

# Ex-CFO topped pay list at Rackspace

Web Posted: 05/13/2008 08:11 PM CDT

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Rackspace's former chief financial officer, Major Horton, made \$687,677 in 2007, making him the technology company's highest-paid executive, according to papers the company recently filed with the Securities and Exchange Commission.

Horton's pay package included \$240,000 in severance pay because he left San Antonio-based Rackspace after a year and a half on June 15, 2007. His compensation package and those of other company executives were included in Rackspace's registration statement for an initial public offering, which was filed April 25. The documents also show that:

- Chairman Graham Weston isn't listed among Rackspace's highest-paid executives, but he controls 42.4 million shares, or 41.5 percent of the company.
- Weston leases downtown office space to Rackspace and a subsidiary. He is also part of a limited partnership that sold a former Montgomery Ward store to the Windcrest Economic Development Corp. for \$3.9 million.
- Rackspace CEO Lanham Napier is the third-highest-paid executive, with compensation of \$570,307 in 2007. Overall, Napier and affiliated entities control 6.8 percent of Rackspace, or 7 million shares, before the stock offering.

In its IPO filing, Rackspace provides good transparency on how the company sets executive pay, said Kevin Berchermann, president of Triangle Performance LLC, a management consulting firm based in Spring.

It also provides a clear statement of compensation philosophy, and Rackspace gives easy-to-understand descriptions of performance awards, he said.

"Their base salaries are not surprising," he said. "They aren't huge numbers. Their total compensation isn't either."

Rackspace, a Web hosting company, reported revenue of \$362 million in 2007 and net income of \$17.8 million. The company has more than 29,000 customers. It provides Web hosting services, e-mail accounts and other technology services.

Rackspace declined to comment for this story, citing the SEC-imposed quiet period following its registration filing. Rackspace's public offering seeks to issue up to 100 million shares on the New York Stock Exchange under the symbol "RAX" and to raise up to \$400 million.

Rackspace has added a number of key executives in the past few years. Its general and administrative expenses increased 71.9 percent from \$59.8 million in 2006 to \$102.8 million in 2007, according to its IPO filing. It attributes \$26.8 million of that increase to salaries, benefits and share-based compensation expense.

That's not uncommon when a company seeks to go public, Berchermann said.

Rackspace's executives receive a base salary, cash incentive bonuses and long-term, equity-based incentive awards.

The second-highest paid Rackspace executive, Doug Loewe, runs its European operations. He made \$593,884.

Glenn Reinus, senior vice president of worldwide sales, took home \$388,033; and Klee Kleber, vice president of marketing and development, earned \$369,022.

Unexercised stock options could add millions more to Rackspace executives' paychecks. The top executives all received stock option awards based on performance that expire this year in Horton's case and up to 10 years from now for the others.

Under a stock option plan, Rackspace granted Napier 2 million shares of its common stock at an exercise price of \$2.50 per share.

Rackspace's compensation committee set the executive pay based on a survey of other companies in Rackspace's industry. It found the median base salary for CEOs was \$414,000. Napier's base salary for 2007 was \$265,000, according to the company's IPO filing. Napier's base salary increased to \$350,000 this year.

Rackspace's new Chief Financial Officer Bruce Knooihuizen, who joined the company in February, also receives a base salary of \$350,000, about 15 percent

higher than the median salary for chief financial officers in Rackspace's peer group.

Target bonuses make up from 40 percent to 60 percent of the annual salary of Rackspace's executives, according to the IPO filing.

**That's not uncommon, said Chris Crawford, executive director of Longnecker & Associates, executive compensation experts based in Houston.**

**"Sixty to seventy percent of what an executive receives in the form of compensation is tied to long-term performance through stock plans," he said.**

Rackspace pays its board members \$78,000 annually plus \$60,000 each year in stock.

**Overall, director compensation has been growing at 22 percent a year and is outpacing the growth in executive pay, Crawford said. Board members are much more involved in company operations now and have personal liability if something goes wrong, he said.**

Rackspace's filing to go public also reveals how Weston personally has benefited from the company relocating to the Windsor Park Mall.

Under "other transactions with related parties," the filing gives details about Weston's stake in the Montgomery Ward building at the mall.

The Windcrest Economic Development Corp. bought the Montgomery Ward building for \$3.9 million from Anthon Major Ltd., a limited partnership in which Weston holds a 75 percent stake.

Weston also leases other building space to Rackspace.

Through Weston's Santa Clara Land Co., he leases space to Rackspace and Mosso, its subsidiary, in the Weston Centre downtown. Weston's company received \$1.1 million from 2005 to 2007 in rent.