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CORPORATE PARTICIPANTS

Jason Luce
Rackspace Hosting - VP Finance

Lanham Napier
Rackspace Hosting - CEO

Bruce Knooihuizen
Rackspace Hosting - CFO

CONFERENCE CALL PARTICIPANTS

Pat Walravens
JMP Securities - Analyst

Chris Larson
Piper Jaffray - Analyst

James Breen
William Blair & Company - Analyst

Greg Dunham
Credit Suisse - Analyst

Scott Goldman
Goldman Sachs - Analyst

Johnathan Atkin
RBC Capital Markets - Analyst

Simon Flannery
Morgan Stanley - Analyst

Gray Powell
Wells Fargo Securities - Analyst

Johnathan Schildkraut
Evercore - Analyst

Mitesh Dhruv
BofA Merrill Lynch - Analyst

PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to the Rackspace fourth quarter earnings 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 remarks there will be a question and answer session. (Operator Instructions). It is now my pleasure to introduce Jason Luce, Vice President of Finance. Please go ahead.

Jason Luce - *Rackspace Hosting - VP Finance*

Good afternoon. Thank you for joining Rackspace's fourth quarter 2010 earnings call. I am here today with Lanham Napier, our CEO, and Bruce Knooihuizen, our CFO. We issued a press release after the close of the market today with our un-audited financial results for the fourth quarter and year end 2010. If you do not have a copy please visit the investor section of our website at rackspace.com where this call is also being webcast. The primary purpose of today's call is to discuss the fourth quarter and full year 2010 results.

However, 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. These risks, uncertainties and assumptions are described in our Form 10-Q for the quarter ended September 30, 2010 which was filed with the SEC on November 9, 2010 and our Form 10-K for the year ended December 31, 2010 that will be filed by March 1, 2011.

These forward-looking statements speak as of today. Except as required by law we assume no obligation to update these forward-looking statements publicly 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 that we issued earlier today which is posted on our website as mentioned previously. Following our prepared remarks today we will open the call for your questions. Great, let's get started.

Lanham Napier - *Rackspace Hosting - CEO*

Good afternoon and thank you for joining us today. Over years worth of investing and hard work by Rackspace has culminated in the strongest quarter since Rackspace has been public and we are eager to finally share those results with you. Here are some highlights from the fourth quarter and the full year.

First, sequential revenue growth accelerated to 7.5%, which is the fastest rate of growth since the second quarter of 2008. Second, revenue growth for the full year accelerated to 24% from 18% in 2009. Third, 2010 adjusted EBITDA margins of 33.6% were a record high for our company. Fourth, average revenue per customer increased in both Cloud and managed. Fifth, average revenue per server increased for the sixth consecutive quarter. Six, capital turnover increased also for the sixth sequential quarter and then number seven, we added just over 11,500 customers in the fourth quarter.

Bruce will review the detailed financial results for the fourth quarter. But before I turn the call over to him I would like to outline our vision of the market and provide an overview of our business plan of 2011. As you can see we have delivered on our plan for 2010. While we are pleased that we achieved our goals for 2010 we have more ambitious plans for 2011 designed to position us to succeed well into the future. 2011 marks Rackspace's 13th anniversary. And during the year we anticipate crossing a very important milestone. $1 billion of run rate revenue. This will be a great accomplishment in and of itself.

However, we want investors to understand that we are playing for a larger outcome. With all the market buzz surrounding the Cloud today. It's understandable to mistakenly believe that Cloud computing is a mainstream mature market. In fact, Cloud computing is only in its infancy. Today the best data that we have seen suggests that well over 90% of computing capacity is run in-house by the same organizations that consume it. What we refer to as a do it yourself approach.

Another interesting data point comes from research done by Guy Rosen at Jack of all Clouds. According to his January State of the Cloud survey, of the 500,000 most popular websites fewer than 9,000 or 2% are hosted with the top five Cloud computing companies. This means that well over 90% of the most trafficked websites today have yet to migrate from legacy platforms to take advantage of the scaling and economic benefits of modern Cloud architectures. Another method of tracking the penetration of Cloud adoption is by looking at server shipments. Gardner estimates that approximately 7.8 million x86 servers were delivered to the marketplace in 2010.

We added just over 9,000 net servers in 2010. Which means that even though we are the leading hosting and Cloud computing specialists, we captured only one tenth of a percent of the total addressable market in 2010. All these data points arrive at the same conclusion. That the hosting and Cloud computing market is still in its very early stages. While at one time running IT in house was necessary. Technology has evolved to a point where doing so is unnecessary and can be a major competitive disadvantage.

The trend going forward is clear. A larger and larger percentage of IT work loads will be run by a specialist service provider like Rackspace. For us, this means that hosting and Cloud computing represents a massive, essentially untapped, multi billion dollar revenue opportunity. As the market develops we expect it to segment. And we believe that the Cloud services segment will become the most valuable segment within the largest growing market in tech. Rackspace's mission is to dominate that segment.

Cloud services will continue to be in demand because many technical aspects of Cloud computing simply cannot be automated due to the complexity of the systems or the [missing] critical nature of the business processes that they support. Rackspace's value proposition resides in providing our customers with the optimal technology outcomes that they demand. And we deliver on this through our culture of customer service known throughout the IT world as Fanatical Support. Fanatical Support is a complex business process that creates industry leading customer outcomes through the combination of proprietary systems, scalable tools and engaged professionals we call Rackers.

Fanatical Support leverages the shrinks of our systems and employees to create the best technology service outcomes in our industry. This service delivery strategy is our core of our differentiation and competitive advantage. We will continue to invest in this core and improve the value we deliver to our customers. Although it will have taken Rackspace13 years to achieve to achieve the first $1 billion in run rate revenue, we believe we are positioned to achieve the second billion of run rate revenue in a fraction of that time frame. When the Company was founded, $2 billion in revenue was little more than a far off ambition. But today we believe it is very much within our reach and that we have a solid plan to get there. Our business plan for 2011 is continuation of the plan we executed in 2010.

For 2011, we will improve our business model to become more competitive to seize the massive market opportunity ahead of us while improving the economics of our model by becoming more capital efficient. How are we going to do this? We are making the right investments to further increase our service level capability and enhance our product portfolio by rolling out new products. In 2010 we improved our sales organization by strengthening our Enterprise group and channel sales team. These efforts paid off as Enterprise has been one of our strongest drivers of revenue growth and channel influenced sales more than doubled since the end of 2009.

In 2011 we will continue investing in those initiatives while also increasing capabilities across the sales organization. The enhancements to our sales organization are aimed at helping us grow faster, extending, enhancing and integrating our Cloud services portfolio is aimed at making us more competitive and our business model more capital efficient. When we make investments to build out our portfolio it is to achieve three main goals. First, enhance our service levels and customer outcomes. Second, increase capital efficiency. And third, tap into unmet demand by adding new capability.

Let's review the progress of the new services and capabilities we released in 2010 and how they deliver on these three goals. Cloud Service for Windows is an example of Rackspace adding a new capability to tap into a new opportunity. Although our Cloud business was growing rapidly we were missing out on demand for Cloud Service running the Windows operating system. Based on the demand mix between Linux and Windows in our dedicated business, as well as the volume of requests we received for our Cloud server running Windows, we introduced that capability. Since its launch in August our Windows Cloud product has grown rapidly and now represents approximately 30% of new Cloud Server sales.

As this business grows, it will also serve as a foundation for us to add on higher levels of service which in turn lead to improved capital efficiency and higher returns. RackConnect, which is the product that powers our hybrid hosting service, was released from beta in the beginning of November. RackConnect is a strategic new capability for Rackspace that gives us the unique ability to deploy configurations that span both dedicated and Cloud infrastructures.

Even though RackConnect has been only generally available since early November, approximately a thousand customers from our managed hosting business have already linked their accounts to our Cloud platform. RackConnect adds a new capability and new service offering to our portfolio. RackConnect makes us more competitive in the market and will drive higher capital efficiency as more and more managed hosting customers add Cloud services to their configure rakes.

We also introduced a product we call Critical Sites. This is an example of a new product that enhances our service level agreements. Critical Sites is designed for applications that require the highest levels of performance and availability. And it is backed by our most comprehensive SOA. Critical Sites is particular well suited for Enterprise customers. In addition to the multi year multi million dollar customer we announced on the Q3 earnings call five more Enterprise customers have now adopted the critical site service. Relative to our core managed hosting service Critical Sites generates revenue with similar margins but it does not require incremental capital be deployed. The net result is improved capital efficiency and thus higher returns. On December 14 we launched our Managed Cloud product.

Managed Cloud extends our industry leading support service to Cloud Servers. Like Critical Sites, Managed Cloud adds a higher service level, generates more revenue with similar margins, but does not require additional capital. So again, from an economic standpoint the result is improved capital efficiency and higher returns. We are encouraged by the initial progress of Managed Cloud. Over 160 customers adopted the new service in the two weeks it was available in 2010 and to date over 10% of new Cloud Server customers are adding the Managed Cloud Service. The average revenue for customer is also more than twice as large as Cloud customers without the add on managed service.

Needless to say we are pleased with our 2010 releases and 2011 is already off to a strong start. In January we officially launched our Cloud Service in the UK. This product is intended to increase capital efficiency, and make us more competitive in the market. Similar to Cloud Service for Windows, the UK Cloud will also serve as a foundation for us to layer on higher service levels over time which will further improve capital efficiencies and returns. While it is still early for the UK Cloud, the traction in the first 30 days was comparable to the traction the US Cloud experienced during its first month in the market.

As we build out our portfolio it is important to understand that we collaborate with our customers about what new features and products to develop. Our customers need us to do more for them and our opportunities to build productized repeatable services that help them meet their needs. Simply put, our goal is to build simple to use high performance solutions into our platform and layer on higher levels of services.

This year we will roll out new capabilities such as low balancing as a service. Which went into beta in December. We will also be integrating the advanced management, security and monitoring tools gained in the Cloudkick acquisition across our entire product portfolio. We are making investments in the open stat computing platform. We are already running our Cloud file service on OpenStack and we are committed to running our Cloud Servers offering on the OpenStack platform by the end of the year.

We recently acquired Ansell Labs to bolster our service delivery capabilities around OpenStack. As the year progresses expect to hear more about OpenStack as well as more tightly integrated services and technologies that allow larger and larger applications to run on our Cloud platform. Again, all of these new products and services improve our business model by helping us grow faster and making us more capital efficient. And as we integrate more of our services together and our business evolves into a more comprehensive portfolio of services expanding across dedicated and virtualized infrastructure some of the metrics that we currently track to manage the business will naturally converge.

However, while some of these metrics may evolve our dedication to EVA principles and our focus on return on capital and cash flow will not change. We have always taken a financially disciplined approach to executing our strategy and we want to renew our commitment to continue doing so in 2011. Successful execution of our 2011 business plan should result in the following. Number one, revenue growing at a faster rate than the 24% annual growth rate in 2010. Number two, maintain our current adjusted EBITDA margin profile by re-investing any incremental profits into the areas that we just discussed. Number three, with regard to adjusted free cash flow we continue to expect to be free cash flow positive at revenue growth rates below 35%.

Our ability to grow revenue at a faster rate in 2011 is driven by the multiple factors including, number one, demand for all of the new products and services we recently introduced to the market. Second, new products and services that we plan to introduce this year. Third, increased capabilities in our sales organization primarily around Enterprise and channel. With respect to margins, we are in an important investment stage in our company's development. The investments we are making today provide the portfolio and service capability to enable our growth for years.

Right now, our model with scaling and we're investing these incremental profit dollars back into the business to firm the portfolio and service capability investments. This means we believe we can operate the business at a margin level that is roughly flat with the margin we produced in 2010. If we decide to increase investments to a level that would meaningfully impact our margin profile we will let you know. To summarize, our strategies to extend our leadership position in the massive and rapidly growing Cloud Services market and improve the capital efficiency of our model. Adding capabilities to our sales organization helps us grow faster. And bolstering our services portfolio makes Rackspace more competitive and the business model more capital efficient.

In 2011 we will invest to do both and as always we will maintain our financially disciplined approach to growth and investments. Finally, we would like to thank all of the Rackers for their hard work during the year. It is because of your commitment that once again we were recently named by Fortune as one of the top 100 places to work. Importantly we would also like to thank our customers for trusting us to run their most important applications for them. With that let me turn the call over to Bruce. Bruce?

Bruce Knooihuizen - *Rackspace Hosting - CFO*

Thank you, Lanham. Last year we outlined three key objectives for 2010. First, we wanted to grow revenue faster than in 2009. Secondly, we said that we were committed to maintain our current margin profile while we continue to invest in new projects that promote revenue growth or improve the efficiency of the business. And finally, we also said that we expected to be free cash flow positive at growth rates below 35%. With the year completed, I'm very pleased to report that we delivered on all three objectives. For the full year of 2010 total revenue was $781 million, representing an annual growth rate of 24% which is higher than the 18% growth we reported in 2009.

Adjusted EBITDA for 2010 totaled $262 million. And our adjusted EBITDA margin was 33.6%. This represents an improvement of 170 basis points from the 31.9% we achieved in 2009. Return on capital for 2010 increased to 11.6% from 9.2% in 2009. And adjusted free cash flow increased to $34 million despite growing revenue at a faster rate than 2009. This demonstrates the capital efficiency improvements we have made to the business model. Capital expenditures totaled $216 million in 2010, in line with the range we provided at the beginning of the year which was $185 million to $235 million. For the fourth quarter total revenue was $215 million. Representing approximately 7.5% growth from the third quarter and a 27% growth on a year-over-year basis.

This is the fastest rate of sequential revenue growth since the second quarter of 2008. Shifts in currency exchange rates quarter over quarter had a positive impact on revenue of $1.1 million and a negative impact of $1.7 million year-over-year. On a constant currency basis revenue grew 7% quarter over quarter and 28% year-over-year. Total installed base growth was 0.6% in the quarter which is an improvement from the 0.5% in the third quarter. For the full year, installed base growth improved to 0.5% from 0.2% in 2009.

From a growth contribution perspective, the improvement to installed base growth accounted for roughly four out of the six points of revenue growth improvement in 2010. Our installed base growth showed healthy improvement from the 0.2% level in 2009 and it will likely remain an important factor in 2011 new revenue growth. Consistent with 2010 the overall economic climate will have a large impact on how installed base growth trends in the new year. In addition, as our Enterprise business grows as a percentage of revenue it could have a larger influence over the installed base growth metric.

Managed hosting revenue increased to $183 million, representing 6% sequential growth and 20% growth on a year-over-year basis. Growth in managed hosting was driven by continued traction with Enterprise customers and demand for our higher service level offerings. Some of the new customers added in the quarter included Major League Gaming, Miller Coors, and Price Waterhouse Coopers. Cloud revenue for the quarter was $31 million, representing 17% sequential growth and 83% growth on a year-over-year basis.

Growth in the Cloud segment was punctuated by strong usage revenue for Cloud Servers. Although demand was robust across all of the underlining Cloud products. In total we added over 11,500 new customers in the quarter, bringing our total installed base to more than 130,000. Over time, as the market becomes more familiar with Rackspace and our capabilities, we believe that the vast majority of our customers will leverage RackConnect or other similar portfolio products to obtain the best fit for their environment. In total, approximately 20% of our managed hosting customers today are also using one or more of our Cloud services.

As more and more of our customers leverage RackConnect and run a mix of managed and Cloud services the lines between the two services begin to blur. This trend is changing the way we deliver our services to customers, the way we think about our customers, and therefore requiring us to change the metrics we track, to better reflect the evolving business model. The first example is customer count. We have historically reported managed and Cloud customers separately. RackConnect along with the other Cloud portfolio products used by managed hosting customers make the distinction less relevant. So beginning in the first quarter we will no longer report two separate customer numbers. However, we will continue to report total customers at the end of each period.

The revenue breakout between managed and Cloud will also become less relevant over time. Our plan is to continue reporting managed and Cloud revenues separately although as a higher percent of customers utilize both it will most likely become less relevant to break out the different revenue lines in the future. Moving on to profitability. Adjusted EBITDA grew to $72 million in the quarter, representing 5% sequential growth and a 29% growth on a year-over-year basis. Adjusted only for non cash stock based compensation adjusted EBITDA margin was 33.5% in the fourth quarter.

As we indicated during last quarter's conference call, we expected adjusted EBITDA margins for Q4 to be lower than the 34.3% margin we reported in Q3 due to lower variable compensation in the third quarter as well as an increase in non-cash rent expense in the fourth quarter. Excluding the non-cash rent expense, adjusted EBITDA margins in the fourth quarter actually improved compared to Q3. Net income grew to $13.5 million in Q4 from $12 million in the third quarter. One time items such as foreign currency re-measurement gains or losses did not have a material impact on net income in the fourth quarter.

Capital expenditures totaled $63 million in the quarter. Of this amount, we spent $38 million on customer gear, $10 million on data center buildouts, $5 million on our office facility and $11 million on capitalized software development and other projects. Looking ahead into 2011, we are forecasting spend between $275 million and $335 million in total capital expenditures. As in prior periods, we expect the bulk of capital expenditures to be on customer gear which is virtually all success based spending to support revenue growth. Specifically, we expect to spend $165 million to $195 million on customer gear in 2011.

For data center buildouts we expect to spend $40 million to $50 million during the year which includes funds for billing the third and final phase of our London data center. The last of the data center facilities owned by Rackspace. Additionally we expect to spend $20 million to $30 million on our office facility and $50 million to $60 million on software development to implement the product portfolio that Lanham discussed in his remarks. Adjusted free cash flow came in at $6 million in the quarter which is consistent with our objective to be free cash flow positive when revenue growth rates are below 35%.

We ended the year with a total cash balance of $105 million. This is down from the $167 million in Q3 due primarily to the retirement of $50 million of debt and our acquisition of CloudKick in the quarter. Our total debt outstanding including capital leases was $132 million which translates to a net debt position of $27 million or a net leverage essentially of zero and we have full access to our $245 million revolving credit facility.

In summary, we delivered on the financial goals that we outlined at the beginning of 2010. We ended 2010 on a strong note which given our recurring revenue model means that we enter 2011 with strong momentum. I am proud of our accomplishments in 2010 and I'm excited about our potential for 2011 and beyond. Before Lanham and I take your questions about the quarter I have a brief personal announcement to make. I am announcing today my intention to retire from Rackspace.

The Company will conduct an extensive internal and external search for my replacement. I intend to facilitate an orderly transition. But once that is completed I will fully retire. Let me provide a bit of context. When I joined Rackspace as its CFO three years ago, I had several specific goals in mind. First, seeing Rackspace successfully through its IPO. Building a first rate finance and accounting team, and working with that team and the rest of the company to get Rackspace on a rock solid disciplined financial footing. I now feel that I have done what I have come here to do.

I'm proud of the financial results that we have just disclosed. Our balance sheet is one of the strongest anywhere. Our growth rates are robust. We have strong leadership and depth in our finance and accounting team. I love this Company and feel privileged to have worked here alongside so many great Rackers. But the time is right for me both personally and professionally. It has been a great ride and I'm confident that the best is yet to come both for me and for Rackspace.

Lanham?

Lanham Napier - *Rackspace Hosting - CEO*

Bruce, I want to thank you personally on behalf of every Racker for your financial leadership and service to this Company. You have been a steady hand through good times and tough times. You saw us safely through the IPO and a great recession and we all slept well at night. You have accomplished everything that you set out to do and more. The earnings we just announced are a testament to your success. You've built a strong team with lots of depth and that put us in an excellent position to attract even more great talent. So again, thanks, Bruce.

With that, operator, we will take some questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Our first question will come from Pat Walravens with JMP Securities.

Pat Walravens - *JMP Securities - Analyst*

Oh great, thank you. Congratulations, you guys, very nice results.

Lanham Napier - *Rackspace Hosting - CEO*

Thank you.

Pat Walravens - *JMP Securities - Analyst*

I am going to sneak two in Bruce because you surprised us at the end. My big picture question is, it is interesting to me how your growth is accelerating while your unit economics are improving and not just adding, being on the street. So it looks if I'm doing my math right it looks like your revenue per server in Q4 went up about 4% to around $13,000 on annualized basis. What is driving that, Lanham and where can that go? And then Bruce, for you, are we going to see you land some where else professionally or are you stepping back from working?

Lanham Napier - *Rackspace Hosting - CEO*

Okay. So Pat, this is Lanham. I will take the first part of that. If you look at our average revenue per server it did go up 4% in the fourth quarter over the third quarter. So on an annualized basis it is about $13,200 a year. Generally what is going on with this metric is this metric reflects the value that we add for customers on a per compute unit basis. The per compute unit here being the server. Our strategy is basically to continue to expand our service capabilities and product portfolio. As we do this we can add more value to the customers we serve, create better customer outcomes, and as a result the revenue per server ought to continue to climb.

So what is going on here is basically as we expand our offering capability. Customers are willing to pay us more for those services. Those services all reside at this basic, on top of this basic compute level, so that revenue per server has gone up. This is entirely a reflection of the services we've launched. So if you look at the stuff that's hit over the past six months, things like Critical Sites, things like Managed Cloud, directly get to increasing our revenue per server. Our general strategy is to continue to increase our service portfolio and capability so on a directional basis if we successfully execute on that strategy, revenue per server can continue to climb.

Bruce Knooihuizen - *Rackspace Hosting - CFO*

Okay. It's my turn. I tell you, after working a number of years at Rackspace, you realize it is really hard to top this place. It is just a tremendous place and I was totally sincere with my comments. At this point in time I don't have a plan on joining another company. It would be hard for me to do that right now but at some point in some capacity I would love to help other small companies achieve some of the success that Rackspace has seen. But I have got a lot of other thoughts on my mind and ideas of things I would like to do. So the short answer is no, you will not see me pop up in another company.

Pat Walravens - *JMP Securities - Analyst*

Okay, thank you.

Operator

We will move to our next question with Chris Larson of Piper Jaffray.

Chris Larson - *Piper Jaffray - Analyst*

Can you hear me? I apologize. I'm unfortunately outside.

Bruce Knooihuizen - *Rackspace Hosting - CFO*

We can hear you fine.

Chris Larson - *Piper Jaffray - Analyst*

Perfect. First, Bruce, I want to say thank you for everything you helped us with over the last couple of years. It has been a real big pleasure. Secondly, my question is if you look at your growth can you talk a little bit about where that growth is coming from in terms of account size and are we seeing that elephant hunter, if you will, sales force of yours accelerating or is it really from the small side or where are we seeing that come from and what type of an acceleration should we look for as we go into 2011?

Lanham Napier - *Rackspace Hosting - CEO*

Okay. Well, what is happening across the business is the plan we ran in 2010 is working. We are going to run the same plan here in 2011. The difference is basically the type of products that we are going to roll out. When we talk about the sources of growth specifically with the capabilities we have added in the sales organization, the channel investments we made with Robert Fuller and team, rolling out new offerings like Critical Sites, this certainly makes our value proposition more attractive to larger customers.

So when we look at some of the average revenue per customer size across our hybrid hosting business that number is increasing. I wouldn't quite characterize it yet as an elephant, okay. We haven't arrived at the point where every day we wake up and land another multi year multi million dollar deal. That is certainly something that we believe will happen around here but it hasn't happened yet.

What is happening, to characterize it more accurately, is that we are absolutely winning larger opportunities than we won a couple of years guy. It reflects our brand. It reflects the trust we have in the market. It reflects our increased capability to run mission critical applications for customers. And it reflects the portfolio of services that we can bring to the market. So our belief is that the Enterprise growth opportunity for us is enormous. We believe that we will continue to have traction in there. We haven't graduated to elephant stature yet.

When you say elephant, to me, that implies IBM-esque $200 million a year customers. We don't have that yet. Okay, but we do have customers that pay us millions and millions of dollars a year. I would stay tuned with it. I feel great about the progress and believe that it will continue. The smaller SMB market really slowed down during the recession. We are seeing that come back a bit. It has built over the back half of 2010 so that when we look across the customer portfolio we feel a lot better about that as well. Now, we will see how it comes to bear but if you look at our installed base growth rates you will see that in the fourth quarter we were at 0.6% a month.

On an annualized basis that's about 7% a year. If you compare that to where we were a couple of years ago, we were in 2009 that number was 0.2% a month. We have seen dramatic improvement in the installed base growth rate. That reflects the services we provide, it reflects customers being more confident in their future and spending more with us. So I think the trends we are seeing, while one month we go a step forward and another month we may take a step back I think the general trend is improving.

Chris Larson - *Piper Jaffray - Analyst*

All right. Thank you very much. I appreciate that.

Bruce Knooihuizen - *Rackspace Hosting - CFO*

Thanks, Chris.

Operator

Our next question will come from James Breen with William Blair.

James Breen - *William Blair & Company - Analyst*

Thanks for taking the question. The question is really around sort of the top line growth. You exited this year about 7.5% sequentially which implies about 30% top line growth going forward. What are the opportunities and sort of the risks that you see to that changing appreciably over the course of the next four quarters? Thanks.

Lanham Napier - *Rackspace Hosting - CEO*

Okay, yes, good question. So when we look at our top line growth from a macro perspective it really gets back to this massive opportunity ahead of us. In our prepared remarks today we wanted to try to educate investors a bit more around how this Cloud market opportunity is early in the game, it is growing incredibly fast. When you look at our Cloud business year-over-year we are growing 80% plus. And this is just the beginning. This is a global market opportunity. There will be a web giant that emerges from this type of shift in the marketplace and we want to be that giant.

We want to be the trusted partner that customers select to run mission critical applications. And because they want to buy Fanatical Support. So from a macro point of view we feel like this is just the beginning inside of our Company. More specifically when you look at any given set of periods like what is going to happen in 2011, the risk to 2011 is, I think the number one risk is our ability to execute. We had an ambitious plan for 2010. We executed on it. We have an even more ambitious plan for 2011. We are confident going into it but the number one risk is our ability to execute.

Can we roll out the products that we are contemplating. Can we enhance the services that we provide for customers. Can we continue to build our brand and credibility in the marketplace. I put those at the top risks right now. The opportunities around it as our brand grows and our success grows I think the Enterprise opportunity begins easier for us to win. Our basic strategy is continue to improve the model, expand our service and product capability, and seize this market opportunity. The nice thing about that is we find ourselves in a position to where we have an expanding addressable market, improving unit economics and that is almost a virtuous cycle at this point.

We have to continue to invest in customer loyalty to drive those economics and reinforce our point of differentiation around Fanatical Support. but we love the position we are in, in our Company's development. We are absolutely in an investment stage as we invest in these products and service capabilities, but the growth opportunity is huge. So the upside here is, can we execute on this thing? As we execute does our credibility grow? As our credibility grows can we win more opportunities in the market? And as we win more opportunities our marginal unit economics improve as well based on the services we provide. We are very happy and blessed to be in the position we are in. We approach it head down with humility and I think Rackers will continue to volunteer their best to make it happen.

James Breen - *William Blair & Company - Analyst*

And just the thoughts that you talk about, investment in the business. You have been pretty consistently sort of 30% CapEx to revenue over the last couple of years. Is there any reason to see that changing materially in any direction?

Lanham Napier - *Rackspace Hosting - CEO*

Well, as we talked in our prepared remarks right now as we grow based on these improving unit economics, fundamentally the business scales. We are taking those incremental profit dollars and re-investing them back in the business to seed and fund the next wave of growth in the company. So if you look at things like capital turns, revenue per server, et cetera, we really have improving conditions here over the last year and a half. We like our chances as we make these investments to continue to invest in it. I think that when you talk about margin profile our basic belief is as the business scales we can invest enough to do what we want to do.

If that changes to the point where we believe we need to increase our investment levels we will let the marketplace know about it. We do see ourselves in an investment stage and we are playing for the grand prize here. I mean we really believe that we are competing in the most valuable segment within the largest growth opportunity in tech. That will not come free. So we are going to make the investments to carve out the service leader inside the marketplace. We feel good about the funds and the ROI we've made on the investments to date. So we'll continue to do it and keep you posted.

James Breen - *William Blair & Company - Analyst*

Great. Thank you very much.

Operator

We will move on to Greg Dunham with Credit Suisse.

Greg Dunham - *Credit Suisse - Analyst*

Yes, thanks for taking my question. Switching gears a little bit. You mentioned that 10% of new customers are choosing managed and I believe you cited that the complexity of the systems and the nature of the customers are what is driving people to choose managed. Could you be a little more specific on what is driving that?

Lanham Napier - *Rackspace Hosting - CEO*

Sure, our Company's core differentiation is Fanatical Support. Fanatical Support is a complex business process. It literally touches everything we provide a customer. So from the systems we create, the tools we use to manage environments, the solutions we architect for customers, to the Rackers that we hire and train to put it all together ,this is the essence of Fanatical Support and the customers that desire Fanatical Support are those customers that want a trusted partner to help them navigate the changing technology landscape and to run their mission critical applications.

So what is happening as we develop our Cloud offering is that our original Cloud offering had an SLA with it. The Managed Cloud offering that we just launched has an even higher SLA. Products that we are working on in our pipeline will increase this SLA further. So when we talk about adding more value the way we add more value is we invest in the service and product capability. Increase the SLA we can provide customers, and customers are willing to pay more for that. What is reflected in this traction rate when we say greater than 10% of new Cloud Service customers are subscribing to the Managed Cloud offering, this reflects customers desire to increase the SLA that we are providing to them.

Based on the experience we had as a company, our differentiation in the market is entirely around Fanatical Support, the SOAs, and the quality of customer outcomes that we create. As we increase the quality of customer outcomes that we can create in the Cloud our expectation is that customers will want to consume more of that. So that while today Managed Cloud is a new offering it reflects 10% of the traction that is really just a moment in time snapshot of where we in the development of our Cloud. Our expectation and investment plans going forward will be to continue to make servicing capability, portfolio investments across the business, increase our SLAs, and customers will adopt that.

Greg Dunham - *Credit Suisse - Analyst*

That is helpful. One quick follow-up. You kind of mentioned three things. And for recent products new products coming onboard and kind of a shift in the sales organization is what is going to driving the acceleration. Should we think about it in terms of that order of contribution and magnitude?

Lanham Napier - *Rackspace Hosting - CEO*

Yes, could you repeat the first part. I'm sorry, I coughed when you were speaking and I didn't hear it.

Greg Dunham - *Credit Suisse - Analyst*

On the call earlier I think you mentioned that demand for recent products that have just launched, new products that are pending launch and kind of a change to the sales method in terms of going to the channel and being more efficient with the organization were drivers for the acceleration of the business as you look forward. Should we think about the magnitude and contribution to the acceleration of the business kind of ranked in those three categories?

Lanham Napier - *Rackspace Hosting - CEO*

Yes, I think that, yes, that is absolutely right. Basically the products that we, and services we have already launched they are in the market so they will have a bigger impact on 2011 than things that are still in the pipeline today. And then the sales capability that we are investing in is really increasing our ability to sell and serve the entire portfolio that we provide.

Greg Dunham - *Credit Suisse - Analyst*

Perfect. Thanks.

Operator

We'll move on now to Jason Armstrong with Goldman Sachs.

Scott Goldman - *Goldman Sachs - Analyst*

Hey, good afternoon, guys. It's Scott Goldman on for Jason. I guess one follow up to the last question and then maybe a higher level question after that. You know, you talked about the 10% of new customers coming on with the Managed Cloud. I'm wondering whether these customers would have come on to you whether, under the Legacy Cloud parts you have or whether they were being driven by the fact that you have the higher SLAs?

Lanham Napier - *Rackspace Hosting - CEO*

I think these customers are solving a new problem. They are asking for a level of service and capability that our core Cloud offering didn't provide. So I think that this does represent our service and portfolio set, increasing the addressable market.

Scott Goldman - *Goldman Sachs - Analyst*

Okay. And then I guess bigger picture when you look at, maybe you can just kind of give us an update on where we are in the competitive environment, thinking some of the commodity based guys you have talked about in the past have made some moves to try and maybe move up the value chain, maybe look a little bit more like a Rackspace than they have in the past. And then I think there was a recent announcement by HP, kind of targeting sort of the hybrid hosting space. Maybe you can kind of give us an update on where things are in the competitive environment.

Lanham Napier - *Rackspace Hosting - CEO*

Sure. There has certainly been a whole lot of activity from an M&A point perspective in our market space. So a few comments on it. I think generally the M&A activity reflects a couple of things. Number one, I think the market has realized how big a technology shift is happening. That it is a game changer for people that, for incumbent technology and telecom firms. I think they are concerned that they are behind so they are trying to buy their way into the game. I think it also proves that this stuff is hard to do, right. As a company, I think it, we have talked a lot about our differentiation, how Fanatical Support is a complex business process, how running systems and applications at web scale is really challenging work.

It is a difficult technology service to provide. We have invested in proprietary systems. We do everything we do around here is tailored to run web scale infrastructure and deliver Fanatical Support on these form factors. So the acquisition activity reflects the fact that it is hard to do and these companies that are buying some of our competitors right now I think part of what they are saying to the marketplace is man, it is hard to do and I don't know how to do it. They are trying to buy their way into the game. From a competitive point of view I will tell you our industry has been through consolidation before and it really didn't work for them.

If you go back to the post tech rep days and the post 9/11 days, the dedicated hosting, managed hosting industry went through a wave of consolidation. Every time the consolidation occurred those deals, from my perspective, did not fulfill the synergies and promise that the buyers wanted to have. So whenever a big deal happens, the selling company gets distracted, the new company comes in and changes everything. And so frankly I think it puts their entire customer base up for grabs. We are a committed long term player to this market. There is going to be a web giant that emerges from this technology shift and we want to be that giant.

So I think the announcements and stuff reflect that people are understanding, wow this is a big game. The incumbents are way behind so they are trying to figure out how to catch up. We will continue to be an organic based growth company. We will do acquisitions like we just announced but these are acquisitions about building capability, not trying to buy revenue or scale. The Cloudkick acquisition, man the Cloud Kickers are incredibly talented. They have a management and monitoring tool set, that web scale, they fit us like a glove. The Ansell Labs acquisition is about furthering the adoption of OpenStack which we believe is going to set a new open standard through web scale computing like what Android is doing in mobility. So our belief here is that the competitive landscape can change but we are going to be a focused stand alone player because we believe we have an incredible opportunity to build a new web giant.

Scott Goldman - *Goldman Sachs - Analyst*

That's very helpful. Thank Lanham.

Operator

Jonathan Atkin with RBC Capital Markets has our next question.

Johnathan Atkin - *RBC Capital Markets - Analyst*

I want to the talk a little bit about the sales pipeline for 2011 both quantitatively and qualitatively. First of all, the CapEx relationship, there's a relationship between customer care CapEx and revenue growth going forward is it going to be similar to what we have seen in the past? And then secondly as you look at the new releases and new [indices] such as Asian channels, (inaudible) Enterprise, and so forth which would be the top two movers in terms of accounting for more volume growth and revenues next year?

Bruce Knooihuizen - *Rackspace Hosting - CFO*

Let me talk first about the first item in terms of the customer gear CapEx and the relationship to revenue. As it stood in the past years. Lanham talked a lot about some of the economics in our business and how it is changing over time. And that as we develop more Cloud products, as we develop higher SLAs, as we do more virtualization, we become more efficient from a capital standpoint. And so we would expect that as those things are, gather more momentum in the marketplace that will help our capital efficiency.

Now today we have some proof points of that. When you look at our business we have been growing in terms of the percent of revenue that comes from Cloud. In the fourth quarter it is almost 15%. During that same period you see that our return on capital and our asset turns continue to improve. And so we think that is proof point of the unit economics that we looked at and we talk about in terms of being more efficient in capital as we go forward.

Lanham Napier - *Rackspace Hosting - CEO*

And let me give you some qualitative context around your question regarding sales pipeline and what is going to drive sales going forward. There are a couple of things that we remain very excited about. One is our channel efforts. We had some commentary there in our prepared remarks about the effectiveness of that program and historically we've talked about the win rates with channel as well as the number of at bats with channel as well as the value of a channel opportunity versus opportunities to come to us from other means. So we believe we will continue to invest in channel and think there is a whole lot more performance and upside that we can get there.

Secondly, a prior question I commented around part of our sales investment is about building the capability to sell the entire portfolio. As we launch these new products we have to educate and coach our sales force around the applicability of these products, how to help customers solve using the right tool for the right application, and doing this effectively is something that is kind of unique in the industry. We are developing, we are increasing the I.Q. and capability of our sales process so that we can architect the right fit for customers. So between selling a bigger more effective portfolio with more capable sales organization and having more at bats and higher quality at bats coming through the channel, those are a couple of things that we think position us well for 2011.

Johnathan Atkin - *RBC Capital Markets - Analyst*

Thank you for that. And then CapEx $40 million to $50 million for data center buildout. How much, if any of that, is in Chicago?

Bruce Knooihuizen - *Rackspace Hosting - CFO*

Well, there is some of it. But again, keep in mind that one of the reasons our data center spend is higher this year than in past years is our most recent is finishing out the buildout in London. If you remember, we have changed our strategy which has made us much more cost efficient. The last few data centers we leased data centers and so the CapEx is really consumed by the third party and we use their CapEx. London represents the last data center that we own. We started that a number of years ago trying to be efficient with capital. We built them in phase and so this is the third and last phase of that.

Johnathan Atkin - *RBC Capital Markets - Analyst*

Thanks very much.

Operator

And we will now move to Simon Flannery with Morgan Stanley.

Simon Flannery - *Morgan Stanley - Analyst*

Thanks very much. Good afternoon. Nice quarter. Could you touch a little bit more on international. I think you were just talking about London there. Where is it now as sort of percent of revenues and what sort of growth rates have you been seeing there? And how important is that to the accelerating growth or beating this year's growth in 2011? And then on the overall margin, guidance of flat margins, can you talk about where you see Cloud profitability? You have been investing in that business, does that start to improve or is it still at similar levels between the two products or the two major line items in 2011? Thanks.

Lanham Napier - *Rackspace Hosting - CEO*

Okay. Thanks, Simon. I will comment on international and Bruce will touch on the numbers. Generally speaking, international is an important part of our business. It is growing. And over time, I believe international will become more and more important to Rackspace. Our mission and purpose is that we are trying to build out a global web scale player which means we are investing internationally today and we will continue to do that. If you look at the growth today internationally, we operate primarily in two areas. One is western Europe with a heavy presence in the UK. And another being Asia with our presence there being Hong Kong.

Today the macro issues around Europe are choppier then the issues here in the states for example. Our UK business, European business is absolutely growing at a high rate. When we benchmark ourselves against our competitors over there we are growing significantly faster than our competitors in the marketplace. So the business is actually tracking well. It is just not growing quite as fast as the state's is at the moment. If you go to Asia and our Hong Kong office it is going faster than the states. Now, it is a smaller number so it is easier to get higher percentages when you start with a smaller base but the business that we have built in Hong Kong which is led by Jim Fagan is really doing quite well.

So from an investment framework perspective we believe international's importance will continue to grow, that Cloud adoption was earliest here in the states but that adoption internationally will continue to grow and accelerate. This is why it is very important that we launched our Cloud in Europe which we did. I was over in the UK just a couple of weeks ago for that launch meeting with customers. So we are pretty excited about international. International had a great year in 2010. We expect a continuation of that performance.

Bruce Knooihuizen - *Rackspace Hosting - CFO*

From a margin standpoint, we have not released the margins in the different product categories. But certainly we had talked previously about the Cloud products in total not having margins yet up where the managed hosting has. And it still is not where managed hosting is. But we continue to see it improve. We have seen it improve quarter over quarter as we have gained scale. As we roll out some of the services like Managed Cloud, that helps our profitability in that item. Without getting into specifics which we really don't want to release for competitive reasons it is trending in the direction, the right direction.

Simon Flannery - *Morgan Stanley - Analyst*

Great, thank you.

Operator

We will move next to Gray Powell with Wells Fargo Securities.

Gray Powell - *Wells Fargo Securities - Analyst*

Hi, guys. Thanks for taking the questions. Really appreciate it. Just had a couple of quick ones. Can you talk about your share of wallet on existing Enterprise customers, just what is the typical Enterprise customer spending with you and how do you expect to gain share and increase your wallet size with existing customers?

Lanham Napier - *Rackspace Hosting - CEO*

Okay. Today our share of wallet is low. The typical adoption works something like this. We will earn a shot at running an application with an Enterprise customer. As we earn their trust they will send us additional applications to run. This pattern has recurred within our company since we really reinforced our Enterprise offering here, call it 18 months ago. Today, Enterprise is the fastest growing segment within our hybrid business. It is also the number one contributor to our installed base growth.

A great data point around the effectiveness of our Enterprise efforts is to see that installed base growth tick up a little bit. The reality is in the market today enterprises are starting to loosen the purse strings faster than the S and B marketplace, so the ROI that we are receiving on the Enterprise investments that we are making is quite high. The great news here is that given this upgrade pattern and the opportunity to win additional apps as we will earn Enterprise customers' trust we believe we have a long road ahead of us in terms of continued growth in this segment of the marketplace.

Gray Powell - *Wells Fargo Securities - Analyst*

Great, thank you. That's very helpful. And then just one other quick one, if I may. Obviously there is not much contribution from Cloudkick in Q4. Can you just give us a sense as to the annual revenue of that asset?

Lanham Napier - *Rackspace Hosting - CEO*

Yes, we don't disclose revenue on acquisitions like that. What I would frame for you, though, is the investment thesis and why we made the acquisition itself. The acquisition of Cloudkick was, is a startup. But what they have developed is an incredible set of tools that will help us manage applications and customer outcomes on truly a web scale global basis. So our strategy with respect to acquisitions is not to buy revenue. Our strategy with respect to acquisitions is to increase our capability so we can continue to fuel our organic growth.

Gray Powell - *Wells Fargo Securities - Analyst*

Okay. That makes sense. Thank you very much.

Lanham Napier - *Rackspace Hosting - CEO*

Yes.

Operator

We will move on to Jonathan Schildkraut with Evercore.

Johnathan Schildkraut - *Evercore - Analyst*

Great. Thanks for squeezing me in here, guys. Just two questions. First, Lanham, you know you talked about product road map kind of contributing to a growth towards the end of the year and into 2011. Could you give us a sense for what kind of products you would like to add to the portfolio mix over the course of 2011? And secondly, I see that G&A has really begun to scale up and I'm wondering if that reflects some of those investments in the service delivery platform that you have been talking about or if there is something else in there that we should be aware of? Thanks.

Lanham Napier - *Rackspace Hosting - CEO*

So I will address the product pipeline question and let Bruce address the G&A scaling question. From a product point of view let's start at a high level and understand our approach and strategy. Today, the highest service level and customer outcomes we can provide is our Critical Sites offering. This offering is geared toward dedicated infrastructure for the customer. What we endeavored to replicate within our product pipeline is to create the same type of customer outcomes and SLA experiences on top of a Cloud infrastructure. So at a high level our strategy, whether it is a dedicated piece of infrastructure or a Cloud piece of infrastructure, is to continue to increase our SLAs across the business.

So the things we have in our product pipeline that as we look out this year are things that enable us to run more complicated web applications on dedicated and Cloud gear. Now we believe that these types of product investments and portfolio capability reinforce our role in the marketplace. That is reinforces and bolsters our differentiation around Fanatical Support. So the strategy here really is to increase our service level capability to integrate these different service offerings so that we are unique and differentiated in the marketplace around what we can do. And the stuff we have in the pipe and investments that we are making are all about increasing that capability and service level we provide the customer so we can capture more value.

Johnathan Schildkraut - *Evercore - Analyst*

When you are selling that, your service whether it is Critical Sites or you are starting to build up the service level agreements on the Cloud side, customers saying, oh, I'm looking for Cloud or I want dedicated equipment or are they coming in with a problem and you guys are working on developing a solution together?

Lanham Napier - *Rackspace Hosting - CEO*

This is the magic of our portfolio. Right now the Cloud awareness is really high in the marketplace. I mean I think Cloud awareness and adoption is absolutely hitting a tipping point. So that in customer conversations our customers are technically savvy. They will absolutely have a perspective and opinion about what type of solution they may want. I think what is changing though is we are able to help coach them and advise them through, how man, there are different tools in the marketplace today to address different types of problems and we can provide a customer a really good fit around the outcome they are trying to solve, the technology solution that we spent for them and the SLA that gets written and wrapped around that technology solution.

Customers are starting to lead more and more with the service outcomes they desire. The technology form factor is becoming secondary. People are more interested in the technology outcome than they are the type of server on which their outcome is going to be provided. Our job as the service provider in the middle is to own up to the SLA that we provide. Put real [peas] in that thing, honor the promise we make, and help the customer find the right solution. So the conversation has changed over time. Ten years ago in the business customers absolutely walked in here with a firm opinion about the type of box, the specials in the box, and all the speeds and feeds they required. There are sill some customers that way. Bur more and more customers are interested in the technology outcome, the technology output that we are going to provide them and less focused on the form factor.

Johnathan Schildkraut - *Evercore - Analyst*

Great. Thank you.

Bruce Knooihuizen - *Rackspace Hosting - CFO*

(Inaudible) the last question, Jonathan. In regards to the G&A in the fourth quarter as a percent of revenue it went up. But if you notice up from a profitability standpoint we have had one of the highest net income margins that we have had in some time. And part of our plans, reward our Rackers for doing a great job and so we try to share some of those profits with our Rackers through a variable comp component. I don't know if a Racker put you up to this, it was not announced Company wide but we did a great job in the fourth quarter and so what you are seeing is a lot of that variable comp is hitting in the G&A line item.

Johnathan Schildkraut - *Evercore - Analyst*

Okay. So that should come down then quite a bit, right, in the first quarter? I was just kidding. [LAUGHTER] All right, thanks, Bruce.

Bruce Knooihuizen - *Rackspace Hosting - CFO*

You're welcome.

Operator

And our final question today will come from Mitesh Dhruv with Bank of America.

Mitesh Dhruv - *BofA Merrill Lynch - Analyst*

Thanks for squeezing me in, guys. Just one thing, it is nice to see the initial traction in the managed hosting segment. But if I look at your total Cloud, sorry Managed Cloud I meant. If I look at your total customers in the Cloud, a little over 110,000, how should we think about the adoption bell curve for the Managed Cloud segment? If you could put some parameters around that? Could it be like 10% of Cloud customers to go to managed hosting or could it be more like 50 this year?

Lanham Napier - *Rackspace Hosting - CEO*

Okay. So in the prepared remarks we made the comment that today more than 10% of our Cloud customers are subscribing to the Managed Cloud Service. So the heart of your question gets to, well is that 10% going to go to 50. Is it going to go to 100. Is it going to stay at 10. What does that look like. Our belief right now is that we are not sure. I think that what is happening is when you look at our point of difference it is all about Fanatical Support and the quality of service levels we provide. Today, our belief is that within the Cloud infrastructure world there really isn't a robust set of SLAs. We think there are lot of buyers in that segment and in the prepared remarks we talked about how we believe there is a service segment within the Cloud market.

And that service segment is going to be an incredibly valuable segment within that market. We think our Company, Rackspace, out ought to be the winner of that segment. It plays exactly to our strengths around Fanatical Support. It plays right into our differentiation around the customer outcomes that we provide. So the traction rate for customers subscribing to Managed Cloud already within our Cloud base is greater than 10% and we just started. As the Cloud market develops we will see how that trends but we are confident that there is going to be a very valuable service buyer segment within the Cloud and our company wants to dominate that segment.

Mitesh Dhruv - *BofA Merrill Lynch - Analyst*

So it the target for the Managed Cloud more so the existing Cloud customers or are you also seeing some of your managed hosting customers go to this Managed Cloud because obviously this time you saw a down tick in the managed hosting customers to negative 40. I was wondering if some of those customers actually went to the Managed Cloud?

Lanham Napier - *Rackspace Hosting - CEO*

I tend to think of it the following way. When we look at where we are in the development of our company, the offerings we are launching are absolutely for the customers we serve today. But today we only serve 130,000 customers. Our marketplace is going to be global and there are going to be millions and millions of customers in it. So the reality is as we launch new service offerings given our rate of growth, most of the people that subscribe to these offerings are going to be new customers. They are absolutely applicable for current customers as well. We have seen our install base growth increase and part of that is attributable to current customers subscribing to these additional services. In the long run I think it is more about the million customers we win in the future than it is about the 130,000 customers we serve today.

Mitesh Dhruv - *BofA Merrill Lynch - Analyst*

Got it. One final one for me. In terms of Enterprise bookings how did that track versus the third quarter?

Lanham Napier - *Rackspace Hosting - CEO*

That is a piece of data we don't want to comment on specifically. Generally speaking Enterprise has been a real important growth driver for us. The number one contributor within our hybrid hosting business. And we just turned in the fastest growth we have had in a couple of years. So we are pleased with this performance.

Mitesh Dhruv - *BofA Merrill Lynch - Analyst*

And with that I mean also you had a stellar performance in Enterprise segment but also now your comps are getting tougher in the Enterprise. Going forward into 2011 what is the strategy to up the comps and get further penetration?

Lanham Napier - *Rackspace Hosting - CEO*

Well, it is really executing the same play that we did in 2010. I think the parts of the play that get even better are that our portfolio is better in 2011 than it was in 2010. When we were calling on Enterprise customers in the first half of 2010 we weren't able to talk about a Managed Cloud offering because we didn't have it. We weren't able to talk about a Cloud offering in Europe because we didn't have it. So the portfolio today improves the dialogue that we can have with Enterprise customers.

Today, every Enterprise customer we visit with wants to talk about the Cloud. The fact that we are a leader in the Cloud and we have a heritage and brand credibility around providing great customer care and service outcomes. All of this plays to our strengths. Sure, I mean the Enterprise business did better in 2010 than it did in 2009 but we think our share while it is still pretty small so that we he have a whole lot more work and room to grow there.

Mitesh Dhruv - *BofA Merrill Lynch - Analyst*

Great and thanks a lot. That is it for me. And my best wishes to Bruce.

Bruce Knooihuizen - *Rackspace Hosting - CFO*

Thank you.

Operator

At this time I would like to turn the conference back to Mr. Napier.

Lanham Napier - *Rackspace Hosting - CEO*

Okay. First off, thanks to all of the investors and the analyst community that tuned in to the call. We appreciate your interest in us. In these communications we endeavor to try to give you the data and understanding of our company and what we are up to. We really feel like we have an incredible market opportunity ahead of us and that we are uniquely positioned in the market to seize an incredibly valuable segment in the ongoing technology service revolution. I want to thank Bruce for his service to the Company. His financial leadership shepherded us through a difficult time with a great recession and got us public so thank you very much.

And then lastly, I want to thank the Rackers and congratulate them on an incredible 2010. Being recognized as a top 100 best place to work. And let them know this is just the beginning. We have a whole more great stuff we can do together. Thank you all very much.

Operator

This concludes the call. Thank you and good evening.
