UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2024.

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______.

Commission File Number: 001-39420

RACKSPACE TECHNOLOGY, INC.
(Exact name of registrant as specified in its charter)

Delaware	**81-3369925**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

19122 US Highway 281N, Suite 128
San Antonio, Texas 78258
(Address of principal executive offices, including zip code)

1-800-961-4454
(Registrant's telephone number, including area code)

None
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.01 per share	RXT	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☑
Non-accelerated filer	☐	Smaller reporting company	☑
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

On November 5, 2024, 227,568,885 shares of the registrant's common stock, par value $0.01 per share, were outstanding.

RACKSPACE TECHNOLOGY, INC.
TABLE OF CONTENTS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2024 (this "Quarterly Report") contains certain information that may constitute "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. While we have specifically identified certain information as being forward-looking in the context of its presentation, we caution you that all statements contained in this report that are not clearly historical in nature, including statements regarding anticipated financial performance, management's plans and objectives for future operations, business prospects, market conditions, and other matters are forward-looking. Forward-looking statements are contained principally in the sections of this report entitled "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Without limiting the generality of the preceding sentence, any time we use the words "expects," "intends," "will," "anticipates," "believes," "confident," "continue," "propose," "seeks," "could," "may," "should," "estimates," "forecasts," "might," "goals," "objectives," "targets," "planned," "projects," and similar expressions, we intend to clearly express that the information deals with possible future events and is forward-looking in nature. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking.

Forward-looking information involves risks, uncertainties, and other factors that could cause actual results to differ materially from those expressed or implied in, or reasonably inferred from, such statements, and the risks and uncertainties disclosed or referenced under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2023. Therefore, caution should be taken not to place undue reliance on any such forward-looking statements. Much of the information in this report that looks toward future performance of the company is based on various factors and important assumptions about future events that may or may not actually occur. As a result, our operations and financial results in the future could differ materially and substantially from those we have discussed in the forward-looking statements included in this Quarterly Report. We assume no obligation (and specifically disclaim any such obligation) to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law.

TRADEMARKS, TRADE NAMES AND SERVICE MARKS

"Rackspace," "Rackspace Technology," "Fanatical," "Fanatical Experience," "Rackspace Fabric," "Rackspace Data Freedom," "Rackspace Services for VMware Cloud™" and "My Rackspace" are registered or unregistered trademarks of Rackspace US, Inc. in the United States and/or other countries. OpenStack® is a registered trademark of OpenStack, LLC and OpenStack Foundation in the United States. Solely for convenience, trademarks, trade names and service marks referred to in this Quarterly Report may appear without the ® or ™ symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensor to these trademarks, trade names and service marks. Other trademarks, trade names and service marks appearing in this Quarterly Report are the property of their respective holders. We do not intend our use or display of other companies' trade names, trademarks or service marks to imply a relationship with, or endorsement or sponsorship of us by, any other companies.

PART I – FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

RACKSPACE TECHNOLOGY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions, except per share data)	December 31, 2023	September 30, 2024
ASSETS		
Current assets:		
Cash and cash equivalents	$ 196.8	$ 157.1
Accounts receivable, net of allowance for credit losses and accrued customer credits of $20.1 and $23.3, respectively	339.7	311.8
Prepaid expenses	87.4	95.4
Other current assets	114.2	84.4
Total current assets	738.1	648.7
Property, equipment and software, net	608.8	616.3
Goodwill, net	1,452.4	739.7
Intangible assets, net	1,019.0	883.4
Operating right-of-use assets	126.3	139.4
Other non-current assets	151.6	118.3
Total assets	$ 4,096.2	$ 3,145.8
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued expenses	$ 432.7	$ 407.9
Accrued compensation and benefits	72.2	94.2
Deferred revenue	78.8	68.8
Debt	23.0	27.1
Accrued interest	20.5	8.1
Operating lease liabilities	66.0	55.8
Finance lease liabilities	55.8	50.5
Financing obligations	14.0	16.3
Other current liabilities	36.5	40.2
Total current liabilities	799.5	768.9
Non-current liabilities:		
Debt	2,839.6	2,782.4
Operating lease liabilities	74.6	86.3
Finance lease liabilities	308.0	294.3
Financing obligations	52.4	39.5
Deferred income taxes	79.2	26.0
Other non-current liabilities	97.4	98.1
Total liabilities	4,250.7	4,095.5
Commitments and Contingencies (Note 8)		
Stockholders' deficit:		
Preferred stock, $0.01 par value per share: 5.0 shares authorized; no shares issued or outstanding	—	—
Common stock, $0.01 par value per share: 1,495.0 shares authorized; 220.5 and 230.7 shares issued; 217.4 and 227.6 shares outstanding, respectively	2.2	2.3
Additional paid-in capital	2,638.2	2,672.0
Accumulated other comprehensive income	60.3	33.4
Accumulated deficit	(2,824.2)	(3,626.4)
Treasury stock, at cost; 3.1 shares held	(31.0)	(31.0)
Total stockholders' deficit	(154.5)	(949.7)
Total liabilities and stockholders' deficit	$ 4,096.2	$ 3,145.8

See accompanying notes to the unaudited condensed consolidated financial statements.

RACKSPACE TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)

(In millions, except per share data)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2024	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2024
Revenue	$ 732.4	$ 675.8	$ 2,237.4	$ 2,051.5
Cost of revenue	(580.4)	(538.3)	(1,762.7)	(1,649.8)
Gross profit	152.0	137.5	474.7	401.7
Selling, general and administrative expenses	(177.3)	(169.5)	(601.7)	(547.1)
Impairment of goodwill	(165.7)	(141.7)	(708.8)	(714.9)
Impairment of assets, net	(48.4)	—	(48.4)	(20.0)
Loss from operations	(239.4)	(173.7)	(884.2)	(880.3)
Other income (expense):				
Interest expense	(56.5)	(18.0)	(170.7)	(80.1)
Gain on investments, net	—	0.1	0.2	0.2
Debt modification costs and gain on debt extinguishment	55.4	18.0	163.1	147.2
Other expense, net	(2.6)	(1.0)	(0.3)	(11.8)
Total other income (expense)	(3.7)	(0.9)	(7.7)	55.5
Loss before income taxes	(243.1)	(174.6)	(891.9)	(824.8)
Benefit (provision) for income taxes	16.5	(12.0)	26.1	22.6
Net loss	$ (226.6)	$ (186.6)	$ (865.8)	$ (802.2)
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	$ (5.7)	$ 4.3	$ 0.5	$ (0.2)
Unrealized gain (loss) on derivative contracts	9.1	(11.1)	22.8	6.5
Amount reclassified from accumulated other comprehensive income (loss) to earnings	(7.5)	(11.0)	(19.9)	(33.2)
Other comprehensive income (loss)	(4.1)	(17.8)	3.4	(26.9)
Comprehensive loss	$ (230.7)	$ (204.4)	$ (862.4)	$ (829.1)
Net loss per share:				
Basic and diluted	$ (1.05)	$ (0.82)	$ (4.03)	$ (3.59)
Weighted average number of shares outstanding:				
Basic and diluted	216.0	226.4	214.8	223.6

See accompanying notes to the unaudited condensed consolidated financial statements.

RACKSPACE TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2024
Cash Flows From Operating Activities		
Net loss	$ (865.8)	$ (802.2)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	282.5	222.0
Amortization of operating right-of-use assets	57.9	51.4
Deferred income taxes	(38.9)	(46.4)
Share-based compensation expense	51.9	47.8
Impairment of goodwill	708.8	714.9
Impairment of assets, net	48.4	20.0
Debt modification costs and gain on debt extinguishment	(163.1)	(147.2)
Unrealized loss on derivative contracts	13.7	—
Gain on investments, net	(0.2)	(0.2)
Provision for bad debts and accrued customer credits	5.1	11.3
Amortization of debt issuance costs and debt discount and premium	6.0	3.5
Third party fees paid in connection with the Refinancing Transactions	—	(31.7)
Non-cash fair value adjustments	(1.0)	(2.2)
Other operating activities	0.3	(3.7)
Changes in operating assets and liabilities:		
Accounts receivable	268.8	16.9
Prepaid expenses and other current assets	23.1	(2.1)
Accounts payable, accrued expenses, and other current liabilities	(65.6)	(12.8)
Deferred revenue	(1.5)	(13.1)
Operating lease liabilities	(48.6)	(63.0)
Other non-current assets and liabilities	20.9	22.4
Net cash provided by (used in) operating activities	302.7	(14.4)
Cash Flows From Investing Activities		
Purchases of property, equipment and software	(63.0)	(91.2)
Proceeds from sale of headquarters	—	16.9
Other investing activities	0.7	5.4
Net cash used in investing activities	(62.3)	(68.9)
Cash Flows From Financing Activities		
Proceeds from employee stock plans	0.8	0.4
Shares of common stock withheld for employee taxes	(1.0)	(4.3)
Proceeds from borrowings under long-term debt arrangements	50.0	275.0
Payments on long-term debt	(151.8)	(138.5)
Debt extinguishment costs	—	(22.1)
Payments on financing component of interest rate swap	(14.3)	(13.0)
Principal payments of finance lease liabilities	(60.3)	(44.0)
Principal payments of financing obligations	(14.8)	(10.5)
Net cash provided by (used in) financing activities	(191.4)	43.0
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	0.3	0.7
Increase (decrease) in cash, cash equivalents, and restricted cash	49.3	(39.6)
Cash, cash equivalents, and restricted cash at beginning of period	231.4	199.7
Cash, cash equivalents, and restricted cash at end of period	$ 280.7	$ 160.1

Supplemental Cash Flow Information		
Cash payments for interest, net of amount capitalized	$ 166.2	$ 83.9
Cash payments for income taxes, net of refunds	$ 9.9	$ 9.7
Non-cash Investing and Financing Activities		
Acquisition of property, equipment and software by finance leases	$ 67.4	$ 22.0
Acquisition of property, equipment and software by financing obligations	8.5	—
Increase (decrease) in property, equipment and software accrued in liabilities	4.9	(1.7)
Other non-cash activity	—	(2.1)
Non-cash purchases of property, equipment and software	$ 80.8	$ 18.2

The following table provides a reconciliation of cash, cash equivalents, and restricted cash to the total of such amounts shown on the Condensed Consolidated Statements of Cash Flows.

	Nine Months Ended September 30,	
(In millions)	2023	2024
Cash and cash equivalents	$ 277.8	$ 157.1
Restricted cash included in other non-current assets	2.9	3.0
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	$ 280.7	$ 160.1

See accompanying notes to the unaudited condensed consolidated financial statements.

RACKSPACE TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(Unaudited)

(In millions)	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Treasury Stock, at Cost		Total Stockholders' Equity (Deficit)
	Shares	Amount				Shares	Amount	
Balance at June 30, 2023	218.8	$ 2.2	$ 2,607.4	$ 78.9	$ (2,625.6)	3.1	$ (31.0)	$ 31.9
Exercise of stock options and release of stock awards, net of shares withheld	0.7	—	(1.0)	—	—	—	—	(1.0)
Share-based compensation expense for equity classified awards	—	—	17.0	—	—	—	—	17.0
Net loss	—	—	—	—	(226.6)	—	—	(226.6)
Other comprehensive loss	—	—	—	(4.1)	—	—	—	(4.1)
Balance at September 30, 2023	219.5	$ 2.2	$ 2,623.4	$ 74.8	$ (2,852.2)	3.1	$ (31.0)	$ (182.8)

(In millions)	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Treasury Stock, at Cost		Total Stockholders' Equity (Deficit)
	Shares	Amount				Shares	Amount	
Balance at December 31, 2022	215.7	$ 2.2	$ 2,573.3	$ 71.4	$ (1,986.4)	3.1	$ (31.0)	$ 629.5
Exercise of stock options and release of stock awards, net of shares withheld	3.4	—	(1.0)	—	—	—	—	(1.0)
Issuance of shares from Employee Stock Purchase Plan	0.4	—	0.8	—	—	—	—	0.8
Share-based compensation expense for equity classified awards	—	—	50.3	—	—	—	—	50.3
Net loss	—	—	—	—	(865.8)	—	—	(865.8)
Other comprehensive income	—	—	—	3.4	—	—	—	3.4
Balance at September 30, 2023	219.5	$ 2.2	$ 2,623.4	$ 74.8	$ (2,852.2)	3.1	$ (31.0)	$ (182.8)

(In millions)	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Treasury Stock, at Cost		Total Stockholders' Deficit
	Shares	Amount				Shares	Amount	
Balance at June 30, 2024	228.7	$ 2.3	$ 2,661.1	$ 51.2	$ (3,439.8)	3.1	$ (31.0)	$ (756.2)
Exercise of stock options and release of stock awards, net of shares withheld	2.0	—	(0.9)	—	—	—	—	(0.9)
Share-based compensation expense for equity classified awards	—	—	11.8	—	—	—	—	11.8
Net loss	—	—	—	—	(186.6)	—	—	(186.6)
Other comprehensive loss	—	—	—	(17.8)	—	—	—	(17.8)
Balance at September 30, 2024	230.7	$ 2.3	$ 2,672.0	$ 33.4	$ (3,626.4)	3.1	$ (31.0)	$ (949.7)

(In millions)	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Treasury Stock, at Cost		Total Stockholders' Deficit
	Shares	Amount				Shares	Amount	
Balance at December 31, 2023	220.5	$ 2.2	$ 2,638.2	$ 60.3	$ (2,824.2)	3.1	$ (31.0)	$ (154.5)
Exercise of stock options and release of stock awards, net of shares withheld	9.9	0.1	(4.4)	—	—	—	—	(4.3)
Issuance of shares from Employee Stock Purchase Plan	0.3	—	0.4	—	—	—	—	0.4
Share-based compensation expense for equity classified awards	—	—	37.8	—	—	—	—	37.8
Net loss	—	—	—	—	(802.2)	—	—	(802.2)
Other comprehensive loss	—	—	—	(26.9)	—	—	—	(26.9)
Balance at September 30, 2024	230.7	$ 2.3	$ 2,672.0	$ 33.4	$ (3,626.4)	3.1	$ (31.0)	$ (949.7)

See accompanying notes to the unaudited condensed consolidated financial statements.

RACKSPACE TECHNOLOGY, INC.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Company Overview, Basis of Presentation, and Summary of Significant Accounting Policies

Nature of Operations and Basis of Presentation

Rackspace Technology, Inc. ("Rackspace Technology") is a Delaware corporation controlled by investment funds affiliated with Apollo Global Management, Inc. and its subsidiaries ("Apollo"). Rackspace Technology was formed on July 21, 2016 but had no assets, liabilities or operating results until November 3, 2016 when Rackspace Hosting, Inc. (now named Rackspace Technology Global, Inc., or "Rackspace Technology Global"), a global provider of modern information technology-as-a-service, was acquired by Inception Parent, Inc., a wholly-owned entity indirectly owned by Rackspace Technology (the "Rackspace Acquisition").

Rackspace Technology Global commenced operations in 1998 as a limited partnership, and was incorporated in Delaware in March 2000. Rackspace Technology serves as the holding company for Rackspace Technology Global and does not engage in any material business or operations other than those related to its indirect ownership of the capital stock of Rackspace Technology Global and its subsidiaries or business or operations otherwise customarily undertaken by a holding company.

For ease of reference, the terms "we," "our company," "the company," "us," or "our" as used in this report refer to Rackspace Technology and its consolidated subsidiaries.

The unaudited condensed consolidated financial statements include the accounts of Rackspace Technology, Inc. and our wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

Unaudited Interim Financial Information

The unaudited condensed consolidated financial statements as of September 30, 2024, and for the three and nine months ended September 30, 2023 and 2024, have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Accordingly, certain financial information and disclosures required for financial statements prepared under GAAP have been omitted in accordance with the Securities and Exchange Commission ("SEC") disclosure rules and regulations that permit reduced disclosure for interim periods. These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2023 as filed with the SEC on March 15, 2024 ("Annual Report"). The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements included in our Annual Report and, in the opinion of management, reflect all adjustments, which include normal recurring adjustments, necessary for a fair statement of our financial position as of September 30, 2024, our results of operations and stockholders' equity (deficit) for the three and nine months ended September 30, 2023 and 2024, and our cash flows for the nine months ended September 30, 2023 and 2024.

The results of operations for the three and nine months ended September 30, 2024 are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2024, or for any other interim period, or for any other future year.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and related disclosures of contingent assets and liabilities in the condensed consolidated financial statements and accompanying notes. On an ongoing basis, we evaluate our estimates, including those related to the allowance for credit losses, useful lives of property, equipment and software, software capitalization, incremental borrowing rates for lease liability measurement, fair values of intangible assets and reporting units, useful lives of intangible assets, share-based compensation, contingencies, and income taxes, among others. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from our estimates.

Liquidity Overview

We are a highly leveraged company. As of September 30, 2024, we had $2,454.5 million aggregate principal amount outstanding under our debt instruments, which are comprised of the first lien first out senior secured term loan facility (the “FLFO Term Loan Facility”), the first lien second out senior secured term loan facility (the “FLSO Term Loan Facility”), the first lien term loan facility (the "Term Loan Facility"), 3.50% FLSO Senior Secured Notes due 2028 (the “3.50% FLSO Senior Secured Notes”), 5.375% Senior Notes due 2028 (the "5.375% Senior Notes"), and 3.50% Senior Secured Notes due 2028 (the "3.50% Senior Secured Notes"). We primarily finance our operations and capital expenditures with internally-generated cash from operations and hardware leases, and if necessary, borrowings under the senior secured first lien first out revolving credit facility (the " New Revolving Credit Facility"). As of September 30, 2024, the New Revolving Credit Facility provided for up to $375.0 million of borrowings, none of which was drawn and outstanding as of September 30, 2024. Our primary uses of cash are working capital requirements, debt service requirements and capital expenditures. Based on our current level of operations and available cash and cash equivalents of $157.1 million as of September 30, 2024, we believe our sources will provide sufficient liquidity over at least the next twelve months. We cannot provide assurance, however, that our business will generate sufficient cash flows from operations or that future borrowings will be available to us under the New Revolving Credit Facility or from other sources in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. Our ability to do so depends on our ability to deliver on our strategic objectives and prevailing economic conditions and other factors, many of which are beyond our control.

Significant Accounting Policies and Estimates

Our Annual Report includes an additional discussion of the significant accounting policies and estimates used in the preparation of our consolidated financial statements. There were no material changes to our significant accounting policies and estimates during the nine months ended September 30, 2024, except as described below.

Change in Accounting Estimate

In the first quarter of 2024, we completed an assessment of the useful lives of certain assets within the “Computers and equipment” asset class. The timing of this review was based on a combination of factors accumulating over time that provided the company with updated information to make a better estimate on the economic lives of certain property and equipment. These factors included changes in our business model and recent technological advances that have increased efficiencies in how we operate and manage customer gear. The assessment resulted in an increase in the estimated useful life range of the “Computers and equipment” asset class from three-to-five years to five-to-seven years. This change in accounting estimate took effect at the start of the first quarter of 2024. The impact of this change was a reduction in depreciation expense of $11.5 million and $36.3 million and an increase of $0.05 and $0.15 net basic loss per share compared to previous estimates for the three and nine months ended September 30, 2024, respectively.

Goodwill, Indefinite-Lived Intangible Assets and Long-Lived Assets

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets of businesses acquired. Our indefinite-lived intangible asset consists of our Rackspace trade name, which was recorded at fair value on our balance sheet at the date of the Rackspace Acquisition. Goodwill and indefinite-lived intangible assets are not amortized but are subject to impairment testing on an annual basis as of October 1st or more frequently if events or circumstances indicate a potential impairment. These events or circumstances could include a significant change in the business climate, regulatory environment, established business plans, operating performance indicators or competition. Potential impairment indicators may also include, but are not limited to, (i) significant changes to estimates and assumptions used in the most recent annual or interim impairment testing, (ii) downward revisions to internal forecasts, and the magnitude thereof, (iii) declines in our market capitalization below our book value, and the magnitude and duration of those declines, (iv) a reorganization resulting in a change to our operating segments, and (v) other macroeconomic factors, such as increases in interest rates that may affect the weighted average cost of capital, volatility in the equity and debt markets, or fluctuations in foreign currency exchange rates that may negatively impact our reported results of operations.

In connection with the debt refinancing transactions that were completed in March and April 2024, as further described in Note 7, “Debt”, we updated our internal forecasts. Our updated internal forecasts considered our year-to-date operating performance, current customer bookings and revised expectations based on current performance, revisions to our expected growth and timing of such growth based on current and expected performance, current customer retention rates, revisions to the timing of the expected effects of our strategic initiatives and overall related risks, including macroeconomic factors, to achieving our forecasts. Our Board of Directors reviewed and approved our internal budget for fiscal year 2024 on February 28, 2024. As of February 29, 2024, we assessed our Board approved 2024 internal budget along with several events and circumstances that could affect the significant inputs used to determine the fair value of our reporting units, including the significance of the amount, if any, of excess carrying value over fair value, consistency of our current and forecasted operating margins and cash flows, budgeted-to-actual performance, timing of the expected effects of our strategic initiatives, overall change in economic climate, changes in the industry and competitive environment, changes to our risk-adjusted discount rates and earnings quality and sustainability. After considering all available evidence in our evaluation of goodwill impairment indicators, we determined it appropriate to perform an interim quantitative assessment of our reporting units as of February 29, 2024.

During the third quarter of 2024, as part our assessment of our annual plan, we updated our internal forecasts to consider our year-to-date operating performance, current customer bookings and revised expectations based on actuals, current customer retention rates, revisions to the timing of the expected effects of our strategic initiatives and overall related risks, including macroeconomic factors, to achieving our forecasts. As of September 30, 2024, we assessed our internal budget along with several events and circumstances that could affect the significant inputs used to determine the fair value of our reporting units, including the significance of the amount, if any, of excess carrying value over fair value, consistency of our current and forecasted operating margins and cash flows, budgeted-to-actual performance, timing of the expected effects of our strategic initiatives, overall change in economic climate, changes in the industry and competitive environment, changes to our risk-adjusted discount rates and earnings quality and sustainability. After considering all available evidence in our evaluation of goodwill impairment indicators, we determined it appropriate to perform an interim quantitative assessment of our reporting units as of September 30, 2024.

On January 1, 2023, as a result of the reorganization of our business around a two-business unit operating model, we changed our reportable segments to Private Cloud and Public Cloud. Due to the change in our segment reporting and the allocation of goodwill from our former reporting units to the Public Cloud and Private Cloud reporting units, we completed a quantitative goodwill impairment analysis both prior and subsequent to the aforementioned change. We reassigned goodwill to the updated reporting units using a relative fair value approach. The results of the quantitative goodwill impairment analysis performed as of January 1, 2023 subsequent to the reorganization, indicated an impairment within our Private Cloud reporting unit, and we recorded a non-cash impairment charge of $270.8 million in the first quarter of 2023.

During the first quarter of 2023, we experienced a sustained decline in our stock price resulting in our market capitalization being less than the carrying value of our combined reporting units. As of March 31, 2023, we assessed several events and circumstances that could affect the significant inputs used to determine the fair value of our reporting units, including the significance of the amount, if any, of excess carrying value over fair value, consistency of operating margins and cash flows, budgeted-to-actual performance for the first three months of the year, overall change in economic climate, changes in the industry and competitive environment, and earnings quality and sustainability. After considering all available evidence in our evaluation of goodwill impairment indicators, we determined it appropriate to perform an interim quantitative assessment of our reporting units as of March 31, 2023.

During the third quarter of 2023, we experienced a sustained decline in our stock price resulting in our market capitalization being less than the carrying value of our combined reporting units. As of September 30, 2023, we assessed several events and circumstances that could affect the significant inputs used to determine the fair value of our reporting units, including the significance of the amount, if any, of excess carrying value over fair value, consistency of operating margins and cash flows, budgeted-to-actual performance for the first nine months of the year, overall change in economic climate, changes in the industry and competitive environment, and earnings quality and sustainability. After considering all available evidence in our evaluation of goodwill impairment indicators, we determined it appropriate to perform an interim quantitative assessment of our reporting units as of September 30, 2023.

Goodwill is tested for impairment at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (referred to as a component). We allocate goodwill to reporting units based on the reporting unit expected to benefit from the business combination. Assets and liabilities are assigned to each of our reporting units if they are employed by a reporting unit and are considered in the determination of the reporting unit fair value. Certain assets and liabilities are shared by multiple reporting units, and thus, are allocated to each reporting unit based on the relative size of a reporting unit, primarily based on revenue. Prior to October 1, 2023, we had two reporting units with goodwill: Public Cloud and Private Cloud. Goodwill allocated to our third reporting unit, OpenStack Public Cloud, was fully impaired during the fourth quarter of 2021. As of October 1, 2023, we reassessed our reporting unit structure and aggregated the OpenStack Public Cloud reporting unit into our Private Cloud reporting unit. We currently have two reporting units: Public Cloud and Private Cloud.

For the interim quantitative goodwill impairment analyses performed, we compare the fair values of each of our reporting units to their respective carrying amounts. The fair values of each of our reporting units were derived using the income approach, specifically the discounted cash flow method. The discounted cash flow models reflect our assumptions and considerations regarding revenue growth rates, projected gross profit margins, projected operating costs, projected capital expenditures, risk-adjusted discount rates, terminal period growth rates, and economic market trends. As part of the goodwill impairment test, we also consider our market capitalization in assessing the reasonableness of the combined fair values estimated for our reporting units. Goodwill impairment is measured as the excess of a reporting unit's carrying amount over its fair value, not to exceed the carrying amount of goodwill for that reporting unit.

The results of our quantitative goodwill impairment analysis as of February 29, 2024 indicated an impairment of goodwill within our Public Cloud and Private Cloud reporting units of $385.4 million and $187.8 million, respectively. We recorded these non-cash impairment charges within "Impairment of goodwill" in our Condensed Consolidated Statements of Comprehensive Loss in the first quarter of 2024.

The results of our quantitative goodwill impairment analysis as of September 30, 2024 indicated an impairment of goodwill within our Public Cloud and Private Cloud reporting units of $69.2 million and $72.5 million, respectively. We recorded these non-cash impairment charges within "Impairment of goodwill" in our Condensed Consolidated Statements of Comprehensive Loss in the third quarter of 2024.

The results of our quantitative goodwill impairment analyses as of January 1, 2023 and March 31, 2023 indicated an impairment of goodwill within our Private Cloud reporting unit, and we recorded non-cash impairment charges of $270.8 million and $272.3 million, respectively, within "Impairment of goodwill" in our Condensed Consolidated Statements of Comprehensive Loss in the first quarter of 2023.

The results of our quantitative goodwill impairment analysis as of September 30, 2023 indicated an impairment of goodwill within our Private Cloud reporting unit, and we recorded non-cash impairment charges of $165.7 million, within "Impairment of goodwill" in our Condensed Consolidated Statements of Comprehensive Loss in the third quarter of 2023.

See Note 6, "Goodwill and Intangible Assets" for more information.

Our indefinite-lived intangible asset is tested for impairment at the consolidated level. In evaluating the recoverability of the Rackspace trade name, we compare the fair value of the asset to its carrying amount to determine potential impairment. Our estimate of the fair value of the Rackspace trade name is derived using the income approach, specifically the relief-from-royalty method.

Due to the factors discussed in the goodwill analysis above and prior to testing our goodwill for impairment, we performed a quantitative assessment of our indefinite-lived intangible asset as of September 30, 2023 and February 29, 2024. The quantitative assessment performed as of those dates indicated the estimated fair value of the Rackspace trade name was less than its carrying value. As a result, we recorded a $57.0 million and $20.0 million non-cash impairment charge as of September 30, 2023 and February 29, 2024, respectively, which is included in "Impairment of assets, net" in our Condensed Consolidated Statements of Comprehensive Loss in the third quarter of 2023 and first quarter of 2024, respectively.

We performed a quantitative assessment of our indefinite-lived intangible asset prior to testing our goodwill for impairment as of January 1, 2023, March 31, 2023, and September 30, 2024, which did not indicate any impairment of the Rackspace trade name.

The fair value determination of our reporting units and our indefinite-lived intangible asset is judgmental in nature and requires the use of significant estimates and assumptions that are sensitive to changes. Assumptions include estimation of the royalty rate for the trade name, estimation of future revenue growth rates, projected gross profit margins, projected operating costs, projected capital expenditures, which are dependent on internal cash flow forecasts, estimation of the terminal growth rates and determination of risk-adjusted discount rates. As a result, there can be no assurance that the estimates and assumptions made for purposes of the quantitative goodwill and indefinite-lived intangible impairment tests will prove to be an accurate prediction of future results. Examples of events or circumstances that could reasonably be expected to negatively affect the underlying key assumptions and ultimately impact the estimated fair value of our reporting units may include such items as: (i) volatility in the equity and debt markets or other macroeconomic factors, (ii) an increase in the weighted-average cost of capital due to further increases in interest rates, (iii) decreases in future cash flows due to lower than expected sales or greater than expected customer churn, or (iv) fluctuations in foreign currency exchange rates that may negatively impact our reported results of operations. Accordingly, if our current cash flow assumptions are not realized, we experience sustained declines in our stock price or market capitalization, or increases in costs of capital, it is possible that an additional impairment charge may be recorded in the future, which could be material.

Long-lived assets, including operating and finance lease assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured at the asset group level. If the carrying amount of an asset group exceeds its estimated undiscounted future cash flows, then an impairment charge is recognized in the amount that an asset group's carrying amount exceeds its fair value.

In conjunction with the goodwill impairment analyses as of January 1, 2023, March 31, 2023, September 30, 2023, February 29, 2024 and September 30, 2024, we performed recoverability tests of our long-lived assets, including finite-lived intangible assets, by comparing the net book value of our long-lived assets or asset groups, to the future undiscounted net cash flows attributable to such assets, which did not result in any impairment charges.

The fair value of our non-financial assets and liabilities, which include goodwill, intangible assets and property, plant and equipment, are measured on a non-recurring basis. The fair value of our reporting units, indefinite-lived intangible assets and long-lived assets are classified as Level 3 within the fair value hierarchy due to the significant unobservable inputs developed using company-specific information.

Recent Accounting Pronouncements

Disaggregation of Income Statement Expenses

In November 2024, the FASB issued ASU No. 2024-03, *Income Statement - Reporting Comprehensive Income - Expense Disaggregation Disclosures (Subtopic 220-40) - Disaggregation of Income Statement Expenses*. ASU 2024-03 requires disclosure, on an annual and interim basis, of detailed information about the types of expenses included in commonly presented income statement expense captions. Specifically, the guidance requires disclosure of the amounts of (a) purchases of inventory; (b) employee compensation; (c) depreciation; (d) intangible asset amortization; and (e) depreciation, depletion, and amortization recognized as part of oil- and gas-producing activities included within each expense caption presented on the face of the income statement within continuing operations. Certain amounts that are already required to be disclosed under current GAAP must be included in the same disclosure as the other disaggregation requirements. The guidance also requires a qualitative description of remaining amounts in relevant expense captions that are not separately disaggregated quantitatively, the total amount of selling expenses, and, in annual reporting periods, an entity's definition of selling expenses. This guidance is effective for Rackspace beginning with our 2027 Form 10-K for annual disclosures and the Q1 2028 Form 10-Q for interim disclosures, with early adoption permitted. The guidance should be applied either prospectively to financial statements issued for reporting periods after the effective date or retrospectively to any or all prior periods presented in the financial statements. The guidance, once adopted, will result in additional disclosures about certain expenses in the notes to our financial statements.

2. Customer Contracts

The following table presents the balances related to customer contracts:

(In millions)	Condensed Consolidated Balance Sheets Account	December 31, 2023	September 30, 2024
Accounts receivable, net	Accounts receivable, net [(1)]	$ 339.7	$ 311.8
Current portion of contract assets	Other current assets	$ 10.7	$ 7.1
Non-current portion of contract assets	Other non-current assets	$ 8.6	$ 6.4
Current portion of deferred revenue	Deferred revenue	$ 78.8	$ 68.8
Non-current portion of deferred revenue	Other non-current liabilities	$ 5.3	$ 2.5

(1) Allowance for credit losses and accrued customer credits was $20.1 million and $23.3 million as of December 31, 2023 and September 30, 2024, respectively.

Amounts recognized in revenue for the three months ended September 30, 2023, and 2024, which were included in deferred revenue as of the beginning of each period totaled $30.0 million and $39.7 million, respectively. Amounts recognized in revenue for the nine months ended September 30, 2023 and 2024, which were included in deferred revenue as of the beginning of each period totaled $68.0 million and $73.0 million, respectively.

Cost Incurred to Obtain and Fulfill a Contract

As of December 31, 2023 and September 30, 2024, the balances of capitalized costs to obtain a contract were $42.0 million and $34.1 million, respectively, and the balances of capitalized costs to fulfill a contract were $13.4 million and $13.2 million, respectively. These capitalized costs are included in "Other non-current assets" on the Condensed Consolidated Balance Sheets.

Amortization of capitalized sales commissions and implementation costs was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2023	2024	2023	2024
Amortization of capitalized sales commissions	$ 9.3	$ 7.1	$ 29.4	$ 22.6
Amortization of capitalized implementation costs	$ 3.1	$ 2.2	$ 10.1	$ 7.3

Remaining Performance Obligations

As of September 30, 2024, the aggregate amount of transaction price allocated to remaining performance obligations was $434.3 million, of which approximately 22% is expected to be recognized as revenue during the remainder of 2024 and the remainder thereafter. These remaining performance obligations primarily relate to our fixed-term arrangements. The aggregate amount of transaction price excludes variable consideration related to our usage-based arrangements for which we recognize revenue based on the right to invoice for the services performed.

Convertible Promissory Note

On September 27, 2022, we entered into a convertible note purchase agreement with a private company that is also a customer and a vendor. Pursuant to the purchase agreement, we purchased an unsecured convertible promissory note (the "Note") in an aggregate principal amount of $15.0 million. The Note accrues simple interest at a rate of 6% per annum and matures on September 27, 2027, unless earlier converted per the terms of the agreement. Principal and accrued interest are due and payable on the maturity date. We have elected to apply the fair value option under Accounting Standards Update ("ASU") No. 825, *Financial Instruments*, to account for the Note. As of December 31, 2023 and September 30, 2024, the fair value of the Note was $12.8 million and $15.0 million, respectively, and is included in "Other non-current assets" on our Condensed Consolidated Balance Sheets. The increase in the fair value of the Note is included in “Other expense, net” in the Condensed Consolidated Statements of Comprehensive Loss.

3. Sale of Receivables

On September 29, 2023, Rackspace US, Inc. and Rackspace Receivables II, LLC, a bankruptcy-remote special purpose vehicle ("SPV"), each an indirect subsidiary of the company, entered into an accounts receivable purchase agreement with PNC Bank, National Association ("PNC") and other parties thereto. On February 12, 2024, the accounts receivable purchase agreement was amended to include certain international subsidiaries of the company as parties to the agreement and Rackspace Receivables Canada Limited, a Canadian indirect subsidiary of the company, was established as a SPV.

In connection with accounts receivable sold during the three and nine months ended September 30, 2023, we recorded $4.9 million of expense, consisting of $1.6 million of yield charges and fees and $3.3 million of upfront transaction costs associated with the execution of the agreement, within "Other expense, net" in the Condensed Consolidated Statements of Comprehensive Loss for the three and nine months ended September 30, 2023.

In connection with accounts receivable sold during the three and nine months ended September 30, 2024, we recorded $5.5 million and $16.4 million of expense, respectively, in "Other expense, net" in the Condensed Consolidated Statements of Comprehensive Loss. This expense consisted of $5.3 million and $15.6 million of yield charges and fees for the three and nine months ended September 30, 2024, respectively, and $0.2 million and $0.8 million of upfront transaction costs associated with the execution of the agreement for the three and nine months ended September 30, 2024, respectively.

The outstanding portfolio of sold accounts receivable derecognized from our Condensed Consolidated Balance Sheet as of December 31, 2023 and September 30, 2024 was $223.8 million and $218.8 million, respectively. The SPVs hold unsold accounts receivable of $142.0 million as of September 30, 2024 that are pledged as collateral to PNC.

4. Net Loss Per Share

Basic net loss per share is calculated by dividing net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share is calculated based on the weighted average number of shares of common stock plus the dilutive effect of potential common share equivalents outstanding during the period as determined under the treasury stock method.

The following table sets forth the computation of basic and diluted net loss per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except per share data)	2023	2024	2023	2024
Basic and diluted net loss per share:				
Net loss attributable to common stockholders	$ (226.6)	$ (186.6)	$ (865.8)	$ (802.2)
Weighted average shares outstanding:				
Common stock	216.0	226.4	214.8	223.6
Number of shares used in per share computations	216.0	226.4	214.8	223.6
Net loss per share	$ (1.05)	$ (0.82)	$ (4.03)	$ (3.59)

Potential common share equivalents consist of shares issuable upon the exercise of stock options, vesting of restricted stock or purchase under the Employee Stock Purchase Plan (the "ESPP"), as well as contingent shares associated with our acquisition of Datapipe Parent, Inc. Since we were in a net loss position for all periods presented, basic net loss per share is the same as diluted net loss per share for all periods as the inclusion of all potential common shares outstanding would have been anti-dilutive. We excluded 41.1 million and 30.3 million potential common shares from the computation of dilutive loss per share for the three months ended September 30, 2023 and 2024, respectively, and 41.1 million and 30.3 million for the nine months ended September 30, 2023 and 2024, respectively, because the effect would have been anti-dilutive.

5. Property, Equipment and Software, net

Property, equipment and software, net, consisted of the following:

(In millions)	December 31, 2023	September 30, 2024
Computers and equipment	$ 1,154.9	$ 1,170.8
Software	452.8	446.2
Furniture and fixtures	14.5	12.3
Buildings and leasehold improvements	411.8	418.5
Property, equipment and software, at cost	2,034.0	2,047.8
Less: Accumulated depreciation	(1,442.1)	(1,441.5)
Work in process	16.9	10.0
Property, equipment and software, net	$ 608.8	$ 616.3

In October 2022, we announced our intention to sell our current corporate headquarters facility located in Windcrest, Texas and relocate our corporate headquarters to leased office space in San Antonio, Texas. As such, as of December 31, 2022, this property met the criteria to be classified as held for sale under GAAP and the carrying amount of the property was remeasured each reporting period for changes in the estimated fair value, less cost to sell. In July 2023, we entered into a purchase and sale agreement with a potential buyer of the property. As such, we increased the property's estimated fair value, less estimated cost to sell, resulting in an $8.6 million gain, which is included in "Impairment of assets, net" in our Condensed Consolidated Statements of Comprehensive Loss for the three and nine months ended September 30, 2023.

In March 2024, we completed the sale of the property. The property's estimated fair value, less estimated cost to sell prior to the sale was $16.9 million and we received cash proceeds of $17.5 million, less brokerage and professional fees of $0.6 million, resulting in net cash proceeds of $16.9 million. In connection with the completion of the sale, we paid a $9.0 million early termination fee to certain local governments related to our termination of the Master Economic Incentives Agreement (the "MEIA") associated with the property. This amount is included in "Selling, general and administrative expenses" in our Condensed Consolidated Statements of Comprehensive Loss for the nine months ended September 30, 2024.

6. Goodwill and Intangible Assets

The following table sets forth the changes in the carrying amounts of goodwill by reportable segment.

(In millions)	Public Cloud	Private Cloud	Total
Gross goodwill as of December 31, 2023	$ 597.7	$ 1,563.5	$ 2,161.2
Less: impairment charges	—	(708.8)	(708.8)
Goodwill, net as of December 31, 2023	597.7	854.7	1,452.4
Impairment of goodwill	(454.6)	(260.3)	(714.9)
Foreign currency translation	(0.2)	2.4	2.2
Goodwill, net as of September 30, 2024	$ 142.9	$ 596.8	$ 739.7
Gross goodwill as of September 30, 2024	$ 597.5	$ 1,565.9	$ 2,163.4
Less: accumulated impairment charges (1)	(454.6)	(969.1)	(1,423.7)
Goodwill, net as of September 30, 2024	$ 142.9	$ 596.8	$ 739.7

(1) On a consolidated basis, gross and net goodwill as of September 30, 2024 was $3,045.3 million and $739.7 million, respectively. Accumulated impairment charges on a consolidated basis was $2,305.6 million as of September 30, 2024.

See Note 1, "Company Overview, Basis of Presentation, and Summary of Significant Accounting Policies," for discussion of the goodwill impairment charges recorded during the nine months ended September 30, 2023 and 2024.

The following table provides information regarding our intangible assets other than goodwill:

	December 31, 2023			September 30, 2024		
(In millions)	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Customer relationships	$ 1,932.0	$ (1,073.9)	$ 858.1	$ 1,935.0	$ (1,192.0)	$ 743.0
Other	27.8	(26.9)	0.9	27.4	(27.0)	0.4
Total definite-lived intangible assets	1,959.8	(1,100.8)	859.0	1,962.4	(1,219.0)	743.4
Trade name (indefinite-lived)	160.0	—	160.0	140.0	—	140.0
Total intangible assets other than goodwill	$ 2,119.8	$ (1,100.8)	$ 1,019.0	$ 2,102.4	$ (1,219.0)	$ 883.4

During the nine months ended September 30, 2024 we recognized impairment charges of $20.0 million related to our trade name indefinite-lived intangible asset.

Additionally, during the three and nine months ended September 30, 2023 we recognized impairment charges of $57.0 million related to our trade name indefinite-lived intangible asset.

For more information, see the discussion of our impairment charges in Note 1, "Company Overview, Basis of Presentation, and Summary of Significant Accounting Policies."

7. Debt

Debt consisted of the following:

(In millions, except %)		December 31, 2023		September 30, 2024	
Debt Instrument	**Maturity Date**	**Interest Rate[(1)]**	**Amount**	**Interest Rate[(1)]**	**Amount**
FLSO Term Loan Facility	May 15, 2028	—%	$ —	7.98%	$ 1,631.1
FLFO Term Loan Facility	May 15, 2028	—%	—	11.48%	273.6
Term Loan Facility	February 15, 2028	8.23%	2,181.2	7.98%	61.9
New Revolving Credit Facility	May 15, 2028	—%	—	—%	—
Revolving Credit Facility	August 7, 2025	—%	—	—%	—
3.50% FLSO Senior Secured Notes	May 15, 2028	—%	—	3.50%	318.6
3.50% Senior Secured Notes	February 15, 2028	3.50%	513.7	3.50%	43.9
5.375% Senior Notes	December 1, 2028	5.375%	197.6	5.375%	125.4
Total principal amount outstanding			2,892.5		2,454.5
Unamortized debt issuance costs, debt premium, and debt discount			(29.9)		355.0
Total debt			2,862.6		2,809.5
Less: current portion of debt			(23.0)		(27.1)
Debt, excluding current portion			$ 2,839.6		$ 2,782.4

(1) Contractual interest rate as of each respective balance sheet date.

March 2024 Refinancing Transactions

Private Exchange

On March 12, 2024, we (together with certain of our subsidiaries) closed a private debt exchange (the "Private Exchange") with (i) holders of the 3.50% Senior Secured Notes (the "Existing Secured Notes") issued by Rackspace Technology Global (the "Existing Borrower") representing more than 64% of the aggregate principal amount outstanding of the Existing Secured Notes as of December 31, 2023, and (ii) lenders representing more than 72% of the aggregate principal amount of the outstanding term loan facility under the First Lien Credit Agreement (the "Existing Term Loans") as of December 31, 2023.

Pursuant to the Private Exchange, (i) $331.4 million aggregate principal amount of Existing Secured Notes and $1,588.8 million aggregate principal amount of the Existing Term Loans were exchanged or purchased for cancellation and (ii) $267.3 million aggregate principal amount of new first lien second out senior secured notes (the "3.50% FLSO Senior Secured Notes") and $1,312.0 million aggregate principal amount of new first lien second out senior secured term loans (the "FLSO Term Loan Facility" and the loans thereunder, the "FLSO Term Loans") were issued by Rackspace Finance, LLC, a new subsidiary of the company (the "New Borrower").

In addition, the New Borrower issued $275.0 million aggregate principal amount of new first lien first out senior secured term loans (the "FLFO Term Loan Facility" and the loans thereunder, the "FLFO Term Loans") and we repurchased and cancelled $69.3 million aggregate principal amount of the 5.375% Senior Notes.

See "*New Debt Instruments*" below for additional discussion of the new 3.50% FLSO Senior Secured Notes, FLSO Term Loan Facility, and FLFO Term Loan Facility.

Public Exchanges

On March 13, 2024, we launched an offer to all of the holders of the Existing Borrower's remaining Existing Term Loans (the "Public Term Loan Exchange"). On March 26, 2024, we closed the Public Term Loan Exchange, pursuant to which (i) $529.9 million aggregate principal amount of the Existing Term Loans were exchanged or purchased for cancellation and (ii) $375.1 million aggregate principal amount of FLSO Term Loans was issued by the New Borrower.

On March 14, 2024, we launched an offer to all of the holders of the Existing Borrower's remaining Existing Secured Notes (the "Public Note Exchange"). On April 16, 2024, we completed the Public Note Exchange, pursuant to which (i) $138.4 million aggregate principal amount of Existing Secured Notes were exchanged or purchased for cancellation and (ii) $96.9 million aggregate principal amount of 3.50% FLSO Senior Secured Notes were issued by the New Borrower.

New Revolving Credit Facility

On March 12, 2024, the New Borrower also established the new first lien first out revolving credit commitments in an aggregate principal amount of $375.0 million (the "New Revolving Credit Facility"). All revolving lenders under the prior Revolving Credit Facility exchanged their revolving loan commitments for commitments in respect of the New Revolving Credit Facility, which replaces in full the prior Revolving Credit Facility. The New Revolving Credit Facility matures on May 15, 2028.

See "*New Debt Instruments*" below for additional discussion of the New Revolving Credit Facility.

Accounting Impacts

The company performed an assessment of the March 2024 Refinancing Transactions and determined it met the criteria to be accounted for as a troubled debt restructuring under Accounting Standards Codification No. 470-60, *Troubled Debt Restructurings by Debtors*. For each series of the Existing Debt Instruments exchanged, the undiscounted cash flows associated with the New Debt Instruments issued were compared to the carrying value of the Existing Debt Instruments exchanged for such New Debt Instruments and the applicable exchange was accounted for as follows: (i) to the extent the undiscounted cash flows of the New Debt Instruments in question were lower than the carrying value of the applicable Existing Debt Instruments exchanged, the carrying value of the applicable New Debt Instruments was established at the total of these undiscounted cash flows, with a gain recorded for the remaining difference between this value and the carrying value of the applicable Existing Debt Instruments (as such, no interest expense will be recorded for the applicable 3.50% FLSO Senior Secured Notes prospectively) and (ii) to the extent the undiscounted cash flows of the New Debt Instruments in question exceeded the carrying value of the applicable Existing Debt Instruments exchanged, the carrying value of the applicable New Debt Instruments was established at the carrying value of the applicable Existing Debt Instruments and the company established new effective interest rates based on the carrying value of the applicable Existing Term Loans prior to the March 2024 Refinancing Transactions.

The difference between the principal amount of the 3.50% FLSO Senior Secured Notes and the carrying value was recorded as a premium and is included in long-term debt on the company's Condensed Consolidated Balance Sheets.

The premium recorded on the 3.50% FLSO Senior Secured Notes was $39.1 million, which will be reduced as contractual interest payments are made on the 3.50% FLSO Senior Secured Notes.

In connection with the March 2024 Refinancing Transactions, the company recorded a gain in the first quarter of 2024 of $56.7 million after deducting third-party costs and lender fees incurred. The gain is included in "Debt modification costs and gain on debt extinguishment" in our Condensed Consolidated Statements of Comprehensive Loss. The company incurred third party fees of $28.4 million.

The March 2024 Refinancing Transactions were completed in April 2024 with the closing of the Public Note Exchange. In connection with the Public Note Exchange, we recorded a $23.3 million gain, after deducting $3.3 million of third-party fees, in the second quarter of 2024. The gain is included in "Debt modification costs and gain on debt extinguishment" in our Condensed Consolidated Statements of Comprehensive Loss.

New Debt Instruments

New Senior Facilities

On March 12, 2024, Rackspace Finance Holdings, LLC ("Rackspace Finance Holdings"), the New Borrower, the lenders and issuing banks party thereto and Citibank, N.A., as the administrative agent and collateral agent, entered into the credit agreement governing the FLSO Term Loan Facility, FLFO Term Loan Facility and New Revolving Credit Facility (together, the "New Senior Facilities") (the "New First Lien Credit Agreement").

FLSO Term Loan Facility

The New Borrower issued the FLSO Term Loan Facility in an aggregate principal amount of $1,687.2 million. The FLSO Term Loan Facility matures on May 15, 2028. Borrowings under the FLSO Term Loan Facility bear interest at an annual rate equal to Term SOFR equal to the forward-looking term rate, based on the secured overnight financing rate as administered by the Federal Reserve Bank of New York, for the interest period relevant to such borrowing, plus a credit spread adjustment of 0.11% for an interest period of one-month's duration, 0.26% for an interest period of three-months' duration, and 0.43% for an interest period of six-months' duration, subject to a 0.75% floor, plus an applicable margin of 2.75%.

As of September 30, 2024, the contractual interest rate on the FLSO Term Loan Facility was 7.98%. We are required to make quarterly principal payments of $4.2 million, which began on March 31, 2024. See Note 11, "Derivatives," for information on interest rate swap agreements we utilize to manage the interest rate risk on the FLSO Term Loan Facility.

Affiliates of ABRY Partners, LLC and ABRY Partners II, LLC (collectively, "ABRY") are FLSO Term Loan Facility lenders under the New First Lien Credit Agreement. As of September 30, 2024, the outstanding principal amount of the FLSO Term Loan Facility was $1,631.1 million, of which $49.7 million, or 3.0%, is due to ABRY affiliates. Investment funds affiliated with ABRY are also co-investors in Rackspace Technology.

As of September 30, 2024, Apollo Global Management, Inc. also held $80.7 million, or 4.9%, of the outstanding principal amount of the FLSO Term Loan Facility.

Prior to September 12, 2025, the New Borrower may prepay some or all of the FLSO Term Loan Facility, together with accrued and unpaid interest, subject to the applicable "make-whole" premium. On or after September 12, 2025, the New Borrower may prepay some or all of the FLSO Term Loan Facility, together with accrued and unpaid interest, without prepayment premium or penalty.

During the three and nine months ended September 30, 2024, the New Borrower repurchased and surrendered for cancellation $24.1 million and $43.4 million principal amount of the FLSO Term Loan Facility, respectively, for $11.2 million and $20.6 million, respectively. In connection with these repurchases, we recorded a gain, included in "Debt modification costs and gain on debt extinguishment", of $18.0 million and $32.1 million, respectively, in our Condensed Consolidated Statements of Comprehensive Loss for the three and nine months ended September 30, 2024, which includes $4.9 million and $9.0 million of unamortized debt issuance costs and debt premium write-offs, respectively.

The fair value of the FLSO Term Loan Facility as of September 30, 2024 was $880.8 million, based on quoted market prices for identical assets that are traded in over-the-counter secondary markets that are not considered active. The fair value of the FLSO Term Loan Facility is classified as Level 2 within the fair value hierarchy.

The New Borrower is the borrower and all obligations under the FLSO Term Loan Facility are guaranteed on a senior secured basis, jointly and severally, by Rackspace Finance Holdings on a limited-recourse basis and by certain of the New Borrower's subsidiaries (the "Subsidiary Guarantors"). The obligations under the FLSO Term Loan Facility are secured by a pledge of the New Borrower's capital stock directly held by Rackspace Finance Holdings and substantially all of the New Borrower's and the Subsidiary Guarantors' assets, subject to exceptions.

The FLSO Term Loan Facility contains certain customary affirmative covenants, negative covenants, and events of default.

FLFO Term Loan Facility

The New Borrower issued the FLFO Term Loan Facility in an initial aggregate principal amount of $275.0 million. The FLFO Term Loan Facility matures on May 15, 2028. Borrowings under the FLFO Term Loan Facility bear interest at an annual rate equal to Term SOFR equal to the forward-looking term rate, based on the secured overnight financing rate as administered by the Federal Reserve Bank of New York, for the interest period relevant to such borrowing, plus a credit spread adjustment of 0.11% for an interest period of one-month's duration, 0.26% for an interest period of three-months' duration, and 0.43% for an interest period of six-months' duration, subject to a 0.75% floor, plus an applicable margin of 6.25% and were issued with 1.00% of original issue discount.

As of September 30, 2024, the contractual interest rate on the FLFO Term Loan Facility was 11.48%. We are required to make quarterly principal payments of $0.7 million, which began on June 30, 2024. See Note 11, "Derivatives," for information on interest rate swap agreements we utilize to manage the interest rate risk on the FLFO Term Loan Facility.

Prior to September 12, 2025, the New Borrower may prepay some or all of the FLFO Term Loan Facility, together with accrued and unpaid interest, subject to the applicable "make-whole" premium. On or after September 12, 2025 but prior to September 12, 2027, the New Borrower may prepay some or all of the FLFO Term Loan Facility, together with accrued and unpaid interest, subject to a prepayment fee equal to (x) 3.00% of the principal amount of the FLFO Term Loan Facility so prepaid prior to September 12, 2026 and (y) 1.00% of the principal amount of the FLFO Term Loan Facility so prepaid on or after September 12, 2026 but prior to September 12, 2027. On or after September 12, 2027, the New Borrower may prepay some or all of the FLFO Term Loan Facility, together with accrued and unpaid interest, without prepayment premium or penalty.

The fair value of the FLFO Term Loan Facility as of September 30, 2024 was $276.4 million, based on quoted market prices for identical assets that are traded in over-the-counter secondary markets that are not considered active. The fair value of the FLFO Term Loan Facility is classified as Level 2 within the fair value hierarchy.

The New Borrower is the borrower and all obligations under the FLFO Term Loan Facility are guaranteed on a senior secured basis, jointly and severally, by Rackspace Finance Holdings on a limited-recourse basis and by the Subsidiary Guarantors. The obligations under the FLFO Term Loan Facility are secured by the same collateral that secures the FLSO Term Loan Facility, the New Revolving Credit Facility and the 3.50% FLSO Senior Secured Notes.

The FLFO Term Loan Facility contains certain customary affirmative covenants, negative covenants, and events of default.

New Revolving Credit Facility

The New Borrower established the New Revolving Credit Facility in an aggregate principal amount of $375.0 million of commitments. The New Revolving Credit Facility matures on May 15, 2028 and bears interest at an annual rate equal to Term SOFR equal to the forward-looking term rate, based on the secured overnight financing rate as administered by the Federal Reserve Bank of New York, for the interest period relevant to such borrowing, subject to a 1.00% floor, plus an applicable margin of initially 3.00%. After June 30, 2024, the applicable margin became subject to a net first lien leverage-based pricing grid as set forth in the New First Lien Credit Agreement. In addition to paying interest on the outstanding principal under the New Revolving Credit Facility, the New Borrower is required to pay a commitment fee equal to initially 0.50% per annum to the lenders under the New Revolving Credit Facility in respect of the unutilized commitments thereunder. After June 30, 2024, the commitment fee became subject to a net first lien leverage-based pricing grid as set forth in the New First Lien Credit Agreement. The New Borrower may prepay loans incurred under the New Revolving Credit Facility, together with accrued and unpaid interest, without prepayment premium or penalty.

The New Borrower is the borrower and all obligations under the New Revolving Credit Facility are guaranteed on a senior secured basis, jointly and severally, by Rackspace Finance Holdings on a limited-recourse basis and by the Subsidiary Guarantors. The obligations under the New Revolving Credit Facility are secured by the same collateral that secures the FLSO Term Loan Facility, the FLFO Term Loan Facility and the 3.50% FLSO Senior Secured Notes.

The New Revolving Credit Facility contains certain customary affirmative covenants, negative covenants, and events of default. In addition, the New Revolving Credit Facility contains a financial covenant which limits the super-priority net senior secured leverage ratio to a maximum of 5.00 to 1.00; however, this covenant is only applicable and tested if the aggregate amount of outstanding borrowings under the New Revolving Credit Facility and letters of credit issued thereunder (excluding $25.0 million of undrawn letters of credit and cash collateralized letters of credit) as of the last day of a fiscal quarter is greater than 35% of the New Revolving Credit Facility commitments as of the last day of such fiscal quarter.

As of September 30, 2024, we had total commitments of $375.0 million, no outstanding borrowings under the New Revolving Credit Facility, and $23.5 million of letters of credit issued thereunder. As such, as of September 30, 2024, we had $375.0 million of available commitments remaining.

As of September 30, 2024, we were in compliance with all covenants under the New Senior Facilities.

3.50% FLSO Senior Secured Notes due 2028

On March 12, 2024, the New Borrower issued $267.3 million initial aggregate principal amount of the 3.50% FLSO Senior Secured Notes. On April 2, 2024 and April 16, 2024, the New Borrower issued additional 3.50% FLSO Senior Secured Notes in an aggregate principal amount of $93.3 million and $3.6 million, respectively. The 3.50% FLSO Senior Secured Notes will mature on May 15, 2028 and bear interest at an annual fixed rate of 3.50%. Interest is payable semiannually on each February 15 and August 15, commencing on August 15, 2024. The 3.50% FLSO Senior Secured Notes are not subject to registration rights.

The New Borrower is the borrower and all obligations under the 3.50% FLSO Senior Secured Notes are fully and unconditionally guaranteed, jointly and severally, by Rackspace Finance Holdings on a limited-recourse basis and by the Subsidiary Guarantors. The obligations under the 3.50% FLSO Senior Secured Notes are secured by the same collateral that secures the FLSO Term Loan Facility, the FLFO Term Loan Facility and the New Revolving Credit Facility.

The New Borrower may redeem some or all of the 3.50% FLSO Senior Secured Notes at its option prior to September 12, 2025 at a redemption price equal to 100% of the principal amount of the 3.50% FLSO Senior Secured Notes redeemed, plus a “make-whole” premium described in the indenture governing the 3.50% FLSO Senior Secured Notes (the “3.50% FLSO Senior Secured Notes Indenture”), plus accrued and unpaid interest, if any, to, but excluding, the redemption date. Commencing September 12, 2025, the New Borrower may redeem the 3.50% FLSO Senior Secured Notes at its option, in whole at any time or in part from time to time, at a redemption price equal to 100% of the principal amount of the 3.50% FLSO Senior Secured Notes redeemed, plus accrued and unpaid interest, if any, to but excluding the redemption date.

During the nine months ended September 30, 2024, the New Borrower repurchased and surrendered for cancellation $45.7 million principal amount of the 3.50% FLSO Senior Secured Notes for $19.3 million, including accrued interest of $0.4 million. In connection with these repurchases, we recorded a gain, included in "Debt modification costs and gain on debt extinguishment", of $33.0 million, in our Condensed Consolidated Statements of Comprehensive Loss for the nine months ended September 30, 2024, which includes $6.3 million of unamortized debt issuance costs and debt premium write-offs.

The 3.50% FLSO Senior Secured Notes Indenture contains covenants that, among other things, limit our ability to incur certain additional debt, incur certain liens securing debt, pay certain dividends or make other restricted payments, make certain investments, make certain asset sales and enter into certain transactions with affiliates. These covenants are subject to a number of exceptions, limitations, and qualifications as set forth in the 3.50% FLSO Senior Secured Notes Indenture. Additionally, upon the occurrence of a change of control (as defined in the 3.50%FLSO Senior Secured Notes Indenture), we will be required to make an offer to repurchase all of the outstanding 3.50% FLSO Senior Secured Notes at a price in cash equal to 101.000% of the aggregate principal amount, plus accrued and unpaid interest, if any, to, but not including the purchase date. The 3.50% FLSO Senior Secured Notes Indenture also contains customary events of default.

As of September 30, 2024, we were in compliance with all covenants under the 3.50% FLSO Senior Secured Notes Indenture.

The fair value of the 3.50% FLSO Senior Secured Notes as of September 30, 2024 was $86.4 million based on quoted market prices for identical assets that are traded in over-the-counter secondary markets that are not considered active. The fair value of the 3.50% FLSO Senior Secured Notes are classified as Level 2 within the fair value hierarchy.

Existing Debt Instruments

Senior Facilities

Our senior secured credit facilities include the Term Loan Facility and the prior Revolving Credit Facility (together, the "Senior Facilities").

On February 9, 2021, we amended and restated the credit agreement governing our Senior Facilities (the "First Lien Credit Agreement"), which included a seven-year $2,300.0 million senior secured first lien term loan facility due on February 15, 2028 and our existing $375.0 million Revolving Credit Facility.

On April 26, 2023, we executed an amendment to our First Lien Credit Agreement to establish Term SOFR as the benchmark rate for determining the applicable interest rate, replacing LIBOR.

As a result of the amendment, borrowings under the Senior Facilities bear interest at an annual rate equal to an applicable margin plus, at our option, either (a) Term SOFR equal to the forward-looking term rate, based on the secured overnight financing rate as administered by the Federal Reserve Bank of New York, for the interest period relevant to such borrowing, plus a credit spread adjustment of 0.11% for an interest period of one-month's duration, 0.26% for an interest period of three-months' duration, and 0.43% for an interest period of six-months' duration, subject to a 0.75% floor, in the case of the Term Loan Facility, and a 1.00% floor, in the case of the Revolving Credit Facility, or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate of Citibank, N.A. and (iii) adjusted Term SOFR for a one-month tenor plus 1.00%.

The applicable margin for the Term Loan Facility is 2.75% for SOFR loans and 1.75% for base rate loans and the applicable margin for the Revolving Credit Facility is 3.00% for SOFR loans and 2.00% for base rate loans. Interest is due at the end of each interest period elected, not exceeding 90 days, for SOFR loans and at the end of every calendar quarter for base rate loans.

All other material terms and conditions of the First Lien Credit Agreement were unchanged.

As a result of the Private Exchange and the Public Term Loan Exchange, discussed within "*March 2024 Refinancing Transactions*" above, over 97% of the $2,181.2 million aggregate principal amount of the Term Loan Facility outstanding as of December 31, 2023 was exchanged or purchased for cancellation.

In addition to paying interest on the outstanding principal under the Senior Facilities, the Revolving Credit Facility also includes a commitment fee equal to 0.50% per annum in respect of the unused commitments that is due quarterly. This commitment fee is subject to one step-down based on the net first lien leverage ratio.

As of September 30, 2024, the contractual interest rate on the Term Loan Facility was 7.98%. We are required to make quarterly principal payments of $0.2 million. See Note 11, "Derivatives," for information on interest rate swap agreements we utilize to manage the interest rate risk on the Term Loan Facility.

In addition to the quarterly amortization payments discussed above, the Senior Facilities require us to make certain mandatory prepayments, including using (i) a portion of annual excess cash flow, as defined in the First Lien Credit Agreement, to prepay the Term Loan Facility, (ii) net cash proceeds of certain non-ordinary assets sales or dispositions of property to prepay the Term Loan Facility and (iii) net cash proceeds of any issuance or incurrence of debt not permitted under the Senior Facilities to prepay the Term Loan Facility. We may make voluntary prepayments at any time without penalty.

The fair value of the Term Loan Facility as of September 30, 2024 was $29.1 million, based on quoted market prices for identical assets that are traded in over-the-counter secondary markets that are not considered active. The fair value of the Term Loan Facility is classified as Level 2 within the fair value hierarchy.

The only financial covenant was with respect to the prior Revolving Credit Facility. As discussed in "*March 2024 Refinancing Transactions*" above, on March 12, 2024, all revolving lenders under the prior Revolving Credit Facility exchanged their revolving loan commitments for commitments in respect of the New Revolving Credit Facility, which replaces in full the prior Revolving Credit Facility. See "*New Revolving Credit Facility*" above for information regarding this new debt instrument.

As of September 30, 2024, we were in compliance with all covenants under the Senior Facilities.

3.50% Senior Secured Notes due 2028

On February 9, 2021, Rackspace Technology Global issued $550.0 million aggregate principal amount of the 3.50% Senior Secured Notes. The 3.50% Senior Secured Notes will mature on February 15, 2028 and bear interest at an annual fixed rate of 3.50%. Interest is payable semiannually on each February 15 and August 15, commencing on August 15, 2021. The 3.50% Senior Secured Notes are not subject to registration rights.

Rackspace Technology Global may redeem the 3.50% Senior Secured Notes at its option, in whole at any time or in part from time to time, at the following redemption prices: from February 15, 2024 to February 14, 2025, at a redemption price equal to 101.750% of the principal amount, plus accrued and unpaid interest, if any, to but excluding the redemption date; from February 15, 2025 to February 14, 2026, at a redemption price equal to 100.875% of the principal amount, plus accrued and unpaid interest, if any, to but excluding the redemption date; and from February 15, 2026 and thereafter, at a redemption price equal to 100.000% of the principal amount, plus accrued and unpaid interest, if any, to but excluding the redemption date. Notwithstanding the foregoing, Rackspace Technology Global may redeem during each twelve-month period, commencing with February 9, 2021, up to 10.0% of the original aggregate principal amount of the 3.50% Senior Secured Notes at a redemption price of 103.000%, plus accrued and unpaid interest, if any, to, but excluding, the applicable redemption date.

The indenture governing the 3.50% Senior Secured Notes (the “3.50% Notes Indenture”) contains covenants that, among other things, limit our ability to incur certain additional debt, incur certain liens securing debt, pay certain dividends or make other restricted payments, make certain investments, make certain asset sales and enter into certain transactions with affiliates. These covenants are subject to a number of exceptions, limitations, and qualifications as set forth in the 3.50% Notes Indenture. Additionally, upon the occurrence of a change of control (as defined in the 3.50% Notes Indenture), we will be required to make an offer to repurchase all of the outstanding 3.50% Senior Secured Notes at a price in cash equal to 101.000% of the aggregate principal amount, plus accrued and unpaid interest, if any, to, but not including the purchase date.

As of September 30, 2024, Rackspace Technology Global was in compliance with all covenants under the 3.50% Notes Indenture.

As a result of the Private Exchange and the Public Note Exchange, discussed above, over 91% of the $513.7 million aggregate principal amount of the 3.50% Senior Secured Notes outstanding as of December 31, 2023 was exchanged or purchased for cancellation.

The fair value of the 3.50% Senior Secured Notes as of September 30, 2024 was $12.1 million, based on quoted market prices for identical assets that are traded in over-the-counter secondary markets that are not considered active. The fair value of the 3.50% Senior Secured Notes are classified as Level 2 within the fair value hierarchy.

5.375% Senior Notes due 2028

On December 1, 2020, Rackspace Technology Global issued $550.0 million aggregate principal amount of the 5.375% Senior Notes. The 5.375% Senior Notes will mature on December 1, 2028 and bear interest at an annual fixed rate of 5.375%. Interest is payable semiannually on each June 1 and December 1, commencing on June 1, 2021. The 5.375% Senior Notes are not subject to registration rights.

Rackspace Technology Global may redeem the 5.375% Senior Notes at its option, in whole at any time or in part from time to time, at the following redemption prices: from December 1, 2023 to November 30, 2024, at a redemption price equal to 102.688% of the principal amount, plus accrued and unpaid interest, if any, to but excluding the redemption date; from December 1, 2024 to November 30, 2025, at a redemption price equal to 101.344% of the principal amount, plus accrued and unpaid interest, if any, to but excluding the redemption date; and from December 1, 2025 and thereafter, at a redemption price equal to 100.000% of the principal amount, plus accrued and unpaid interest, if any, to but excluding the redemption date.

During the three and nine months ended September 30, 2023, Rackspace Technology Global repurchased and surrendered for cancellation $85.2 million and $250.0 million principal amount of 5.375% Senior Notes for $29.8 million and $86.6 million, including accrued interest of $0.8 million and $2.1 million, respectively. In connection with these repurchases, we recorded a gain, included in "Debt modification costs and gain on debt extinguishment", of $55.4 million and $163.1 million, respectively, in our Condensed Consolidated Statements of Comprehensive Loss for the three and nine months ended September 30, 2023, which includes $0.8 million and $2.4 million of unamortized debt issuance costs write-offs, respectively.

As previously described in "*March 2024 Refinancing Transactions*" above, as part of the Private Exchange, we repurchased and cancelled $69.3 million aggregate principal amount of the 5.375% Senior Notes during the nine months ended September 30, 2024.

In addition, during the nine months ended September 30, 2024, Rackspace Technology Global repurchased and surrendered for cancellation $2.9 million principal amount of 5.375% Senior Notes for $0.8 million. In connection with these repurchases, we recorded a gain, included in "Debt modification costs and gain on debt extinguishment", of $2.1 million, in our Condensed Consolidated Statements of Comprehensive Loss for the nine months ended September 30, 2024.

The indenture governing the 5.375% Senior Notes (the "5.375% Notes Indenture") contains covenants that, among other things, limit our ability to incur certain additional debt, incur certain liens securing debt, pay certain dividends or make other restricted payments, make certain investments, make certain asset sales and enter into certain transactions with affiliates. These covenants are subject to a number of exceptions, limitations, and qualifications as set forth in the 5.375% Notes Indenture. Additionally, upon the occurrence of a change of control (as defined in the 5.375% Notes Indenture), we will be required to make an offer to repurchase all of the outstanding 5.375% Senior Notes at a price in cash equal to 101.000% of the aggregate principal amount, plus accrued and unpaid interest, if any, to, but not including the purchase date.

As of September 30, 2024, Rackspace Technology Global was in compliance with all covenants under the 5.375% Notes Indenture.

The fair value of the 5.375% Senior Notes as of September 30, 2024 was $34.5 million, based on quoted market prices for identical assets that are traded in over-the-counter secondary markets that are not considered active. The fair value of the 5.375% Senior Notes are classified as Level 2 within the fair value hierarchy.

8. Commitments and Contingencies

We have contingencies that arise from various litigation, claims and commitments, none of which we consider to be material.

From time to time, we are a party to various claims asserting that certain of our services and technologies infringe the intellectual property rights of others. Adverse results in these lawsuits may include awards of substantial monetary damages, costly royalty or licensing agreements, or orders preventing us from offering certain features, products, or services, and may also cause us to change our business practices and require development of non-infringing products or technologies, which could result in a loss of revenue for us or otherwise harm our business.

We record an accrual for a loss contingency when a loss is considered probable and reasonably estimable. As additional facts concerning a loss contingency become known, we reassess our position and make appropriate adjustments to a recorded accrual. The amount that will ultimately be paid related to a matter may differ from the recorded accrual, and the timing of such payments, if any, may be uncertain.

We are not a party to any litigation, the outcome of which, if determined adversely to us, would individually or in the aggregate be reasonably expected to have a material and adverse effect on our business, financial position or results of operations.

Headquarters Lease

In February 2023, we signed an agreement to lease approximately 93,000 square feet of office space in San Antonio, Texas, which will serve as our new corporate headquarters. The initial lease term is 11 years, with three 5-year renewal options. In addition to monthly base rent, we will also pay a share of common area maintenance and operating expenses. The lease commenced in the second quarter of 2024.

9. Share-Based Compensation

On April 22, 2024, the Board of Directors approved an amendment to the Rackspace Technology, Inc. 2020 Equity Incentive Plan (the "2020 Incentive Plan") to increase the maximum number of shares of our common stock available for issuance under the 2020 Incentive Plan from 57.9 million shares to 87.9 million shares, subject to stockholder approval. The amendment was subsequently approved by our stockholders as part of the 2024 Annual Meeting of Stockholders held on June 14, 2024.

During the nine months ended September 30, 2024, we granted 9.6 million restricted stock units ("RSUs") under the 2020 Incentive Plan with a weighted-average grant date fair value of $1.85. The majority of the RSUs were granted as part of our annual compensation award process and vest ratably over a three-year period, subject to continued service.

In addition, during the nine months ended September 30, 2024, 0.6 million performance stock units ("PSUs") were granted under the 2020 Incentive Plan with a weighted-average grant date fair value of $2.78. The PSUs represent the target amount of grants, and the actual number of shares awarded upon vesting may vary depending upon the achievement of the relevant market condition which is based on Rackspace's Total Shareholder Return ("TSR") relative to the TSR of a comparator group of IT and Cloud Services Companies. The awards are eligible to vest in equal annual installments over three years based on the attainment of the market condition and the employee's continued service through the end of the applicable measurement period and were valued using a Monte Carlo simulation.

Lastly, during the nine months ended September 30, 2024, we granted 31.8 million long-term incentive cash units (“LTIC units”) under the 2020 Incentive Plan. The awards were valued using a Monte Carlo simulation and as of September 30, 2024 the LTIC units had a weighted average fair value of $0.99. The LTIC units represent the target amount of grants, and the actual number of units awarded upon vesting may vary depending upon the achievement of the relevant market condition which is based on the performance of our common stock. The awards are eligible to vest in equal installments over three years based on the attainment of the market condition and the employee’s continued service through the vesting date. As the company intends to settle the LTIC units in cash, they were classified as liabilities within “Other current liabilities” and “Other non-current liabilities” in the Condensed Consolidated Balance Sheets.

Total share-based compensation expense is comprised of the following equity and liability classified award amounts:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2023	2024	2023	2024
Equity classified awards	$ 17.0	$ 11.8	$ 50.3	$ 37.8
Liability classified awards	0.2	3.7	1.6	10.0
Total share-based compensation expense	$ 17.2	$ 15.5	$ 51.9	$ 47.8

Total share-based compensation expense recognized was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2023	2024	2023	2024
Cost of revenue	$ 2.0	$ 2.0	$ 7.4	$ 5.9
Selling, general and administrative expenses	15.2	13.5	44.5	41.9
Pre-tax share-based compensation expense	17.2	15.5	51.9	47.8
Less: Income tax benefit	(3.6)	(3.2)	(10.9)	(10.0)
Total share-based compensation expense, net of tax	$ 13.6	$ 12.3	$ 41.0	$ 37.8

As of September 30, 2024, there was $47.2 million of total unrecognized compensation cost related to stock options, RSUs, PSUs, and the ESPP, which will be recognized using the service period or over our best estimate of the period over which the performance condition will be met, as applicable.

10. Taxes

We are subject to U.S. federal income tax and various state, local, and international income taxes in numerous jurisdictions. The differences between our effective tax rate and the U.S. federal statutory rate of 21% generally result from various factors, including the geographical distribution of taxable income, tax credits, contingency reserves for uncertain tax positions, and permanent differences between the book and tax treatment of certain items. Additionally, the amount of income taxes paid is subject to our interpretation of applicable tax laws in the jurisdictions in which we file. For the three months ended September 30, 2024, our effective tax rate is lower than the U.S. federal statutory rate of 21% primarily due to the tax impact associated with changes in the valuation allowance related to disallowed interest, the tax impact associated with the goodwill impairment recorded in the third quarter of 2024, and the additional third quarter tax impact of the March 2024 Refinancing Transactions which were completed in April 2024. For the nine months ended September 30, 2024, our effective tax rate is lower than the U.S. federal statutory rate of 21% primarily due to the tax impact associated with changes in the valuation allowance related to disallowed interest, the tax impact associated with the goodwill impairment recorded in both the first and third quarters of 2024, the majority of which was nondeductible for income tax purposes, and the tax impact of the March 2024 Refinancing Transactions discussed below. The tax impact of the March 2024 Refinancing Transactions include excluded cancellation of indebtedness income (“CODI”), federal and state attribution reduction and changes in valuation allowance. In December 2021, the Organisation for Economic Co-operation and Development (the “OECD”) issued model rules for a new global minimum tax framework (Pillar Two). Governments in many of the countries where we operate have issued, or are in the process of issuing, legislation on this rule. We are currently evaluating, but do not expect this rule to have a material impact on our consolidated financial statements.

As a result of the March 2024 Refinancing Transactions, discussed in Note 7, “Debt”, specifically upon the completion of the Private Exchange and Public Term Loan Exchange in March 2024, and the completion of the Public Note Exchange in April 2024, the company realized CODI for US tax purposes of $531.5 million and $80.5 million, respectively. We realized an additional $13.0 million CODI for US tax purposes from third quarter 2024 debt repurchase activity, for a total $625.0 million for the nine months ended September 30, 2024. Pursuant to Internal Revenue Code (“IRC”) Section 108, an insolvent debtor may exclude CODI from taxable income to the extent of the debtor’s insolvency (liabilities greater than the fair value of its assets) but must reduce its tax attributes, subject to certain limitations and according to prescribed ordering rules, based on the amount of CODI excluded from taxable income. The company currently estimates that the level of its insolvency (as defined for US Tax purposes) exceeds the amount of CODI resulting from the March 2024 Refinancing Transactions, such that all resulting CODI will be excluded from the company’s taxable income.

The process for determining the amount of tax attribute reduction is complex and the actual reduction to attributes does not occur until the first day of the company’s tax year subsequent to the date of the discharge event, or January 1, 2025. Therefore, the estimated impact of the tax attribute reduction from the March 2024 Refinancing Transactions is subject to change until the finalization of the company’s tax returns for the year ending December 31, 2024.

For purposes of determining the interim tax provision for the nine months ended September 30, 2024, the company estimates that all its federal (and certain of its state) net operating loss and tax credit carryovers will be eliminated resulting from the tax attribute reduction for excluded CODI. For the nine months ended September 30, 2024, the company recorded an income tax benefit of $79.5 million related to the total effects of the March 2024 Refinancing Transactions, including excluded CODI, federal and state tax attribute reduction, and resulting changes in valuation allowance. The total income tax benefit recorded in the nine months ended September 30, 2024 was a tax benefit of $22.6 million which includes the $79.5 million tax benefit from the March 2024 Refinancing Transactions.

11. Derivatives

We utilize derivative instruments, including interest rate swap agreements, to manage our exposure to interest rate risk. We only hold such instruments for economic hedging purposes, not for speculative or trading purposes. Our derivative instruments are transacted only with highly-rated institutions, which reduces our exposure to credit risk in the event of nonperformance.

Interest Rate Swaps

We are exposed to interest rate risk associated with fluctuations in interest rates on the floating-rate Term Loan Facility, FLSO Term Loan Facility, and FLFO Term Loan Facility. The objective in using interest rate derivatives is to manage our exposure to interest rate movements. To accomplish this objective, we have entered into interest rate swap agreements as part of our interest rate risk management strategy. Interest rate swaps involve the receipt of variable amounts from a counterparty in exchange for the company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

On January 9, 2020, we designated certain of our swaps as cash flow hedges. On the designation date, the cash flow hedges were in a $39.9 million liability position. The cash flow hedges were expected to be highly effective on the designation date and, on a quarterly basis, we performed retrospective and prospective regression assessments to determine whether the cash flow hedges continue to be highly effective. As long as the cash flow hedges are highly effective, changes in fair value are recorded to "Accumulated other comprehensive income" in the Condensed Consolidated Balance Sheets and reclassified to "Interest expense" in the period when the underlying transaction affects earnings. The income tax effects of cash flow hedges are released from "Accumulated other comprehensive income" in the period when the underlying transaction affects earnings. Any stranded income tax effects are released from "Accumulated other comprehensive income" into "Benefit for income taxes" under the portfolio approach.

During the year ended December 31, 2021, we completed a series of transactions to modify our interest rate swap positions as follows: (i) All the interest rate swaps outstanding as of December 31, 2020, with the exception of the agreement that matured on February 3, 2021, were de-designated as cash flow hedges on January 31, 2021, (ii) on February 12, 2021, we entered into a $900.0 million receive-fixed interest rate swap which was designed to offset the terms of two December 2016 swaps, and (iii) on February 12, 2021, we terminated all December 2018 swaps and entered into a $1.35 billion pay-fixed interest rate swap, effectively blending the liability position of our existing interest rate swap agreements into the new swap and extending the term of our hedged position to February 2026.

The amount remaining in "Accumulated other comprehensive income" for the de-designated December 2016 and December 2018 swaps at the de-designation date was approximately $51.6 million, and is amortized as an increase to "Interest expense" over the effective period of the original swap agreements.

The new receive-fixed interest rate swap qualifies as a hybrid instrument in accordance with ASC No. 815, *Derivatives and Hedging*, consisting of a loan and an embedded derivative for which the fair value option has been elected. This $900.0 million swap remained undesignated to economically offset the undesignated December 2016 swaps. This new swap and the December 2016 swaps matured on February 3, 2022. Cash settlements related to this receive-fixed interest rate swap offset and are classified as operating activities in the Condensed Consolidated Statements of Cash Flows.

The new pay-fixed interest rate swap also qualifies as a hybrid instrument in accordance with ASC No. 815, *Derivatives and Hedging*, consisting of a loan and an embedded at-market derivative that was designated as a cash flow hedge. The loan is accounted for at amortized cost over the life of the swap while the embedded at-market derivative is accounted for at fair value. The $1.35 billion swap was originally indexed to three-month LIBOR and net settled on a quarterly basis with the counterparty for the difference between the fixed rate of 2.3820% and the variable rate based upon three-month LIBOR (subject to a floor of 0.75%) as applied to the notional amount of the swap. In connection with the transactions discussed above, no cash was exchanged between us and the counterparty. The liability of the terminated interest rate swaps as well as the inception value of the receive-fixed interest rate swap was blended into the new pay-fixed interest rate swap. The cash flows related to the portion treated as debt will be classified as financing activities in the Condensed Consolidated Statements of Cash Flows while the portion treated as an at-market derivative will be classified as operating activities.

As discussed in Note 7, "Debt", on April 26, 2023 we executed an amendment to our First Lien Credit Agreement, which governs borrowings under our Term Loan Facility. This amendment established Term SOFR as the benchmark rate for determining the applicable interest rate, replacing LIBOR. To continue to manage our exposure to interest rate risk associated with our Term Loan Facility, effective May 9, 2023, we amended our remaining swap agreement to change the index from three-month LIBOR (subject to a floor of 0.75%) to one-month Term SOFR (subject to a floor of 0.75%). The fixed rate also changed from 2.3820% to 2.34150% as a result of the swap agreement amendment.

On a monthly basis, we net settle with the counterparty for the difference between the fixed rate of 2.34150% and the variable rate based upon the one-month Term SOFR (subject to a floor of 0.75%) as applied to the notional amount of the swap.

In conjunction with the March 2024 Refinancing Transactions, as discussed in Note 7, “Debt”, we issued additional borrowings and used the proceeds to repay previously hedged borrowings under the Term Loan Facility. Given that the specific intent of the new borrowings was a replacement of the previously hedged borrowings and the economic characteristics were the same, we continue to apply hedge accounting on the replacement borrowings.

As of December 31, 2023 and September 30, 2024, the cash flow hedge was highly effective.

The key terms of interest rate swaps are presented below:

		December 31, 2023		September 30, 2024		
Effective Date	**Fixed Rate Paid (Received)**	**Notional Amount (in millions)**	**Status**	**Notional Amount (in millions)**	**Status**	**Maturity Date**
Entered into December 2018:						
February 3, 2019	2.7490%	—	Matured	—	Matured	November 3, 2023
February 3, 2020	2.7350%	—	Matured	—	Matured	November 3, 2023
February 3, 2021	2.7360%	—	Matured	—	Matured	November 3, 2023
February 3, 2022	2.7800%	—	Matured	—	Matured	November 3, 2023
Entered into February 2021:						
February 9, 2021	2.34150% (1)	1,350.0	Active	1,350.0	Active	February 9, 2026
Total		$ 1,350.0		$ 1,350.0		

(1) Fixed rate paid prior to the May 9, 2023 amendment was 2.3820%.

Our interest rate swap agreements, excluding the portion treated as debt, are recognized at fair value in the Condensed Consolidated Balance Sheets and are valued using pricing models that rely on market observable inputs such as yield curve data, which are classified as Level 2 inputs within the fair value hierarchy.

Fair Values of Derivatives on the Condensed Consolidated Balance Sheets

The fair values of our derivatives and their location on the Condensed Consolidated Balance Sheets as of December 31, 2023 and September 30, 2024 were as follows:

(In millions)		December 31, 2023		September 30, 2024	
Derivatives designated as hedging instruments	**Location**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate swaps	Other current assets	$ 47.0	$ —	$ 36.3	$ —
Interest rate swaps	Other non-current assets	36.8	—	11.6	—
Interest rate swaps	Other current liabilities (1)	—	17.3	—	17.4
Interest rate swaps	Other non-current liabilities (1)	—	20.3	—	7.3
Total		$ 83.8	$ 37.6	$ 47.9	$ 24.7

(1) The entire balance is comprised of the financing component of the pay-fixed interest rate swap.

For financial statement presentation purposes, we do not offset assets and liabilities under master netting arrangements and all amounts above are presented on a gross basis. The following table, however, is presented on a net asset and net liability basis:

	December 31, 2023			September 30, 2024		
(In millions)	Gross Amounts on Balance Sheet	Effects of Counterparty Netting	Net Amounts	Gross Amounts on Balance Sheet	Effects of Counterparty Netting	Net Amounts
Assets						
Interest rate swaps	$ 83.8	$ (37.6)	$ 46.2	$ 47.9	$ (24.7)	$ 23.2
Liabilities						
Interest rate swaps	$ 37.6	$ (37.6)	$ —	$ 24.7	$ (24.7)	$ —

Effect of Derivatives on the Condensed Consolidated Statements of Comprehensive Loss

The effect of our derivatives and their location on the Condensed Consolidated Statements of Comprehensive Loss for the three and nine months ended September 30, 2023 and 2024 was as follows:

		Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)		2023	2024	2023	2024
Derivatives not designated as hedging instruments	**Location**				
Interest rate swaps	Interest income (expense)	$ (4.7)	$ —	$ (13.8)	$ —
Derivatives designated as hedging instruments	**Location**				
Interest rate swaps	Interest income (expense)	$ 14.7	$ 14.9	$ 40.4	$ 44.7

Interest expense was $56.5 million and $18.0 million for the three months ended September 30, 2023 and 2024, respectively, and $170.7 million and $80.1 million for the nine months ended September 30, 2023 and 2024, respectively. As of September 30, 2024, the amount of cash flow hedge gain included within "Accumulated other comprehensive income" that is expected to be reclassified as a reduction to "Interest expense" over the next 12 months is approximately $37.8 million. See Note 12, "Accumulated Other Comprehensive Income (Loss)," for information regarding changes in fair value of our derivatives designated as hedging instruments.

Credit-risk-related Contingent Features

We have agreements with interest rate swap counterparties that contain a provision whereby if we default on any of our material indebtedness, then we could also be declared in default of our interest rate swap agreements. As of September 30, 2024, our outstanding interest rate swap agreement was in a net asset position.

12. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) consisted of the following:

(In millions)	Accumulated Foreign Currency Translation Adjustments	Accumulated Gain on Derivative Contracts	Accumulated Other Comprehensive Income
Balance at June 30, 2023	$ (3.8)	$ 82.7	$ 78.9
Foreign currency translation adjustments, net of tax benefit of $0.7	(5.7)	—	(5.7)
Unrealized gain on derivative contracts, net of tax expense of $3.1	—	9.1	9.1
Amount reclassified from Accumulated comprehensive income (loss) into earnings, net of tax expense of $2.6 (1)	—	(7.5)	(7.5)
Balance at September 30, 2023	$ (9.5)	$ 84.3	$ 74.8

(1) Includes a reduction to interest expense recognized of $14.8 million related to the cash flow hedge gain for the three months ended September 30, 2023, partially offset by an increase to interest expense for the amortization of off-market swap value and accumulated loss at hedge de-designation of $4.7 million.

(In millions)	Accumulated Foreign Currency Translation Adjustments	Accumulated Gain on Derivative Contracts	Accumulated Other Comprehensive Income
Balance at December 31, 2022	$ (10.0)	$ 81.4	$ 71.4
Foreign currency translation adjustments, net of tax expense of $0.2	0.5	—	0.5
Unrealized gain on derivative contracts, net of tax expense of $7.8	—	22.8	22.8
Amount reclassified from Accumulated comprehensive income (loss) into earnings, net of tax expense of $6.8 (1)	—	(19.9)	(19.9)
Balance at September 30, 2023	$ (9.5)	$ 84.3	$ 74.8

(1) Includes a reduction to interest expense recognized of $40.5 million related to the cash flow hedge gain for the nine months ended September 30, 2023, partially offset by an increase to interest expense for the amortization of off-market swap value and accumulated loss at hedge de-designation of $13.8 million.

(In millions)	Accumulated Foreign Currency Translation Adjustments	Accumulated Gain on Derivative Contracts	Accumulated Other Comprehensive Income
Balance at June 30, 2024	$ (6.5)	$ 57.7	$ 51.2
Foreign currency translation adjustments, net of tax expense of $1.1	4.3	—	4.3
Unrealized loss on derivative contracts, net of tax benefit of $3.9	—	(11.1)	(11.1)
Amount reclassified from Accumulated comprehensive income (loss) into earnings, net of tax expense of $3.8 (1)	—	(11.0)	(11.0)
Balance at September 30, 2024	$ (2.2)	$ 35.6	$ 33.4

(1) Includes a reduction to interest expense recognized of $14.9 million related to the cash flow hedge gain for the three months ended September 30, 2024.

(In millions)	Accumulated Foreign Currency Translation Adjustments	Accumulated Gain on Derivative Contracts	Accumulated Other Comprehensive Income
Balance at December 31, 2023	$ (2.0)	$ 62.3	$ 60.3
Foreign currency translation adjustments, net of tax expense of $1.0	(0.2)	—	(0.2)
Unrealized gain on derivative contracts, net of tax expense of $2.2	—	6.5	6.5
Amount reclassified from Accumulated comprehensive income (loss) into earnings, net of tax expense of $11.4 (1)	—	(33.2)	(33.2)
Balance at September 30, 2024	$ (2.2)	$ 35.6	$ 33.4

(1) Includes a reduction to interest expense recognized of $44.7 million related to the cash flow hedge gain for the nine months ended September 30, 2024.

13. Segment Reporting

We have organized our operations into two operating segments, which correspond directly to our reportable segments: Public Cloud, a services-centric, capital-light model providing value-added cloud solutions through managed services, Elastic Engineering and professional services offerings for customer environments hosted on the Amazon Web Services (“AWS”), Microsoft Azure and Google Cloud public cloud platforms; and Private Cloud, a technology-forward, capital-intensive model providing managed service offerings for customer environments hosted in one of our data centers as well as in those owned by customers or by third parties such as colocation providers. Private Cloud also includes our legacy OpenStack Public Cloud business that we ceased to actively market to customers in 2017.

Our segments are based upon a number of factors, including, the basis for our budgets and forecasts, organizational and management structure and the financial information regularly used by our Chief Operating Decision Maker to make key decisions and to assess performance. We assess financial performance of our segments on the basis of revenue and segment operating profit. Segment operating profit includes expenses directly attributable to running the respective segments' business. This excludes any corporate overhead expenses. We have centralized corporate functions that provide services to the segments in areas such as accounting, information technology, marketing, legal and human resources. Corporate function costs that are not allocated to the segments are included in the row labeled "Corporate functions" in the table below.

During the first quarter of 2024, we identified that an immaterial amount of revenue for a certain Private Cloud product offering was incorrectly reported in the Public Cloud segment in historical periods. Revenue by segment has been corrected in the table below by reducing Public Cloud revenue by $1.3 million and increasing Private Cloud revenue by $1.3 million for the three months ended September 30, 2023 and reducing Public Cloud revenue by $3.6 million and increasing Private Cloud revenue by $3.6 million for the nine months ended September 30, 2023.

The table below presents a reconciliation of revenue by reportable segment to consolidated revenue and a reconciliation of consolidated segment operating profit to consolidated loss before income taxes for the three and nine months ended September 30, 2023 and 2024.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2023	2024	2023	2024
Revenue by segment:				
Public Cloud	$ 431.5	$ 418.3	$ 1,308.7	$ 1,265.6
Private Cloud	300.9	257.5	928.7	785.9
Total consolidated revenue	$ 732.4	$ 675.8	$ 2,237.4	$ 2,051.5
Segment operating profit:				
Public Cloud	$ 20.3	$ 16.4	$ 59.5	$ 37.5
Private Cloud	86.2	74.5	268.2	215.9
Total consolidated segment operating profit	106.5	90.9	327.7	253.4
Corporate functions	(61.0)	(56.6)	(192.7)	(180.1)
Share-based compensation expense	(17.2)	(15.5)	(51.9)	(47.8)
Special bonuses and other compensation expense [1]	(3.3)	(2.7)	(9.7)	(9.1)
Transaction-related adjustments, net [2]	(1.6)	(1.8)	(4.1)	(4.4)
Restructuring and transformation expenses [3]	(14.3)	(8.8)	(63.0)	(42.5)
Hosted Exchange incident expenses, net of proceeds received or expected to be received under our insurance coverage	5.3	1.2	0.4	1.1
Amortization of intangible assets [4]	(39.7)	(38.7)	(121.6)	(116.0)
Impairment of goodwill	(165.7)	(141.7)	(708.8)	(714.9)
UK office closure [5]	—	—	(12.1)	—
Impairment of assets, net	(48.4)	—	(48.4)	(20.0)
Interest expense	(56.5)	(18.0)	(170.7)	(80.1)
Gain on investments, net	—	0.1	0.2	0.2
Debt modification costs and gain on debt extinguishment	55.4	18.0	163.1	147.2
Other expense, net	(2.6)	(1.0)	(0.3)	(11.8)
Total consolidated loss before income taxes	$ (243.1)	$ (174.6)	$ (891.9)	$ (824.8)

(1) Includes expense related to retention bonuses, mainly relating to restructuring and integration projects, and the related payroll tax, senior executive signing bonuses and relocation costs, and payroll taxes associated with the exercise of stock options and vesting of restricted stock. Beginning in the second quarter of 2023, includes expense related to the one-time grant of long-term incentive bonuses as a component of our annual compensation award process.

(2) Includes legal, professional, accounting and other advisory fees related to acquisitions, certain one-time compliance costs related to being a public company, integration costs of acquired businesses, purchase accounting adjustments, payroll costs for employees that dedicate significant time to supporting these projects and exploratory acquisition and divestiture costs and expenses related to financing activities.

(3) Includes consulting and advisory fees related to business transformation and optimization activities, payroll costs for employees that dedicate significant time to these projects, as well as associated severance, certain facility closure costs, and lease termination expenses. The nine months ended September 30, 2024 also includes a $9.0 million MEIA early termination fee associated with the sale of our corporate headquarters in March 2024.

(4) All of our intangible assets are attributable to acquisitions, including the Rackspace Acquisition in 2016.

(5) Expense recognized related to the closure of a UK office that we exited in the second quarter of 2023 prior to the lease end date.

The table below presents depreciation expense included in segment operating profit above for the three and nine months ended September 30, 2023 and 2024.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2023	2024	2023	2024
Public Cloud	$ 2.4	$ 1.8	$ 7.0	$ 5.3
Private Cloud	42.2	28.6	131.0	85.6
Corporate functions	5.8	3.9	22.9	15.1
Total depreciation expense	$ 50.4	$ 34.3	$ 160.9	$ 106.0

Management does not use total assets by segment to evaluate segment performance or allocate resources. As such, total assets by segment are not disclosed.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help readers understand our results of operations, financial condition and cash flows and should be read in conjunction with the condensed consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q (this "Quarterly Report") and with the audited consolidated financial statements and the related notes included in our Annual Report. References to "Rackspace Technology," "we," "our company," "the company," "us," or "our" refer to Rackspace Technology, Inc. and its consolidated subsidiaries.

The following discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results may differ materially from those contained in any forward-looking statements. See "Special Note Regarding Forward-Looking Statements" contained elsewhere in this Quarterly Report.

Overview

We are a leading end-to-end, hybrid, multicloud, and AI solutions company. We design, build and operate our customers' cloud environments across all major technology platforms, irrespective of technology stack or deployment model. We partner with our customers at every stage of their cloud journey, enabling them to modernize applications, build new products, and adopt innovative technologies.

We operate our business and report our results through two reportable segments: Public Cloud and Private Cloud. Our Public Cloud segment is a services-centric, capital-light model providing value-added cloud solutions through managed services, Elastic Engineering and professional services offerings for customer environments hosted on the AWS, Microsoft Azure and Google Cloud public cloud platforms. Our Private Cloud segment is a technology-forward, capital-intensive model providing managed service offerings for customer environments hosted in one of our data centers as well as in those owned by customers or by third parties such as colocation providers. Private Cloud also includes our legacy OpenStack Public Cloud business that we ceased to actively market to customers in 2017. See Item 1 of Part I, Financial Statements - Note 13, "Segment Reporting," for additional information about our segments.

Key Factors Affecting Our Performance

We believe our combination of proprietary technology, automation capabilities and technical expertise creates a value proposition for our customers that is hard to replicate for both competitors and in-house IT departments. Our continued success depends to a significant extent on our ability to meet the challenges presented by our highly competitive and dynamic market, including the following key factors:

Differentiating Our Service Offerings in a Competitive Market Environment

Our success depends to a significant extent on our ability to continue to differentiate, expand and upgrade our service offerings in line with developing customer needs, while deepening our relationships with leading public cloud service providers and establishing new relationships, including with sales partners. We are a certified premier consulting and managed services partner to some of the largest cloud computing platforms, including AWS, Microsoft Azure, Google Cloud, Oracle, SAP and VMware by Broadcom. We believe we are unique in our ability to serve customers across major technology stacks and deployment options, all while delivering Fanatical Experience. Our existing and prospective customers are also under increasing pressure to move from on-premise or self-managed IT to the cloud to compete effectively in a digital economy and maximize the value of their cloud investments, which we believe presents an opportunity for professional services projects as well as new recurring business.

Customer Relationships and Retention

Our success greatly depends on our ability to retain and develop opportunities with our existing customers and to attract new customers. We operate in a growing but competitive and evolving market environment, requiring innovation to differentiate us from our competitors. We believe that our integrated cloud service portfolio and our differentiated customer experience and technology are keys to retaining and growing revenue from existing customers as well as acquiring new customers. For example, we believe that Rackspace Fabric provides customers a unified experience across their entire cloud and security footprint, and that our Rackspace Elastic Engineering model helps customers embrace a cloud native approach with on-demand access to a dedicated team of highly skilled cloud architects and engineers. These offerings differentiate us from legacy IT service providers that operate under long-term fixed and project-based fee structures often tethered to their existing technologies with less automation.

Business Mix Shift

The mix of revenue has shifted in recent years, from our Private Cloud offerings to infrastructure resale and services within Public Cloud. Private Cloud offerings are generally hosted on our own infrastructure and deliver higher segment operating margins, but also require a higher level of capital expenditures. Conversely, Public Cloud segment operating margins are lower, driven by high volumes of infrastructure resale revenue which come at significantly lower margins. However, Public Cloud requires significantly less capital expenditures. Going forward, we will continue to take a workload-centric approach and both Public and Private Cloud will be the net recipients of the workloads. The focus in Private Cloud will be to defend and expand our revenue with new solutions. The focus in Public Cloud is on expanding segment operating margins by driving cost efficiencies and growing higher-margin services revenue.

Key Components of Statement of Operations

Revenue

A substantial amount of our revenue, particularly within our Private Cloud segment, is generated pursuant to contracts that typically have a fixed term (typically from 12 to 36 months). Our customers generally have the right to cancel their contracts by providing us with written notice prior to the end of the fixed term, though most of our contracts provide for termination fees in the event of cancellation prior to the end of their term, typically amounting to the outstanding value of the contract. These contracts include a monthly recurring fee, which is determined based on the computing resources utilized and provided to the customer, the complexity of the underlying infrastructure and the level of support we provide. Most of our services within our Public Cloud segment and legacy OpenStack business generate usage-based revenue invoiced on a monthly basis and can be canceled at any time without penalty. We also generate revenue from usage-based fees and fees from professional services earned from customers using our hosting and other services. We typically recognize revenue on a daily basis, as services are provided, in an amount that reflects the consideration to which we expect to be entitled in exchange for our services. Our usage-based arrangements generally include a variable consideration component, consisting of monthly utility fees, with a defined price and undefined quantity. Our customer contracts also typically contain service level guarantees, including with respect to network uptime requirements, that provide discounts when we fail to meet specific obligations and, with respect to certain products, we may offer volume discounts based on usage. As these variable consideration components consist of a single distinct daily service provided on a single performance obligation, we account for all of them as services are provided and earned.

Cost of revenue

Cost of revenue consists primarily of usage charges for third-party infrastructure and personnel costs (including salaries, bonuses, benefits and share-based compensation) for engineers, developers and other employees involved in the delivery of services to our customers. Cost of revenue also includes depreciation of servers, software and other systems infrastructure, data center rent and other infrastructure maintenance and support costs, including software license costs and utilities. Cost of revenue is driven mainly by demand for our services, our service mix and the cost of labor in a given geography.

Selling, general and administrative expenses (SG&A)

Selling, general and administrative expenses consist primarily of personnel costs (including salaries, bonuses, commissions, benefits and share-based compensation) for our sales force, executive team and corporate administrative and support employees, including our human resources, finance, accounting and legal functions. SG&A also includes research and development costs, repair and maintenance of corporate infrastructure, facilities rent, third-party advisory fees (including audit, legal and management consulting costs), marketing and advertising costs and insurance, as well as the amortization of related intangible assets and certain depreciation of fixed assets.

SG&A also includes transaction costs related to acquisitions and financings along with costs related to integration and business transformation initiatives which may impact the comparability of SG&A between periods.

Income taxes

Our income tax benefit (provision) and deferred tax assets and liabilities reflect management's best assessment of estimated current and future taxes to be paid. To date, we have recorded consolidated tax benefits, reflecting our net losses, though certain of our non-U.S. subsidiaries have incurred corporate tax expense according to the relevant taxing jurisdictions.We are under certain domestic and foreign tax audits. Due to the complexity involved with certain tax matters, there is the possibility that the various taxing authorities may disagree with certain tax positions filed on our income tax returns. We believe we have made adequate provision for all uncertain tax positions. See Item 1 of Part I, Financial Statements - Note 10, "Taxes."

Results of Operations

We discuss our historical results of operations, and the key components of those results, below. Past financial results are not necessarily indicative of future results.

Three Months Ended September 30, 2023 Compared to Three Months Ended September 30, 2024

The following table sets forth our results of operations for the specified periods, as well as changes between periods and as a percentage of revenue for those same periods (totals in table may not foot due to rounding):

	Three Months Ended September 30,				Year-Over-Year Comparison	
	2023		2024			
(In millions, except %)	Amount	% Revenue	Amount	% Revenue	Amount	% Change
Revenue	$ 732.4	100.0 %	$ 675.8	100.0 %	$ (56.6)	(7.7)%
Cost of revenue	(580.4)	(79.2)%	(538.3)	(79.6)%	42.1	(7.3)%
Gross profit	152.0	20.8 %	137.5	20.4 %	(14.5)	(9.5)%
Selling, general and administrative expenses	(177.3)	(24.2)%	(169.5)	(25.1)%	7.8	(4.4)%
Impairment of goodwill	(165.7)	(22.6)%	(141.7)	(21.0)%	24.0	(14.5)%
Impairment of assets, net	(48.4)	(6.6)%	—	— %	48.4	(100.0)%
Loss from operations	(239.4)	(32.7)%	(173.7)	(25.7)%	65.7	(27.4)%
Other income (expense):						
Interest expense	(56.5)	(7.7)%	(18.0)	(2.7)%	38.5	(68.1)%
Gain on investments, net	—	— %	0.1	0.0 %	0.1	100.0 %
Debt modification costs and gain on debt extinguishment	55.4	7.6 %	18.0	2.7 %	(37.4)	(67.5)%
Other expense, net	(2.6)	(0.4)%	(1.0)	(0.2)%	1.6	(61.5)%
Total other income (expense)	(3.7)	(0.5)%	(0.9)	(0.1)%	2.8	(75.7)%
Loss before income taxes	(243.1)	(33.2)%	(174.6)	(25.8)%	68.5	(28.2)%
Benefit (provision) for income taxes	16.5	2.3 %	(12.0)	(1.8)%	(28.5)	NM
Net loss	$ (226.6)	(30.9)%	$ (186.6)	(27.6)%	$ 40.0	(17.7)%

NM = not meaningful.

Revenue

Revenue decreased $57 million, or 7.7%, to $676 million in the three months ended September 30, 2024 from $732 million in the three months ended September 30, 2023. Revenue declined due to decreases in both Private Cloud and Public Cloud revenue, as discussed below.

After removing the impact of foreign currency fluctuations, on a constant currency basis, revenue decreased 7.9% year-over-year. The following table presents revenue growth by segment:

	Three Months Ended September 30,		% Change	
(In millions, except %)	2023	2024	Actual	Constant Currency (a)
Public Cloud	$ 431.5	$ 418.3	(3.1)%	(3.1)%
Private Cloud	300.9	257.5	(14.4)%	(14.7)%
Total	$ 732.4	$ 675.8	(7.7)%	(7.9)%

(a) Refer to "*Non-GAAP Financial Measures*" in this section for further explanation and reconciliation.

Public Cloud revenue in the three months ended September 30, 2024 decreased 3.1% on an actual and constant currency basis, from the three months ended September 30, 2023. The decline was due to continued cyclical headwinds in IT services.

Private Cloud revenue in the three months ended September 30, 2024 decreased 14.4% on an actual basis and 14.7% on a constant currency basis, from the three months ended September 30, 2023, due to customers rolling off old generation private cloud offerings and decline in legacy OpenStack offerings.

Cost of Revenue

Cost of revenue decreased $42 million, or 7%, to $538 million in the three months ended September 30, 2024 from $580 million in the three months ended September 30, 2023. The decrease in cost of revenue was primarily due to an increase in the useful life of certain customer gear assets, as discussed in Item 1 of Part I, Financial Statements - Note 1, "Company Overview, Basis of Presentation, and Summary of Significant Accounting Policies", which resulted in a decline in depreciation expense between periods. In addition, we experienced a reduction in usage charges for third-party infrastructure; consistent with the decrease in revenue, and a reduction in license expense due to decreased usage between periods. A decline in personnel costs, driven by a decrease in headcount between periods, and lower severance expense further contributed to the overall reduction in cost of revenue.

As a percentage of revenue, cost of revenue increased 40 basis points in the three months ended September 30, 2024 to 79.6% from 79.2% in the three months ended September 30, 2023 as the decline in revenue growth outpaced the decrease in cost of revenue.

Gross Profit

Our gross profit was $138 million in the three months ended September 30, 2024, a decrease of $15 million from $152 million in the three months ended September 30, 2023. Our gross margin was 20.4% in the three months ended September 30, 2024, a decrease of 40 basis points from 20.8% in the three months ended September 30, 2023.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased $8 million, or 4%, to $170 million in the three months ended September 30, 2024 from $177 million in the three months ended September 30, 2023. The decrease was partially driven by additional insurance recovery proceeds related to the Hosted Exchange incident received in the current period. Other cost fluctuations between periods included a reduction in depreciation and amortization expense and personnel costs.

As a percentage of revenue, selling, general and administrative expenses increased 90 basis points, to 25.1% in the three months ended September 30, 2024 from 24.2% in the three months ended September 30, 2023 as the decline in revenue growth outpaced the decrease in selling, general and administrative expenses.

Loss from Operations, Segment Operating Profit, and Non-GAAP Operating Profit

Our loss from operations was $174 million in the three months ended September 30, 2024 compared to $239 million in the three months ended September 30, 2023. Our Non-GAAP Operating Profit was $34 million in the three months ended September 30, 2024, a decrease of $11 million from $46 million in the three months ended September 30, 2023. Non-GAAP Operating Profit is a non-GAAP financial measure. See "Non-GAAP Financial Measures" below for more information.

The table below presents a reconciliation of loss from operations to Non-GAAP Operating Profit.

	Three Months Ended September 30,	
(In millions)	2023	2024
Loss from operations	$ (239.4)	$ (173.7)
Share-based compensation expense	17.2	15.5
Special bonuses and other compensation expense [a]	3.3	2.7
Transaction-related adjustments, net [b]	1.6	1.8
Restructuring and transformation expenses [c]	14.3	8.8
Hosted Exchange incident expenses, net of proceeds received or expected to be received under our insurance coverage	(5.3)	(1.2)
Impairment of goodwill	165.7	141.7
Impairment of assets, net	48.4	—
Amortization of intangible assets [d]	39.7	38.7
Non-GAAP Operating Profit	$ 45.5	$ 34.3

(a) Includes expense related to retention bonuses, mainly relating to restructuring and integration projects, and the related payroll tax, senior executive signing bonuses and relocation costs, and payroll taxes associated with the exercise of stock options and vesting of restricted stock. Beginning in the second quarter of 2023, includes expense related to the one-time grant of long-term incentive bonuses as a component of our annual compensation award process.

(b) Includes legal, professional, accounting and other advisory fees related to acquisitions, certain one-time compliance costs related to being a public company, integration costs of acquired businesses, purchase accounting adjustments, payroll costs for employees that dedicate significant time to supporting these projects and exploratory acquisition and divestiture costs and expenses related to financing activities.

(c) Includes consulting and advisory fees related to business transformation and optimization activities, payroll costs for employees that dedicate significant time to these projects, as well as associated severance, certain facility closure costs, and lease termination expenses.

(d) All of our intangible assets are attributable to acquisitions, including the Rackspace Acquisition in 2016.

Our segment operating profit and segment operating margin for the periods indicated, and the change between periods is shown in the table below:

	Three Months Ended September 30,					
(In millions, except %)	2023		2024		Year-Over-Year Comparison	
Segment operating profit:	**Amount**	**% of Segment Revenue**	**Amount**	**% of Segment Revenue**	**Amount**	**% Change**
Public Cloud	$ 20.3	4.7 %	$ 16.4	3.9 %	$ (3.9)	(19.2)%
Private Cloud	86.2	28.6 %	74.5	28.9 %	(11.7)	(13.6)%
Corporate functions	(61.0)		(56.6)		4.4	(7.2)%
Non-GAAP Operating Profit	$ 45.5		$ 34.3		$ (11.2)	(24.6)%

Public Cloud operating profit decreased 19% in the three months ended September 30, 2024 from the three months ended September 30, 2023. Segment operating profit as a percentage of segment revenue decreased by 80 basis points, reflecting a 3% decrease in segment revenue, partially offset by a 2% decrease in segment operating expenses.

Private Cloud operating profit decreased 14% in the three months ended September 30, 2024 from the three months ended September 30, 2023. Segment operating profit as a percentage of segment revenue increased by 30 basis points due to a 15% decrease in segment operating expenses, partially offset by a 14% decrease in segment revenue. The decrease in expenses was mainly driven by a reduction in personnel costs.

Centralized corporate functions that provide services to the segments in areas such as accounting, information technology, marketing, legal and human resources are not allocated to the segments and are included in "corporate functions" in the table above. This expense decreased 7% in the three months ended September 30, 2024 from the three months ended September 30, 2023 due to a reduction in depreciation and amortization expense driven by certain assets reaching the end of their useful life. Additionally, our continued focus on cost management further contributed to the cost reduction.

For more information about our segment operating profit, see Item 1 of Part I, Financial Statements - Note 13, "Segment Reporting."

Impairment of Goodwill

We performed an interim goodwill impairment analysis as of September 30, 2024 based on our assessment of several events and circumstances that could affect the significant inputs used to determine the fair value of our reporting units, including the significance of the amount, if any, of excess carrying value over fair value, consistency of our current and forecasted operating margins and cash flows, budgeted-to-actual performance, timing of the expected effects of our strategic initiatives, overall change in economic climate, changes in the industry and competitive environment, changes to our risk-adjusted discount rates and earnings quality and sustainability. The results of this goodwill impairment analysis indicated an impairment of goodwill within our Public Cloud and Private Cloud reporting units of $69 million and $73 million, respectively, recorded in the third quarter of 2024.

We performed an interim goodwill impairment analysis as of September 30, 2023 based on our assessment of several events and circumstances that affect the significant inputs used to determine the fair value of our reporting units, including the significance of the amount of excess carrying value over fair value, consistency of operating margins and cash flows, budgeted-to-actual performance, overall change in economic climate, changes in the industry and competitive environment, market capitalization and earnings quality and sustainability. As a result, we determined that the carrying value of our Private Cloud reporting unit exceeded its fair value and recorded a non-cash impairment of goodwill of $166 million in the third quarter of 2023.

Impairment of Assets, Net

We evaluated our indefinite-lived intangible asset for impairment as of September 30, 2023. As a result of this evaluation, we recorded a $57 million impairment of our indefinite-lived intangible asset in the third quarter of 2023.

We also performed a quantitative assessment of our indefinite-lived intangible asset prior to testing our goodwill for impairment as September 30, 2024, which did not indicate any impairment of the Rackspace trade name.

In addition, in the three months ended September 30, 2023, we recorded a $9 million increase in the estimated fair value, less estimated cost to sell, of our corporate headquarters, which was classified as held for sale under GAAP as of December 31, 2022. See Item 1 of Part I, Financial Statements - Note 5, "Property, Equipment and Software, net" for more information.

Interest Expense

Interest expense decreased $39 million, or 68%, to $18 million in the three months ended September 30, 2024 from $57 million in the three months ended September 30, 2023, primarily due to the accounting for contractual interest payments on debt instruments entered into as part of the March 2024 Refinancing Transactions, portions of which are recorded as a reduction of related premiums and not as interest expense, which reduces interest expense relative to contractual interest cost.

Debt Modification Costs and Gain on Debt Extinguishment

We recorded an $18 million gain on debt extinguishment in the three months ended September 30, 2024 related to repurchases of $24 million principal amount of the FLSO Term Loan Facility.

We recorded a $55 million gain on debt extinguishment in the three months ended September 30, 2023 related to repurchases of $85 million principal amount of 5.375% Senior Notes.

For more information, see Item 1 of Part I, Financial Statements - Note 7, "Debt."

Other Expense, Net

We had $1 million and $3 million of other expense in the three months ended September 30, 2024 and 2023, respectively. The decrease was driven by foreign currency gains and the favorable impact of the non-cash fair value adjustment on our convertible promissory note, as discussed in Item 1 of Part I, Financial Statements - Note 2, "Customer Contracts." This decrease was partially offset by an increase in costs incurred in the three months ended September 30, 2024 related to the accounts receivable purchase agreement entered into in September 2023.

Benefit (Provision) for Income Taxes

Our income tax expense was $12 million in the three months ended September 30, 2024 compared to $17 million income tax benefit in the three months ended September 30, 2023. Our effective tax rate decreased to (6.8)% in the three months ended September 30, 2024 from 6.8% in the three months ended September 30, 2023. The decrease in the effective tax rate year-over-year and the difference between the effective tax rate and the statutory rate for the three months ended September 30, 2024 is primarily due to the tax impact associated with changes in the valuation allowance, the tax impact of the March 2024 Refinancing Transactions, and the tax impact associated with the goodwill impairment recorded in September 2024, the majority of which was nondeductible for income tax purposes.

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2024

The following table sets forth our results of operations for the specified periods, as well as changes between periods and as a percentage of revenue for those same periods (totals in table may not foot due to rounding):

	Nine Months Ended September 30,				Year-Over-Year Comparison	
	2023		2024			
(In millions, except %)	Amount	% Revenue	Amount	% Revenue	Amount	% Change
Revenue	$ 2,237.4	100.0 %	$ 2,051.5	100.0 %	$ (185.9)	(8.3)%
Cost of revenue	(1,762.7)	(78.8)%	(1,649.8)	(80.4)%	112.9	(6.4)%
Gross profit	474.7	21.2 %	401.7	19.6 %	(73.0)	(15.4)%
Selling, general and administrative expenses	(601.7)	(26.9)%	(547.1)	(26.7)%	54.6	(9.1)%
Impairment of goodwill	(708.8)	(31.7)%	(714.9)	(34.8)%	(6.1)	0.9 %
Impairment of assets, net	(48.4)	(2.2)%	(20.0)	(1.0)%	28.4	(58.7)%
Loss from operations	(884.2)	(39.5)%	(880.3)	(42.9)%	3.9	(0.4)%
Other income (expense):						
Interest expense	(170.7)	(7.6)%	(80.1)	(3.9)%	90.6	(53.1)%
Gain on investments, net	0.2	0.0 %	0.2	0.0 %	—	— %
Debt modification costs and gain on debt extinguishment	163.1	7.3 %	147.2	7.2 %	(15.9)	(9.7)%
Other expense, net	(0.3)	(0.0)%	(11.8)	(0.6)%	(11.5)	NM
Total other income (expense)	(7.7)	(0.3)%	55.5	2.7 %	63.2	NM
Loss before income taxes	(891.9)	(39.9)%	(824.8)	(40.2)%	67.1	(7.5)%
Benefit for income taxes	26.1	1.2 %	22.6	1.1 %	(3.5)	(13.4)%
Net loss	$ (865.8)	(38.7)%	$ (802.2)	(39.1)%	$ 63.6	(7.3)%

NM = not meaningful.

Revenue

Revenue decreased $186 million, or 8.3%, to $2,052 million in the nine months ended September 30, 2024 from $2,237 million in the nine months ended September 30, 2023. Revenue declined due to decreases in both Private Cloud and Public Cloud revenue, as discussed below.

After removing the impact from foreign currency fluctuations, on a constant currency basis, revenue decreased 8.5% year-over-year. The following table presents revenue growth by segment:

	Nine Months Ended September 30,		% Change	
(In millions, except %)	2023	2024	Actual	Constant Currency [(a)]
Public Cloud	$ 1,308.7	$ 1,265.6	(3.3)%	(3.4)%
Private Cloud	928.7	785.9	(15.4)%	(15.8)%
Total	$ 2,237.4	$ 2,051.5	(8.3)%	(8.5)%

(a) Refer to "*Non-GAAP Financial Measures*" in this section for further explanation and reconciliation.

Public Cloud revenue in the nine months ended September 30, 2024 decreased 3.3% on an actual basis and 3.4% on a constant currency basis, from the nine months ended September 30, 2023. The decline was due to continued cyclical headwinds in IT services.

Private Cloud revenue in the nine months ended September 30, 2024 decreased 15.4% on an actual basis and 15.8% on a constant currency basis, from the nine months ended September 30, 2023, due to customers rolling off old generation private cloud offerings and decline in legacy OpenStack offerings.

Cost of Revenue

Cost of revenue decreased $113 million, or 6%, to $1,650 million in the nine months ended September 30, 2024 from $1,763 million in the nine months ended September 30, 2023. The decrease in cost of revenue was primarily due to a decline in personnel costs associated with a reduction in headcount between periods and lower severance expense. Also contributing to the reduction in cost of revenue was an increase in the useful life of certain customer gear assets, as discussed in Item 1 of Part I, Financial Statements - Note 1, "Company Overview, Basis of Presentation, and Summary of Significant Accounting Policies", which resulted in a decline in depreciation expense between periods. A reduction in license expense due to decreased usage further contributed to the decrease in cost of revenue between periods.

As a percentage of revenue, cost of revenue increased 160 basis points in the nine months ended September 30, 2024 to 80.4% from 78.8% in the nine months ended September 30, 2023, as the decline in revenue growth outpaced the decrease in cost of revenue. Usage charges for third-party infrastructure drove a 400 basis point increase. The decrease in personnel costs and depreciation expense, discussed above, partially offset the increase.

Gross Profit

Our gross profit was $402 million in the nine months ended September 30, 2024, a decrease of $73 million from $475 million in the nine months ended September 30, 2023. Our gross margin was 19.6% in the nine months ended September 30, 2024, a decrease of 160 basis points from 21.2% in the nine months ended September 30, 2023.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased $55 million, or 9%, to $547 million in the nine months ended September 30, 2024 from $602 million in the nine months ended September 30, 2023. The nine months ended September 30, 2023 includes $12 million of expense recognized for a UK office that we exited in the second quarter of 2023, prior to the lease end date. Further contributing to the decrease year-over-year was additional insurance recovery proceeds related to the Hosted Exchange incident received in the current period. In addition, personnel costs decreased due to a reduction in salaries driven by lower headcount and decreases in severance and commissions expense, partially offset by an increase in non-equity incentive compensation. Other non-personnel cost fluctuations included lower professional fees, a reduction in depreciation and amortization expense, and business optimization related expenses between periods.

As a percentage of revenue, selling, general and administrative expenses decreased 20 basis points, to 26.7% in the nine months ended September 30, 2024 from 26.9% in the nine months ended September 30, 2023.

Loss from Operations, Segment Operating Profit, and Non-GAAP Operating Profit

Our loss from operations was $880 million in the nine months ended September 30, 2024 compared to $884 million in the nine months ended September 30, 2023. Our Non-GAAP Operating Profit was $73 million in the nine months ended September 30, 2024, a decrease of $62 million from $135 million in the nine months ended September 30, 2023. Non-GAAP Operating Profit is a non-GAAP financial measure. See "Non-GAAP Financial Measures" below for more information.

The table below presents a reconciliation of loss from operations to Non-GAAP Operating Profit.

(In millions)	Nine Months Ended September 30, 2023	2024
Loss from operations	$ (884.2)	$ (880.3)
Share-based compensation expense	51.9	47.8
Special bonuses and other compensation expense (a)	9.7	9.1
Transaction-related adjustments, net (b)	4.1	4.4
Restructuring and transformation expenses (c)	63.0	42.5
Hosted Exchange incident expenses, net of proceeds received or expected to be received under our insurance coverage	(0.4)	(1.1)
Impairment of goodwill	708.8	714.9
Impairment of assets, net	48.4	20.0
Amortization of intangible assets (d)	121.6	116.0
UK office closure (e)	12.1	—
Non-GAAP Operating Profit	$ 135.0	$ 73.3

(a) Includes expense related to retention bonuses, mainly relating to restructuring and integration projects, and the related payroll tax, senior executive signing bonuses and relocation costs, and payroll taxes associated with the exercise of stock options and vesting of restricted stock. Beginning in the second quarter of 2023, includes expense related to the one-time grant of long-term incentive bonuses as a component of our annual compensation award process.

(b) Includes legal, professional, accounting and other advisory fees related to acquisitions, certain one-time compliance costs related to being a public company, integration costs of acquired businesses, purchase accounting adjustments, payroll costs for employees that dedicate significant time to supporting these projects and exploratory acquisition and divestiture costs and expenses related to financing activities.

(c) Includes consulting and advisory fees related to business transformation and optimization activities, payroll costs for employees that dedicate significant time to these projects, as well as associated severance, certain facility closure costs, and lease termination expenses. The nine months ended September 30, 2024 also includes a $9.0 million MEIA early termination fee associated with the sale of our corporate headquarters in March 2024.

(d) All of our intangible assets are attributable to acquisitions, including the Rackspace Acquisition in 2016.

(e) Expense recognized related to the closure of a UK office that we exited in the second quarter of 2023 prior to the lease end date.

Our segment operating profit and segment operating margin for the periods indicated, and the change between periods is shown in the table below:

(In millions, except %)	Nine Months Ended September 30, 2023		2024		Year-Over-Year Comparison	
Segment operating profit:	**Amount**	**% of Segment Revenue**	**Amount**	**% of Segment Revenue**	**Amount**	**% Change**
Public Cloud	$ 59.5	4.5 %	$ 37.5	3.0 %	$ (22.0)	(37.0)%
Private Cloud	268.2	28.9 %	215.9	27.5 %	(52.3)	(19.5)%
Corporate functions	(192.7)		(180.1)		12.6	(6.5)%
Non-GAAP Operating Profit	$ 135.0		$ 73.3		$ (61.7)	(45.7)%

Public Cloud operating profit decreased 37% in the nine months ended September 30, 2024 from the nine months ended September 30, 2023. Segment operating profit as a percentage of segment revenue decreased by 150 basis points, reflecting a 3% decrease in segment revenue, partially offset by a 2% decrease in segment operating expenses.

Private Cloud operating profit decreased 20% in the nine months ended September 30, 2024 from the nine months ended September 30, 2023. Segment operating profit as a percentage of segment revenue decreased by 140 basis points, due to a 15% decrease in segment revenue, partially offset by a 14% decrease in segment operating expenses. The decrease in expenses was mainly driven by a reduction in personnel costs.

Centralized corporate functions that provide services to the segments in areas such as accounting, information technology, marketing, legal and human resources are not allocated to the segments and are included in "corporate functions" in the table above. This expense decreased 7% in the nine months ended September 30, 2024 from the nine months ended September 30, 2023 due to a reduction in depreciation and amortization expense driven by certain assets reaching the end of their useful life. Additionally, our continued focus on cost management further contributed to the cost reduction.

For more information about our segment operating profit, see Item 1 of Part I, Financial Statements - Note 13, "Segment Reporting."

Impairment of Goodwill

We recorded a total of $709 million and $715 million in non-cash goodwill impairment charges in the nine months ended September 30, 2023 and September 30, 2024, respectively.

In connection with the debt refinancing transactions that were completed in March and April 2024, as further described in Item 1 of Part I, Financial Statements - Note 7, "Debt", we updated our internal forecasts. As of February 29, 2024, we assessed our Board approved 2024 internal budget along with several events and circumstances that could affect the significant inputs used to determine the fair value of our reporting units, including the significance of the amount, if any, of excess carrying value over fair value, consistency of our current and forecasted operating margins and cash flows, budgeted-to-actual performance, timing of the expected effects of our strategic initiatives, overall change in economic climate, changes in the industry and competitive environment, changes to our risk-adjusted discount rates and earnings quality and sustainability. After considering all available evidence in our evaluation of goodwill impairment indicators, we determined it appropriate to perform an interim quantitative assessment of our reporting units as of February 29, 2024. The results of this goodwill impairment analysis indicated an impairment of goodwill within our Public Cloud and Private Cloud reporting units of $385 million and $188 million, respectively, recorded in the first quarter of 2024.

We performed an interim goodwill impairment analysis as of September 30, 2024 based on our assessment of several events and circumstances that could affect the significant inputs used to determine the fair value of our reporting units, including the significance of the amount, if any, of excess carrying value over fair value, consistency of our current and forecasted operating margins and cash flows, budgeted-to-actual performance, timing of the expected effects of our strategic initiatives, overall change in economic climate, changes in the industry and competitive environment, changes to our risk-adjusted discount rates and earnings quality and sustainability. The results of this goodwill impairment analysis indicated an impairment of goodwill within our Public Cloud and Private Cloud reporting units of $69 million and $73 million, respectively, recorded in the third quarter of 2024.

Due to the change in our segment reporting as a result of the business reorganization as of January 1, 2023, we completed a quantitative goodwill impairment analysis both prior and subsequent to the aforementioned change. The results of the quantitative goodwill impairment analysis performed as of January 1, 2023, subsequent to the change, indicated an impairment within our Private Cloud reporting unit, and we recorded a non-cash impairment charge of $271 million in the first quarter of 2023.

During the first quarter of 2023, we experienced a sustained decline in our stock price resulting in our market capitalization being less than the carrying value of our combined reporting units. As of March 31, 2023, we assessed several events and circumstances that could affect the significant inputs used to determine the fair value of our reporting units, including the significance of the amount, if any, of excess carrying value over fair value, consistency of operating margins and cash flows, budgeted-to-actual performance for the first three months of the year, overall change in economic climate, changes in the industry and competitive environment, and earnings quality and sustainability. After considering all available evidence in our evaluation of goodwill impairment indicators, we determined it appropriate to perform an interim quantitative assessment of our reporting units as of March 31, 2023. The results of this quantitative goodwill impairment analysis indicated an impairment within our Private Cloud reporting unit, and we recorded an additional non-cash impairment charge of $272 million in the first quarter of 2023.

We performed an interim goodwill impairment analysis as of September 30, 2023 based on our assessment of several events and circumstances that affect the significant inputs used to determine the fair value of our reporting units, including the significance of the amount of excess carrying value over fair value, consistency of operating margins and cash flows, budgeted-to-actual performance, overall change in economic climate, changes in the industry and competitive environment, market capitalization and earnings quality and sustainability. As a result, we determined that the carrying value of our Private Cloud reporting unit exceeded its fair value and recorded a non-cash impairment of goodwill of $166 million in the third quarter of 2023.

Impairment of Assets, Net

We evaluated our indefinite-lived intangible asset for impairment as of February 29, 2024. As a result of this evaluation, we recorded a $20 million impairment of our indefinite-lived intangible asset in the first quarter of 2024.

We also performed a quantitative assessment of our indefinite-lived intangible asset prior to testing our goodwill for impairment as September 30, 2024, which did not indicate any impairment of the Rackspace trade name.

Similarly, we evaluated our indefinite-lived intangible asset for impairment as of September 30, 2023. As a result of this evaluation, we recorded a $57 million impairment of our indefinite-lived intangible asset in the third quarter of 2023.

In addition, in the three months ended September 30, 2023, we recorded a $9 million increase in the estimated fair value, less estimated cost to sell, of our corporate headquarters, which was classified as held for sale under GAAP as of December 31, 2022. See Item 1 of Part I, Financial Statements - Note 5, "Property, Equipment and Software, net" for more information.

Interest Expense

Interest expense decreased $91 million, or 53%, to $80 million in the nine months ended September 30, 2024 from $171 million in the nine months ended September 30, 2023, primarily due to the accounting for contractual interest payments on debt instruments entered into as part of the March 2024 Refinancing Transactions, portions of which are recorded as a reduction of related premiums and not as interest expense, which reduces interest expense relative to contractual interest cost.

Debt Modification Costs and Gain on Debt Extinguishment

We recorded $80 million debt modification costs and gain on debt extinguishment in the nine months ended September 30, 2024 related to the March 2024 Refinancing Transactions. In addition, we recorded $67 million total gain on debt extinguishment related to repurchases of an aggregate $92 million principal amount of 3.50% FLSO Senior Secured Notes, FLSO Term Loan Facility, and 5.375% Senior Notes during the period.

We recorded a $163 million gain on debt extinguishment in the nine months ended September 30, 2023 related to repurchases of $250 million principal amount of 5.375% Senior Notes.

For more information, see Item 1 of Part I, Financial Statements - Note 7, "Debt."

Other Expense, Net

We had $12 million and $0.3 million of other expense in the nine months ended September 30, 2024 and 2023, respectively, primarily due to costs incurred in the nine months ended September 30, 2024 related to the accounts receivable purchase agreement entered into in September 2023.

Benefit for Income Taxes

Our income tax benefit decreased to $23 million in the nine months ended September 30, 2024 from $26 million in the nine months ended September 30, 2023. Our effective tax rate decreased to 2.8% in the nine months ended September 30, 2024 from 2.9% in the nine months ended September 30, 2023. The decrease in the effective tax rate year-over-year is primarily due to the tax impact associated with changes in the valuation allowance, geographic distribution of profits, the tax impact associated with goodwill impairments recorded in both the first and third quarters of 2024 and the first quarter of 2023, the majority of which were nondeductible for income tax purposes, and the income tax benefit of $80 million related to the March 2024 Refinancing Transactions discussed above. The difference between the effective tax rate and the statutory rate for the nine months ended September 30, 2024 is primarily due to the tax impact associated with changes in the valuation allowance, the tax impact associated with the goodwill impairments recorded in the first and third quarters of 2024, the majority of which were nondeductible for income tax purposes, and the tax impact of the March 2024 Refinancing Transactions.

Non-GAAP Financial Measures

We track several non-GAAP financial measures to monitor and manage our underlying financial performance. The following discussion includes the presentation of constant currency revenue, Non-GAAP Gross Profit, Non-GAAP Net Income (Loss), Non-GAAP Operating Profit, Adjusted EBITDA and Non-GAAP Earnings (Loss) Per Share, which are non-GAAP financial measures that exclude the impact of certain costs, losses and gains that are required to be included in our profit and loss measures under GAAP. Although we believe these measures are useful to investors and analysts for the same reasons they are useful to management, as discussed below, these measures are not a substitute for, or superior to, U.S. GAAP financial measures or disclosures. Other companies may calculate similarly-titled non-GAAP measures differently, limiting their usefulness as comparative measures. We have reconciled each of these non-GAAP measures to the applicable most comparable GAAP measure throughout this MD&A.

Constant Currency Revenue

We use constant currency revenue as an additional metric for understanding and assessing our growth excluding the effect of foreign currency rate fluctuations on our international business operations. Constant currency information compares results between periods as if exchange rates had remained constant period over period and is calculated by translating the non-U.S. dollar income statement balances for the most current period to U.S. dollars using the average exchange rate from the comparative period rather than the actual exchange rates in effect during the respective period. We also believe this is an important metric to help investors evaluate our performance in comparison to prior periods.

The following tables present, by segment, actual and constant currency revenue and constant currency revenue growth rates, for and between the periods indicated:

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2024			% Change	
(In millions, except %)	Revenue	Revenue	Foreign Currency Translation [(a)]	Revenue in Constant Currency	Actual	Constant Currency
Public Cloud	$ 431.5	$ 418.3	$ (0.3)	$ 418.0	(3.1)%	(3.1)%
Private Cloud	300.9	257.5	(0.8)	256.7	(14.4)%	(14.7)%
Total	$ 732.4	$ 675.8	$ (1.1)	$ 674.7	(7.7)%	(7.9)%

(a) The effect of foreign currency is calculated by translating current period results using the average exchange rate from the prior comparative period.

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2024			% Change	
(In millions, except %)	Revenue	Revenue	Foreign Currency Translation [(a)]	Revenue in Constant Currency	Actual	Constant Currency
Public Cloud	$ 1,308.7	$ 1,265.6	$ (1.0)	$ 1,264.6	(3.3)%	(3.4)%
Private Cloud	928.7	785.9	(3.4)	782.5	(15.4)%	(15.8)%
Total	$ 2,237.4	$ 2,051.5	$ (4.4)	$ 2,047.1	(8.3)%	(8.5)%

(a) The effect of foreign currency is calculated by translating current period results using the average exchange rate from the prior comparative period.

Non-GAAP Gross Profit

We present Non-GAAP Gross Profit in this MD&A because we believe the measure is useful in analyzing trends in our underlying, recurring gross margins. We define Non-GAAP Gross Profit as gross profit, adjusted to exclude the impact of share-based compensation expense and other non-recurring or unusual compensation items, purchase accounting-related effects, certain business transformation-related costs, and costs related to the Hosted Exchange incident.

The table below presents a reconciliation of gross profit to Non-GAAP Gross Profit:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2023	2024	2023	2024
Gross profit	$ 152.0	$ 137.5	$ 474.7	$ 401.7
Share-based compensation expense	2.0	2.0	7.4	5.9
Special bonuses and other compensation expense [(a)]	1.2	0.7	3.3	2.6
Purchase accounting impact on expense [(b)]	0.6	0.3	1.9	1.5
Restructuring and transformation expenses [(c)]	6.2	2.6	16.0	11.8
Hosted Exchange incident expenses, net of proceeds received or expected to be received under our insurance coverage	—	—	0.3	—
Non-GAAP Gross Profit	$ 162.0	$ 143.1	$ 503.6	$ 423.5

(a) Adjustments for retention bonuses, mainly in connection with restructuring and transformation projects, and the related payroll tax, and payroll taxes associated with the exercise of stock options and vesting of restricted stock. Beginning in the second quarter of 2023, includes expense related to the one-time grant of long-term incentive bonuses as a component of our annual compensation award process.

(b) Adjustment for the impact of purchase accounting from the Rackspace Acquisition on expenses.

(c) Adjustment for the impact of business transformation and optimization activities, as well as associated severance, certain facility closure costs and lease termination expenses.

Non-GAAP Net Income (Loss), Non-GAAP Operating Profit and Adjusted EBITDA

We present Non-GAAP Net Income (Loss), Non-GAAP Operating Profit and Adjusted EBITDA because they are a basis upon which management assesses our performance and we believe they are useful to evaluating our financial performance. We believe that excluding items from net income that may not be indicative of, or are unrelated to, our core operating results, and that may vary in frequency or magnitude, enhances the comparability of our results and provides a better baseline for analyzing trends in our business.

The Rackspace Acquisition was structured as a leveraged buyout of Rackspace Technology Global, our predecessor, and resulted in several accounting and capital structure impacts. For example, the revaluation of our assets and liabilities resulted in a significant increase in our amortizable intangible assets and goodwill, the incurrence of a significant amount of debt to partially finance the Rackspace Acquisition resulted in interest payments that reflect our high leverage and cost of debt capital, and the conversion of Rackspace Technology Global's unvested equity compensation into a cash-settled bonus plan and obligation to pay management fees to our equityholders resulted in new cash commitments. In addition, the change in ownership and management resulting from the Rackspace Acquisition led to a strategic realignment in our operations that had a significant impact on our financial results. Following the Rackspace Acquisition, we acquired several businesses, sold businesses and investments that we deemed to be non-core and launched multiple integration and business transformation initiatives intended to improve the efficiency of people and operations and identify recurring cost savings and new revenue growth opportunities. We believe that these transactions and activities resulted in costs, which have historically been substantial, and that may not be indicative of, or are not related to, our core operating results, including interest related to the incurrence of additional debt to finance acquisitions and third party legal, advisory and consulting fees and severance, retention bonus and other internal costs that we believe would not have been incurred in the absence of these transactions and activities and also may not be indicative of, or related to, our core operating results.

We define Non-GAAP Net Income (Loss) as net income (loss) adjusted to exclude the impact of non-cash charges for share-based compensation, special bonuses and other compensation expense, transaction-related costs and adjustments, restructuring and transformation charges, costs related to the Hosted Exchange incident, the amortization of acquired intangible assets, goodwill and asset impairment charges, costs related to the closure of a UK office, the interest expense impact from the debt Refinancing Transactions, and certain other non-operating, non-recurring or non-core gains and losses, as well as the tax effects of these non-GAAP adjustments.

We define Non-GAAP Operating Profit as income (loss) from operations adjusted to exclude the impact of non-cash charges for share-based compensation, special bonuses and other compensation expense, transaction-related costs and adjustments, restructuring and transformation charges, costs related to the Hosted Exchange incident, the amortization of acquired intangible assets, goodwill and asset impairment charges, costs related to the closure of a UK office, and certain other non-operating, non-recurring or non-core gains and losses.

We define Adjusted EBITDA as net income (loss) adjusted to exclude the impact of non-cash charges for share-based compensation, special bonuses and other compensation expense, transaction-related costs and adjustments, restructuring and transformation charges, costs related to the Hosted Exchange incident, costs related to the closure of a UK office, certain other non-operating, non-recurring or non-core gains and losses, interest expense, expenses for our accounts receivable purchase agreement, income taxes, depreciation and amortization, and goodwill and asset impairment charges.

Non-GAAP Operating Profit and Adjusted EBITDA are management's principal metrics for measuring our underlying financial performance. Non-GAAP Operating Profit and Adjusted EBITDA, along with other quantitative and qualitative information, are also the principal financial measures used by management and our board of directors in determining performance-based compensation for our management and key employees.

These non-GAAP measures are not intended to imply that we would have generated higher income or avoided net losses if the Rackspace Acquisition and the subsequent transactions and initiatives had not occurred. In the future we may incur expenses or charges such as those added back to calculate Non-GAAP Net Income (Loss), Non-GAAP Operating Profit or Adjusted EBITDA. Our presentation of Non-GAAP Net Income (Loss), Non-GAAP Operating Profit and Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by these items. Other companies, including our peer companies, may calculate similarly-titled measures in a different manner from us, and therefore, our non-GAAP measures may not be comparable to similarly-titled measures of other companies. Investors are cautioned against using these measures to the exclusion of our results in accordance with GAAP.

The following tables present a reconciliation of Non-GAAP Net Income (Loss) and Adjusted EBITDA to the most directly comparable GAAP financial measures. For a reconciliation of income (loss) from operations to Non-GAAP Operating Profit, see "*Loss from Operations, Segment Operating Profit, and Non-GAAP Operating Profit*" in the year-over-year comparison under "Results of Operations" above.

Net loss reconciliation to Non-GAAP Net Loss

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2023	2024	2023	2024
Net loss	$ (226.6)	$ (186.6)	$ (865.8)	$ (802.2)
Share-based compensation expense	17.2	15.5	51.9	47.8
Special bonuses and other compensation expense [(a)]	3.3	2.7	9.7	9.1
Transaction-related adjustments, net [(b)]	1.6	1.8	4.1	4.4
Restructuring and transformation expenses [(c)]	14.3	8.8	63.0	42.5
Hosted Exchange incident expenses, net of proceeds received or expected to be received under our insurance coverage	(5.3)	(1.2)	(0.4)	(1.1)
Impairment of goodwill	165.7	141.7	708.8	714.9
UK office closure [(d)]	—	—	12.1	—
Impairment of assets, net	48.4	—	48.4	20.0
Net gain on divestiture and investments [(e)]	—	(0.1)	(0.2)	(0.2)
Debt modification costs and gain on debt extinguishment	(55.4)	(18.0)	(163.1)	(147.2)
Interest expense impact from the Refinancing Transactions [(f)]	—	(25.0)	—	(50.6)
Other adjustments [(g)]	2.6	(4.3)	0.3	(3.8)
Amortization of intangible assets [(h)]	39.7	38.7	121.6	116.0
Tax effect of non-GAAP adjustments [(i)]	(13.6)	15.7	(16.7)	(3.6)
Non-GAAP Net Loss	$ (8.1)	$ (10.3)	$ (26.3)	$ (54.0)

Net loss reconciliation to Adjusted EBITDA

(In millions)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2024	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2024
Net loss	$ (226.6)	$ (186.6)	$ (865.8)	$ (802.2)
Share-based compensation expense	17.2	15.5	51.9	47.8
Special bonuses and other compensation expense (a)	3.3	2.7	9.7	9.1
Transaction-related adjustments, net (b)	1.6	1.8	4.1	4.4
Restructuring and transformation expenses (c)	14.3	8.8	63.0	42.5
Hosted Exchange incident expenses, net of proceeds received or expected to be received under our insurance coverage	(5.3)	(1.2)	(0.4)	(1.1)
Impairment of goodwill	165.7	141.7	708.8	714.9
UK office closure (d)	—	—	12.1	—
Impairment of assets, net	48.4	—	48.4	20.0
Net gain on divestiture and investments (e)	—	(0.1)	(0.2)	(0.2)
Debt modification costs and gain on debt extinguishment	(55.4)	(18.0)	(163.1)	(147.2)
Other expense, net (j)	2.6	1.0	0.3	11.8
Interest expense	56.5	18.0	170.7	80.1
Provision (benefit) for income taxes	(16.5)	12.0	(26.1)	(22.6)
Depreciation and amortization (k)	90.1	72.3	279.2	220.6
Adjusted EBITDA	$ 95.9	$ 67.9	$ 292.6	$ 177.9

(a) Includes expense related to retention bonuses, mainly relating to restructuring and integration projects, and the related payroll tax, senior executive signing bonuses and relocation costs, and payroll taxes associated with the exercise of stock options and vesting of restricted stock. Beginning in the second quarter of 2023, includes expense related to the one-time grant of long-term incentive bonuses as a component of our annual compensation award process.

(b) Includes legal, professional, accounting and other advisory fees related to acquisitions, certain one-time compliance costs related to being a public company, integration costs of acquired businesses, purchase accounting adjustments, payroll costs for employees that dedicate significant time to supporting these projects and exploratory acquisition and divestiture costs and expenses related to financing activities.

(c) Includes consulting and advisory fees related to business transformation and optimization activities, payroll costs for employees that dedicate significant time to these projects, as well as associated severance, certain facility closure costs, and lease termination expenses. The nine months ended September 30, 2024 also includes a $9.0 million MEIA early termination fee associated with the sale of our corporate headquarters in March 2024.

(d) Expense recognized related to the closure of a UK office that we exited in the second quarter of 2023 prior to the lease end date.

(e) Includes gains and losses on investment and from dispositions.

(f) Interest expense impact due to the accounting for contractual interest payments on debt instruments entered into as part of the March 2024 Refinancing Transactions, which reduced interest expense relative to contractual interest cost.

(g) Primarily consists of foreign currency gains and losses.

(h) All of our intangible assets are attributable to acquisitions, including the Rackspace Acquisition in 2016.

(i) We utilize an estimated structural long-term non-GAAP tax rate in order to provide consistency across reporting periods, removing the effect of non-recurring tax adjustments, which include but are not limited to tax rate changes, U.S. tax reform, share-based compensation, audit conclusions and changes to valuation allowances. When computing this long-term rate for the 2023 and 2024 interim periods, we based it on an average of the 2022 and estimated 2023 tax rates and 2023 and estimated 2024 tax rates, respectively, recomputed to remove the tax effect of non-GAAP pre-tax adjustments and non-recurring tax adjustments, resulting in a structural non-GAAP tax rate of 26% for all periods. The non-GAAP tax rate could be subject to change for a variety of reasons, including the rapidly evolving global tax environment, significant changes in our geographic earnings mix including due to acquisition activity, or other changes to our strategy or business operations. We will re-evaluate our long-term non-GAAP tax rate as appropriate. We believe that making these adjustments facilitates a better evaluation of our current operating performance and comparisons to prior periods.

(j) Primarily consists of foreign currency gains and losses and expense related to our accounts receivable purchase agreement.

(k) Excludes accelerated depreciation expense related to facility closures.

Non-GAAP Earnings (Loss) Per Share

We define Non-GAAP Earnings (Loss) Per Share as Non-GAAP Net Income (Loss) divided by our GAAP weighted average number of shares outstanding for the period on a diluted basis and further adjusted for the weighted average number of shares associated with securities which are anti-dilutive to GAAP loss per share but dilutive to Non-GAAP Earnings (Loss) Per Share. Management uses Non-GAAP Earnings (Loss) Per Share to evaluate the performance of our business on a comparable basis from period to period, including by adjusting for the impact of the issuance of shares that would be dilutive to Non-GAAP Earnings (Loss) Per Share. The following table reconciles Non-GAAP Loss Per Share to our GAAP net loss per share on a diluted basis:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except per share amounts)	2023	2024	2023	2024
Net loss attributable to common stockholders	$ (226.6)	$ (186.6)	$ (865.8)	$ (802.2)
Non-GAAP Net Loss	$ (8.1)	$ (10.3)	$ (26.3)	$ (54.0)
Weighted average number of shares - Diluted	216.0	226.4	214.8	223.6
Effect of dilutive securities [(a)]	6.4	9.4	2.9	9.3
Non-GAAP weighted average number of shares - Diluted	222.4	235.8	217.7	232.9
Net loss per share - Diluted	$ (1.05)	$ (0.82)	$ (4.03)	$ (3.59)
Per share impacts of adjustments to net loss [(b)]	1.01	0.78	3.91	3.35
Per share impacts of shares dilutive after adjustments to net loss [(a)]	0.00	(0.00)	0.00	0.01
Non-GAAP Loss Per Share	$ (0.04)	$ (0.04)	$ (0.12)	$ (0.23)

(a) Reflects impact of awards that would have been anti-dilutive to net loss per share, and therefore not included in the calculation, but would be dilutive to Non-GAAP Loss Per Share and are therefore included in the share count for purposes of this non-GAAP measure. Potential common share equivalents consist of shares issuable upon the exercise of stock options, vesting of restricted stock units (including performance-based restricted stock units) or purchases under the Employee Stock Purchase Plan (the "ESPP"), as well as contingent shares associated with our acquisition of Datapipe Parent, Inc. Certain of our potential common share equivalents are contingent on Apollo achieving pre-established performance targets based on a multiple of their invested capital ("MOIC"), which are included in the denominator for the entire period if such shares would be issuable as of the end of the reporting period assuming the end of the reporting period was the end of the contingency period.

(b) Reflects the aggregate adjustments made to reconcile Non-GAAP Net Loss to our net loss, as noted in the above table, divided by the GAAP diluted number of shares outstanding for the relevant period.

Liquidity and Capital Resources

Overview

We primarily finance our operations and capital expenditures with internally-generated cash from operations and hardware leases, and if necessary, borrowings under the New Revolving Credit Facility. As of September 30, 2024, the New Revolving Credit Facility provided for up to $375 million of borrowings, none of which was drawn and outstanding as of September 30, 2024. Our primary uses of cash are working capital requirements, debt service requirements and capital expenditures. Based on our current level of operations and available cash, we believe our sources will provide sufficient liquidity over at least the next twelve months. We cannot provide assurance, however, that our business will generate sufficient cash flows from operations or that future borrowings will be available to us under the New Revolving Credit Facility or from other sources in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. Our ability to do so depends on prevailing economic conditions and other factors, many of which are beyond our control. In addition, upon the occurrence of certain events, such as a change of control, we could be required to repay or refinance our indebtedness. We cannot assure that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all. Any future acquisitions, joint ventures or other similar transactions will likely require additional capital, and there can be no assurance that any such capital will be available to us on acceptable terms or at all.

From time to time, depending upon market and other conditions, as well as upon our cash balances and liquidity, we, our subsidiaries or our affiliates may acquire (and have acquired) our outstanding debt securities or our other indebtedness through open market purchases, privately negotiated transactions, tender offers, redemption or otherwise, upon such terms and at such prices as we, our subsidiaries or our affiliates may determine (or as may be provided for in the indenture governing the 3.50% FLSO Senior Secured Notes (the “3.50% FLSO Senior Secured Notes Indenture”), the indenture governing the 5.375% Senior Notes (the "5.375% Notes Indenture") or the indenture governing the 3.50% Senior Secured Notes (the "3.50% Notes Indenture" and, together with the 3.50% FLSO Senior Secured Notes Indenture and 5.375% Notes Indenture, the "Indentures"), if applicable), for cash or other consideration.

On September 29, 2023, indirect subsidiaries of the company entered into a revolving agreement where a bankruptcy-remote special purpose vehicle can sell accounts receivable, based upon the face amount of eligible receivables in the collateral pool, up to an aggregate maximum limit of $300 million to a financial institution on a recurring basis in exchange for cash. On February 12, 2024, the revolving agreement was amended to include certain international subsidiaries of the company as parties to the agreement and Rackspace Receivables Canada Limited, a Canadian indirect subsidiary of the company, was established as a special purpose vehicle.

At September 30, 2024, we held $157 million in cash and cash equivalents (not including $3 million in restricted cash, which is included in "Other non-current assets"), of which $125 million was held by foreign entities.

We have entered into installment payment arrangements with certain equipment and software vendors, along with sale-leaseback arrangements for equipment and certain property leases that are considered financing obligations. We had $56 million outstanding with respect to these arrangements as of September 30, 2024. We may choose to utilize these various sources of funding in future periods.

We also lease certain equipment and real estate under operating and finance lease agreements. We had $487 million outstanding with respect to operating and finance lease agreements as of September 30, 2024. We may choose to utilize such leasing arrangements in future periods.

As of September 30, 2024, we had $2,455 million aggregate principal amount outstanding under the FLSO Term Loan Facility, the FLFO Term Loan Facility, the Term Loan Facility, 3.50% FLSO Senior Secured Notes, 5.375% Senior Notes, and 3.50% Senior Secured Notes, with $375 million of borrowing capacity available under the New Revolving Credit Facility. Our liquidity requirements are significant, primarily due to debt service requirements.

Debt

In March 2024, we initiated a series of debt refinancing transactions that substantially impacted our existing debt instruments: the Senior Facilities, the 3.50% Senior Secured Notes, and the 5.375% Senior Notes. We also entered into new debt instruments: the New Senior Facilities, which includes the FLSO Term Loan Facility, the FLFO Term Loan Facility, and the New Revolving Credit Facility, and the 3.50% FLSO Senior Secured Notes.

See Item 1 of Part I, Financial Statements - Note 7, “Debt,” for more information regarding the March 2024 Refinancing Transactions and the related accounting impacts.

New Debt Instruments

New Senior Facilities

On March 12, 2024, Rackspace Finance Holdings, LLC (“Rackspace Finance Holdings”), Rackspace Finance, LLC (“Rackspace Finance”), the lenders and issuing banks party thereto and Citibank, N.A., as the administrative agent and collateral agent, entered into the credit agreement governing the FLSO Term Loan Facility, FLFO Term Loan Facility and New Revolving Credit Facility (together, the “New Senior Facilities”) (the “New First Lien Credit Agreement”).

FLSO Term Loan Facility

Rackspace Finance issued the FLSO Term Loan Facility in an aggregate principal amount of $1,687 million. The FLSO Term Loan Facility matures on May 15, 2028.

As of September 30, 2024, the contractual interest rate on the FLSO Term Loan Facility was 7.98%. We are required to make quarterly principal payments of $4 million, which began on March 31, 2024.

Rackspace Finance is the borrower and all obligations under the FLSO Term Loan Facility are guaranteed on a senior secured basis, jointly and severally, by Rackspace Finance Holdings on a limited-recourse basis and by certain of Rackspace Finance’s subsidiaries (the “Subsidiary Guarantors”). The obligations under the FLSO Term Loan Facility are secured by a pledge of Rackspace Finance’s capital stock directly held by Rackspace Finance Holdings and substantially all of Rackspace Finance’s and the Subsidiary Guarantors’ assets, subject to exceptions.

During the nine months ended September 30, 2024, Rackspace Finance repurchased and surrendered for cancellation an aggregate $43 million principal amount of the FLSO Term Loan Facility for $21 million.

As of September 30, 2024, $1,631 million in aggregate principal amount of the FLSO Term Loan Facility remained outstanding.

We have entered into interest rate swap agreements to manage the interest rate risk associated with interest payments on the FLSO Term Loan Facility that result from fluctuations in Term SOFR. See Item 1 of Part I, Financial Statements - Note 11, “Derivatives,” for more information on the interest rate swap agreements.

FLFO Term Loan Facility

Rackspace Finance issued the FLFO Term Loan Facility in an aggregate principal amount $275 million. The FLFO Term Loan Facility matures on May 15, 2028.

As of September 30, 2024, the contractual interest rate on the FLFO Term Loan Facility was 11.48%. We are required to make quarterly principal payments of $0.7 million, which began on June 30, 2024.

Rackspace Finance is the borrower and all obligations under the FLFO Term Loan Facility are guaranteed on a senior secured basis, jointly and severally, by Rackspace Finance Holdings on a limited-recourse basis and by the Subsidiary Guarantors. The obligations under the FLFO Term Loan Facility are secured by the same collateral that secures the FLSO Term Loan Facility, the New Revolving Credit Facility and the 3.50% FLSO Senior Secured Notes.

As of September 30, 2024, $274 million aggregate principal amount of the FLFO Term Loan Facility remained outstanding.

We have entered into interest rate swap agreements to manage the interest rate risk associated with interest payments on the FLFO Term Loan Facility that result from fluctuations in Term SOFR. See Item 1 of Part I, Financial Statements - Note 11, “Derivatives,” for more information on the interest rate swap agreements.

New Revolving Credit Facility

Rackspace Finance established the New Revolving Credit Facility in an aggregate principal amount of $375 million of commitments. All revolving lenders under the prior Revolving Credit Facility exchanged their revolving loan commitments for commitments in respect of the New Revolving Credit Facility, which replaces in full the prior Revolving Credit Facility. The New Revolving Credit Facility matures on May 15, 2028.

The New Revolving Credit Facility includes a commitment fee equal to 0.50% per annum in respect of the unused commitments that is due quarterly. This fee is subject to one step-down based on the net first lien leverage ratio.

Rackspace Finance is the borrower and all obligations under the New Revolving Credit Facility are guaranteed on a senior secured basis, jointly and severally, by Rackspace Finance Holdings on a limited-recourse basis and by the Subsidiary Guarantors. The obligations under the New Revolving Credit Facility are secured by the same collateral that secures the FLSO Term Loan Facility, the FLFO Term Loan Facility and the 3.50% FLSO Senior Secured Notes.

As of September 30, 2024, we had total commitments of $375 million, no outstanding borrowings under the New Revolving Credit Facility, and $24 million of letters of credit issued thereunder. As such, as of September 30, 2024, we had $375 million of available commitments remaining.

3.50% FLSO Senior Secured Notes due 2028

On March 12, 2024, Rackspace Finance issued $267 million initial aggregate principal amount of 3.50% FLSO Senior Secured Notes. The 3.50% FLSO Senior Secured Notes will mature on May 15, 2028 and bear interest at an annual fixed rate of 3.50%. Interest is payable semiannually on each February 15 and August 15, commencing on August 15, 2024.

On April 16, 2024, we completed the Public Note Exchange, pursuant to which (i) $138 million aggregate principal amount of the existing 3.50% Senior Secured Notes were exchanged or purchased for cancellation and (ii) $97 million aggregate principal amount of 3.50% FLSO Senior Secured Notes were issued by Rackspace Finance.

Rackspace Finance is the borrower and all obligations under the 3.50% FLSO Senior Secured Notes are fully and unconditionally guaranteed, jointly and severally, by Rackspace Finance Holdings on a limited-recourse basis and by the Subsidiary Guarantors. The obligations under the 3.50% FLSO Senior Secured Notes are secured by the same collateral that secures the FLSO Term Loan Facility, the FLFO Term Loan Facility and the New Revolving Credit Facility.

During the nine months ended September 30, 2024, Rackspace Finance repurchased and surrendered for cancellation $46 million principal amount of the 3.50% FLSO Senior Secured Notes for $19 million, including accrued interest of $0.4 million.

As of September 30, 2024, $319 million aggregate principal amount of the 3.50% FLSO Senior Secured Notes were outstanding.

Existing Debt Instruments

Senior Facilities

On February 9, 2021, we amended and restated the credit agreement governing our senior secured credit facilities (the "First Lien Credit Agreement"), which included a new seven-year $2,300 million senior secured first lien term loan facility (the "Term Loan Facility") and the prior Revolving Credit Facility (together, the "Senior Facilities"). The Term Loan Facility will mature on February 15, 2028 and the prior Revolving Credit Facility was set to mature on August 7, 2025.

Interest on the Term Loan Facility is due at the end of each interest period elected, not exceeding 90 days, for SOFR loans and at the end of every calendar quarter for base rate loans. As of September 30, 2024, the contractual interest rate on the Term Loan Facility was 7.98%. We are required to make quarterly amortization payments of $0.2 million. The Revolving Credit Facility included a commitment fee equal to 0.50% per annum in respect of the unused commitments that was due quarterly. This fee was subject to one step-down based on the net first lien leverage ratio. The Senior Facilities require us to make certain mandatory prepayments under certain conditions defined in the First Lien Credit Agreement.

As of September 30, 2024, $62 million aggregate principal amount of the Term Loan Facility remained outstanding and the prior Revolving Credit Facility was replaced in full by the New Revolving Credit Facility. See Item 1 of Part I, Financial Statements - Note 7, “Debt,” for more information regarding our Senior Facilities.

We have entered into interest rate swap agreements to manage the interest rate risk associated with interest payments on the Term Loan Facility that result from fluctuations in Term SOFR. See Item 1 of Part I, Financial Statements - Note 11, "Derivatives," for more information on the interest rate swap agreements.

3.50% Senior Secured Notes due 2028

On February 9, 2021, Rackspace Technology Global issued $550 million aggregate principal amount of 3.50% Senior Secured Notes. The 3.50% Senior Secured Notes will mature on February 15, 2028 and bear interest at an annual fixed rate of 3.50%. Interest is payable semiannually on each February 15 and August 15, commencing on August 15, 2021.

As of September 30, 2024, $44 million aggregate principal amount of the 3.50% Senior Secured Notes remained outstanding.

5.375% Senior Notes due 2028

Rackspace Technology Global issued $550 million aggregate principal amount of the 5.375% Senior Notes on December 1, 2020. The 5.375% Senior Notes will mature on December 1, 2028 and bear interest at a fixed rate of 5.375% per year, payable semi-annually on each June 1 and December 1, commencing on June 1, 2021. The 5.375% Senior Notes are guaranteed on a senior unsecured basis by all of Rackspace Technology Global's wholly-owned domestic restricted subsidiaries that guarantee the Senior Facilities.

In addition to the $69 million aggregate principal amount repurchased and cancelled as part of the March 2024 Refinancing Transactions, during the nine months ended September 30, 2024, Rackspace Technology Global repurchased and surrendered for cancellation $3 million principal amount of 5.375% Senior Notes for $1 million.

As of September 30, 2024, $125 million aggregate principal amount of the 5.375% Senior Notes remained outstanding.

Debt covenants

The FLSO Term Loan Facility, FLFO Term Loan Facility, and Term Loan Facility are not subject to a financial maintenance covenant. The New Revolving Credit Facility includes a financial maintenance covenant that limits the super-priority net senior secured leverage ratio to a maximum of 5.00 to 1.00. The super-priority net senior secured leverage ratio is calculated as the ratio of (x) the total amount of consolidated super-priority senior secured debt for borrowed money, less unrestricted cash and cash equivalents, to (y) consolidated EBITDA (as defined under the New First Lien Credit Agreement governing the New Senior Facilities). However, this financial maintenance covenant will only be applicable and tested if the aggregate amount of outstanding borrowings under the New Revolving Credit Facility and letters of credit issued thereunder (excluding $25 million of undrawn letters of credit and cash collateralized letters of credit) as of the last day of a fiscal quarter is greater than 35% of the New Revolving Credit Facility commitments as of the last day of such fiscal quarter. Additional covenants in the New Senior Facilities and Senior Facilities limit our subsidiaries' ability to, among other things, incur certain additional debt and liens, pay certain dividends or make other restricted payments, make certain investments, make certain asset sales and enter into certain transactions with affiliates.

The Indentures contain covenants that, among other things, limit our subsidiaries' ability to incur certain additional debt, incur certain liens securing debt, pay certain dividends or make other restricted payments, make certain investments, make certain asset sales and enter into certain transactions with affiliates. These covenants are subject to a number of exceptions, limitations, and qualifications as set forth in the Indentures. Additionally, upon the occurrence of a change of control (as defined in the Indentures), we will be required to make an offer to repurchase all of the outstanding 3.50% FLSO Senior Secured Notes, 5.375% Senior Notes and 3.50% Senior Secured Notes, respectively, at a price in cash equal to 101.000% of the aggregate principal amount, plus accrued and unpaid interest, if any, to, but not including the purchase date.

Our "consolidated EBITDA," as defined under our debt instruments, is calculated in the same manner as our Adjusted EBITDA, presented elsewhere in this report, except that our debt instruments allow us to adjust for additional items, including certain start-up costs, and to give pro forma effect to acquisitions, including resulting synergies, and internal cost savings initiatives. In addition, under the Indentures, the calculation of consolidated EBITDA does not take into account substantially any changes in GAAP subsequent to the date of issuance, whereas under the New Senior Facilities and Senior Facilities the calculation of consolidated EBITDA takes into account the impact of certain changes in GAAP subsequent to December 1, 2020 other than with respect to capital leases.

As of September 30, 2024, we were in compliance with all covenants under the New Senior Facilities, the Senior Facilities and the Indentures.

Supplemental Financial Information

In accordance with the 3.50% FLSO Senior Secured Notes Indenture, Rackspace Finance Holdings, Rackspace Finance and certain subsidiaries of Rackspace Finance (together with their restricted subsidiaries, the "New Credit Group") are obligors under the 3.50% FLSO Senior Secured Notes. The following presents summarized financial information for the New Credit Group after eliminating intercompany transactions and balances among the New Credit Group.

As of September 30, 2024, the New Credit Group had total assets of $3,098 million and total liabilities of $3,841 million, which included total debt of $2,580 million. The financial information for the New Credit Group differs from the financial information for the company and its consolidated subsidiaries primarily because Rackspace Technology Global has (i) debt that is not guaranteed by the New Credit Group, which debt was $229 million as of September 30, 2024, and (ii) Rackspace Technology Global is the party to the interest rate swap which had a net asset value of $23 million as of September 30, 2024.

Capital Expenditures

The following table sets forth a summary of our total capital expenditures for the periods indicated:

	Nine Months Ended September 30,	
(In millions)	**2023**	**2024**
Customer gear	$ 102.9	$ 75.1
Data center build outs	2.6	0.6
Office build outs	1.2	0.3
Capitalized software and other projects	37.1	33.4
Total capital expenditures	$ 143.8	$ 109.4

Capital expenditures were $109 million in the nine months ended September 30, 2024, compared to $144 million in the nine months ended September 30, 2023, a decrease of $34 million. The decrease in capital expenditures was driven by purchases of customer gear originally intended to support a specific new customer during the first quarter of 2023. This new customer did not materialize as expected; however, the gear is fungible and has been redeployed to support other business requirements. This gear was acquired through a finance lease.

Cash Flows

The following table sets forth a summary of certain cash flow information for the periods indicated:

	Nine Months Ended September 30,	
(In millions)	**2023**	**2024**
Cash provided by (used in) operating activities	$ 302.7	$ (14.4)
Cash used in investing activities	$ (62.3)	$ (68.9)
Cash provided by (used in) financing activities	$ (191.4)	$ 43.0

Cash Provided by (Used in) Operating Activities

Net cash provided by (used in) operating activities results primarily from cash received from customers, offset by cash payments made for employee and consultant compensation (less amounts capitalized related to internal-use software that are reflected as cash used in investing activities), data center costs, license costs, third-party infrastructure costs, marketing programs, interest, taxes, and other general corporate expenditures.

Net cash used in operating activities was $14 million in the nine months ended September 30, 2024 compared to cash provided by operating activities of $303 million in the nine months ended September 30, 2023. The reduction in operating cash between periods was primarily driven by $209 million of cash proceeds received during the nine months ended September 30, 2023 related to the sale of our receivables, an increase of $91 million of operating expenses between periods, $32 million in third party fees paid in connection with the March 2024 Refinancing Transactions, and a $9 million early termination fee associated with the sale of our corporate headquarters in the first quarter of 2024.

Cash Used in Investing Activities

Net cash used in investing activities primarily consists of capital expenditures to meet the demands of our customer base and our strategic initiatives. The largest outlays of cash are for purchases of customer gear, data center and office build outs, and capitalized payroll costs related to internal-use software development.

Net cash used in investing activities increased $7 million, or 11%, in the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023 due to a $28 million increase in cash purchases of property, equipment, and software between periods, partially offset by $17 million of net proceeds received in the current year from the March 2024 sale of our corporate headquarters facility. In addition, there was a $5 million increase in cash from other investing activities primarily due to the sale of property and equipment between periods.

Cash Provided by (Used in) Financing Activities

Financing activities generally include cash activity related to debt and other long-term financing arrangements (for example, finance lease obligations and financing obligations), including proceeds from and repayments of borrowings, and cash activity related to the issuance and repurchase of equity.

Net cash provided by financing activities was $43 million in the nine months ended September 30, 2024 compared to $191 million of net cash used in financing activities in the nine months ended September 30, 2023. The change was primarily driven by proceeds from the new FLFO Term Loan Facility as part of the March 2024 Refinancing Transactions, partially offset by higher debt repayments which includes the impact of certain contractual cash interest payments that were previously classified within operating cash flow but are now presented as repayments of debt.

Critical Accounting Policies and Estimates

Our critical accounting policies and estimates have not changed from those described in our Annual Report under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates." For a description of recent accounting pronouncements, see Item 1 of Part I, Financial Statements - Note 1, "Company Overview, Basis of Presentation, and Summary of Significant Accounting Policies."

Goodwill and Indefinite-Lived Intangible Assets

Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets of businesses acquired. Our indefinite-lived intangible assets consists of our Rackspace trade name, which was recorded at fair value on our balance sheet at the date of the Rackspace Acquisition.

Application of the goodwill and other indefinite-lived intangible asset impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units and determination of the fair value of each reporting unit. We test goodwill and our indefinite-lived intangible asset, the Rackspace trade name, for impairment on an annual basis as of October 1st or more frequently if events or circumstances indicate a potential impairment. These events or circumstances could include a significant change in the business climate, regulatory environment, established business plans, operating performance indicators or competition. Potential impairment indicators may also include, but are not limited to, (i) the results of our most recent annual or interim impairment testing, (ii) downward revisions to internal forecasts, and the magnitude thereof, if any, (iii) declines in our market capitalization below our book value, and the magnitude and duration of those declines, if any, (iv) a reorganization resulting in a change to our operating segments, and (v) other macroeconomic factors, such as increases in interest rates that may affect the weighted average cost of capital, volatility in the equity and debt markets, or fluctuations in foreign currency exchange rates that may negatively impact our reported results of operations.

Goodwill is tested for impairment at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (referred to as a component). We allocate goodwill to reporting units based on the reporting unit expected to benefit from the business combination. Assets and liabilities are assigned to each of our reporting units if they are employed by a reporting unit and are considered in the determination of the reporting unit fair value. Certain assets and liabilities are shared by multiple reporting units, and thus, are allocated to each reporting unit based on the relative size of a reporting unit, primarily based on revenue. Prior to October 1, 2023, we had two reporting units with goodwill: Public Cloud and Private Cloud. Goodwill allocated to our third reporting unit, OpenStack Public Cloud, was fully impaired during the fourth quarter of 2021. As of October 1, 2023, we reassessed our reporting unit structure and aggregated the OpenStack Public Cloud reporting unit into our Private Cloud reporting unit. We currently have two reporting units: Public Cloud and Private Cloud.

We estimate the fair values of our reporting units and the Rackspace trade name using the discounted cash flow method and relief-from-royalty method, respectively. These calculations require the use of significant estimates and assumptions, such as: (i) the royalty rate; (ii) the estimation of future revenue growth rates, projected gross profit margins, projected operating costs, and projected capital expenditures, which are dependent on internal cash flow forecasts; (iii) estimation of the terminal growth rates; and (iv) determination of the risk-adjusted discount rates. The discount rates used are based on our weighted average cost of capital and are adjusted for risks and uncertainties inherent in our business and in our estimation of future cash flows. As part of the goodwill impairment test, we also consider our market capitalization in assessing the reasonableness of the combined fair values estimated for our reporting units, including OpenStack Public Cloud. The estimates and assumptions used to calculate the fair value of our reporting units and the Rackspace trade name from year to year are based on operating results, market conditions, and other factors. Changes in these estimates and assumptions could produce materially different results.

For the quantitative goodwill impairment analysis, we utilize the income approach to determine the fair value of our reporting units. The income approach utilizes a discounted cash flow method which is based on the present value of projected cash flows. The discounted cash flow models reflect our assumptions and considerations regarding revenue growth rates, projected gross profit margins, projected operating costs, projected capital expenditures, risk-adjusted discount rates, terminal period growth rates, and economic market trends. The terminal period growth rate is selected based on economic conditions and consideration of growth rates used in the forecast period and historical performance of the reporting unit.

February 29, 2024 Assessment

In connection with the debt refinancing transactions that were completed in March and April 2024, as further described in Item 1 of Part I, Financial Statements - Note 7, “Debt”, we updated our internal forecasts. Our updated internal forecasts considered our year-to-date operating performance, current customer bookings and revised expectations based on current performance, revisions to our expected growth and timing of such growth based on current and expected performance, current customer retention rates, revisions to the timing of the expected effects of our strategic initiatives and overall related risks, including macroeconomic factors, to achieving our forecasts. Our Board of Directors reviewed and approved our internal budget for fiscal year 2024 on February 28, 2024. As of February 29, 2024, we assessed our Board approved 2024 internal budget along with several events and circumstances that could affect the significant inputs used to determine the fair value of our reporting units, including the significance of the amount, if any, of excess carrying value over fair value, consistency of our current and forecasted operating margins and cash flows, budgeted-to-actual performance, timing of the expected effects of our strategic initiatives, overall change in economic climate, changes in the industry and competitive environment, changes to our risk-adjusted discount rates and earnings quality and sustainability. After considering all available evidence in our evaluation of goodwill impairment indicators, we determined it appropriate to perform an interim quantitative assessment of our reporting units as of February 29, 2024.

For the quantitative goodwill impairment analysis performed as of February 29, 2024, we utilized a range of our weighted-average cost of capital of 13.0% to 14.0% as our base rate, which was then subsequently risk-adjusted to determine the discount rate used for each reporting unit. After determining the fair value of our reporting units, we reconciled the combined fair value of the reporting units to the company's market capitalization as of February 29, 2024. As a result, we determined that the carrying amount of our Public Cloud and Private Cloud reporting units exceeded their fair value. We recorded a goodwill impairment charge of $385 million and $188 million for Public Cloud and Private Cloud, respectively, during the first quarter of 2024, which is included in "Impairment of goodwill" in our Condensed Consolidated Statements of Comprehensive Loss. The impairment was driven by the company's cash flow projections as revised in the first quarter of 2024 to reflect current market conditions and expected business performance, including strategic business shifts and the timing when the benefits of such shifts will be realized.

We performed sensitivity analyses on the key inputs and assumptions used in determining the estimated fair value of our reporting units by utilizing changes in assumptions that reflect reasonably likely future changes in the discount rate used in the weighted-average cost of capital calculation and the terminal growth rate. Assuming all other assumptions and inputs used in the discounted cash flow analysis are held constant, a 50 basis point increase or decrease in the discount rate assumption would result in decreases or increases in fair value of our Private Cloud and Public Cloud reporting units of approximately $101 million and $14 million, respectively.

September 30, 2024 Assessment

During the third quarter of 2024, as part our routine budget-to-actual assessment, we updated our internal forecasts to consider our year-to-date operating performance, current customer bookings and revised expectations based on actualization, current customer retention rates, revisions to the timing of the expected effects of our strategic initiatives and overall related risks, including macroeconomic factors, to achieving our forecasts. As of September 30, 2024, we assessed our internal budget along with several events and circumstances that could affect the significant inputs used to determine the fair value of our reporting units, including the significance of the amount, if any, of excess carrying value over fair value, consistency of our current and forecasted operating margins and cash flows, budgeted-to-actual performance, timing of the expected effects of our strategic initiatives, overall change in economic climate, changes in the industry and competitive environment, changes to our risk-adjusted discount rates and earnings quality and sustainability. After considering all available evidence in our evaluation of goodwill impairment indicators, we determined it appropriate to perform an interim quantitative assessment of our reporting units as of September 30, 2024.

For the quantitative goodwill impairment analysis performed as of September 30, 2024, we utilized a range of our weighted-average cost of capital of 12.0% to 13.0% as our base rate, which was then subsequently risk-adjusted to determine the discount rate used for each reporting unit. After determining the fair value of our reporting units, we reconciled the combined fair value of the reporting units to the company's market capitalization as of September 30, 2024. As a result, we determined that the carrying amount of our Public Cloud and Private Cloud reporting units exceeded their fair value. We recorded a goodwill impairment charge of $69 million and $73 million for Public Cloud and Private Cloud, respectively, during the third quarter of 2024, which is included in "Impairment of goodwill" in our Condensed Consolidated Statements of Comprehensive Loss. The impairment was driven by the company's cash flow projections as revised in the third quarter of 2024 to reflect expected realization of business performance, including strategic business shifts and the timing when the benefits of such shifts will be realized.

We performed sensitivity analyses on the key inputs and assumptions used in determining the estimated fair value of our reporting units by utilizing changes in assumptions that reflect reasonably likely future changes in the discount rate used in the weighted-average cost of capital calculation and the terminal growth rate. Assuming all other assumptions and inputs used in the discounted cash flow analysis are held constant, a 50 basis point increase in the discount rate assumption would result in decreases in fair value of our Private Cloud and Public Cloud reporting units of approximately $108 million and $14 million, respectively, whereas a 50 basis point decrease in the discount rate assumption would result in increases in fair value of our Private Cloud and Public Cloud reporting units of approximately $121 million and $15 million, respectively.

January 1, 2023 Assessment

Due to the change in our segment reporting as a result of the business reorganization as of January 1, 2023, we completed a quantitative goodwill impairment analysis both prior and subsequent to the aforementioned change. We reassigned goodwill to the updated reporting units using a relative fair value approach. The results of the quantitative goodwill impairment analysis performed as of January 1, 2023, subsequent to the change, indicated an impairment within our Private Cloud reporting unit, and we recorded a non-cash impairment charge of $271 million in the first quarter of 2023.

For the quantitative goodwill impairment analysis performed as of January 1, 2023, we utilized a range of our weighted-average cost of capital of 10.5% to 12.0% as our discount rate, which was risk-adjusted for each reporting unit. After determining the fair value of our reporting units, we reconciled the combined fair value of the reporting units to the company's market capitalization as of January 1, 2023. As a result, we determined that the carrying amount of our Private Cloud reporting unit exceeded its fair value and recorded a goodwill impairment charge of $271 million during the first quarter of 2023, which is included in "Impairment of goodwill" in our Condensed Consolidated Statements of Comprehensive Loss. The impairment primarily resulted from the reallocation of certain costs between the three reporting units to reflect the going-forward operating model following the business reorganization. The Public Cloud reporting unit was determined to have a fair value that exceeded its carrying value by approximately 20% and therefore no impairment was recognized.

We performed sensitivity analyses on the key inputs and assumptions used in determining the estimated fair value of our reporting units by utilizing changes in assumptions that reflect reasonably likely future changes in the discount rate used in the weighted-average cost of capital calculation and the terminal growth rate. Assuming all other assumptions and inputs used in the discounted cash flow analysis are held constant, a 50 basis point increase in the discount rate assumption would result in decreases in fair value of our Private Cloud and Public Cloud reporting units of approximately $175 million and $67 million, respectively.

March 31, 2023 Assessment

During the first quarter of 2023, we experienced a sustained decline in our stock price resulting in our market capitalization being less than the carrying value of our combined reporting units. As of March 31, 2023, we assessed several events and circumstances that could affect the significant inputs used to determine the fair value of our reporting units, including the significance of the amount, if any, of excess carrying value over fair value, consistency of operating margins and cash flows, budgeted-to-actual performance for the first three months of the year, overall change in economic climate, changes in the industry and competitive environment, and earnings quality and sustainability. After considering all available evidence in our evaluation of goodwill impairment indicators, we determined it appropriate to perform an interim quantitative assessment of our reporting units as of March 31, 2023.

For the quantitative goodwill impairment analysis performed as of March 31, 2023, we utilized a range of our weighted-average cost of capital of 10.0% to 11.5% as our discount rate, which was risk-adjusted for each reporting unit. After determining the fair value of our reporting units, we reconciled the combined fair value of the reporting units to the company's market capitalization as of March 31, 2023. As a result, we determined that the carrying amount of our Private Cloud reporting unit exceeded its fair value and recorded a goodwill impairment charge of $272 million during the first quarter of 2023, which is included in "Impairment of goodwill" in our Condensed Consolidated Statements of Comprehensive Loss. The impairment was driven by the company's most recent cash flow projections as revised in the first quarter of 2023 which reflected current market conditions and current trends in business performance, including slower than anticipated actualization of bookings. The Public Cloud reporting unit was determined to have a fair value that exceeded its carrying value by approximately 14% and therefore no impairment was recognized.

We performed sensitivity analyses on the key inputs and assumptions used in determining the estimated fair value of our reporting units by utilizing changes in assumptions that reflect reasonably likely future changes in the discount rate used in the weighted-average cost of capital calculation and the terminal growth rate. Assuming all other assumptions and inputs used in the discounted cash flow analysis are held constant, a 50 basis point increase in the discount rate assumption would result in decreases in fair value of our Private Cloud and Public Cloud reporting units of approximately $80 million and $65 million, respectively.

September 30, 2023 Assessment

During the third quarter of 2023, we experienced a sustained decline in our stock price resulting in our market capitalization being less than the carrying value of our combined reporting units. As of September 30, 2023, we assessed several events and circumstances that could affect the significant inputs used to determine the fair value of our reporting units, including the significance of the amount, if any, of excess carrying value over fair value, consistency of operating margins and cash flows, budgeted-to-actual performance for the first nine months of the year, overall change in economic climate, changes in the industry and competitive environment, and earnings quality and sustainability. After considering all available evidence in our evaluation of goodwill impairment indicators, we determined it appropriate to perform an interim quantitative assessment of our reporting units as of September 30, 2023.

For the quantitative goodwill impairment analysis performed as of September 30, 2023, we utilized a range of our weighted-average cost of capital of 11.0% to 12.5% as our discount rate, which was risk-adjusted for each reporting unit. After determining the fair value of our reporting units, we reconciled the combined fair value of the reporting units to the company's market capitalization as of September 30, 2023. As a result, we determined that the carrying amount of our Private Cloud reporting unit exceeded its fair value and recorded a goodwill impairment charge of $166 million during the third quarter of 2023, which is included in "Impairment of goodwill" in our Condensed Consolidated Statements of Comprehensive Loss. The impairment was driven by the company's cash flow projections as revised in the third quarter of 2023 to reflect current market conditions and business mix shifts. The Public Cloud reporting unit was determined to have a fair value that exceeded its carrying value by approximately 17% and therefore no impairment was recognized.

We performed sensitivity analyses on the key inputs and assumptions used in determining the estimated fair value of our reporting units by utilizing changes in assumptions that reflect reasonably likely future changes in the discount rate used in the weighted-average cost of capital calculation and the terminal growth rate. Assuming all other assumptions and inputs used in the discounted cash flow analysis are held constant, a 50 basis point increase in the discount rate assumption would result in decreases in fair value of our Private Cloud and Public Cloud reporting units of approximately $65 million and $52 million, respectively.

Indefinite-Lived Intangible Assets

As of January 1, 2023, March 31, 2023, September 30, 2023, February 29, 2024, and September 30, 2024, due to the factors discussed above, we performed a quantitative assessment of our indefinite-lived intangible asset utilizing a relief from royalty method. Significant estimates and assumptions included in the relief from royalty method are expectations of revenue growth rates, and selection of royalty rate and discount rate. We utilized a royalty rate of 0.5% for all periods and a discount rate of 11.0% as of January 1, 2023 and March 31, 2023, 11.9% as of September 30, 2023, 13.7% as of February 29, 2024, and 12.4% as of September 30, 2024. We completed the quantitative assessments of our indefinite-lived intangible asset prior to testing our goodwill for impairment as of January 1, 2023, March 31, 2023, and September 30, 2024, which did not indicate any impairment of the Rackspace trade name.

The quantitative test as of February 29, 2024 indicated that the estimated fair value of the Rackspace trade name was less than its carrying value. As a result, we recorded a $20 million non-cash impairment charge during the first quarter of 2024 which is included in "Impairment of assets, net" in our Condensed Consolidated Statements of Comprehensive Loss.

The quantitative test as of September 30, 2023 indicated that the estimated fair value of the Rackspace trade name was less than its carrying value. As a result, we recorded a $57 million non-cash impairment charge during the third quarter of 2023 which is included in "Impairment of assets, net" in our Condensed Consolidated Statements of Comprehensive Loss.

The fair value determination of our reporting units and our indefinite-lived intangible asset is judgmental in nature and requires the use of estimates and assumptions that are sensitive to changes. Assumptions include estimation of the royalty rate for the trade name, estimation of future revenue growth rates, projected gross profit margins, projected operating costs, projected capital expenditures, which are dependent on internal cash flow forecasts, estimation of the terminal growth rates, and determination of risk-adjusted discount rates. As a result, there can be no assurance that the estimates and assumptions made for purposes of the quantitative goodwill and indefinite-lived intangible impairment tests will prove to be an accurate prediction of future results. Examples of events or circumstances that could reasonably be expected to negatively affect the underlying key assumptions and ultimately impact the estimated fair value of our reporting units may include such items as: (i) volatility in the equity and debt markets or other macroeconomic factors, (ii) an increase in the weighted-average cost of capital due to further increases in interest rates, (iii) decrease in future cash flows due to lower than expected sales, or (iv) fluctuations in foreign currency exchange rates that may negatively impact our reported results of operations. Accordingly, if our current cash flow assumptions are not realized, we experience further sustained declines in our stock price or market capitalization, or increases in costs of capital, it is possible that an additional impairment charge may be recorded in the future, which could be material.

Long-Lived Assets

We also performed recoverability tests of our long-lived assets in conjunction with the goodwill impairment analyses as of January 1, 2023, March 31, 2023, September 30, 2023, February 29, 2024, and September 30, 2024, which did not result in any impairment charges.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rates

We are exposed to interest rate risk associated with fluctuations in interest rates on our floating-rate debt under our Senior Facilities and New Senior Facilities, which includes our $375 million New Revolving Credit Facility and $1,967 million outstanding under the Term Loan Facility, FLSO Term Loan Facility, and FLFO Term Loan Facility. As of September 30, 2024, there was no outstanding borrowings under the New Revolving Credit Facility and therefore our only variable-rate debt outstanding was the $1,967 million outstanding under the Term Loan Facility, FLSO Term Loan Facility, and FLFO Term Loan Facility. As of September 30, 2024, assuming the New Revolving Credit Facility was fully drawn, each 0.125% change in assumed blended interest rates would result in a $3 million change in annual interest expense on indebtedness under the Senior Facilities and New Senior Facilities.

Our Term Loan Facility, FLSO Term Loan Facility, and FLFO Term Loan Facility bear interest at an annual rate equal to an applicable margin plus one-month Term SOFR, subject to a 0.75% floor. We have entered into an interest rate swap agreement indexed to one-month Term SOFR (subject to a floor of 0.75%) in order to manage our risk from fluctuations in one-month Term SOFR above the 0.75% floor.

The key terms of the swap outstanding as of September 30, 2024 are presented below:

Transaction Date	Effective Date	Notional Amount (in millions)	Fixed Rate Paid	Maturity Date
February 2021	February 9, 2021	$ 1,350.0	2.34150%	February 9, 2026

See Item 1 of Part I, Financial Statements - Note 11, "Derivatives," for more information on interest rate swaps.

Foreign Currencies

We are subject to foreign currency translation risk due to the translation of the results of our subsidiaries from their respective functional currencies to the U.S. dollar, our functional currency. As a result, we discuss our revenue on a constant currency as well as actual basis, highlighting our sensitivity to changes in foreign exchange rates. See "*Constant Currency Revenue*." While the majority of our customers are invoiced, and the majority of our expenses are paid, by us or our subsidiaries in their respective functional currencies, we also have exposure to foreign currency transaction gains and losses as the result of certain receivables due from our foreign subsidiaries. As such, the results of operations and cash flows of our foreign subsidiaries are subject to fluctuations in foreign currency exchange rates. In the nine months ended September 30, 2024, we recognized foreign currency transaction gains of $2 million within "Other expense, net" in our Condensed Consolidated Statements of Comprehensive Loss. As we grow our international operations, our exposure to foreign currency translation and transaction risk could become more significant.

We have in the past and may in the future enter into foreign currency hedging instruments to limit our exposure to foreign currency risk.

Power Prices

We are a large consumer of power. In the nine months ended September 30, 2024, we expensed approximately $32 million for utility companies to power our data centers, representing approximately 2% of our revenue. Power costs vary by geography, the source of power generation and seasonal fluctuations and are subject to certain proposed legislation that may increase our exposure to increased power costs. We have power contracts for data centers in the Dallas-Fort Worth, San Jose, Somerset, New Jersey and London areas that allow us to procure power either on a fixed price or on a variable price basis.

ITEM 4 – CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our senior management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), as amended, as of the end of the period covered by this Quarterly Report (the "Evaluation Date"). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer, concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information relating to the company, including our consolidated subsidiaries, required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control

There were no changes in our internal controls over financial reporting during our most recent fiscal quarter reporting period identified in connection with management's evaluation that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Internal Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II – OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

We have contingencies resulting from various litigation, claims and commitments. We record accruals for loss contingencies when losses are considered probable and can be reasonably estimated. The amount that will ultimately be paid related to these matters may differ from the recorded accruals, and the timing of such payments is uncertain.

From time to time we may be subject to various legal proceedings arising in the ordinary course of business. In addition, from time to time, third parties may bring intellectual property claims against us asserting that certain of our offerings, services and technologies infringe, misappropriate or otherwise violate the intellectual property or proprietary rights of others.

We are not party to any litigation, the outcome of which, if determined adversely to us, would individually or in the aggregate be reasonably expected to have a material and adverse effect on our business, financial position or results of operations.

ITEM 1A – RISK FACTORS

We have disclosed under the heading "Risk Factors" in our Annual Report the risk factors which materially affect our business, financial condition or results of operations. There have been no material changes from the risk factors previously disclosed. You should carefully consider the risk factors set forth in our Annual Report and the other information set forth elsewhere in this Quarterly Report on Form 10-Q. You should be aware that these risk factors and other information may not describe every risk facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Unregistered Sales of Equity Securities

Not Applicable.

Use of Proceeds

None.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 – MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5 – OTHER INFORMATION

Rule 10b5-1 Trading Arrangements

During the fiscal quarter ended September 30, 2024, none of the company’s directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted, modified or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement" (as each term is defined in Item 408 of Regulation S-K).

ITEM 6 – EXHIBITS

Exhibit Number		Exhibit Description
31.1	*	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	*	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	**	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	**	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	*	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	*	Inline XBRL Taxonomy Extension Schema Document
101.CAL	*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.
** Furnished herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RACKSPACE TECHNOLOGY, INC.

Date:	November 12, 2024	By:	/s/ Mark Marino
			Mark Marino
			Chief Financial Officer

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(a) OR 15d-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Amar Maletira, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Rackspace Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:	November 12, 2024	By:	/s/ Amar Maletira
			Amar Maletira
			Chief Executive Officer; Director

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a) OR 15d-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark Marino, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Rackspace Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2024

By: /s/ Mark Marino
Mark Marino
Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Amar Maletira, Chief Executive Officer of Rackspace Technology, Inc. (the “Company”), certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2024 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Rackspace Technology, Inc.

Date:	November 12, 2024	By:	/s/ Amar Maletira
			Amar Maletira
			Chief Executive Officer; Director

Exhibit 32.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mark Marino, Chief Financial Officer of Rackspace Technology, Inc. (the “Company”), certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2024 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Rackspace Technology, Inc.

Date:	November 12, 2024	By:	/s/ Mark Marino
			Mark Marino
			Chief Financial Officer