Partners - Analyst*

And then just -- just then to follow up on your commentary about the environment feeling better, can you give us a little bit of color on where -- is it feeling better in that your existing customer base is taking more services, or that you're seeing more interest in outsourcing IT from new customers?

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Yes. I would characterize it in a couple of different ways. I would say, if you look at the metrics, you will see things like churn is holding steady. Churn was actually down a little bit. Right? Our churn results were as good as they've been in quite a while. Our installed base growth ticked up, so those are some encouraging signs.

I'd also say generally that the tone of conversation with customers is that our customers, I would say, are more optimistic. Going back in time a little bit to last fall and early this year, people were -- I wouldn't call it depressed, but very concerned. I would think we've realized that we're still here. Business is going to be conducted, and companies are going to move forward.

So to the extent we serve our customers well, as their IT budgets start to grow, we should get a disproportionate share of that growth so that right now, IT budgets I would say are still in check. I don't think people will hit the accelerator button on increasing their IT spend yet, but there are some encouraging signs.

James Breen - *Thomas Weisel Partners - Analyst*

Great. Thank you, very much.

Operator

Let's take our next question from Jonathan Schildkraut with Jefferies.

Jonathan Schildkraut - *Jefferies & Co. - Analyst*

Thanks, for taking the questions. Lanham, actually if you could build on the kind of net upgrades. You know, you had moved negative I guess last quarter for the first time that I remember, and you've moved back to positive. And I was wondering if you could kind of take us through some of the stuff that you're seeing there. And then, I'd like to circle back with a couple more questions. Thanks.

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Sure. With the -- you want us to talk specifically about net upgrades, Jonathan, or do you want to do growth in the installed base?

Jonathan Schildkraut - *Jefferies & Co. - Analyst*

Well, I want to talk about growth in the installed base, so both the churn, but -- and the net upgrades, but I guess the upgrades outweighing the churn in the quarter.

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Yes, okay. So, churn went down a little bit. Our focus on churn remains the same. We believe that in the long run the better we serve customers and the better trends those customers have, they're going to remain loyal and stick with us. Okay? So, we have been very focused during this recession to care for our customers.

Now, we're going to care for them with a disciplined approach, meaning we're going to stick with our operational rigor so that we serve them properly and maintain our discipline around our financial approach with serving customers. So, I think we continue to make incremental improvement on the churn, and so that's why the churn went down.

On the net upgrades, I think that generally what you saw in the second quarter is companies and customers starting to open their mind again about getting the work done. A couple of minutes ago, I made some comments that earlier in the year -- the end of last year, people were really concerned about their IT budgets and spending and what was going to happen in their companies, et cetera.

I feel like confidence is growing, generally speaking, across our customer base. We've been serving our customers well, and so we are competing for the incremental opportunity today.

Jonathan Schildkraut - *Jefferies & Co. - Analyst*

Great. And did you see any movement through the course of the quarter from a trend perspective in either of those lines? Or, was it relatively kind of flat as we went through the months?

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Yes. I wouldn't say anything headline-grabbing to talk about. The one thing we did mention in our prepared remarks were the -- was that April was a really big bookings month for us. And so, what that reflects is some of the enterprise wins that we've been mentioning generally. So in the quarter, I would say April was a special month for us with respect to new customer wins.

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Jonathan Schildkraut - *Jefferies & Co. - Analyst*

All right, great. The next question I have actually has to do with the service credits in the quarter, $2.4 million in service credits in the quarter. There was also another smaller outage I believe at the beginning of the third quarter. I was wondering if we can get any insight into that?

And then as we look to the appropriate jump-off points as we do our own models, could you give us some sense as to what the margin on those service credits are traditionally? We know they're considered to be around 100%, but I understand that there may have been some offsetting items in the quarter and just want to have an appropriate view as I look out into the back half of the year.

Bruce Knooihuizen - *Rackspace Hosting, Inc. - SVP, CFO, Treasurer*

Yes. Jonathan, this is Bruce. In terms of the small outage in the third quarter -- beginning of the third quarter, we did experience a small impact on our service levels, and we will see -- probably see some credits coming through that in the third quarter, but not nearly at the level that we saw in the second quarter. So, they'll be significantly smaller.

In terms of the margin impact on credits, in a lot of cases, there's really not a single expense that one can look at to say that offsets the impact of the service credits. However, in our second quarter we did have a number of mitigating items, the biggest of which is what we call variable pay.

And as you can imagine, the -- we had to issue credits because we didn't perform up to our expectations or our customer expectations. And because of that, we reduced the compensation that folks earned in the second quarter as well. So, that offset most of the credits that you saw in the EBITDA standpoint.

And so when you're looking at our margins, our -- I would say our margins really sort of affect what the margins would have been with our without the credits, because obviously without the credits our folks would have earned higher compensation. But because we didn't meet our commitments, we reduced the payouts.

Jonathan Schildkraut - *Jefferies & Co. - Analyst*

Got it, all right. Thanks. Bruce, one more question on -- and then I'll turn it over. I was just wondering about vendor financing. You continue to draw down on vendor financing, although you did pay off just after the quarter, as you indicated, $50 million of your credit line. How far can vendor financing go for you guys? Are there any limits? And, what is the relative rate of interest that you're paying on that vendor financing versus what you would pay underneath your bank facility?

Bruce Knooihuizen - *Rackspace Hosting, Inc. - SVP, CFO, Treasurer*

Yes. In terms of the vendor financing, our vendors -- and it's primarily Cisco and Dell, they continue to offer us very attractive rates and very attractive terms on our vendor financing. And they have not indicated any level. Obviously, as you know, we pay it off over three years as well -- generally over three years, so there is some churn in terms of the vendor financing.

From an effective interest rate, the effective interest rate at a point in time -- in the point of time today, it's probably 200 basis points, but that'll fluctuate over time. Once we set our vendor financing rate, it's set for three years, whereas the -- our bank facility will fluctuate based on LIBOR.

Jonathan Schildkraut - *Jefferies & Co. - Analyst*

Great. Thank you, for taking the questions.

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Sure.

Operator

We'll now move on taking a question with Chris Larsen from Piper Jaffray.

Chris Larsen - *Piper Jaffray & Co. - Analyst*

Hi. Thanks, and good afternoon. I'm wondering if you could talk just a little bit about any sort of impacts that you may have seen after the June quarter close and the record quarter with churn -- well not record but best in six quarters. But, you had the service outage. Have you seen any customers want to churn or indicate a preference to churn, and if have you seen any slowdown in the pipeline of new customers because of the outage?

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Okay. In terms of the pipeline, we don't have any significant -- thing significant there to share that would say the pipeline has fallen in -- dramatically or anything like that. I would say that within the technology industry, incidents like this occur. So, I think to some extent -- well any incident is one too many. I do think that within the marketplace and customers and IT decision-makers, these things are known. And so, it really hasn't impacted the demand that we are seeing.

With respect to our current customers, it's still pretty early in the game, so we'll see how it plays out. I've certainly been in a lot of conversations with customers. The nice thing about Fanatical Support is that we absolutely have worked really hard to earn peoples' trust over time. And what happens is as we've earned their trust, we've -- rely and utilize that relationship to work through difficult moments like this. So, we will continue to do our best on that, but I don't have any big headline news to report on it.

Chris Larsen - *Piper Jaffray & Co. - Analyst*

Great. And then, Lanham, one of the comments you made that was -- that April was the best, and I just want to make sure I'm not reading into it that April was the best and it's declined since then, because you said a number of other comments to say that the pipeline and the customer demand, the feedback, remains --.

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Yes.

Chris Larsen - *Piper Jaffray & Co. - Analyst*

strong. There's no big tail-off off of April; it's just that April was the best month so far. Is that fair?

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Yes. Here's how I characterize it. Things were pretty normal, but April was extra special.

Chris Larsen - *Piper Jaffray & Co. - Analyst*

Okay, that's great. Thank you, very much.

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Yes. Thank you.

Operator

Taking our next question from Merrill Lynch's Kash Rangan.

Kash Rangan - *BAS-ML - Analyst*

Hi. Thank you, very much. It looks like you're reaching a growth versus margin trade-off. Up until the past couple of quarters, it seemed like, just given the tough economic conditions, you were more focused on a diminished -- not maybe diminished, but a slower growth rate at the expense of boosting your margins. So if I read your comments right, you're reaching that inflection point where you feel like it's time to start increasing your CapEx and boosting your growth.

So if that assumption is correct, what -- how should we think about the growth rate going forward if you've been putting up 16%, 17%-type growth rate, definitely looks like the sequential trends are accelerating. So then, with the help of this additional CapEx, quite a bit of it seems to be revenue-related CapEx. Should we assume that the revenue growth rate should accelerate from this, what seems to be a low point in the June quarter? That's my first question I have a follow-up as well.

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Okay. This is Lanham. I would say your characterization of earlier this year with the slowing growth and the recession is exactly correct in that we were extremely focused on margin. So, I feel like what we've proven over the past few quarters here -- if you look year-over-year, our margin is up almost six full percentage points.

And I would tell you we're proud of being able to do that. I mean, we feel like that was a good piece of work across the Company, and Rackers made it happen. So, I do feel like from a margin point of view we've made significant progress.

What's happening now in the -- some of the early trends and indicators that we are starting to receive is that we are seeing a significant amount of potential growth opportunities coming our way. We've talked about enterprise as a growth opportunity and shared some of those wins. The Cloud figures are here in the numbers. So from a -- characterizing how we feel today, I would say that we are -- growth is becoming more on our mind.

Now, I do not want you guys to get way too excited about that, because we are still pretty early. There's still a recession on, et cetera. All right? But within our Cloud business, the API launch we had has been a success. We feel like there's growth to be had there. We feel like we see other pockets of growth in the marketplace, specifically enterprise, which we've talked about.

So, I would say -- where six months ago we were very focused on margin with a much smaller focus on growth; today, those are more in balance. And so, the investments we are making and the additional runway in data centers and other investments here within the Company, we are starting to think about growth again. I don't think that growth is immediately around the corner. I do think things have to play out here, but we are seeing some of the indicators and beliefs that it will be there in the future.

Kash Rangan - *BAS-ML - Analyst*

All right. Lanham, if I could put some numbers and cents surrounding your qualitative commentary, should -- is it fair then that margin growth will probably be flat, but that revenues will accelerate? Because you've got to have one -- or the -- I mean, you can't have revenues accelerating without margins not going up as much as --. I want just to put it in the framework of a relationship between X percentage point of this equals this percentage point of that, some -- help us understand the relationship here a little bit.

Bruce Knooihuizen - *Rackspace Hosting, Inc. - SVP, CFO, Treasurer*

Well, there's a couple of things. This is Bruce, Kash. There's a couple of things to keep in mind. First of all, I think you're absolutely right that the higher the growth rate in the short term will impact our margins. And so, I think that Lanham gave you sort of the cautionary note. We're optimistic. We think that you need to make investments ahead of growth, and when it comes it will have an impact on our margins.

But probably the bigger impact on the margins is going to be the rent expense associated with our new data centers, because that'll start hitting us in the third quarter and for the full quarter and the fourth quarter. And keep in mind the data center, like Chicago -- well between Chicago and Virginia, we're going to see about $3 million of non-cash rent expense in the fourth quarter. And so as a percent of our total revenue, that's a pretty substantial increase.

Now, we've structured that deal knowing that it takes time to fill up a data center and add customers, so the payment process on that is that we pay a significantly lower amount in the beginning of that lease and that'll increase over time, as we'd expect revenue to increase. But, the accounting rules say you have to straight-line it, so we're seeing that huge, non-cash item hit up front.

Kash Rangan - *BAS-ML - Analyst*

Got it, and I also -- my third and final question, if I could rephrase the linearity question, which has already been asked in a slightly different way, Lanham, you said that April was specific. And it would seem a little bit logical, the stock market bounced off the bottom in the month of March. But, how has been the business followed through? Particularly, as you exited the June quarter, what -- the tone of business in the month of June, if you could compare it to the tone of business in the April, if you can help us understand the qualitative trends there that are useful? Thanks. That's it.

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Sure.

Kash Rangan - *BAS-ML - Analyst*

Perhaps, even July. I mean, since you've got the month of July under your belt now, maybe you could just give us a quicker update there.

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Okay. I think for the purpose of this call, we just want to talk about Q2. And so the way I would characterize it, Kash, is in our traditional businesses the months were all pretty much the same. What made April so special was we had some enterprise wins so that our enterprise is a strategic effort, which we've talked about in these calls. And, we had a couple of them come together that month that we'd been working on in prior periods, and that's what made April extra special. The other months I would characterize as good, solid months.

Operator

Let's move on now. Let's take a question from Boenning & Scattergood. We have Steve Salberta.

Steve Salberta - *Boenning & Scattergood Inc. - Analyst*

Hi, guys. My first question is around the service credit. Did -- would -- did that affect the reported increase in installed base? So, would the 1.2% have been higher if it wasn't for that credit?

Bruce Knooihuizen - *Rackspace Hosting, Inc. - SVP, CFO, Treasurer*

No. That's not part of the calculation. The installed base growth is based on recurring revenue, and this item is a one-time item associated with the outages that we saw at DFW.

Steve Salberta - *Boenning & Scattergood Inc. - Analyst*

Okay, great. Now, the exceptional April that you had and the enterprise wins, were you able to see the benefit in the quarter from revenue from those wins? I guess I'm partly asking how long it takes to get those guys up when you win the deal?

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

A little bit -- a little bit. These are more complicated solutions that take longer to deploy, and they often have a longer implementation process for the customer. So, some of it yes. But really when we talk about the wins there being special, what makes it meaningful to us is that as we enter this new market and compete for these opportunities, really one customer begets another.

And so, that as we do good work, they refer us to their friends. They -- and colleagues, they take us through the rest of their business, so there are opportunities to run in the long run for a larger share of their IT spend goes up.

Steve Salberta - *Boenning & Scattergood Inc. - Analyst*

Yes. Okay. And as you go forward, should we look at -- I guess, like kind of the implied new customer part of your business, should you build from this level going forward? Should this be the benchmark for your new business kind of going forward?

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

I'm not sure I quite understand the question. Can you just elaborate on it a little bit?

Steve Salberta - *Boenning & Scattergood Inc. - Analyst*

I guess -- with respect to your pipeline, what you see kind of what you see coming, what you see closing, should you build on this strength in terms of new customers, because you have a very lumpy closures between the quarters.

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Right, yes, okay. Now, I understand your question. As we look at things in reflecting on the second quarter, we have a portfolio approach, and so that for those customers that are best served in our Cloud, we're directing them in that path. For those customers that have a more complicated figuration and need a different service level, we are pointing them toward our -- the high end of our traditional offering, which is where the enterprise wins come in.

So, I feel like -- we feel in our traditional business that is cruising along at a pace we understand and feel confident in. What I'd tell you is that in some of our prepared remarks, we talk about things feeling better today. Yes, we feel like we've got our arms around this and that the enterprise opportunity ahead of us gives us some incremental opportunity and potential growth that we haven't had historically; that is starting to bear some fruit.

We feel like our Cloud business continues to build strong momentum, and so that is yielding some fruit for us as well. So across the board, we generally feel more confident today in saying that things feel better today than they did three months ago and certainly better than six months ago.

And so, that's how we think about it. The variable here that also had a positive impact on the quarter was the installed base growth. Historically, our installed base growth has generated almost half -- 30% to 40% of our company's growth in terms of top line revenue growth. And so, starting to see some signs that the installed base is doing better is also a significant metric for us.

And so, we'll see -- I mean, I think in the national press there's lots of talk about a choppy recovery. We'll see when all of this comes together. I think when it does come together, we are highly levered and leveraged to an economic rebound. The investments we're making position us for that growth. You've seen some signs of it already, and we'll see if it continues.

Steve Salberta - *Boenning & Scattergood Inc. - Analyst*

My final question, guys, is around investment. And when you look out to the rest of this year, are there things below the cost of revenue line that you need to invest in; things like marketing programs, accelerating sales force hiring, things of that nature?

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

We are making some of those investments and have been all year. Specifically in our enterprise opportunity, there are some sales and systems investments that we will be making. Within our traditional Managed Hosting business, we are focused on scaling that business.

So, there were some questions earlier about margin. And as we think about margins, we think about margin in our Managed Hosting business. We think about margin in our Cloud business. The number one strategic item in our Cloud business today is traction. Within our -- meaning growth and customer wins in the marketplace. In our Managed business, we are thinking more about scaling.

So within the Managed business, we will still be focused on increasing the margin there. There will be investments we need to make specifically with enterprise. When you get into Cloud, there are a lot more investments that we're making.

Steve Salberta - *Boenning & Scattergood Inc. - Analyst*

Great. Thanks, guys.

Operator

Let's now take a question from Oppenheimer's Sri Anantha.

Sri Anantha - *Oppenheimer & Co. - Analyst*

Yes, thank you. Lanham, you talked about the enterprise opportunity and how you think you guys had pretty nice wins up there. Could you talk about what exactly the types of services are these enterprise customers taking from you folks, if it's traditional Managed Hosting or the Cloud services, and to what extent are those coming from your existing customer base?

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

So, do you want to talk about -- just to make sure I understand the question, the question is within our enterprise wins, what type of services are we providing them?

Sri Anantha - *Oppenheimer & Co. - Analyst*

That's correct.

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

And then, what was the second part of the question?

Sri Anantha - *Oppenheimer & Co. - Analyst*

The second one is like are they taking your traditional Managed Services or the Cloud services, and to what extent are these entirely new customers or some of them are just coming from your existing customer base?

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Oh, okay. Yes, okay. Yes. The enterprise wins that we've talked about in this call, nearly all of them are new customers -- one of them was an existing customer that we've won more business with. And so, I think what's happening is the reason people are selecting us is that in the enterprise marketplace, people are still under IT budget consideration sets where they're trying to figure out for the same kind of money how do I get more performance out of it?

And so, this is where they choose us for our scalability, our effectiveness, and at the same time they have a world-class service experience with Fanatical Support. And so, the applications they are bringing to us tend to be customer-facing web applications. This is -- the adoption cycle tends to be first the customer-facing web application. Then, we work our way into more traditional IT apps that may be -- have a back-office functionality.

And so, that really is the adoption cycle within our enterprise customers. We certainly do have enterprise customers that are using the Cloud as well. We talked about Carlsberg here on the call. We talked about Glam Media. Glam is really a hybrid customer in that they are utilizing our traditional Managed Hosting, which is a single-tenant architecture, along with our Cloud, which is a multi-tenant architecture.

Sri Anantha - *Oppenheimer & Co. - Analyst*

Got it. Bruce, as we think about the CapEx for Rackspace, I know in the past when you talked about CapEx was you guys cut back on pack CapEx saying that, hey, there's less visibility going forward, hence we're didn't need the same kind of growth CapEx going forward.

Now it at least seemingly does appear that visibility is improving on the margin; you guys feel a lot better than what you had three months or six months ago. Should we assume that CapEx at this point of time should continue to increase going forward?

Bruce Knooihuizen - *Rackspace Hosting, Inc. - SVP, CFO, Treasurer*

Well, we -- we're giving the range of CapEx that we believe sort of reflects our expectations for the year. And to your point, you're absolutely right that as the year began things were looking very bleak in the economy, and so we chose what we thought were probably some conservative growth rates in our CapEx.

And if you remember that most of our CapEx -- virtually all of our CapEx, is success-based, and so we were trying to be very prudent early on not knowing what to expect. But if you look at our growth rate through the second quarter, if you adjust it for FX it's grown at 24%. And so that's year-over-year, so that was certainly higher than what we had expected at the beginning of the year.

Sri Anantha - *Oppenheimer & Co. - Analyst*

Got it. And, Bruce, in the past you'd also quantified the FX impact on your top line revenue. Do you have that number, what it was a year over year on a sequential basis?

Bruce Knooihuizen - *Rackspace Hosting, Inc. - SVP, CFO, Treasurer*

On a sequential basis it was $2.7 million. We -- we got the tail winds of $2.7 million. Year-over-year, the -- we actually lost some. We're trying to get the number real quickly.

Sri Anantha - *Oppenheimer & Co. - Analyst*

And as you look --.

Bruce Knooihuizen - *Rackspace Hosting, Inc. - SVP, CFO, Treasurer*

We were disadvantaged by FX when you compare it to a year ago, but the last quarter it was a little bit better.

Sri Anantha - *Oppenheimer & Co. - Analyst*

And just on -- one last question on the expense front, even when we look at the cash expenses your sales and marketing declined once again on a sequential basis. Do you think that that's sustainable going forward as you begin to see improved visibility and as you guys begin to spend?

THOMSON REUTERS

Bruce Knooihuizen - *Rackspace Hosting, Inc. - SVP, CFO, Treasurer*

Yes. That's a good question. When we look at sales and marketing, really the important measure on sales and marketing is the effectiveness of the sales and marketing team. We have a very disciplined approach when it comes to selling our products and the prices we sell at, and our philosophy has always been if we can get customers in at the right price and do it at an effective rate, we're willing to spend money on sales and marketing.

And so based on that theory, if growth rate were to increase we'd spend more on sales and marketing than we are today. Conversely, if things slow down, then obviously we'd do it in reverse.

Sri Anantha - *Oppenheimer & Co. - Analyst*

Thanks, Bruce. Thanks, a lot.

Bruce Knooihuizen - *Rackspace Hosting, Inc. - SVP, CFO, Treasurer*

Yes.

Operator

(Operator Instructions)

Let's move on to Winston Len with Goldman Sachs.

Winston Len - *Goldman Sachs - Analyst*

Hey, guys. Thanks, for taking the question. Maybe just so I understand the margin pressure from Cloud computing a bit better -- I think the last couple of quarters the impact was about 100 basis points. Is that something consistent this quarter as well? Or, has the pressure decreased, given the scaling of the business? And I have a couple of follow-ups as well.

Bruce Knooihuizen - *Rackspace Hosting, Inc. - SVP, CFO, Treasurer*

Well, just generally speaking without getting into specifics because we don't break those out, we're still seeing our Managed Hosting business scale. And when you think about some of the data center costs that we talked about in the new data centers, the Chicago data center is really out there for the growth in Cloud.

And so, when you think about the costs associated with that up front from an accounting standpoint, no revenue, obviously the Cloud margins are going to take a hit from that factor alone. And so, we're -- but generally, we're seeing positive signs absent that in both our Managed Hosting and our Cloud Hosting.

Winston Len - *Goldman Sachs - Analyst*

Okay. That's very helpful. And then, last quarter you mentioned being proactive in terms of reaching out to customers to help them manage their IT spend. And where are we in terms of this right-sizing initiative?

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Oh, okay. This is Lanham, Winston. Through the first half of the year, we've worked our way through almost all of that.

Winston Len - *Goldman Sachs - Analyst*

Okay, that's great. And maybe just the last question here, it looks like headcount trended down quarter over quarter, but then office space CapEx is going to pick up in the second half of the year, so just wondering how to reconcile the two data points.

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Okay. So, what's happening is the first half of the year, as we entered the year the economic outlook, there were quite a few question marks around it. And so, what we have focused on within our traditional hosting business is to scale it and to become more efficient and more effective. And so, what you -- what we've experienced this year is an increasing margin in our Managed Hosting business, which has driven the 580 basis-point increase in margin year-over-year.

All right? And so, in the headcount and stuff that you see, that just reflects us scaling our traditional business. The vast majority of the folks we've hired the first half of the year have been into our Cloud business, so while the overall headcount went down a little bit the headcount in our Cloud went up. And so, what we are doing is deploying assets around opportunities that we see in the marketplace.

And right now, Cloud -- it's momentum is building. We see it as a long-term game-changing opportunity, and we believe we are one of the handful of companies positioned to capitalize on that opportunity. So as we talk about making Cloud investments, we'll continue to make investments over there. So, what -- through the first half of the year, we got more effective, we've increased our margins, and we've made investments in our Cloud business.

Now, what we've talked about on this call is from a scaling point of view, we're going to continue to scale the Managed business and work on that. We also feel like the balance between scaling the model and growth opportunities in the market is starting to come more commensurate with each other.

And so, we're starting to see some early signs around growth, which is why we've changed our CapEx range, because those two are inter-linked. And so, we'll see how it all develops. We don't possess a crystal ball around it, but we are starting to see incrementally more opportunities. It's just a matter of when it comes and how lumpy it becomes.

Winston Len - *Goldman Sachs - Analyst*

Okay. And maybe just the last question on churn, I think some of the peers had pointed to higher churn in the back half of the year, especially from the tech companies our there. Is that something that you guys are picking up as well, but maybe you maybe you managed to head off with your earlier proactive initiatives around managing IT spend?

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Yes. I mean, I couldn't tell you if we've headed it off because of what we've done all. I mean, I'd like to think so. I think that the conservations we're having with customers -- we mentioned earlier I think in some of the Q&A around -- the conversations are a little bit better today. So, I don't feel that -- we don't feel the same pressures as some of the other companies that you're referencing on that. I mean, I don't discount that the risk is out there; I do think the risk is out there. We just feel like we've made some progress on this so far this year.

Winston Len - *Goldman Sachs - Analyst*

Great, thank you.

Operator

And our next question comes from Erik Suppiger with Signal Hill.

Erik Suppiger - *Signal Hill Group LLC - Analyst*

Good afternoon.

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Hello.

Erik Suppiger - *Signal Hill Group LLC - Analyst*

Just on the receivables, receivables have been picking up for the last couple of quarters. Is there any change or anything to be aware of on the receivables side?

Bruce Knooihuizen - *Rackspace Hosting, Inc. - SVP, CFO, Treasurer*

Well again, generally speaking, we have no customer that has more than 2% of our revenue, so even on the receivables it's not like there's a big item that's hanging out there. Generally speaking, our receivables have lengthened slightly, but from a collectable standpoint we've been able to, over the last couple of quarters, keep our uncollectibles under 2% of revenue. And actually, this quarter was down a little bit from last quarter.

So, we feel that we're controlling that cost pretty well. We're keeping our eye on it. As Lanham said, the economy tone seems a lot better, but the economy is still where it is today. And so, we're watching that very closely.

Erik Suppiger - *Signal Hill Group LLC - Analyst*

So, no notable trends to take note of?

Bruce Knooihuizen - *Rackspace Hosting, Inc. - SVP, CFO, Treasurer*

No.

Erik Suppiger - *Signal Hill Group LLC - Analyst*

The VMware product on the Cloud side, will that help to increase the revenue, the pricing for -- the ARPU per customer on the Cloud side?

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

What -- so, you're looking at the metrics and that type of stuff on our key metrics page?

Erik Suppiger - *Signal Hill Group LLC - Analyst*

Yes.

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Okay. The Private Cloud launch on VMware, we have offered it for a while within our customers -- sorry, to our customer rather. And so, really what we've done here is relaunch it and get more conversation and dialog with customers around it. It is an -- service offering that as been picking up momentum within the business. The way we classify things, that -- most of those customers talk are running a Private Cloud, it's a single-tenant architecture, meaning it's just that customer on that infrastructure.

And so, those metrics are currently captured our in our Managed Hosting customers, because most of those customers will have a Private Cloud instance and some other services that are all on dedicated infrastructure to them. So from a classifications point of view on this metrics page, it's all on our Managed Hosting customers.

Erik Suppiger - *Signal Hill Group LLC - Analyst*

Okay. I had that confused, sorry. On the -- on the Cloud side, you've been rolling out the Cloud services for a little bit. What is your sense in terms of customer cannibalization as -- have you seen many customers moving to Cloud services to reduce their service revenues? Or, how can we interpret some of the Cloud services in terms of cannibalization?

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Okay, yes. The -- when we launched Cloud, cannibalization was certainly something that was really on our mind and how it was going to impact us and what would it do. And ultimately we made the decision to launch Cloud, because it's the right thing to do for our customers and the long-term interests of the Company. The place where Cloud is most relevant to our current customer set is for those customers running something that is pretty simple on a single server.

Today, with new customers and opportunities that are coming through our demand pipeline, for those customers in the categorization that fit Cloud, we are certainly talking to them about Cloud. Now, not everybody in that categorization does fit Cloud. So, the next layer of nuance here is it depends on what you're doing and what type of service level you want and how much Fanatical Support interaction you desire with a Racker.

So if you look at our single-server business and the percentage of revenue we have with those customers, it's really about 5% of our business in terms of revenue in our single-server customers. So that what we have is we certainly have some ebb and flow with those customers between how much of their applications and IT workloads they want to run on infrastructure dedicated to them, versus how much they want to run on multi-tenant architecture in our Cloud.

So when you think about the whole cannibalization risk, I think it's -- we think it's really clustered around those single-server customers. So far, it hasn't been a big headline within our business. All right? And really, what's happened with Cloud is Cloud is perfect for certain IT workloads, and we have customers no matter how large their configuration or service requirement is with us they are tapping into Cloud to take those -- to realize the benefits of those advantages.

Erik Suppiger - *Signal Hill Group LLC - Analyst*

Any sense for what cross-selling you've been able to do, how much of your Cloud services are sold to existing customers or vice versa?

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Yes. Well, we don't have anything we want to share on this call. If you look at the customer count of 70,000 customers, you've got 20,000 in our traditional Managed and 50,000 in Cloud. I mean, these numbers are absolutely starting to bleed together, based on workloads. The early adopters of Cloud have not all been traditional Managed Hosting customers of ours, but we do have a number of enterprises and current customers.

All of our current customers absolutely want to talk about Cloud. It's on all of their minds. It's absolutely part of their IT decision-making, and they want to understand the offer and the trade-offs. They haven't all bought it yet.

Erik Suppiger - *Signal Hill Group LLC - Analyst*

Very good, thank you very much.

Operator

(Operator Instructions)

With no further questions in our queue, I'd like to turn the call over to Mr. Napier for additional or closing remarks.

Lanham Napier - *Rackspace Hosting, Inc. - CEO, President, Director*

Okay. Thank you. For everyone on the call, thank you for your interest in us. We appreciate the questions and effort you put into understanding our company. For all of our customers that are listening in on this or might listen to a recast of it, we want to thank you for the opportunity to serve you.

And for all of the Rackers in our company that create the magic of Fanatical Support, thanks for some incredible work this past quarter. We have a bright future ahead of us and the opportunity to build the world's greatest service company, and it's exactly what we're going to go do. Thank you.

Operator

Again, that does conclude today's conference call. We thank you for your participation.
