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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Rackspace's Second Quarter 2008 Earnings Conference Call. As a reminder, this call is being recorded. At this time, all lines are in a listen-only mode to prevent any background noise. After the prepared remarks, there will be a question-and-answer session. (OPERATOR INSTRUCTIONS).

It is now my pleasure to introduce Mr. Karl Pichler, Vice President of Finance for Rackspace. Mr. Pichler, you may begin.

Karl Pichler - *Rackspace Hosting, Inc. - VP, Finance*

Hello, everyone, and welcome to Rackspace's first ever quarterly conference call as a public company. Today, we will cover Rackspace's second quarter ending June 30th, 2008. My name is Karl Pichler, and I'm Vice President of Finance.

We hope that you have all had the chance to read our press release, which we issued earlier today. If you do not have a copy, please visit the Investor Relations page of our website at ir.rackspace.com. This call is also being broadcast online and can be accessed through the Investor Relations page on Rackspace's website. From Rackspace on call today will be Lanham Napier, President and Chief Executive Officer, and Bruce Knooihuizen, Senior Vice President and Chief Financial Officer.

I need to remind you that some of the comments we'll make today are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that involve risks, uncertainties, and assumptions. If such risks or uncertainties materialize or such assumptions prove incorrect, the results of Rackspace Hosting could differ materially from those expressed or implied by such forward-looking statements and assumptions.

All statements, other than statements of historical fact, are statements that could be deemed forward-looking statements, including any statements concerning expected operational and financial results, long-term investment strategies, growth plans including international expansion 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 the effectiveness of managing Company growth, infrastructure failures, changes in the economy, technological and competitive factors, regulatory factors, and other risks that are described in Rackspace's amended registration statement on Form S-1 filed with the SEC on August 5th, 2008. Additional information will also be set forth in Rackspace's report on Form 10-Q for the quarter ended June 30th, 2008, which will be filed with the SEC in September of 2008.

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

After our prepared remarks this afternoon, we will be happy to take your questions. I will now turn the call over to Lanham.

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

Thank you, Karl, and thank you all for joining us. Welcome to Rackspace's first ever quarterly conference call to discuss our second quarter 2008 results. This is an exciting time at Rackspace, and because this is our first quarterly conference call, I'm going to spend some additional time providing insight into our business and some characteristics we believe set us apart in the industry.

Just a little over a month ago, we successfully completed our initial public offering and listed on the New York Stock Exchange. Listing on the Exchange has strengthened our position and provided us with the capital to invest in the long-term growth of our business.

I'm going to focus on four things up front and then provide some additional color and detail on the performance before handing it over to Bruce. First, I will outline the incredible growth opportunity in hosting, why Rackspace has been able to grow more than 50% each year for the past five years, and why Rackspace is best positioned to capitalize on this opportunity in the future.

Second, I'll discuss our disciplined approach to capital allocation and philosophy of managing for the long-term. Third, I'll talk about fanatical support and why we believe this surge has a significant competitive advantage and differentiates our customer value proposition in the marketplace. Fourth, I'll outline the metrics we believe will be most important for judging our business performance on an ongoing basis.

To our first point, there's an incredible growth opportunity in hosting, and we believe Rackspace is extremely well positioned to capitalize on it. Tier1 Research estimated the worldwide hosting market to be $12.3 billion in 2007, with projected annual growth rates of 26% to $24.4 billion in 2010. In 2007, we were the world's largest hosting provider by revenue, based on the same data set.

Looking at our business from a long-term perspective, we believe that growth in hosting will come in many forms. Businesses have very diverse IT needs, and we believe that over time, more of them will be delivered over the web, making hosting a basic foundation for IT, which we deliver as a consumable service.

Hosting means computing as a service, and it is growing fast because it's become a new and better way for businesses to efficiently buy IT and computing. Hosting makes IT easier to use, more valuable, and cheaper. As technology becomes more prevalent for businesses, yet at the same time more complicated and expensive, the typical approach of the internally managed server closet is clumsy, expensive, and difficult to maintain.

Our differentiator in the marketplace is Fanatical Support. Fanatical Support is designed to generate loyal customers. As a hoster, we are service focused and strive to deliver a world-class experience for our customers. Fanatical Support starts with engaged Rackers volunteering their best. We combine engaged Rackers with our proprietary toolsets and systems to transform IT into a pleasurable service experience.

Over time, we have launched new hosting services, including our e-mail hosting service and our cloud hosting system. Today, these services account for less than 10% of our overall revenue, but they are growing very rapidly. We will add more services in the future and continue to build out the capability of our existing services.

These trends are not limited to the United States. We have a very successful business in the UK that is growing steadily and contributes more than 25% to our consolidated business. Customers are pulling us to where they need our services, and as a result, we are excited to have opened our Asia facility in Hong Kong just two days ago. We will continue our global expansion, paying particular attention to Europe and Asia.

We have also historically been able to grow faster than the overall market and our competitors and continuously capture market share. Our revenues have grown rapidly and consistently. Other than a small revenue increase due to our Webmail acquisition in late 2007, virtually all this revenue growth has been organic.

We believe that this is a direct reflection of the demand for our customer value proposition, which is founded on our service approach, which we call Fanatical Support. Once we bring new customers on board, we strive to keep them for life and continue to sell them additional services over time. From our perspective, it's pretty simple. If we serve our customers well, they will stay with us and buy more services.

Let me talk for a minute about our target market and how we reach it. Our service portfolio and our global footprint allow us to market to businesses large and small all over the world without the need to be in close proximity from a physical standpoint. Evidence of this can be seen by the fact that we serve 33,600 customers in more than 100 countries while our physical locations only reside in four places.

Our offering, unlike a colocation approach, takes care of the complete stack of infrastructure and software that define our customers' business critical hosting infrastructure. Of the 33,600 customers we serve, not a single one makes up more than 1% of our business. Given the economic headwinds all businesses are currently facing, we are excited to post revenue growth numbers for the second quarter and for the first half of 2008, each in excess of 50% relative to the same period in 2007.

Moving to the second point I mentioned, we have a disciplined approach to capital allocation that drives attractive returns for our shareholders. For us, everything is about maximizing sustainable long-term results. We define our long-term results as sustainable growth of our economic profit, or profit that exceeds our cost of capital. We will continue to make aggressive investments where we see a high likelihood of attractive returns.

The key to managing our long-term growth in a profitable manner is to align our corporate resources with the demand we are facing. Given our service focus, headcount requirements are significant, and we hire employees -- we call them Rackers -- when we need them to support revenue growth or develop new capabilities, technologies, and markets.

With respect to infrastructure requirements, such as data centers and office space, we strive to follow a similar just-in-time approach. We build out data centers in stages to minimize the amount of excess capacity. However, lead times for data center builds are longer and require larger up-front investments.

While we do try to stage investments as much as possible, we realize that these lead times depress margins and returns in the short-term. We are confident that those investments will pay off in the medium and long term when the data center space is utilized.

An additional key principal of our approach is to strive for profitable growth on every customer relationship and every product we sell. We don't want to sell loss leaders, nor do we believe in acquiring unprofitable customers. Our sales force is incented to bring in profitable revenue, and we see this as a key factor in establishing a corporate discipline for profitable growth. As a general principal, we commit to grow profitably as fast as we can so long as we maintain our commitment to Fanatical Support.

Third, I'd like to tell you about what we believe are very real points of competitive advantage and differentiation for Rackspace. We believe the strong financial results are a result of Rackers giving their very best every day, and ultimately doing whatever it takes to satisfy our customers. Complete customer satisfaction is our sole ambition, and anything less than that is unacceptable. These are not just buzz words at Rackspace. They are culturally and operationally embedded value systems that are measured and rewarded. This unique culture is at the core of everything we do.

As mentioned before, we call our service approach Fanatical Support. It's a major difference share in the marketplace, and one reason for our financial success. While Fanatical Support helps us earn our customers' loyalty, it also applies to all Rackers and everything they contribute to Rackspace.

We relentlessly focus on the quality of the service we provide, and we will not take shortcuts that will harm our customers. Rackers and the Fanatical Support they provide drive customer loyalty, which in turn leads to sustainable profits. All of these concepts become real through the continuous measurement of metrics that allow us to monitor the quality of service and progress we are making as a Company.

Finally, on my fourth point, I'd like to outline the metrics we believe will be most important for evaluating our business performance on an ongoing basis. Revenues are a good indicator of the traction we generate in the marketplace and the success of our service approach.

Revenue growth is achieved in two ways -- through the acquisition of new customers, and when our installed base customers purchase more from us. Growth of the installed base is an indicator of our success to serve our customers and to keep them for life. Specifically, this measures how our existing customers are growing net of churn.

In our financial statements and key metrics, we provide several profit metrics, such as adjusted EBITDA, income from operations, and net income. Those profit metrics are useful to monitor how we deploy resources and manage our growth. Obviously, profit metrics and associated margins are all impacted by our investment base, but these are investments we make to lay the foundation of continued growth in the future. Capital turnover and return on capital measures our success in deploying capital and in generating revenues and profits from it. Our current turnover and returns are affected by our infrastructure projects that are currently under construction.

With respect to our data center investments, we focus on our revenues per square foot and our utilization rate. Revenues per square foot measure our ability to successfully deploy our data center space, whereas the utilization rate shows how much power capacity we have left before we need to bring new data center space online. Note that the utilization rate is measured as power demand relative to power supply. A reasonable limit for a data center utilization rate is approximately 90%.

One last point to emphasize on our management approach is that we will not provide earnings guidance. We are in a highly dynamic business with lots of growth opportunities ahead of us. We want to give you all the information necessary to evaluate our performance. We believe not providing guidance will help us maintain our long-term perspective.

Now, I'd like to provide you with some of the highlights from our second quarter in the year 2008. I am pleased to report that as a result of our Rackers' hard work and dedication of Fanatical Support, we achieved solid growth and continued to execute our long-term strategy. Specifically, we delivered strong revenue growth during the quarter with an increase of 9.4% sequentially and 55.7% year-over-year. Given the challenging macroeconomic environment, we believe this demonstrates the strength of our customer value proposition and our ability to execute.

We now have over 2,400 Rackers serving more than 33,600 customers and managing more than 42,400 servers worldwide. We added almost 2,000 new customers in the second quarter. Approximately 27% of our revenues were generated outside the United States as we continue to nurture our business overseas.

In June 2008, the Company added 18,713 technical square feet to the new UK data center, which will partially replace our existing colocation facilities in the UK. And two days ago, we announced the opening of our Asian headquarters and Hong Kong data center.

This move was about meeting strong customer demand. Rackspace already has more than 500 customers based in the Asia-Pacific region. This is an important next step in our ability to meet that demand by strengthening the Company's presence in that market. We plan to offer a full range of Rackspace services to meet customer demand in the region. Finally, I'm proud to report that we weren't the only ones that recognize the valuable work environment we provide our cultures. We remain one of the best places to work in information technology by Computerworld Magazine.

With that, I'd like to turn the call over to Bruce, who will provide some of the key financials that context around our performance in the second quarter.

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

Thanks, Lanham, and good afternoon, everyone. I'll provide some additional detail and perspectives on the quarter's financial results. Before I begin our second quarter discussion, I want to highlight again that our IPO provides us with the financial flexibility to pursue our growth plans. The proceeds of this offering, together with funds available through our committed credit facilities, allow for the necessary infrastructure investments and the development of new products and technologies in all of our current geographies and markets.

And now, on to our second quarter results. As Lanham discussed, we delivered strong growth during the second quarter with net revenues of $130.8 million, up 9.4% sequentially and up 55.7% over the same period last year. Recurring revenue accounted for 96.2% of revenue, with the remaining nonrecurring revenue primarily a result of usage charges and set-up fees associated with the increase in customers.

Our net revenue for the first six months of 2008 was $250.4 million, an increase of 57.3% over the same period of the last year. The increase in net revenue was primarily due to increased volume and services provided, both due to an increase in the number of customers and incremental services rendered to existing customers. On a net basis, we have added almost 2,000 customers in the second quarter, of which over 1,400 customers were in the managed hosting business. In addition, the revenue from our installed base grew by approximately 1% per month in the quarter.

Adjusted EBITDA, which is defined as income from operations before depreciation and amortization as well as non-cash charges for stock-based compensation, was $33.8 million for the second quarter of 2008, which was a 5.9% increase over the previous quarter and a 56.5% increase over the same quarter last year. Our adjusted EBITDA margin was 25.9% for the second quarter.

Income from operations was $8.4 million for the second quarter, and this was a 17.2% decline over the previous quarter, but a 7.1% increase over the same quarter last year. Net income was $4.2 million for the second quarter, a 23.2% decline over the previous quarter and a 13.1% decline over the same quarter last year. Note that both income from operations and net income are temporarily affected by our infrastructure projects that we are undertaking and their associated burden from increased appreciation and interest expenses.

Our total capital expenditures were $66.3 million for the second quarter. Of this, $32.8 million was funded by cash flows from operations. An additional $26 million was funded through vendor financed equipment purchases. The balance in the second quarter was financed through draws in our credit facility. As of the end of the second quarter, we had drawn $98.1 million of the total $245 million facility.

The $66.3 million in capital expenditures breaks out as follows -- $27.3 million was for purchases of customer gear, $18.5 million for data center build-outs, $12.8 million for renovations for the new headquarters facility, and $7.7 million for other expenditures.

The Company is reducing its anticipated capital expenditure estimate for 2008 from $335 million to $310 million. $10 million of the reduction is for office space that has been deferred to 2009. The remaining $15 million is in other capital that was originally budgeted for unspecified price increases that the Company no longer anticipates to occur. This new estimate also includes the capital to build out Hong Kong. Of the $20 million investment referred to in our September 8th press release, $10 million is scheduled to be spent this year, most of which is capital.

Our capital base grew to $301 million. Included in this capital base are assets that are not yet being fully utilized. Prime example is our UK data center facility in Slough, which added approximately 19,000 square feet of data center space at the end of the quarter. As a result, our capital turnover and our return on capital are temporarily negatively affected. Our turnover ratio declined to 1.98 from 2.1 times in the first quarter.

Likewise, our return on capital declined to 7.6% from 10.6% in the first quarter. This also explains the reduction in our data center utilization rate from 67.3% at the end of the first quarter to 59.1% at the end of the second quarter. We will consolidate some of our UK data centers into our Slough facility, which will lead to better asset utilization and a reduction in colocation expenses that we incur for our other UK facilities.

Let's spend a minute on our capitalization and our capital structure, since the IPO significantly changed our situation in this regard. Through the IPO, we have raised $144.9 million. Of that, we have used $57.3 million to repay borrowings that were outstanding on our line of credit.

As a result, we currently have $87.6 million in non-operating excess cash and $195 million available and committed on our line of credit. The excess cash is temporarily invested in treasury money market funds and will be used to finance our ongoing expenses. Our leverage is currently approximately 1 times.

In closing, I'd like to say that we are very pleased with our financial performance this quarter, yet, we have room to improve. We will continue to be efficient stewards of capital as we make investments to drive future growth. We will extend our leadership position and take advantage of the huge opportunity in IT hosting.

Now, I'll turn it back to Lanham for closing remarks.

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

Thanks, Bruce. Taking a look at the second quarter and how it fits into our overall strategy, we continue to see strong demand growth rates and are doing what we need to in order to serve it well. We're also making the right long-term investments to ensure a long reign for that growth that will drive shareholder returns. We continue to focus on Fanatical Support as a competitive differentiator, and the bottom line is that our strategy is working, despite a tough macroeconomic environment.

In closing, I'd like to take a moment to thank the Rackers around the world for their hard work and dedication at driving our business through an exciting and challenging time. We are proud of what we achieved together and excited about our position in the market and the opportunities ahead of us.

Now, we'd be happy to take your questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you. (OPERATOR INSTRUCTIONS).

We'll go first to Jason Armstrong with Goldman Sachs.

Jason Armstrong - *Goldman Sachs & Company, Inc. - Analyst*

Thanks, guys, good afternoon. Couple questions. First, maybe on just the macroenvironment, specifically as it relates to small business. We've heard a lot recently about small businesses facing a ton of macro pressure. It really seems to have gotten worse since the end of 2Q. So, maybe can you give us an update from where you sit? Are you seeing this? Maybe comment on churn or client failure rates or any sort of bad debt expense that you'd like to flag to investors as we think about 3Q and going forward.

And then second question, I just want to clarify in the capital spending the $15 million decrease as it relates to pricing. Anymore clarity on what that actually is? Is that expected server pricing where the price hikes weren't what you expected? Or just more granularity, that would be great. Thanks.

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

Okay, yes, why don't we start with the CapEx.

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

Yes, on the CapEx, the $15 million, while it was located in our other capital, it really was reserved for things like customer equipment or data center costs. As you know, early in the season or early in the year, we're seeing price increases in steel and copper and everything else. And so, we're anticipating that throughout the year some of our costs would increase. We're just not seeing that, and so we've backed out that contingency in our CapEx.

Jason Armstrong - *Goldman Sachs & Company, Inc. - Analyst*

Okay, great, and so, Bruce, there's no volume component attached to that? It's not like success based CapEx is coming down to that number?

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

No, there's -- it's just purely price related.

Jason Armstrong - *Goldman Sachs & Company, Inc. - Analyst*

Okay, great.

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

Hey, Jason, this is Lanham. With respect to the macroenvironment, we are absolutely feeling the headwinds like every other company in the States today. The good news here is that hosting is a high-growth category, we're the leader in that category. So, when we think about things like relative market share and the growth and attraction that we have in the marketplace, we feel like we're absolutely outperforming. So that while our growth has slowed, we still, for the second quarter of 2008, posted a growth rate in excess of 50%.

If you look at the key metrics page, which we've provided in our press release, there's some great data there with respect to churn and what's going on. If you look at the metrics line, there's a line there called net upgrades followed by churn followed by growth in our installed base. So, let's just talk through contextually these numbers.

In looking at what's happened in our installed base growth rate, we have experienced a slow-down in that in really two components. One component is the net upgrades. A year ago for the six months ended June 30, 2007, that was at 2.6%. Today, it's at 2.1%. What that represents is that customers' businesses are not growing as fast, so they're not signing up for additional services from us as quickly.

If you look at the churn, that's at 1.2% for the six months ended June 30, '08. A year ago, it was at 1.1%, so the churn represents customers that have left us, all right. And so, I think that what's happening there is because things are tougher, our churn is up a little bit.

I think the bigger driver here is that the upgrade rate, the take rate with customers adding more services based on the underlying growth in their business, that's the bigger impact here. We are still serving customers and serving them fanatically. But in their businesses, their growth is down, so they're not adding as much growth with us.

Jason Armstrong - *Goldman Sachs & Company, Inc. - Analyst*

Great. And Lanham, the 1.1% churn that's in the June 30 numbers, is that --

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

Yes.

Jason Armstrong - *Goldman Sachs & Company, Inc. - Analyst*

-- in your mind, is that already a rate that sort of accommodates the economic weakness we're seeing and because of that, that's sort of a good rate to look at going forward or --? Because a lot of the data points that have surfaced post 2Q, at least from a macro perspective, seem like small business has gotten a little bit worse. Is 1% -- does 1.1% in your mind sort of accommodate that?

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

Well, I think where the Q2 ended at 1.2%, I think that's a better reflection than where we -- the number 1.1% was where we were a year ago in 2007, so our churn is up a little bit this year. As far as when will the economy turn around, all that kind of stuff, we don't have that -- like you all, we don't have that crystal ball, okay. We're doing everything we can to fight churn to serve our customers well and keep them. We are comfortable that we did a good job on that in the second quarter.

Jason Armstrong - *Goldman Sachs & Company, Inc. - Analyst*

Great. Thanks, guys.

Operator

We'll go next to Chris Larsen with Credit Suisse.

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

Hey, Chris.

Chris Larsen - *Credit Suisse Securities LLC - Analyst*

Hi, and thanks for taking my question. Actually, I'm actually looking at the total right now, and maybe I'm misreading it, but the way it reads to me, it looks like churn was 1.2% in the first quarter and 1.1% in the second quarter, so actually a tick-down. Am I misreading the table, or is there a misprint or is there something else going on there?

And then to go more into that same macro theme because that seems to be about 99% of what people want to talk about today, have you seen anything in terms of DSOs or days sales outstanding, or delays in payments, or bad debt in the numbers that would suggest material changes that we should be aware of? And then, I -- if you don't mind (inaudible-technical difficulty).

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

I'm sorry, what was that very last piece? Chris?

Chris Larsen - *Credit Suisse Securities LLC - Analyst*

A third question on the deferred office space. What was the rationale behind deferring that?

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

Okay, let me start with the churn pieces. On the defection churn of those folks who are leaving us, quite honestly, if it's 1.2% or 1.1%, that's relatively the same number because of rounding and things, and so we don't really see much of a change from Q1 to Q2 generally.

Now, when we look at some of the other things within the Company that might be leading indicators, things like days sales outstanding and bad debt, we're seeing through the first quarter and the second quarter that our bad debt continues to run less than 1%, which actually is better than what we had seen last year. And we're not seeing any late fees in our days sales outstanding. So, some of those factors have really held up so far.

In terms of the office space and the delay, really it's just the timing difference. As you know with CapEx as you get close to the end of the year, some things start slipping into the following year. And so, it's just really a case of dollars not being spent in '08, but will be spent in early '09. So, it really is just a timing difference from that standpoint.

Chris Larsen - *Credit Suisse Securities LLC - Analyst*

Thanks, that's really helpful, appreciate it. Thank you very much.

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

Yes.

Operator

We'll hear now from Thomas Watts with Cowen & Company.

Thomas Watts - *Cowen & Co., LLC - Analyst*

In terms of -- two questions. One is a little more clarity in the churns because that is a concern, and have there been anymore changes since the end of the quarter? I'm not sure I understood that exactly if you've seen any increased activities. But second, could you give us an update on just the e-mail business and also the cloud computing business and the progress there?

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

Sure, sure. Okay, just with respect to the update on churn, we're going to share the Q3 here with everybody in a little bit, and so this call is really a little bit atypical of the regular schedule that we'll follow. I think that what we want to leave you with is that the churn this year is higher than a year ago, and I would expect that to absolutely continue relative to our performance a year ago. We are doing everything we can to fight it, but the reality is the conditions this year are worse than last year, right. And so, I think the headwinds show up in the churn and also shows up in a slower upgrade rate.

Heading into this year, we felt like this was going to be a recession, so that when we looked at our growth plans to offset what we felt were going to be slower upgrade rates in the base, we increased our marketing spending. So, that basically what we did was we said we're going to grow our new customer acquisition to offset the slow-down that we have in our current take rate in our existing customer base.

And so, when you look at our win rate with our revenue growth with new customers, we are growing significantly faster than a year ago, right. So, going into the softness, we said, look, in a recessionary environment, everyone's shopping. We're going to go grab more than our fair share. We're the leader in the marketplace, so it's a chance for us to grab market share. We are doing that today. I'm happy that we made that decision last November because, as predicted, the economy's been tough this year and we're feeling that in the upgrade rates and the churn.

With respect to the e-mail and cloud businesses, those businesses are a bright spot in our future. They're each growing at triple digits today. We continue to have remarkable traction there. E-mail, in particular, we made an acquisition last year of a company called Webmail, the leadership team there led by Pat Matthews. Pat's a complete superstar and he is making it happen over there.

Our cloud business with Mosso is also grabbing pretty good revenue traction today. These are businesses that the way we evaluate them, we are not trying to make these businesses profitable today. These are our seeds that we are planting for the future.

And so, what's happening is we have lots of OpEx investments with respect to the sales and marketing spend as well the developers that we're doing to -- that we're pooling to develop the code for these offerings. And so, what happens in these offerings today is that it's about traction in the marketplace. It's about are we winning customers, are we leading this charge? And across both of them, that we are.

The nice thing about cloud offering today is you hit a lower price point, so if you go online to Mosso, which is our brand for the cloud offering, they're hitting a lower price point than our traditional managed business. That's nice in a recessionary environment. So, those two businesses are going rapidly. We're going to continue to make the investments there because we're pleased with our progress.

Thomas Watts - *Cowen & Co., LLC - Analyst*

Okay, and then could you also just comment on sales force expansion, how it's tracking relative to your goals and also how sales is going relative to quota for salespeople.

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

Okay. You want me to do that one, Bruce, or you want to do it?

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

Yes, you want to talk about that?

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

Yes, okay, our sales -- I guess the first part of the sales force question is how are we doing in terms of ramping our quota bearing headcount. We're on track with where we want to be with that. Right now, we are making sure that as we enter this phase of the year, we are thinking about next year and beyond.

The reality is, when we bring a rep into Rackspace, they have a ramp period. We've got to train them on our service set. We've got to indoctrinate them into our culture and understanding of Fanatical Support. So, it takes awhile for us to get them fully up to speed. So, the investments we're making now in the sales force are really not going to impact this year at all. It's about impacting next year. That is primarily driven on the new customer acquisition and then partially driven by the existing customer upgrade rate, okay. So, we feel very comfortable with where we are on that.

With respect to where we are in terms of goal achievement, without getting the specifics, I'll tell you contextually how we think about it. We have a celebration here called Rackstar, okay, which basically, as sales reps hit their numbers, this is our celebration for that achievement.

We are pleased with the number of reps hitting Rackstar on a quarterly basis, right. And so, it's one of those things that you never want it to be 100% because that means your goals aren't high enough. And you don't want it to drop below 50% because that means people are demoralized, all right, so that we are happy with that achievement in our teams and we manage it for that outcome.

Thomas Watts - *Cowen & Co., LLC - Analyst*

Thanks very much and congratulations on the progress.

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

Thank you. Well, look, we're having fun this year. It's a good, hard year.

Thomas Watts - *Cowen & Co., LLC - Analyst*

Great.

Operator

We'll go next to Jonathan Schildkraut with Jefferies.

Jonathan Schildkraut - *Jefferies & Company, Inc. - Analyst*

Good afternoon, guys, nice to talk to you. It's been awhile. I wanted to ask about what the economy is doing to your competition. You had mentioned that you stepped up some of your marketing spend, and we understand that you do compete with some national players. But a lot of times you are competing with maybe the local integrator who may not be as well capitalized, certainly after IPO, as Rackspace is. So, wondering about the competitive landscape and what you're seeing from the smaller regional guys that you compete with. Thanks.

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

Yes, sure. I think there are a couple things going on. Any time that the market gets tough like this, it's a sorting mechanism, okay. Within our traditional competitors, many of the folks that we compete with are generalists, Jonathan. So, we're a specialist. Hosting is all we do. When you compete with big players today, the AT&Ts, et cetera, right, they are like every other company, I think, really focused on their core business, okay. So, the secondary stuff like hosting tends to end up on the back burner, all right.

When you get down to the regional guys, mom and pops as you identified in your question, I think they are rapidly becoming capital constrained. And I don't have great evidence to share with you on this call about how they are having to stop expansion activities they can't afford to go long customer gear, but I have no doubt that for folks that went long significant data center capacity a year ago, borrowed money to do that and are having trouble filling it up, I am hopeful that there will be asset sales in the future.

Jonathan Schildkraut - *Jefferies & Company, Inc. - Analyst*

All right, great. Thank you.

Operator

Moving on to Kash Rangan with Merrill Lynch.

Kash Rangan - *Merrill Lynch & Company, Inc. - Analyst*

Hi, thanks, Lanham and Bruce. My question for you is that it certainly looks like you're taking advantage of the market positions to be more aggressive. Lanham and Bruce, maybe you could identify in the short-term what are the hits you're taking as you embark on this aggressive expansion strategy along the line of the metrics that you're going to be reporting.

And conversely, as -- if we are to come out of a recession, hopefully [we'll get a slick of] rebound economy and things start to go in a positive direction next year, how should those metrics then conversely benefit from all the investments that you're making? I'm aware it's a fairly open-ended question, but you can answer it any way you'd like, and that will be very good color. Thanks a lot.

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

Okay, yes, sure, I'll start with some context and then hand it to Bruce for the metrics. One of the things that we try to balance is it's not about market share at all costs or growth at all costs. We have a disciplined pricing approach so that with respect to every customer we're winning, we're going to make sure that we earn a profit on that customer.

So, in times like this, we're willing to drive up our acquisition costs so long as that customer fully burned, meaning all of our costs to serve, our data center costs, our capital costs are covered, we're happy to win that business, okay. And so, that is a trade-off that our sales reps are making on a daily basis. And our sales reps' compensation is driven by the value of the deals that they win, okay.

So, this decision takes place on the front line on a customer prospect by prospect situation. So, that's the tension we're managing the business. It's how do we maximize growth and manage profitability at the same time because we aren't going to grow just for the sake of growth.

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

Yes, and in terms of some of the metrics, when you look at our adjusted EBITDA, for instance, two years ago we were having EBITDA margins that were approaching 30%, but we decided to make some investments and really plant seeds for the future. And so, what we're seeing today is not so much on the impact of the slowing economy, but the fact that we brought down our margins a few percentage points in order to invest in some of the future technologies like cloud and e-mail.

And so, when you look at our margins in the second quarter, for instance, we're right around 26% on an adjusted EBITDA basis. I think what you should expect is that our margins will probably stay around that range. They'll be banded probably pretty narrowly in that range as we go forward as we continue to invest in some of the new products. Now, obviously, when the economy turns around, as we and if we continue to grab market share, we'll have a much larger base that we'll go back to and leverage as we sell into that base going forward.

Kash Rangan - *Merrill Lynch & Company, Inc. - Analyst*

So, conversely your return on invest -- incremental return on invested capital should pick up, the churn rate should go down and the installed base business should pick up and, therefore, margins should go up, right? Is that the right way to think about the different metrics that you choose to present your business on as the economy hopefully gets better?

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

Yes, I think generally --

Kash Rangan - *Merrill Lynch & Company, Inc. - Analyst*

[Do you think that will happen]?

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

Yes, generally I think that's true. And also keep in mind that we've made some infrastructure investments today that have pulled down some of our returns, and as we continue to go forward, we're not going to have the same level of the infrastructure investments that we have today. And so, our margins should improve from that.

Kash Rangan - *Merrill Lynch & Company, Inc. - Analyst*

And then finally, Bruce, if you are able to answer this question, what do you consider to be an acceptable and reasonable return on your capital? Considering that you just went public, you are probably using a variety of assumptions on WACC. But I'm just wondering what your assumption is on WACC relative to what you think is a reasonable rate of return, not at this point yet because understandably you're putting a lot of money, but as you exit the cycle, what is a reasonable rate of return?

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

That's a great question. In fact, when you look at some of our returns on capital, historically we've had some close to 30%, but those were the days that we were getting data centers almost for free. Now, if we can replicate that, that would be terrific, and we're certainly looking for those opportunities. But if you look at our data centers today and you put them on a wholly burdened basis and replicate the cost on today's cost, what we're seeing is our return on capital should really be approaching between 18% and 20% on those.

Now, that's with our current technologies. When you start thinking about things like cloud hosting, actually we expect to be more efficient with our capital in those technologies going forward. What those returns might be at this point, I don't have a number I can share with you, but we certainly expect to be more efficient with that capital in the future.

Operator

And we'll hear now from Devang Kothari with JMP Securities.

Devang Kothari - *JMP Securities LLC - Analyst*

Hi, I wanted to go back to the competitive environment that you're seeing out there. And as you mentioned, you might have some smaller competitors that may be capital constrained in this environment. Just wanted to see if you're seeing anything in the pricing environment where those companies are getting more aggressive or are you seeing any change in behavior there?

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

Yes, great question. The answer -- the short answer is yes. I think on the low end of our business, the entry level managed when you're talking about a monthly -- an MRR, a monthly recurring revenue charge, of a few hundred dollars, I would say the price competitiveness there has increased, all right. I think that what happens is, the way the competitive dynamic works in our market is that we're the leader and we differentiate based on Fanatical Support. And so, Fanatical Support is a brand promise around the experience the customer is going to have here.

Well, we've -- we're the recognized leader, we've got the best service in our industry, and so the way that the mom and pops compete with us has always been on price, all right. They've always tried to undercut us to win, okay. And so, now, I think that they're faced with a situation of, man, the world's harder anyway. The only lever they have to pull is price, so they're pulling it.

When we look at our business, we have lots of levers to pull for growth. We have the new customer acquisition lever, which we've focused on this year, we have an international growth lever, which we've focused on this year, and we have an installed customer base growth lever. And so, I think that we just have more arrows in our quiver, so to speak, on this.

I think the regional --

Devang Kothari - *JMP Securities LLC - Analyst*

Sure.

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

-- guys, they really just have price, and so they want to compete on price. We recognize that, given our profitability levels, we have the best cost structure in our industry, okay. So, if those guys want to compete on price and cost, we believe we have a real good understanding of what that looks like and we're happy to do that for awhile.

Devang Kothari - *JMP Securities LLC - Analyst*

Okay, so it sounds like there would be some pricing pressure put on you and you may not be able to sustain the same level of pricing that you have in the past in the environment --

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

Well, yes --

Devang Kothari - *JMP Securities LLC - Analyst*

-- given the competitive outlook.

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

-- yes, I think when you're talking about the extreme low end of our offering, I believe that is -- that's correct, I think that's accurate. I think what will happen, though, is rather than win the deal at a loss, we'll let it go. And based on our cost structure and performance as a company, we know that we have the best cost structure in the industry. And so, it's not profitable for us. The competitor that wins it really isn't going to like that business for very long.

Devang Kothari - *JMP Securities LLC - Analyst*

Got you, got you, okay. And then, Bruce, I have a question on the Slough data center consolidation. Could you give us some idea of what kind of synergies you'll receive once that consolidation does occur?

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

Yes, currently in the UK, we opened up the Slough data center -- we opened up the first phase of the Slough data center. Currently over in the UK, we also have multiple sites that we have data centers where we're really in a colocation environment. And so, as we migrate those customers out of that data center into Slough, obviously we won't have the lease costs associated with the colocation areas, and so that should improve our income statement.

Likewise, it's not just about purely the dollars we'll save from a colocation standpoint, but it's also from a quality standpoint. And so, one of the real advantages that we have with our new data center is it's a state of the art data center. We built it to our specs and we just think we'll be able to service the customer a lot better, fewer outages, fewer problems than we had in the colocation efforts.

And so, there are multiple ways. Some are easily quantifiable, some of them are a little bit more difficult to quantify, but those are the kinds of things that we look at going forward. Now, in terms of the migration out of some of the other data centers, that'll continue through -- even through next year. So, that will incur -- or we'll incur that savings over time. It's not an immediate savings.

Devang Kothari - *JMP Securities LLC - Analyst*

Okay, so we should expect utilization to stay around this area in the near future at least?

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

In total utilization of the data centers, we're -- we ended the quarter at about 59% utilized across all of our Company, and that utilization will go up as we start filling it with new customers.

Devang Kothari - *JMP Securities LLC - Analyst*

Okay, okay, and then last, Lanham, you had mentioned that you were pretty happy with the job your team's done up until end of Q2 in terms of managing churn. Are you still pretty happy with that effort so far?

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

I'll let you know about Q3 in a little bit, okay?

Devang Kothari - *JMP Securities LLC - Analyst*

All right. I had to try.

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

I understand. I appreciate it.

Operator

We'll go next to Erik Suppiger with Signal Hill.

Erik Suppiger - *Signal Hill - Analyst*

Good afternoon.

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

Hello.

Erik Suppiger - *Signal Hill - Analyst*

So, you had discussed customers here -- total customers of 33.6 thousand. You said your mail customers were 13.8. How much overlap do you have or can we assume that you're around 20,000 for your traditional customers?

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

The managed hosting customers are about half of the total. The other component there is the cloud customer base.

Erik Suppiger - *Signal Hill - Analyst*

Okay, can we get any clarity in terms of how that breakout would have been for Q1?

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

Yes, it should be in the metrics page, isn't it, in the footnote on the metrics page that we handed out?

Erik Suppiger - *Signal Hill - Analyst*

Was the breakout for the cloud customers again the difference between the -- I mean, can we assume that you don't have too much overlap between the traditional and the e-mail, so, again, just divide it by two and then assume the difference between the mail customers and half for the traditional, that would be the cloud customers? Is that the way to think of it for Q1?

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

Yes, sure, I'll give you some data. If you look at March 31, 2008, the total customer count was about 31,675.

Erik Suppiger - *Signal Hill - Analyst*

Yes.

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

Okay, of that our traditional managed hosting business was 16,365.

Erik Suppiger - *Signal Hill - Analyst*

Okay.

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

The balance was mail and cloud.

Erik Suppiger - *Signal Hill - Analyst*

Okay, can you give me what the e-mail was for Q1?

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

Yes, e-mail was right about 13,000.

Erik Suppiger - *Signal Hill - Analyst*

13K, okay.

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

And you've got 2,000 in cloud.

Erik Suppiger - *Signal Hill - Analyst*

All right. Secondly, can you give us any sense for how much you're spending on R&D? You'd said you've been taking that up. Any flavor for what kind of impact that would have had on your EBIT or your EBITDA margin in the June quarter?

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

Well, generally, we've got a lot of different buckets of R&D. Some is capitalized, some is expense. And when you're looking at our EBITDA margins, again, on sort of a pure play basis, our EBITDA margins were running at about 28% or 29% and today they're roughly 26%. And I would suggest that that 3% difference is primarily our R&D efforts from the income statement standpoint.

Erik Suppiger - *Signal Hill - Analyst*

Okay, and then lastly, it sounds like in a tougher environment, you're willing to spend more on sales to -- you keep your pricing -- you've kept your pricing fairly consistent, but you're willing to spend more on sales to get more aggressive to pull in more accounts. What do you do to get more aggressive on sales and how do you spend more to close on those deals?

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

Yes, a couple things. I think one is just the advertising rate, okay, so that we are perk advertising, banner advertising, call campaigns, what have you. We will increase that activity to try to drive incremental lead flow. Once the lead flow is in with respect to our sales activity, it's really about having more reps working more deals, okay. And so, we will absolutely push the level of activity that we're doing. That level of activity increases the sales and marketing costs. We are happy to do that so long as we feel like the trade-off is a good one, okay.

So, right now, we talked earlier about headwind pressure on churn, headwind pressure on net upgrade rate, and headwind pressure generally. And so that I think that we are happy to do this in the push on the sales activity so long as we feel like, based on our economic models, that this customer is going to be profitable for us.

Erik Suppiger - *Signal Hill - Analyst*

So, that does translate into a higher sales and marketing expense, though, in terms of the income statement; is that correct?

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

Yes, yes. If you looked at a payback today on a new customer acquisition relative to where we were a year ago, the payback has increased. Now, it hasn't increased at an alarming rate, which is why we think the trade is still a good one to make. We feel like we start to push that and hit diminishing returns, okay, we'll take that under consideration and say, look, it's not worth the extra five points.

I mean, our basic point of view is we are here for the long haul. And so to grow an extra three or four points this year and screw up our financial model isn't worth it to us, okay. If we can grab share at economically attractive rates, we'll do it all day long, okay. But we are going to follow our discipline and not violate it.

Erik Suppiger - *Signal Hill - Analyst*

Okay, last one. Just coming back to my first question, Lanham, can you tell us what the traditional customers were in the Q2? You said it was about half. If you have the actual number, that would be great.

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

Yes, hold on one second. In Q2, it was 17,220.

Erik Suppiger - *Signal Hill - Analyst*

220, very good. Thank you very much.

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

Yes, thank you.

Operator

And we do have time for two more questions today. We'll go next to Matt Kather with W. R. Hambrecht.

Matt Kather - *W. R. Hambrecht & Co. Asset Management, LLC - Analyst*

Guys, thank you. Just a quick question on virtualization. I think it's pretty early. You've just recently launched in the last quarter or two, but can you share with us how that's affecting your servers deployed and maybe the economics of the business as it's being [passed for] by your customer base?

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

Sure, okay, the first thing is it is early in the game for us. We have had -- what I would characterize virtualization is that in the long run what it will do is drive down the basic level cost to compute, okay. I would say at this point in our offering, I would call it rapid traction actually. I mean, we've rolled it out and it's growing pretty darn fast, okay. We are pleased with that growth.

As far as making a significant impact on the number of servers we're deploying on a monthly basis, it's not doing that yet. I think it'll take awhile for the offering to mature because basically today, it -- the decision that a customer has to make is the gold standard for application uptime is to really run your application on dedicated infrastructure, right. That's the way to get the best performance.

When you talk about virtualization, it can drive down a cost to compute by pooling the resources and sharing those resources across multiple customers or just virtualizing the environment for one customer. Today what's happening is that the virtualization offering in our traditional managed business is a virtualized offering dedicated to one customer, okay.

So, we still have a customer that we are still deploying dedicated gear by customer, but what the customer is then able to do with virtualization is get a higher utilization rate on that basic compute element to server, okay. So, it's not impacting our server deployment rates yet.

Over time, as we take virtualization to the next level, we are pooling resources to create a pool of servers and compute power and we share that compute power across multiple customers, it will impact server deployment rates. But it's not there yet. I tell you what we'd be happy to tell you about, though, is, man, virtualization is real, the market wants it. In the long run, it's going to be a wonderful thing for us.

Matt Kather - *W. R. Hambrecht & Co. Asset Management, LLC - Analyst*

Okay, great. And -- thanks, Lanham. And Bruce, going back -- could you just repeat those numbers you gave sort of post the offering? You said you paid down $57.3 million in debt, you had $187.6 million in cash. What was -- and about one times leverage; is that right?

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

That's correct. If you look at our balance sheet today, we've got about $50 million of outstanding debt. So, we used the proceeds to pay down all of our credit facility except $50 million that had been hedged, and so we left that outstanding. In addition to that, we have leases, which are a little over $70 million worth of leases -- capitalized leases and a few notes payable. So, that gets us to about $130-ish million in total debt.

Now, on the flip side of that, we have $87 million of cash and $195 million available on our credit facility still. And so, we feel we are well capitalized. Particularly with the economy the way it is, we feel that we're in great shape and we'll be very careful in deploying our capital. And by the way, that $130 million, that leads us really to the total leverage ratio of 1 time.

Matt Kather - *W. R. Hambrecht & Co. Asset Management, LLC - Analyst*

Okay, and is that about -- is that what you're comfortable with, sort of going forward as to how you're looking to manage the business at least for the near-term?

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

I -- we don't have plans to go out and raise more debt in the near-term. I think that between our current credit facility and the cash and the availability from some of our vendors that provide leasing arrangements at attractive rates, that we feel very comfortable with our capital structure the way it is today.

Matt Kather - *W. R. Hambrecht & Co. Asset Management, LLC - Analyst*

Okay, last thing, you didn't mention the share count. Is there any guidance you can give us just with all the moving pieces after the [shoe] and all the employee exercises, et cetera, of where you see the diluted share count shaking out for Q3? Are you willing to share that with us?

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

Yes, that will be in the Q that we're sending out shortly.

Matt Kather - *W. R. Hambrecht & Co. Asset Management, LLC - Analyst*

Okay, I'll look for it, then. Thank you.

Operator

And our final question today will be from Matt Therian with Renaissance Capital.

Matt Therian - *Renaissance Capital - Analyst*

Hi, guys, thanks for taking my question. Could you just take us through, like, the up-front costs your customers pay when they convert to a managed hosting solution and how those would compare to, like, a colocation?

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

Yes, perfectly happy to. Let's talk about the fundamental difference between our business and colocation. Colocation is a real estate business. Basically, the customer does the computing themselves. They rent space inside the data center. Once they have the space, the customer then has to go acquire all of the servers, all of the network devices, the racks, the cabinets, the cables, et cetera. So, there's a CapEx investment there. Then, the customer has to employ the right folks on their team to actually go deploy that gear and make that gear run on an ongoing basis.

So, there's a balance sheet item there for the customer in terms of all the capital they have to buy and there's an income statement item in terms of the employees they have to have go run this infrastructure on their behalf. So, that's colocation. It's a real estate business in which the customer does the computing themselves.

Our business, we take all that stuff on the balance sheet and turn it all into a variable routine operating cost. And so, there basically is no up-front investment for the customer, right. They sign an agreement with us, we go purchase the equipment, so the equipment's on our books. We maintain 2,400 Rackers on a global basis to run the infrastructure for the customer. It's inside of our data center, okay.

And so basically, we are a turnkey managed solution for the customer so that the customer with us is going to enter into a contract that states a monthly fee for the services we provide. There's a lot of discovery up-front in that sales process to make sure that we get the right fit with the customer.

And so, ultimately when you look at the difference between colo being a real estate business and our company being a service business, the average colocation company will get $50 to $60 per square foot per month of utilized data center square footage. We're going to get eight to 10 times that. So, it speaks to the fact that we are providing a service. There's a lot more value in what we're providing to the customer relative to a colocation offering.

Matt Therian - *Renaissance Capital - Analyst*

Okay, thanks.

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

Sure.

Karl Pichler - *Rackspace Hosting, Inc. - VP, Finance*

Okay, that concludes our call today. As a reminder, please note that certain financial measures that we used on this call, such as adjusted EBITDA and return on capital, are expressed on a non-GAAP basis. Our GAAP results and GAAP to non-GAAP reconciliation can be found in our earnings press release, which is available on our website. Thank you, again, for your time. Bye-bye.

Operator

That concludes today's conference call. Have a pleasant rest of your day.
