



FORM 10-Q

RACKSPACE HOSTING, INC. - RAX

Filed: May 12, 2009 (period: March 31, 2009)

Quarterly report which provides a continuing view of a company's financial position

Table of Contents

[10-Q - FORM 10-Q](#)

[PART I](#)

[Item 1.](#)

[PART I](#)

ITEM 1	FINANCIAL STATEMENTS
ITEM 2	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
ITEM 3	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
ITEM 4.	CONTROLS AND PROCEDURES

[PART II](#)

ITEM 1	LEGAL PROCEEDINGS
ITEM 2	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
ITEM 3	DEFAULTS UPON SENIOR SECURITIES
ITEM 4	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
ITEM 5	OTHER INFORMATION
ITEM 6	EXHIBITS
	SIGNATURES
	EX-10.1 (LEASE AGREEMENT BY AND BETWEEN GRIZZLY VENTURES LLC AND RACKSPACE US)
	EX-31.1 (SECTION 302 CERTIFICATION OF PEO)
	EX-31.2 (SECTION 302 CERTIFICATION OF PFO)
	EX-32.1 (SECTION 906 CERTIFICATION OF PEO AND PFO)

**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 March 31, 2009.

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
(No Fee Required)**

For the transition period from _____ to _____.

Commission file number 001-34143

RACKSPACE HOSTING, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

74-3016523
(IRS Employer
Identification No.)

5000 Walzem Rd.
San Antonio, Texas 78218
(Address of principal executive offices, including Zip Code)

(210) 312-4000
(Registrant's Telephone Number, Including Area Code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer, large accelerated filer and a smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

On May 7, 2009, 120,065,538 shares of the registrant's Common Stock, \$0.001 par value, were outstanding.

[Table of Contents](#)

RACKSPACE HOSTING, INC.
TABLE OF CONTENTS

[Part I – Financial Information](#)

Item 1.	Financial Statements:	
	Consolidated Balance Sheets as of December 31, 2008 and March 31, 2009 (unaudited)	1
	Unaudited Consolidated Statements of Income for the Three Months Ended March 31, 2008 and 2009	2
	Unaudited Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2008 and 2009	3
	Notes to Unaudited Consolidated Financial Statements	4
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	29
Item 4.	Controls and Procedures	30

[Part II – Other Information](#)

Item 1.	Legal Proceedings	31
Item 1A.	Risk Factors	31
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	44
Item 3.	Defaults Upon Senior Securities	44
Item 4.	Submission of Matters to a Vote of Securities Holders	44
Item 5.	Other Information	44
Item 6.	Exhibits	45

Signatures		46
----------------------------	--	----

PART I – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

RACKSPACE HOSTING, INC. AND SUBSIDIARIES—
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)	December 31, 2008	March 31, 2009 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 238,407	\$ 135,020
Accounts receivable, net of allowance for doubtful accounts and customer credits of \$3,295 as of December 31, 2008, and \$4,533 as of March 31, 2009	30,932	34,775
Prepaid expenses and other current assets	23,156	23,029
Total current assets	292,495	192,824
Property and equipment, net	362,042	371,125
Goodwill	6,942	14,329
Intangible assets, net	15,101	14,287
Other non-current assets	8,681	8,869
Total assets	\$ 685,261	\$ 601,434
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 71,387	\$ 71,211
Current portion of deferred revenue	16,284	16,871
Current portion of obligations under capital and finance method leases	38,909	39,876
Current portion of debt	5,944	5,723
Total current liabilities	132,524	133,681
Non-current deferred revenue	3,883	3,503
Non-current obligations under capital and finance method leases	50,781	51,660
Non-current debt	204,779	104,248
Other non-current liabilities	23,610	25,462
Total liabilities	415,577	318,554
COMMITMENTS AND CONTINGENCIES		
Stockholders' equity:		
Common stock, \$0.001 par value per share: 300,000,000 shares authorized; 117,154,094 shares issued and outstanding as of December 31, 2008, 118,967,613 shares issued and outstanding as of March 31, 2009	117	119
Additional paid-in capital	207,589	214,909
Accumulated other comprehensive income (loss)	(16,027)	(16,741)
Retained earnings	78,005	84,593
Total stockholders' equity	269,684	282,880
Total liabilities and stockholders' equity	\$ 685,261	\$ 601,434

See accompanying notes to the unaudited consolidated financial statements.

[Table of Contents](#)

**RACKSPACE HOSTING, INC. AND SUBSIDIARIES—
CONSOLIDATED STATEMENTS OF INCOME – (Unaudited)**

(In thousands, except per share data)	Three Months Ended March 31,	
	2008	2009
Net revenues	\$ 119,613	\$ 145,077
Costs and expenses:		
Cost of revenues	39,223	46,210
Sales and marketing	17,568	20,502
General and administrative	33,633	37,540
Depreciation and amortization	19,051	27,804
Total costs and expenses	<u>109,475</u>	<u>132,056</u>
Income from operations	<u>10,138</u>	<u>13,021</u>
Other income (expense):		
Interest expense	(1,330)	(2,535)
Interest and other income (expense)	247	(91)
Total other income (expense)	<u>(1,083)</u>	<u>(2,626)</u>
Income before income taxes	9,055	10,395
Income taxes	3,613	3,807
Net income	<u>\$ 5,442</u>	<u>\$ 6,588</u>
Net income per share		
Basic	\$ 0.05	\$ 0.06
Diluted	\$ 0.05	\$ 0.05
Weighted average number of shares outstanding		
Basic	<u>102,574</u>	<u>117,608</u>
Diluted	<u>109,085</u>	<u>121,889</u>

See accompanying notes to the unaudited consolidated financial statements.

[Table of Contents](#)

**RACKSPACE HOSTING, INC. AND SUBSIDIARIES—
CONSOLIDATED STATEMENTS OF CASH FLOWS – (Unaudited)**

(In thousands)	Three Months Ended March 31,	
	2008	2009
Cash Flows From Operating Activities		
Net income	\$ 5,442	\$ 6,588
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	19,051	27,804
Loss on disposal of equipment, net	1,327	176
Provision for bad debts and customer credits	398	2,309
Deferred income taxes	1,157	2,507
Share-based compensation expense	2,752	4,237
Other non-cash compensation expense	31	85
Excess tax benefits from share-based compensation arrangements	(708)	—
Changes in certain assets and liabilities		
Accounts receivable	380	(6,336)
Prepaid expenses and other current assets	(1,208)	(118)
Accounts payable and accrued expenses	6,268	(6,601)
Deferred revenue	1,484	304
Other non-current assets	9	270
Other non-current liabilities	(225)	(426)
Net cash provided by operating activities	36,158	30,799
Cash Flows From Investing Activities		
Purchases of property and equipment, net	(47,248)	(25,589)
Net cash used in investing activities	(47,248)	(25,589)
Cash Flows From Financing Activities		
Principal payments of capital and finance method leases	(7,549)	(9,838)
Principal payments of notes payable	(1,152)	(751)
Borrowings on line of credit	20,000	—
Payments on line of credit	—	(100,000)
Payments for debt issuance costs	(158)	—
Proceeds from sale leaseback transactions	761	—
Proceeds from issuance of common stock, net	548	—
Proceeds from exercise of stock options	503	2,235
Excess tax benefits from share-based compensation arrangements	708	—
Net cash provided by (used in) financing activities	13,661	(108,354)
Effect of exchange rate changes on cash and cash equivalents	(11)	(243)
Increase (decrease) in cash and cash equivalents	2,560	(103,387)
Cash and cash equivalents, beginning of period	24,937	238,407
Cash and cash equivalents, end of period	\$ 27,497	\$ 135,020
Supplemental cash flow information:		
Acquisition of property and equipment by capital and finance method leases	\$ 18,512	\$ 11,683
Acquisition of property and equipment by notes payable	3,107	—
Vendor financed equipment purchases	\$ 21,619	\$ 11,683
Shares issued in business combinations	\$ —	\$ 765
Cash payments for interest, net of amount capitalized	\$ 1,690	\$ 2,543
Cash payments for income taxes	\$ —	\$ 759

See accompanying notes to the unaudited consolidated financial statements.

**RACKSPACE HOSTING, INC. AND SUBSIDIARIES—
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

1. Overview and Basis of Presentation

Nature of Operations

As used in this report, the terms “Rackspace”, “Rackspace Hosting”, “we”, “our company”, “the company”, “us,” or “our” refer to Rackspace Hosting, Inc. and its subsidiaries. Rackspace Hosting, Inc., through its operating subsidiaries, is a provider of hosting solutions. We provide IT as a service, managing web-based IT systems for small and medium-sized businesses as well as large enterprises. We focus on providing a service experience for our customers, which we call Fanatical Support®.

Rackspace Hosting, Inc. was incorporated in Delaware on March 7, 2000. However, our operations began in 1998 as a limited partnership which became our subsidiary through a corporate reorganization completed on August 21, 2001.

We operate consolidated subsidiaries which include, among others, Rackspace US, Inc., our domestic operating entity, and Rackspace Limited, our United Kingdom operating entity.

In October 2008, we completed the acquisition of Jungle Disk, Inc., a company specializing in cloud storage. Also in October 2008, we completed the acquisition of Slicehost LLC, a company specializing in cloud hosting. Accordingly, their operating results have been included in our consolidated financial statements since the date of acquisition.

Basis of Consolidation

The consolidated financial statements include the accounts of our wholly owned subsidiaries located in the United States of America (U.S.), the United Kingdom (U.K.), the Netherlands, and Hong Kong. Intercompany transactions and balances have been eliminated in consolidation.

Certain reclassifications have been made to prior year balances in order to conform to the current year’s presentation.

Basis of Presentation

The accompanying consolidated financial statements as of March 31, 2009, and for the three months ended March 31, 2008 and 2009, are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and Rule 10-01 of Regulation S-X. Accordingly, they do not include all financial information and disclosures required by GAAP for complete financial statements and certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. The unaudited interim consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements 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 March 31, 2009, our results of operations for the three months ended March 31, 2008 and 2009, and our cash flows for the three months ended March 31, 2008 and 2009.

These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto as of December 31, 2008 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009, as amended. The results of the three months ended March 31, 2009 are not necessarily indicative of the results to be expected for the year ending December 31, 2009, or for any other interim period, or for any other future year.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, we evaluate our estimates, including those related to accounts receivable and customer credits, property and equipment, fair values of intangible assets and goodwill, useful lives of intangible assets, fair value of stock options, contingencies, and income taxes, among others. We base our estimates on historical experience and on other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. We engaged third party valuation consultants to assist management in the purchase price allocation of significant acquisitions. We also engaged third party valuation consultants to assist management in the valuation of our common stock price, which affected transactions recorded in our consolidated financial statements prior to Rackspace becoming a public company.

[Table of Contents](#)

2. Summary of Significant Accounting Policies

The accompanying financial statements reflect the application of certain significant accounting policies. There have been no material changes to our significant accounting policies that are disclosed in our audited consolidated financial statements and notes thereof as of December 31, 2008 included in our Annual Report on Form 10-K, as amended.

Recently Adopted Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board, or FASB, issued SFAS 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements. We were required to adopt SFAS 157 effective at the beginning of 2008. FASB Staff Position No. (FSP) 157-2 delayed the effective date of SFAS 157 to periods beginning after November 15, 2008 for non-financial assets and liabilities. Those assets and liabilities measured at fair value under SFAS 157 in 2008 did not have a material impact on our consolidated financial statements. The adoption of SFAS 157 beginning in 2009 for non-financial assets and liabilities did not have a material impact on our consolidated financial statements.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115*. SFAS 159 expands the use of fair value accounting but does not affect existing standards that require certain assets or liabilities to be carried at fair value. The objective of SFAS 159 is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Under SFAS 159, a company may choose, at specified election dates, to measure eligible items at fair value and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 is effective for the company in the first quarter of fiscal 2009. This statement did not have a material impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*. SFAS 161 expands disclosures for derivative instruments by requiring entities to disclose the fair value of derivative instruments and their gains or losses in tabular format. SFAS 161 also requires disclosure of information about credit risk-related contingent features in derivative agreements, counterparty credit risk, and strategies and objectives for using derivative instruments. SFAS 161 is effective for periods beginning on or after December 15, 2008. This statement did not have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of Accounting Research Bulletin No. 51*. SFAS 160 addresses the accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The adoption of SFAS 160 did not have a material impact on our consolidated financial statements.

In April 2008, the FASB issued FSP SFAS 142-3, *Determination of the Useful Life of Intangible Assets*. This guidance is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS 142, *Goodwill and Other Intangible Assets*, and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) when the underlying arrangement includes renewal or extension of terms that would require substantial costs or result in a material modification to the asset upon renewal or extension. Companies estimating the useful life of a recognized intangible asset must now consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension as adjusted for SFAS 142's entity-specific factors. FSP 142-3 is effective for periods beginning on or after January 1, 2009. This statement did not have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements

In April 2009 the FASB issued three related Staff Positions: (i) FSP 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions That Are Not Orderly*. (ii) FSP 115-2 and FSP 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, and (iii) FSP 107 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, which will be effective for interim and annual periods ending after June 15, 2009. FSP 157-4 provides guidance on how to determine the fair value of assets and liabilities under SFAS 157 in the current economic environment and reemphasizes that the objective of a fair value measurement remains an exit price. If we were to conclude that there has been a significant decrease in the volume and level of activity of the asset or liability in relation to

Table of Contents

normal market activities, quoted market values may not be representative of fair value and we may conclude that a change in valuation technique or the use of multiple valuation techniques may be appropriate. FSP 115-2 and FSP 124-2 modify the requirements for recognizing other-than-temporarily impaired debt securities and revise the existing impairment model for such securities, by modifying the current intent and ability indicator in determining whether a debt security is other-than-temporarily impaired. FSP 107 and APB 28-1 enhance the disclosure of instruments under the scope of SFAS 157 for both interim and annual periods. We do not expect these statements to have a material impact on our consolidated financial statements.

In December 2007 the FASB issued SFAS 141(R), *Business Combinations*. SFAS 141(R) establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets (including in-process research and development) acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. Prior to the adoption of SFAS 141(R), in-process research and development was immediately expensed. In addition, under SFAS 141(R) all acquisition costs are expensed as incurred. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for financial statements issued for fiscal years beginning after December 15, 2008. Accordingly, any business combinations we engaged in were recorded and disclosed according to SFAS 141 until January 1, 2009. Absent any further acquisitions, we do not expect this statement to have a material impact on our consolidated financial statements.

In April 2009 the FASB issued FSP 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*. FSP 141(R)-1 amends the provisions in Statement 141(R) for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations. The FSP eliminates the distinction between contractual and non-contractual contingencies, including the initial recognition and measurement criteria in Statement 141(R) and instead carries forward most of the provisions in SFAS 141 for acquired contingencies. FSP 141(R)-1 is effective for contingent assets and contingent liabilities acquired in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Absent any further acquisitions, we do not expect this statement to have a material impact on our consolidated financial statements.

3. Earnings Per Share

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

(In thousands, except per share data)	Three Months Ended March 31,	
	2008	2009
Basic net income per share:		
Net income	\$ 5,442	\$ 6,588
Weighted average shares outstanding:		
Common stock	101,359	117,608
Preferred stock	1,215	—
Number of shares used in per share computations	102,574	117,608
Earnings per share	\$ 0.05	\$ 0.06
Diluted net income per share:		
Net income	\$ 5,442	\$ 6,588
Weighted average shares outstanding:		
Common stock	101,359	117,608
Stock options and awards	6,268	4,281
Preferred stock	1,215	—
Stock warrants	243	—
Number of shares used in per share computations	109,085	121,889
Earnings per share	\$ 0.05	\$ 0.05

Table of Contents

We excluded 5.6 million and 12.9 million potential common shares from the computation of dilutive earnings per share for the three months ended March 31, 2008 and 2009, respectively, because the effect would have been anti-dilutive.

As a result of our initial public offering (IPO) in August 2008, all outstanding stock warrants were exercised, resulting in an issuance of 268,750 shares of common stock, and all shares of our outstanding preferred stock were automatically converted to shares of common stock; thus subsequent to the IPO, the impact of these transactions on the weighted average shares outstanding was reflected in common stock.

4. Cash and Cash Equivalents

Cash and cash equivalents consisted of:

(In thousands)	December 31, 2008	March 31, 2009
Cash deposits	\$ 37,787	\$ 34,341
Money market funds	200,620	100,679
Cash and cash equivalents	<u>\$ 238,407</u>	<u>\$ 135,020</u>

Our available cash and cash equivalents are held in bank deposits, overnight sweep accounts, and money market funds. We actively monitor the third-party depository institutions that hold our deposits. Our emphasis is primarily on safety of principal while secondarily maximizing yield on those funds. In March 2009, we repaid \$100.0 million on our revolving credit facility with our money market funds.

Our money market mutual funds invest exclusively in high-quality, short-term securities that are issued or guaranteed by the U.S. government or by U.S. government agencies.

5. Fair Value Measurements

We adopted the full provisions of SFAS 157 as amended on January 1, 2009. SFAS 157 defines fair value, expands related disclosure requirements and specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a three-tier fair value of hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 – Observable inputs such as quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3 – Unobservable inputs that are supported by little or no market activity, which require management judgment or estimation.

In accordance with SFAS 157, we measure applicable assets and liabilities at fair value. Our money market funds are classified within Level 1 because they are valued using quoted market prices. Our interest rate swap is classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

The carrying values of cash deposits, accounts receivable, prepaid expenses and other assets, accounts payable and accrued expenses are reasonable estimates of their fair values due to the short maturity of these financial instruments and are classified within Level II.

Assets and liabilities measured at fair value on a recurring basis are summarized by level below. The table does not include assets and liabilities which are measured at historical costs or any other basis other than fair value.

Table of Contents

(In thousands)

	December 31, 2008			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets/Liabilities at Fair Value
Assets:				
Money market funds (1)	\$ 200,620	\$ —	\$ —	\$ 200,620
Other non-current assets	—	—	—	—
Total	\$ 200,620	\$ —	\$ —	\$ 200,620
Liabilities:				
Interest rate swap agreement (1)	\$ —	\$ 2,901	\$ —	\$ 2,901
Deferred compensation (2)	296	—	—	296
Total	\$ 296	\$ 2,901	\$ —	\$ 3,197

(In thousands)

	March 31, 2009			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets/Liabilities at Fair Value
Assets:				
Money market funds (1)	\$ 100,679	\$ —	\$ —	\$ 100,679
Other non-current assets (3)	308	—	—	308
Total	\$ 100,987	\$ —	\$ —	\$ 100,987
Liabilities:				
Interest rate swap agreement (1)	\$ —	\$ 2,798	\$ —	\$ 2,798
Deferred compensation (2)	386	—	—	386
Total	\$ 386	\$ 2,798	\$ —	\$ 3,184

- (1) Money market funds are classified in cash and cash equivalents and the interest rate swap agreement is classified in other non-current liabilities.
- (2) Obligations to pay benefits under a non-qualified deferred compensation plan classified in other current liabilities within accounts payable and accrued expenses.
- (3) Investments in marketable securities held in a Rabbi Trust associated with a non-qualified deferred compensation plan.

Our Rabbi Trust was established in January 2009 and we elected the fair value option under SFAS 159, which allows for the recognition of unrealized gains and losses to be recorded in the statement of income in the same period as the gains and losses are incurred as part of the non-qualified deferred compensation plan. In the three months ended March 31, 2009, we recognized a net unrealized gain of a minimal amount as interest and other income (expense).

[Table of Contents](#)

6. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of:

(In thousands)	December 31, 2008	March 31, 2009
Prepaid expenses	\$ 5,481	\$ 5,250
Income tax receivable	12,318	12,575
Current deferred taxes	3,050	2,823
Other current assets	2,307	2,381
Prepaid expenses and other current assets	<u>\$ 23,156</u>	<u>\$ 23,029</u>

7. Property and Equipment, net

Property and equipment consisted of:

(In thousands)	Estimated Useful Lives	December 31, 2008	March 31, 2009
Computers, software and equipment	1-5 years	\$ 350,697	\$ 392,596
Furniture and fixtures	7 years	12,856	15,556
Buildings and leasehold improvements	2-30 years	61,839	86,630
Land	—	<u>13,860</u>	<u>13,860</u>
Property and equipment, at cost		439,252	508,642
Less accumulated depreciation and amortization		(188,300)	(213,797)
Work in process		<u>111,090</u>	<u>76,280</u>
Property and equipment, net		<u>\$ 362,042</u>	<u>\$ 371,125</u>

Depreciation and leasehold amortization expense, not including amortization expense for intangible assets, was \$18.3 million and \$26.3 million for the three months ended March 31, 2008 and 2009, respectively.

At December 31, 2008, the work in process balance consisted of build outs of \$47.0 million for office facilities and \$53.5 million for data centers, and \$10.6 million for capitalized software and other projects. At March 31, 2009, the work in process balance consisted of build outs of \$48.9 million for office facilities and \$23.4 million for data centers, and \$4.0 million for capitalized software and other projects.

Capitalized interest was \$0.5 million and \$0.3 million for the three months ended March 31, 2008 and 2009, respectively.

8. Business Combinations and Goodwill

In October 2008, we acquired two companies with a total purchase price of \$28.0 million, which were accounted for as business combinations. The initial purchase price of the combined acquisitions was \$11.5 million paid in cash and stock, with up to \$16.5 million in additional payouts of cash and stock based on certain earnout provisions. During the three months ended March 31, 2009, earnouts totaling \$7.5 million were achieved that included amounts payable in both cash and stock. As of March 31, 2009, \$6.7 million had not yet been paid and was recorded within accounts payable and accrued expenses, which consisted of \$5.6 million of cash and \$1.1 million of common stock. If the remaining \$9.0 million additional earnouts are achieved, the payments will be accounted for as additional goodwill.

The following table provides a rollforward of our goodwill balance.

Table of Contents

(In thousands)	
Balance at December 31, 2008	\$ 6,942
Acquisition earnouts	7,502
Purchase accounting adjustments	<u>(115)</u>
Balance at March 31, 2009	<u>\$14,329</u>

9. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of:

(In thousands)	December 31, 2008	March 31, 2009
Trade payables	\$ 23,459	\$ 21,569
Accrued compensation and benefits	19,462	14,654
Foreign income taxes payable	324	1,014
Vendor accruals	19,984	18,385
Other liabilities	<u>8,158</u>	<u>15,589</u>
Accounts payable and accrued expenses	<u>\$ 71,387</u>	<u>\$ 71,211</u>

10. Debt

Debt outstanding consisted of:

(In thousands)	December 31, 2008	March 31, 2009
Revolving credit facility	\$ 200,000	\$ 100,000
Notes payable	<u>10,723</u>	<u>9,971</u>
Total debt	210,723	109,971
Less current portion of debt	<u>(5,944)</u>	<u>(5,723)</u>
Total non-current debt	<u>\$ 204,779</u>	<u>\$ 104,248</u>

Revolving Credit Facility

Our revolving credit facility includes an aggregate commitment of \$245.0 million. The facility provides for letters of credit up to \$25.0 million. The interest is based on a floating rate, generally the London Interbank Offered Rate (LIBOR) plus a margin spread, which changes ratably from 0.675% to 1.55% dependent on the total funded debt to adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio. We are required to pay a facility fee of 0.2% per annum on the full amount committed under the facility and a quarterly administrative fee. The facility has a 5-year term and matures in August 2012, and is fully secured by our assets and governed by financial and non-financial covenants. Financial covenants under our facility include a minimum fixed charge coverage ratio and a maximum total funded debt to EBITDA ratio. As of March 31, 2009, we were in compliance with all of the covenants under our facility.

As of December 31, 2008, the amount outstanding under the facility was \$200.0 million with an outstanding letter of credit of \$0.8 million. In March 2009, we repaid \$100.0 million, reducing our borrowings on the facility to \$100.0 million. As of March 31, 2009, the amount outstanding under the facility was \$100.0 million, with an outstanding letter of credit of \$0.8 million, and an additional \$144.2 million available for future borrowings.

Table of Contents

Our average borrowing under the facility was \$177.8 million for the quarter ended March 31, 2009. In the same period, the revolving credit facility accrued interest at an average rate of 2.1%.

Interest Rate Swap

We have a cash flow hedge to limit our exposure that may result from the variability of floating interest rates. Effective December 10, 2007, we entered into an interest rate swap agreement with a notional amount of \$50.0 million to hedge a portion of our outstanding floating-rate debt. This swap converts floating rate interest based on the LIBOR into fixed-rate interest as part of the arrangement with our primary lender and expires in December 2010.

We are required to pay the counterparty a stream of fixed interest payments at a rate of 4.135%, and in turn, receive variable interest payments based on 1-month LIBOR. The margin spread as of March 31, 2009 was 1.3% resulting in an effective fixed rate of 5.435%. The net receipts or payments from the swap are recorded as interest expense. The swap is designated and qualifies as a cash flow hedge under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*. As such, the swap is accounted for as an asset or a liability in the accompanying consolidated balance sheets at fair value. We are utilizing the dollar offset method to assess the effectiveness of the swap. Under this methodology, the swap was deemed to be highly effective for the quarters ended March 31, 2008 and 2009. There was no hedge ineffectiveness recognized in earnings for either period. If the hedge becomes ineffective, or if certain terms of the facility change, the facility is extinguished, or if the swap is terminated prior to maturity, the fair value of the swap and subsequent changes in fair value may be recognized in the accompanying consolidated statements of income. The fair value of the swap was estimated based on the yield curve as of December 31, 2008 and March 31, 2009, and represents its carrying value.

The following table presents the impact of the interest rate swap on the consolidated balance sheets:

(In thousands)	December 31, 2008	March 31, 2009
Other non-current liabilities	\$ 2,901	\$ 2,798
Accumulated other comprehensive income (loss), net of tax	\$ (1,886)	\$ (1,820)

The following table presents the impact of the interest rate swap to total comprehensive income:

(In thousands)	Three Months Ending March 31,	
	2008	2009
Effective gain (loss) recognized in accumulated other comprehensive income (loss), net of tax	\$ (1,056)	\$ 66

Our counterparty is also the primary lender on our revolving credit facility and we actively monitor the potential credit risk. As of March 31, 2009, we were in a liability position to our primary lender and therefore not exposed to any counterparty credit risk.

11. Other Non-Current Liabilities

Other non-current liabilities consisted of:

(In thousands)	December 31, 2008	March 31, 2009
Texas Enterprise Fund Grant	\$ 5,000	\$ 4,300
Non-current deferred income taxes	13,398	16,161
Other	5,212	5,001
Other non-current liabilities	\$ 23,610	\$ 25,462

[Table of Contents](#)

We entered into an agreement with the State of Texas (Texas Enterprise Fund Grant) under which we may receive up to a \$22.0 million in state enterprise fund grants in four installments on the condition that we meet certain employment levels each year, with a requirement that we ultimately create at least 4,000 new jobs in the State of Texas paying an average compensation of at least \$56,000 per year (subject to a 2% per year increase commencing in 2009) by December 31, 2012, and sustain these jobs through December 31, 2018. To the extent we fail to meet these requirements, we may be required to repay all or a portion of the grants plus interest. In September 2007, we received the initial installment of \$5.0 million from the State of Texas, which was recorded as a non-current liability. In the current economic environment, it is likely we will not fulfill the job creation requirements levels for December 31, 2009, which will result in repayment of a portion of the Texas Enterprise Fund Grant in 2010, and potentially additional funds in subsequent years. We are currently seeking to modify the terms of our agreement with the State of Texas. As a result of the reduction in new hires, we reclassified \$0.7 million from other non-current liabilities to current as of March 31, 2009.

12. Commitments and Contingencies

Legal Proceedings

We are party to various legal proceedings, which we consider routine and incidental to our business. On October 22, 2008, *Benjamin E. Rodriguez D/B/A Management and Business Advisors vs. Rackspace Hosting, Inc. and Graham Weston*, was filed in the 37th District Court in Bexar County Texas by a former consultant to the company, Benjamin E. Rodriguez. The suit alleges breach of an oral agreement to issue Mr. Rodriguez a 1% interest in our stock in the form of options or warrants for compensation for services he was engaged to perform for us. We believe that the plaintiff's position is without merit and intend to vigorously defend this lawsuit. We do not expect the results of this claim or any other current proceeding to have a material adverse effect on our business, results of operations or financial condition.

Contingent Liability

We previously recorded a \$2.1 million charge to cost of revenues related to an unresolved contractual issue with a vendor. We recorded a loss contingency liability with respect to this matter in accordance with SFAS 5, *Accounting for Contingencies*. Due to the uncertainty regarding the interpretation of certain contractual terms, it is possible the ultimate loss may exceed the amount currently accrued.

13. Share-Based Compensation

In January 2009, our board of directors approved an additional 5.5 million shares for future grant under the Amended and Restated 2007 Stock Plan. As of March 31, 2009, the total number of shares available for future grants under the plan was 6.1 million shares.

Outstanding stock awards were as follows:

	<u>December 31, 2008</u>	<u>March 31, 2009</u>
Restricted stock units	50,000	2,050,000
Stock options	19,255,644	21,088,657
Total outstanding awards	<u>19,305,644</u>	<u>23,138,657</u>

The following table summarizes our restricted stock unit activity for the three months ended March 31, 2009:

	<u>Number of Units</u>
Outstanding at December 31, 2008	<u>50,000</u>
Units granted	2,000,000
Units vested	—
Units cancelled	—
Outstanding at March 31, 2009	<u>2,050,000</u>

Table of Contents

On February 25, 2009, our board approved grants of restricted stock units (RSUs) to our chief executive officer and another member of the executive team. A total of 2,000,000 RSUs were granted. The vesting of the RSUs are dependent on the company's total shareholder return (TSR) on its common stock compared to other companies in the Russell 2000 Index. In addition, the company's TSR must be positive for vesting to occur. Of the total RSUs granted, 1,050,000 have a measurement period at the end of three years, and the remaining at the end of five years. The fair value of these grants totals \$7.0 million using a Monte Carlo pricing model, and are being amortized over their service periods.

The following table summarizes the activity under our Stock Plans:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2008	19,255,644	\$ 4.94	7.01	\$ 34,050
Granted	3,712,550	\$ 5.09		
Exercised	(1,656,754)	\$ 1.35		
Canceled	(222,783)	\$ 7.37		
Outstanding at March 31, 2009	21,088,657	\$ 5.22	7.68	\$ 60,358
Vested and exercisable at March 31, 2009	8,156,568	\$ 2.77	5.85	\$ 38,839
Vested and exercisable at March 31, 2009 and expected to vest thereafter *	19,139,088	\$ 5.01	7.52	\$ 57,837

* Includes reduction of shares outstanding due to estimated forfeitures

On February 25, 2009, our board approved the grant of 3.7 million stock options for certain employees with an exercise price of \$5.09. The shares vest 25% at the end of each year over a four-year period and expire after ten years. The fair value of these stock options was \$2.97 per option using the Black-Scholes option pricing model.

The total pre-tax intrinsic value of the stock options exercised during the three months ended March 31, 2008 and 2009, was \$2.4 million and \$7.7 million, respectively.

The weighted average fair value of stock options issued for the three months ended March 31, 2008 and 2009 was \$7.84 and \$2.97 respectively, using the Black-Scholes option pricing model with the following assumptions:

	Three Months Ended March 31,	
	2008	2009
Expected stock volatility	64% - 65%	61%
Expected dividend yield	0.0%	0.0%
Risk-free interest rate	2.71% - 3.15%	2.24%
Expected life	6.25 - 6.50 years	6.25 years

As of March 31, 2009, there was \$57.3 million of total unrecognized compensation cost related to non-vested stock options granted under our various plans, which will be amortized using the straight line method over a weighted average period of 2.6 years.

Table of Contents

Share-based compensation expense was recognized as follows:

(in thousands)	Three Months Ended March 31,	
	2008	2009
Cost of revenues	\$ 365	\$ 629
Sales and marketing	401	698
General and administrative	1,986	2,910
Pre-tax share-based compensation	2,752	4,237
Less: Income tax benefit	(1,098)	(1,552)
Total share-based compensation expense, net of tax	\$ 1,654	\$ 2,685

14. Income Taxes

We are subject to U.S. federal income tax and various state, local, and international income taxes in numerous jurisdictions. Our domestic and international tax liabilities are subject to the allocation of revenues and expenses in different jurisdictions and the timing of recognizing revenues and expenses. Additionally, the amount of income taxes paid is subject to our interpretation of applicable tax laws in the jurisdictions in which we file.

We currently file income tax returns in the U.S. and the U.K., which are periodically under audit by federal, state, and international tax authorities. These audits can involve complex matters that may require an extended period of time for resolution. The Internal Revenue Service completed an examination of our consolidated U.S. Federal income tax returns through fiscal year 2004 with no changes to the tax return. We remain subject to U.S. federal and state income tax examinations for the tax years 2005 through 2007, and to U.K. income tax examinations for the years 2002 through 2007. There are no income tax examinations currently in process. Although the outcome of open tax audits is uncertain, in management's opinion, adequate provisions for income taxes have been made. If actual outcomes differ materially from these estimates, they could have a material impact on our financial condition and results of operations. Differences between actual results and assumptions, or changes in assumptions in future periods are recorded in the period they become known. To the extent additional information becomes available prior to resolution, such accruals are adjusted to reflect probable outcomes. Our effective tax rate is impacted by earnings being realized in countries where we have lower statutory rates.

In February 2009, the American Recovery and Reinvestment Act of 2009 was enacted. Included in the bill are provisions that extended the 50% bonus depreciation through 2009. We do not expect a material impact to the effective rate because of this law change.

15. Comprehensive Income

Total comprehensive income was as follows:

(In thousands)	Three Months Ended March 31,	
	2008	2009
Net income	\$ 5,442	\$ 6,588
Derivative instrument, net of deferred taxes of \$569 and (\$36) for the three months ended March 31, 2008 and 2009	(1,056)	66
Foreign currency cumulative translation adjustment, net of taxes of \$8 and \$211 for the three months ended March 31, 2008 and 2009	(31)	(780)
Total other comprehensive income (loss)	(1,087)	(714)
Total comprehensive income	\$ 4,355	\$ 5,874

Table of Contents

The changes in accumulated other comprehensive income (loss) for the three months ended March 31, 2009 were as follows:

(In thousands)	Derivative Instrument	Translation Adjustment	Accumulated other comprehensive income (loss)
Balance at December 31, 2008	\$ (1,886)	\$ (14,141)	\$ (16,027)
2009 changes in fair value	66	—	66
2009 translation adjustment	—	(780)	(780)
Balance at March 31, 2009	\$ (1,820)	\$ (14,921)	\$ (16,741)

16. Segment Information

SFAS 131, *Disclosures about Segments of an Enterprise and Related Information*, established standards for reporting information about operating segments. Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision-maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision-maker is our chief executive officer. Our chief executive officer reviews financial information presented on a consolidated basis, accompanied by information by business unit and geographic region for purposes of evaluating financial performance and allocating resources. We are organized as, and operate two business units: managed hosting and cloud computing services. We have evaluated the criteria for aggregation by products and services, and by geography, and determined we have one reportable segment, which we describe as Hosting. Revenues are attributed by geographic location based on the Rackspace Hosting operating location that enters into the contractual relationship with the customer, either the U.S. or outside U.S., primarily the U.K. Our long-lived assets are primarily located in the U.S. and U.K., and to a lesser extent Hong Kong.

Total net revenues by geographic region were as follows:

(In thousands)	Three Months Ending March 31,	
	2008	2009
United States	\$ 84,847	\$ 110,563
Outside United States	34,766	34,514
Total net revenues	\$ 119,613	\$ 145,077

Long-lived assets by geographic region were as follows:

(In thousands)	December 31,	March 31,
	2008	2009
United States	\$ 322,949	\$ 332,491
Outside United States	68,930	74,812
Total long-lived assets	\$ 391,879	\$ 407,303

17. Related Party Transactions

We lease some facilities from a partnership controlled by our chairman of the board of directors. For these leases, we recognized \$137 thousand and \$177 thousand of rent expense on our consolidated statements of income for the three months ended March 31, 2008 and 2009, respectively.

[Table of Contents](#)

ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

References to “we,” “our,” “our company,” “us,” “the company,” “Rackspace Hosting,” or “Rackspace” refer to Rackspace Hosting, Inc. and its consolidated subsidiaries. We have made forward-looking statements in this Quarterly Report on Form 10-Q that are subject to risks and uncertainties. Forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section and Section 21E of the Securities Exchange Act of 1934, as amended, are subject to the “safe harbor” created by those sections. The forward-looking statements in this report are based on our management’s beliefs and assumptions and on information currently available to our management. In some cases, you can identify forward-looking statements by terms such as “anticipates,” “aspires,” “believes,” “can,” “continue,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “projects,” “seeks,” “should,” “will” or “would” or the negative of these terms and similar expressions intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance, time frames or achievements to be materially different from any future results, performance, time frames or achievements expressed or implied by the forward-looking statements. We discuss many of these risks, uncertainties and other factors in this document in greater detail under the heading “Risk Factors.” We believe it is important to communicate our expectations to our investors. However, there may be events in the future that we are not able to predict accurately or over which we have no control. The risks described in “Risk Factors” included in this report, as well as any other cautionary language in this report, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. You should be aware that the occurrence of the events described in “Risk Factors” and elsewhere in this report could harm our business.

Given these risks, uncertainties and other factors, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this filing. You should read this document completely and with the understanding that our actual future results may be materially different from what we expect. We hereby qualify our forward-looking statements by these cautionary statements. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

The following discussion should be read in conjunction with our consolidated financial statements and the related notes contained elsewhere in this document.

Overview of our Business

Rackspace Hosting, Inc. is a world leader in hosting and cloud computing. Our growth is the result of our commitment to serving our customers, known as Fanatical Support[®], and our exclusive focus on hosting and cloud computing. We have been successful in attracting and retaining thousands of customers and in growing our business. We are a pioneer in an emerging category, hybrid hosting, which combines the benefits of both traditional dedicated hosting and cloud computing. We are committed to maintaining our service-centric focus and will follow our vision to be considered one of the world’s greatest service companies.

We offer services to support websites, web-based IT systems, and computing as a service. The equipment required (servers, routers, switches, firewalls, load balancers, cabinets, software, wiring, etc.) to deliver services is typically purchased and managed by us. Rackspace offers a full suite of hosting services, including managed hosting, email hosting, as well as emerging services such as cloud hosting.

We sell our services to small and medium-sized businesses as well as large enterprises. During the first three months of 2009, 23.8% of our net revenues were generated by our operations outside of the U.S., mainly from the U.K. Late in 2008, we also began operations of a Hong Kong data center and a sales office, which generated minimal revenue in 2008 and the first three months of 2009. Our growth strategy includes among other strategies, targeting international customers as we plan to expand our activities in continental Europe and Asia. During the first three months of 2009, no individual customer accounted for greater than 2% of our net revenues.

Key Metrics

We carefully track several financial and operational metrics to monitor and manage our growth, financial performance, and capacity. Our key metrics are structured around growth, profitability, capital efficiency, infrastructure capacity, and utilization. The following data should be read in conjunction with the consolidated financial statements, the notes to the financial statements and other financial information included in this Quarterly Report on Form 10-Q.

Table of Contents

(Dollar amounts in thousands, except annualized net revenue per average technical square foot)	Three Months Ended				
	March 31, 2008	June 30, 2008	September, 2008 (Unaudited)	December 31, 2008	March 31, 2009
Growth					
Managed hosting customers at period end	16,352	17,220	18,012	18,480	19,048
Cloud customers at period end*	15,310	16,387	18,173	34,820	43,030
Number of customers at period end	31,662	33,607	36,185	53,300	62,078
Managed hosting, net revenues	\$ 115,175	\$ 125,498	\$ 131,908	\$ 134,275	\$ 134,204
Cloud, net revenues	\$ 4,438	\$ 5,331	\$ 6,446	\$ 8,862	\$ 10,873
Net revenues	\$ 119,613	\$ 130,829	\$ 138,354	\$ 143,137	\$ 145,077
Revenue growth (year over year)	59.0%	55.7%	44.0%	34.2%	21.3%
Net upgrades (monthly average)	2.1%	2.1%	1.8%	1.4%	0.9%
Churn (monthly average)	-1.2%	-1.1%	-1.2%	-1.3%	-1.1%
Growth in installed base (monthly average)	0.9%	1.0%	0.6%	0.1%	-0.2%
Number of employees (Rackers) at period end	2,254	2,422	2,536	2,611	2,661
Number of servers deployed at period end	39,755	42,424	45,231	47,518	50,038
Profitability					
Income from operations	\$ 10,138	\$ 8,396	\$ 9,490	\$ 12,125	\$ 13,021
Depreciation and amortization	\$ 19,051	\$ 21,637	\$ 23,174	\$ 26,310	\$ 27,804
Share-based compensation expense					
Cost of revenues	\$ 365	\$ 603	\$ 819	\$ 678	\$ 629
Sales & marketing	\$ 401	\$ 533	\$ 612	\$ 595	\$ 698
General & administrative	\$ 1,986	\$ 2,668	\$ 2,886	\$ 2,871	\$ 2,910
Total share-based compensation expense	\$ 2,752	\$ 3,804	\$ 4,317	\$ 4,144	\$ 4,237
Adjusted EBITDA (1)	\$ 31,941	\$ 33,837	\$ 36,981	\$ 42,579	\$ 45,062
Adjusted EBITDA margin	26.7%	25.9%	26.7%	29.7%	31.1%
Operating income margin	8.5%	6.4%	6.9%	8.5%	9.0%
Income from operations	\$ 10,138	\$ 8,396	\$ 9,490	\$ 12,125	\$ 13,021
Effective tax rate	39.9%	37.9%	29.6%	27.7%	36.6%
Net operating profit after tax (NOPAT) (1)	\$ 6,093	\$ 5,214	\$ 6,681	\$ 8,766	\$ 8,255
NOPAT margin	5.1%	4.0%	4.8%	6.1%	5.7%
Capital efficiency and returns					
Interest bearing debt	\$ 145,130	\$ 183,553	\$ 297,933	\$ 300,413	\$ 201,507
Stockholders' equity	\$ 105,770	\$ 117,417	\$ 269,008	\$ 269,684	\$ 282,880
Less: Excess cash	\$ —	\$ —	\$ (235,421)	\$ (200,620)	\$ (117,611)
Capital base	\$ 250,900	\$ 300,970	\$ 331,520	\$ 369,477	\$ 366,776
Average capital base	\$ 229,612	\$ 275,935	\$ 316,245	\$ 350,497	\$ 368,127
Capital turnover (annualized)	2.08	1.90	1.75	1.63	1.58
Return on capital (annualized) (1)	10.6%	7.6%	8.5%	10.0%	9.0%
Capital expenditures					
Purchases of property and equipment, net	\$ 47,248	\$ 40,273	\$ 45,328	\$ 32,547	\$ 25,589
Vendor financed equipment purchases	\$ 21,619	\$ 26,014	\$ 23,009	\$ 14,848	\$ 11,683
Total capital expenditures	\$ 68,867	\$ 66,287	\$ 68,337	\$ 47,395	\$ 37,272
Customer gear	\$ 27,558	\$ 27,347	\$ 27,627	\$ 23,073	\$ 19,255
Data center build outs	\$ 25,392	\$ 18,509	\$ 21,679	\$ 14,240	\$ 11,386
Office build outs	\$ 8,832	\$ 12,815	\$ 11,227	\$ 8,340	\$ 2,239
Capitalized software and other projects	\$ 7,085	\$ 7,616	\$ 7,804	\$ 1,742	\$ 4,392
Total capital expenditures	\$ 68,867	\$ 66,287	\$ 68,337	\$ 47,395	\$ 37,272
Infrastructure capacity and utilization					
Technical square feet of data center space at period end	114,749	133,462	136,962	134,923	157,523
Annualized net revenue per average technical square foot	\$ 4,170	\$ 4,217	\$ 4,093	\$ 4,212	\$ 3,969
Utilization rate at period end	67.3%	59.1%	63.4%	70.4%	64.6%

* December 31, 2008 and March 31, 2009 amounts include customers resulting from the Slicehost acquisition, and March 31, 2009 includes SaaS customers for Jungle Disk.

(1) See discussion and reconciliation of our Non-GAAP financial measures to the most comparable GAAP measures.

[Table of Contents](#)

Non-GAAP Financial Measures

Return on Capital (ROC) (Non-GAAP financial measure)

We define Return on Capital as follows: $ROC = \text{Net operating profit after tax (NOPAT)} / \text{Average capital base}$

$NOPAT = \text{Income from operations} \times (1 - \text{Effective tax rate})$

$\text{Average capital base} = \text{Average of (Interest bearing debt} + \text{stockholders' equity} - \text{excess cash)} = \text{Average of (Total assets} - \text{excess cash} - \text{accounts payables and accrued expenses} - \text{deferred revenues} - \text{other non-current liabilities)}$

Year-to-date average balances are based on an average calculated using the quarter end balances at the beginning of the period and all other quarter ending balances included in the period.

For the period ending March 31, 2009, we define excess cash as the amount of cash and cash equivalents that exceeds our operating cash requirements, which for this period is calculated as three percent of our annualized net revenues for the three months ended March 31, 2009. For prior periods, we defined excess cash as our investments in money market funds. As a result of slower growth and a decrease in capital requirements due to the recent completion of the last phase of our DFW data center build out and signing of a lease to occupy a new data center later in 2009 that has minimal data center build out costs, our operating cash needs have declined. We will periodically review the calculation and adjust it to reflect our projected cash requirements for the upcoming year.

We believe that ROC is an important metric for investors in evaluating our company's performance. ROC relates to after-tax operating profits with the capital that is placed into service. It is therefore a performance metric that incorporates both the Statement of Income and the Balance Sheet. ROC measures how successfully capital is deployed within a company.

Note that ROC is not a measure of financial performance under accounting principles generally accepted in the United States (GAAP) and should not be considered a substitute for return on assets, which we consider to be the most directly comparable GAAP measure. ROC has limitations as an analytical tool, and when assessing our operating performance, you should not consider ROC in isolation, or as a substitute for other financial data prepared in accordance with GAAP. Other companies may calculate ROC differently than we do, limiting its usefulness as a comparative measure.

ROC decreased from 10.6% for the first quarter of 2008 to 9.0% for the first quarter of 2009. These decreases were due to a proportionately larger increase in the average capital base compared to the increase in income from operations over the same time period. Included in the average capital base for 2008 are capital expenditures related to our new corporate headquarters facility and data centers that were or are in the process of being built out. For the fourth quarter of 2008, our tax rate was lower, favorably impacting the ROC calculation for that period. Return on assets decreased from 6.6% for the first quarter of 2008 to 4.1% for the first quarter of 2009 due to the significant investments over these time periods and the timing of such investments. Also, during the second half of 2008 through March 2009 we held additional amounts of cash and cash equivalents due to our IPO in August 2008, and borrowings under our revolving credit facility. We repaid \$100.0 million on our revolving credit facility in March 2009.

Table of Contents

See our reconciliation of the calculation of return on assets to ROC in the following table:

(Dollars in thousands)	Three Months Ended				
	March 31, 2008	June 30, 2008	September 30, 2008 (Unaudited)	December 31, 2008	March 31, 2009
Income from operations	\$ 10,138	\$ 8,396	\$ 9,490	\$ 12,125	\$ 13,021
Effective tax rate	39.9%	37.9%	29.6%	27.7%	36.6%
Net operating profit after tax (NOPAT)	\$ 6,093	\$ 5,214	\$ 6,681	\$ 8,766	\$ 8,255
Net income	\$ 5,442	\$ 4,182	\$ 5,235	\$ 6,844	\$ 6,588
Average total assets	\$ 328,567	\$ 381,815	\$ 546,761	\$ 685,236	\$ 643,349
Less: Average excess cash	\$ —	\$ —	\$ (117,710)	\$ (218,021)	\$ (159,116)
Less: Average accounts payable and accrued expenses	\$ (71,071)	\$ (76,494)	\$ (79,837)	\$ (76,564)	\$ (71,299)
Less: Average deferred revenues (current and non-current)	\$ (18,684)	\$ (19,762)	\$ (20,077)	\$ (20,111)	\$ (20,271)
Less: Average other non-current liabilities	\$ (9,200)	\$ (9,624)	\$ (12,892)	\$ (20,043)	\$ (24,536)
Average capital base	\$ 229,612	\$ 275,935	\$ 316,245	\$ 350,497	\$ 368,127
Return on assets (annualized)	6.6%	4.4%	3.8%	4.0%	4.1%
Return on capital (annualized)	10.6%	7.6%	8.5%	10.0%	9.0%

Adjusted EBITDA (Non-GAAP financial measure)

We use Adjusted EBITDA as a supplemental measure to review and assess our performance. We define Adjusted EBITDA as Net income, plus income taxes, total other (income) expense, depreciation and amortization, and non-cash charges for share-based compensation.

Adjusted EBITDA is a metric that is used in our industry by the investment community for comparative and valuation purposes. We disclose this metric in order to support and facilitate the dialogue with research analysts and investors.

Note that Adjusted EBITDA is not a measure of financial performance under GAAP and should not be considered a substitute for operating income, which we consider to be the most directly comparable GAAP measure. Adjusted EBITDA has limitations as an analytical tool, and when assessing our operating performance, you should not consider Adjusted EBITDA in isolation, or as a substitute for net income or other consolidated income statement data prepared in accordance with GAAP. Other companies may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

EBITDA has increased steadily due to increased revenues with lower general and administrative costs as a percentage of revenues, while cost of revenues and sales and marketing costs have remained relatively flat as a percentage of revenues. During 2008 and continuing into 2009, we implemented a series of operational excellence initiatives and focused on reducing costs. Income from operations have also been favorably impacted by these initiatives, but was partially offset by higher depreciation as a percentage of revenues due to capital investments, and increasing share based compensation expense from grants of stock options and awards to employees. Income from operations decreased from the first quarter of 2008 to the second quarter of 2008 due to our capital investments and increasing share based compensation costs; however it gradually increased in the subsequent quarters as a result of our operational excellence initiatives and focus on cost reductions.

[Table of Contents](#)

See our Adjusted EBITDA reconciliation below.

(Dollars in thousands)	Three Months Ended				
	March 31, 2008	June 30, 2008	September 30, 2008 (Unaudited)	December 31, 2008	March 31, 2009
Net revenues	\$ 119,613	\$ 130,829	\$ 138,354	\$ 143,137	\$ 145,077
Income from operations	\$ 10,138	\$ 8,396	\$ 9,490	\$ 12,125	\$ 13,021
Net income	\$ 5,442	\$ 4,182	\$ 5,235	\$ 6,844	\$ 6,588
Plus: Income taxes	\$ 3,613	\$ 2,553	\$ 2,199	\$ 2,620	\$ 3,807
Plus: Total other (income) expense	\$ 1,083	\$ 1,661	\$ 2,056	\$ 2,661	\$ 2,626
Plus: Depreciation and amortization	\$ 19,051	\$ 21,637	\$ 23,174	\$ 26,310	\$ 27,804
Plus: Share-based compensation expense	\$ 2,752	\$ 3,804	\$ 4,317	\$ 4,144	\$ 4,237
Adjusted EBITDA	\$ 31,941	\$ 33,837	\$ 36,981	\$ 42,579	\$ 45,062
Operating income margin	8.5%	6.4%	6.9%	8.5%	9.0%
Adjusted EBITDA margin	26.7%	25.9%	26.7%	29.7%	31.1%

[Table of Contents](#)**Results of Operations**

The following tables set forth our results of operations for the specified periods and as a percentage of our revenues for those same periods. The period-to-period comparison of financial results is not necessarily indicative of future results.

Consolidated Statements of Income (Unaudited):

(In thousands)	Three Months Ended				
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	March 31, 2009
Net revenues	\$ 119,613	\$ 130,829	\$ 138,354	\$ 143,137	\$ 145,077
Costs and expenses:					
Cost of revenues	39,223	42,842	45,499	45,019	46,210
Sales and marketing	17,568	19,846	21,462	21,447	20,502
General and administrative	33,633	38,108	38,729	38,236	37,540
Depreciation and amortization	19,051	21,637	23,174	26,310	27,804
Total costs and expenses	109,475	122,433	128,864	131,012	132,056
Income from operations	10,138	8,396	9,490	12,125	13,021
Other income (expense):					
Interest expense	(1,330)	(1,834)	(1,912)	(3,153)	(2,535)
Interest and other income	247	173	(144)	492	(91)
Total other income (expense)	(1,083)	(1,661)	(2,056)	(2,661)	(2,626)
Income before income taxes	9,055	6,735	7,434	9,464	10,395
Income taxes	3,613	2,553	2,199	2,620	3,807
Net Income	\$ 5,442	\$ 4,182	\$ 5,235	\$ 6,844	\$ 6,588

Consolidated Statements of Income, as a Percentage of Net Revenues (Unaudited):

(Percent of net revenues)	Three Months Ended				
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	March 31, 2009
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Costs and expenses:					
Cost of revenues	32.8%	32.7%	32.9%	31.5%	31.9%
Sales and marketing	14.7%	15.2%	15.5%	15.0%	14.1%
General and administrative	28.1%	29.1%	28.0%	26.7%	25.9%
Depreciation and amortization	15.9%	16.5%	16.7%	18.4%	19.2%
Total costs and expenses	91.5%	93.6%	93.1%	91.5%	91.0%
Income from operations	8.5%	6.4%	6.9%	8.5%	9.0%
Other income (expense):					
Interest expense	-1.1%	-1.4%	-1.4%	-2.2%	-1.7%
Interest and other income	0.2%	0.1%	-0.1%	0.3%	-0.1%
Total other income (expense)	-0.9%	-1.3%	-1.5%	-1.9%	-1.8%
Income before income taxes	7.6%	5.1%	5.4%	6.6%	7.2%
Income taxes	3.0%	2.0%	1.6%	1.8%	2.6%
Net Income	4.5%	3.2%	3.8%	4.8%	4.5%

Due to rounding, totals may not equal the sum of the line items in the table above.

[Table of Contents](#)

First Quarter 2009 Overview

To aid in understanding our operating results for the periods covered by this report, we have provided an executive overview and a summary of the significant events that affected the most recent reporting period. These sections should be read in conjunction with the other portions of management's discussion and analysis of our financial condition and results of operations, our "Risk Factors" section, and our consolidated financial statements and notes included in this report.

The highlights and significant events of the first quarter of 2009 and the impact on our operating results compared to the fourth quarter of 2008 were as follows:

Net revenues—Net revenues increased 1.4% from \$143.1 million in the fourth quarter 2008 to \$145.1 million in the first quarter of 2009. The growth rate was impacted by the broader economic environment as we continue to experience a reduction in IT spend by our customers, as well as a strengthening U.S. dollar relative to the pound sterling. Our first quarter of 2009 growth rate was negatively impacted by 2.2% due to the appreciation of the dollar as compared to the fourth quarter of 2008. During the first quarter of 2009, we experienced a monthly average churn rate of 1.1%, which slightly decreased from 1.3% for the fourth quarter of 2008 with a decrease in net upgrades from 1.4% for the fourth quarter of 2008 to 0.9% for the first quarter of 2009. Overall, our installed base declined at an average rate of (0.2)% per month during the first quarter of 2009 compared to growth at an average rate of 0.1% for the fourth quarter 2008.

Income from Operations—Income from operations increased \$0.9 million from \$12.1 million in the fourth quarter of 2008 to \$13.0 million in the first quarter of 2009. Income from operations increased as a result of higher revenue, partially offset by an increase in operating expenses. Operating income margin was 8.5% in the fourth quarter of 2008 compared to 9.0% in the first quarter of 2009. During 2008 and continuing into 2009, we implemented a series of operational excellence initiatives that are intended to strengthen our information systems and processes throughout our organization to support our continued growth. These initiatives along with a continued focus on the reduction of expenses was evidenced in lower sales and marketing and general and administrative expenses for the first quarter of 2009 compared to the fourth quarter of 2008.

Adjusted EBITDA - Adjusted EBITDA increased \$2.5 million or 5.9% from \$42.6 million in the fourth quarter of 2008 to \$45.1 million in the first quarter of 2009. Adjusted EBITDA as a percentage of revenue was 29.7% in the fourth quarter of 2008 compared to 31.1% in the first quarter of 2009. See the discussion of Adjusted EBITDA, a non-GAAP financial measure for additional information.

Net Income and Net Income per Share—Net income was \$6.8 million, or \$0.06 per share on a diluted basis in the fourth quarter of 2008 compared to net income of \$6.6 million, or \$0.05 per share on a diluted basis in the first quarter of 2009. As a result, net income decreased \$0.2 million from the fourth quarter of 2008 to the first quarter of 2009. The decrease in net income was mainly due to higher income tax expense in the first quarter of 2009 compared to the fourth quarter 2008.

In January 2009, we completed the last phase of our data center build out at our Grapevine, Texas data center. The completion of this phase increased the total available technical square feet by 22,600.

In February 2009, Rackspace and Grizzly Ventures LLC, a subsidiary of DuPont Fabros Technology, Inc., entered into an agreement to lease 11,000 square feet of technical square feet in a data center facility located in Virginia. We expect the facility to begin operations in the second quarter of 2009.

In March 2009, the first earnouts related to the integration of product offerings were achieved related to the Slicehost and Jungle Disk acquisitions. The integration of our legacy cloud offerings with these acquired technologies increases our suite of offerings in the cloud space. We continue to rapidly evolve our cloud suite to offer more features and make the technology more usable with traditional managed hosting. We also converted the Jungle Disk software offering to a software as a service model. As a result, we have organized our Cloud business into the following: Cloud Sites, Cloud Servers, and Cloud Files.

Quarter ended March 31, 2008 and March 31, 2009

Net Revenues

Our net revenues were \$119.6 million for the quarter ended March 31, 2008 and \$145.1 million for the quarter ended March 31, 2009, an increase of \$25.5 million, or 21.3%. Our increase in net revenues was primarily due to increased volume of services provided, both due to an increasing number of customer accounts and due to incremental services rendered to existing customers.

Table of Contents

Recurring revenues

Our recurring revenues were \$115.3 million for the quarter ended March 31, 2008 and \$141.3 million for the quarter ended March 31, 2009, an increase of \$26.0 million, or 22.5%. This increase was driven in part by new customer growth as we increased our customer base from 31,662 at March 31, 2008 to 62,078 at March 31, 2009, or 96.1%. The customer growth includes customers acquired in our acquisition of Slicehost in October 2008.

Non-recurring revenues

Our non-recurring revenues decreased from \$4.3 million for the quarter ended March 31, 2008 to \$3.8 million for the quarter ended March 31, 2009, a decrease of 11.6% as a result of decreased customer overage charges.

Cost of Revenues

Our cost of revenues was \$39.2 million during the first quarter of 2008 and \$46.2 million during the first quarter of 2009, an increase of \$7.0 million, or 17.9%. Of this increase, \$2.7 million was attributable to an increase in salaries, benefits, and share-based compensation expense. The cost increase was further attributable to an increase in license costs of \$3.5 million and an increase in data center costs of \$1.8 million related to bandwidth, power, and rent. Offsetting these increases was a decrease in maintenance costs and replacement of IT equipment parts in the amount of approximately \$1.0 million.

Sales and Marketing Expenses

Our sales and marketing expenses were \$17.6 million during the first quarter of 2008 and \$20.5 million during the first quarter of 2009, an increase of \$2.9 million, or 16.5%. Of this increase, \$2.9 million was primarily attributable to an increase in salaries, commissions, benefits, and share-based compensation expense. Total compensation increased as a result of the hiring of additional sales and marketing personnel and the impact of commissions associated with increased sales. An additional \$0.2 million of this increase was primarily attributable to advertising, Internet-related marketing expenditures and partnership programs to support revenue growth for new and existing customer accounts, offset by a \$0.2 million decrease in travel and professional fees.

General and Administrative Expenses

Our general and administrative expenses were \$33.6 million during the first quarter of 2008 and \$37.5 million during the first quarter of 2009, an increase of \$3.9 million, or 11.6%. Of this increase, \$1.1 million was attributable to an increase in salaries and benefits, of which share-based compensation expense increased by \$1.0 million as a result of stock option grants to employees in 2008 and in the first quarter of 2009. Bad debt expense increased by \$2.0 million due to an increase in our days sales outstanding as customers have generally been slower to pay outstanding balances due to the current economic conditions. We also experienced increases in internal software support and maintenance of \$0.9 million, and other expenditures, including credit card and professional fees, of \$0.7 million as a result of the growth in our business and additional headcount. Partially offsetting these increases were decreases to travel expenditures of \$0.4 million and computer hardware and office supplies of \$0.4 million.

Depreciation and Amortization Expense

Our depreciation and amortization expense was \$19.1 million during the first quarter of 2008 and \$27.8 million during the first quarter of 2009, an increase of \$8.7 million, or 45.5%. This increase in depreciation and amortization expense was a direct result of an increase in property and equipment related to depreciable assets including increases in data center equipment and leasehold improvements due to data center build outs, as well as intangible assets acquired through acquisitions.

Other Income (Expense)

Our interest expense was \$1.3 million during the first quarter of 2008 and \$2.5 million during the first quarter of 2009, an increase of \$1.2 million or 92.3%. This relative increase was primarily due to the increased level of indebtedness. Interest expense was partially offset by capitalized interest of \$0.5 million during the first quarter of 2008 and \$0.3 million during the first quarter of 2009.

Interest and other income (expense) was \$0.2 million during the first quarter of 2008 and (\$0.1) million during the first quarter of 2009. In the first quarter of 2008, we recognized \$0.2 million in interest income. In the first quarter of 2009, we recognized \$0.1 million of interest income offset by foreign currency losses of \$0.2 million.

Income Taxes

Our effective tax rate decreased from 39.9% during the first quarter of 2008 to 36.6% during the first quarter of 2009, primarily a result of earnings being realized in countries where we have lower statutory rates than compared to the first quarter of

[Table of Contents](#)

2008. The differences between our effective tax rate and the U.S. federal statutory rate of 35% principally result from our geographical distribution of taxable income, state income taxes, research and development credits, and permanent differences between the book and tax treatment of certain items. Our foreign earnings are generally taxed at lower rates than in the United States.

Quarterly Results of Operations

Revenues have increased sequentially in each of the quarters primarily due to increased volume of services provided, both due to an increasing number of customer accounts over time and due to incremental services rendered to existing customers. Net revenues increased from \$119.6 million for the quarter ended on March 31, 2008 to \$145.1 million for the quarter ended on March 31, 2009, which represents an average growth rate of approximately 4.9% per quarter. In the second half of 2008 and the first quarter of 2009, the growth rate was negatively impacted by the deteriorating economic conditions and the strengthening U.S. dollar versus the pound sterling. From January 2008 through March 2009, our average monthly growth in installed base was 0.5% per month, and our customer base increased from 31,662 at the end of the first quarter of 2008 to 62,078 customers at the end of the first quarter of 2009, which includes customers acquired through our acquisition of Slicehost in the fourth quarter of 2008.

Because of the growth of our revenues, total operating expenses increased sequentially in each of the quarters presented, primarily as we continued to add personnel especially in the first half of 2008, and incurred costs to accommodate our growth. During the second half of 2008, we implemented a series of operational excellence initiatives and focused on reducing expenditures, which is evidenced in the reduction in sales and marketing and general and administrative expenses as a percentage of revenues. These reductions were partially offset with increasing depreciation and amortization expense resulting from equipment expenditures and facility additions to support our customer growth. Rackspace completed strategic build outs during this time period including the Slough, U.K. data center, which commenced operations in June 2008, and completion of the third phase of our Grapevine, Texas data center in January 2009, as well as capital expenditures related to the build out of a corporate facility.

Liquidity and Capital Resources

At March 31, 2009, our cash and cash equivalents balance was \$135.0 million. We use our cash and cash equivalents, cash flow from operations, capital leases, and existing amounts available under our revolving credit facility as our primary source of liquidity. We believe that internally generated cash flows, along with cash and cash equivalents currently available to us, are sufficient to support business operations, capital expenditures, in addition to a level of discretionary investments.

We maintain debt levels that we establish through consideration of a number of factors, including cash flow expectations, cash requirements for operations, investment plans (including acquisitions), and our overall cost of capital. Outstanding debt under our line of credit decreased from \$200.0 million as of December 31, 2008 to \$100.0 million at March 31, 2009. The decrease in amounts outstanding under our line of credit was due primarily to repayment of \$100.0 million in the first quarter of 2009. As of March 31, 2009, we have an additional \$144.2 million available for future borrowings.

We have vendor finance arrangements in the form of leases and notes payable with our major vendors that permit us to finance our purchases of data center equipment. As of December 31, 2008 and March 31, 2009, we had \$100.4 million and \$101.5 million outstanding with respect to these arrangements. We believe our borrowings from these arrangements will continue to be available, and as long as they are competitive, we will continue to finance purchases through these arrangements.

Capital Expenditure Requirements

For 2009, we expect capital expenditure levels between \$120 million and \$160 million in the aggregate consisting of \$75-\$100 million for customer gear, approximately \$25 million for data center infrastructure costs, \$10-\$15 million for office build-outs, and \$10-\$20 million for capitalized software and other. Our sources to fund these capital expenditures will be our cash and cash equivalents, cash flow from operations, capital leases, and existing amounts available under our revolving credit facility.

Our available cash and cash equivalents are held in bank deposits, overnight sweep accounts, and money market funds. Our money market mutual funds invest exclusively in high-quality, short-term securities that are issued or guaranteed by the U.S. government or by U.S. government agencies. We actively monitor the third-party depository institutions that hold our cash and cash equivalents. Our emphasis is primarily on safety of principal while secondarily maximizing yield on those funds. The balances may exceed the Federal Deposit Insurance Corporation or "FDIC" insurance limits or are not insured by the FDIC. While we monitor the balances in our accounts and adjust the balances as appropriate, these balances could be impacted if the underlying

[Table of Contents](#)

depository institutions fail or could be subject to other adverse conditions in the financial markets. To date, we have experienced no loss or lack of access to our invested cash and cash equivalents; however, we can provide no assurances that access to our funds will not be impacted by adverse conditions in the financial markets.

The credit markets in the U.S. have recently experienced adverse conditions. Continuing volatility may increase costs associated with obtaining financing due to increased spreads over relevant interest rate benchmarks. We currently believe that current cash and cash equivalents, and cash generated by operations will be sufficient to meet our operating and capital needs in the foreseeable future. Our long-term future capital requirements will depend on many factors, most importantly our growth of revenue, and our investments in new technologies and services. Our ability to generate cash depends on our financial performance, general economic conditions, technology trends and developments, and other factors. We could be required, or could elect, to seek additional funding in the form of debt or equity. These additional funds may not be available on terms acceptable to us, or at all.

The following table sets forth a summary of our cash flows for the periods indicated:

(In thousands)	Three Months Ended	
	March 31, 2008	March 31, 2009
	(Unaudited)	
Cash provided by operating activities	\$ 36,158	\$ 30,799
Cash used in investing activities	\$ (47,248)	\$ (25,589)
Cash provided by (used in) financing activities	\$ 13,661	\$ (108,354)
Acquisition of property and equipment by capital and finance method leases and equipment notes payable	\$ 21,619	\$ 11,683

Operating Activities

Net cash provided by operating activities is primarily a function of our profitability, the amount of non-cash charges included in our profitability, and our working capital management. Net cash provided by operating activities was \$36.2 million in the first quarter of 2008 compared to \$30.8 million in the first quarter of 2009, a decrease of \$5.4 million or 14.9%. Net income increased from \$5.4 million in the first quarter of 2008 to \$6.6 million in the first quarter of 2009. A summary of the significant changes in non-cash adjustments affecting net income and changes in assets and liabilities impacting operating cash flows is as follows:

- Depreciation and amortization expense was \$19.1 million in the first quarter of 2008 compared to \$27.8 million in the first quarter of 2009. The increase in depreciation and amortization was due to the purchases of servers, networking gear and computer software, and leasehold improvements, as well as amortization of intangibles related to acquisitions.
- Our provision for bad debts and customer credits increased from \$0.4 million in the first quarter of 2008 to \$2.3 million in the first quarter of 2009 due to slower cash collections as a result of the current economic conditions.
- The change in deferred income taxes was \$1.2 million in the first quarter of 2008 compared to \$2.5 million in the first quarter of 2009. The increase in deferred taxes was primarily due to the 50% bonus depreciation tax deduction in year one for property and equipment additions, as equipment is depreciated straight-line for GAAP purposes.
- Share-based compensation expense was \$2.8 million in the first quarter of 2008 compared to \$4.2 million in the first quarter of 2009. The increase in expense was due to stock awards issued in 2008 and the first quarter of 2009.
- The change in accounts receivable was a cash inflow of \$0.4 million in the first quarter of 2008 compared to a cash outflow of \$6.3 million in the first quarter of 2009. Our accounts receivable balance has increased during the first quarter of 2009 as a result of increased sales and slower customer payment patterns that are being influenced by the current economic conditions.
- The change in prepaid expenses and other current assets created a \$1.2 million cash outflow in the first quarter of 2008 compared to a \$0.1 million cash outflow in the first quarter of 2009.
- The change in accounts payable created a \$6.3 million cash inflow in the first quarter of 2008 compared to a \$6.6 million cash outflow in the first quarter of 2009. The changes resulted from the timing of payments for trade payables and in the first quarter of 2009, a decrease in accrued compensation and benefits.

Table of Contents

Investing Activities

Net cash used in investing activities was primarily expenditures for growth capital. Historically our main investing activities have consisted of purchases of IT equipment for our data center infrastructure, furniture, equipment and leasehold improvements to support our operations.

Our net cash used in investing activities was \$47.2 million during the first quarter of 2008 compared to \$25.6 million during the first quarter of 2009, a decrease of \$21.6 million, or 45.8%.

We also purchase equipment through capital lease arrangements and other vendor financing that do not require an initial outlay of cash. Purchases through these arrangements decreased from \$21.6 million during the first quarter of 2008 to \$11.7 million during the first quarter of 2009. The combined total in capital expenditures for property and equipment decreased from \$68.9 million during the first quarter of 2008 to \$37.3 million during the first quarter of 2009. Of the 2009 amount, \$19.3 million was used to purchase dedicated customer equipment, \$11.4 million for data center build outs, \$2.2 million related to build out of office space and \$4.4 million was invested in capitalized software, including internally developed software that is focused on improving our service offerings, and other purchases.

Financing Activities

Net cash provided by (used in) financing activities was \$13.7 million during the first quarter of 2008 compared to (\$108.4) million during the first quarter of 2009, a decrease of \$122.1 million. This was due primarily to a repayment of \$100.0 million on our revolving credit facility in March 2009 compared to \$20.0 million in net advances during the first quarter of 2008. Principal payments on capital leases and notes payable were \$8.7 million during the first quarter of 2008 compared to \$10.6 million during the first quarter of 2009. In addition, proceeds from exercises of stock options increased from \$0.5 million for the first quarter of 2008 to \$2.2 million for the first quarter of 2009.

Contractual Obligations, Commitments and Contingencies

The following table summarizes our contractual obligations as of March 31, 2009:

(In thousands)	Total	2009	2010-2011	2012-2013	2014 and Beyond
Capital and finance method leases (1)	\$ 98,039	\$ 33,824	\$ 58,802	\$ 5,413	\$ —
Operating leases	87,949	12,759	23,946	21,853	29,391
Purchase commitments	4,944	2,944	1,994	6	—
Revolving credit facility (2)	100,000	—	—	100,000	—
Software and equipment notes (2)	9,971	5,192	4,514	265	—
Total contractual obligations	<u>\$ 300,903</u>	<u>\$ 54,719</u>	<u>\$ 89,256</u>	<u>\$ 127,537</u>	<u>\$ 29,391</u>

(1) Represents principal and interest.

(2) Represents principal only.

Leases

Capital and finance method leases are primarily related to expenditures for IT equipment. Our operating leases are primarily for office space and data center facilities.

In February 2009, Rackspace entered into an agreement to lease 11,000 square technical square feet in a data center facility. The lease has a term of 15 years from the commencement. Rackspace has a one-time option to terminate the lease after ten years.

Purchase commitments

Our purchase commitments are primarily related to bandwidth for our data centers.

Table of Contents

Revolving Credit Facility

We have a credit facility with a committed amount of \$245.0 million. As of March 31, 2009, we had \$100.0 million of revolving loans outstanding and a \$0.8 million letter of credit outstanding under the credit facility, and \$144.2 million available.

In December 2007, we entered into an interest rate swap agreement converting a portion of our interest rate exposure from a floating rate basis to a fixed rate of 4.135% per annum. The interest rate swap agreement has a notional amount of \$50.0 million and matures in 2010.

Software and Equipment Notes

We finance certain software and equipment from third-party vendors. The terms of these arrangements are generally one to five years.

Off-Balance Sheet Arrangements

During the periods presented, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities or any other entity defined as such within Financial Accounting Standards Board Interpretation No. 46 (Revised 2003), *Consolidation of Variable Interest Entities—An Interpretation of ARB No. 51*. These entities are typically established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

We have entered into various indemnification arrangements with third parties, including vendors, customers, landlords, our officers and directors, stockholders of acquired companies, and third parties to whom and from whom we license technology. Generally, these indemnification agreements require us to reimburse losses suffered by third parties due to various events, such as lawsuits arising from patent or copyright infringement or our negligence. Certain of these agreements require us to indemnify the other party against certain claims relating to property damage, personal injury or the acts or omissions by us, our employees, agents or representatives. To date, there have been no claims against us or our customers pertaining to such indemnification provisions and no amounts have been recorded.

These indemnification obligations are considered off-balance sheet arrangements in accordance with FASB Interpretation 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. To date, we have not encountered material costs as a result of such obligations and have not accrued any liabilities related to such indemnification obligations in our financial statements.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with GAAP. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application, while in other cases, significant judgment is required in making estimates, and selecting among available alternative accounting standards that allow different accounting treatment for similar transactions. These judgments and estimates affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures. We consider these policies requiring significant management judgment and estimates used in the preparation of our financial statements to be critical accounting policies.

We review our estimates and judgments on an ongoing basis, including those related to revenue recognition, service credits, allowance for doubtful accounts, property and equipment, goodwill and intangibles, contingencies, the fair valuation of stock related to share-based compensation, software development, and income taxes.

We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances to determine the carrying values of assets and liabilities. In many instances, we could have reasonably used different accounting estimates, and in other instances changes in the accounting estimates are reasonably likely to occur from period-to-period. Accordingly, actual results could differ significantly from the estimates made by our management. To the extent that there are material differences between these estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. We believe the following accounting policies to be critical to the judgments and estimates used in the preparation of our financial statements.

- Revenue recognition;
- Valuation of accounts receivable and service credits;

Table of Contents

- Property, equipment, and other long lived assets;
- Goodwill and intangible assets;
- Contingencies;
- Share-based compensation;
- Software development;
- Income taxes;

A description of our critical accounting policies that involve significant management judgment appears in our Annual Report filed on Form 10-K filed with the SEC on March 2, 2009, as amended under “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies.”

Recent Accounting Pronouncements

For a full description of new accounting pronouncements, including the respective dates of adoption and impact on results of operation and financial condition, see Note 2 of the Consolidated Financial Statements.

[Table of Contents](#)

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Power Prices. We are a large consumer of power. During the first quarter of 2009, we paid approximately \$4.6 million to utility companies to power our data centers, representing 3.1% of our net revenues. Because we anticipate further revenue growth for the foreseeable future, we expect to consume more power in the future. Power costs vary by geography, the source of power generation, and seasonal fluctuations. Our largest exposure to energy prices based on consumption currently exists at our Grapevine, Texas data center in the Dallas-Fort Worth area, a deregulated energy market. In August 2008, we entered into a fixed price contract with a provider of electricity for power for our Grapevine data center. The contract allows the company to periodically convert the price to a floating market price during the arrangement. The contract is for 19 months, and allows the provider an option to extend the contract for an additional 19 months.

Interest Rates. Our main credit facility is a revolving line of credit with a base rate determined by the London Interbank Offered Rate, or LIBOR. This market rate of interest is fluctuating and exposes our interest expense to risk. Our credit agreement obligates us to hedge part of that interest rate risk with appropriate instruments, such as interest rate swaps or interest rate options. On December 10, 2007, we entered into an at-the-market fixed-payer interest rate swap with a notional amount of \$50.0 million at an annual rate of 4.135%. This swap essentially fixes the rate we pay on the first \$50.0 million outstanding on our revolving credit facility. As we borrow more, we may enter into additional swaps to continuously control our interest rate risk. Generally, we do not hedge our complete exposure. As a result, we are exposed to interest rate risk on the un-hedged portion of our borrowings, which was \$50.0 million as of March 31, 2009. For example, a 100 basis point increase in LIBOR would increase the interest expense on \$10 million of borrowings that are not hedged by \$0.1 million annually.

Leases. The majority of our purchases of customer gear are vendor financed through capital leases with fixed payments terms generally over three to five years, coinciding with the depreciation period of the equipment. As of March 31, 2009 we have a liability for these leases of \$91.5 million on our consolidated balance sheet, of which \$39.9 million is classified as current. Although we believe our borrowings from these arrangements will continue to be available, we have exposure that vendor financing may not longer be available or the borrowing rates, which are fixed rates, may increase.

Foreign Currencies. The majority of our customers are invoiced, and substantially all of our expenses are paid, by us or our subsidiaries in the functional currency of our company or our subsidiaries, respectively. A relatively insignificant amount of customers are invoiced in currencies other than the applicable functional currency, such as the Euro. As a result, our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. We also have exposure to foreign currency transaction gains and losses as the result of certain receivables due from our foreign subsidiaries, which are denominated in both U.S. dollars and the pound sterling. During the first quarter of 2009, we recognized foreign currency losses of \$0.2 million within other income (expense). We have not entered into any currency hedging contracts, although we may do so in the future. As we grow our international operations, our exposure to foreign currency risk could become more significant.

[Table of Contents](#)

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, 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 over financial reporting

During the first quarter of 2009, we completed the implementation of an integrated billing software system. The implementation involved changes in systems that included internal controls, and accordingly, these changes have required changes to our system of internal controls. We reviewed the system as it was being implemented and the controls affected by the implementation of the new system and made appropriate changes to affected internal controls during the implementation process. We believe that the controls as modified are appropriate and functioning effectively.

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 all 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 also is 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 are party to various legal proceedings, which we consider routine and incidental to our business. On October 22, 2008, *Benjamin E. Rodriguez D/B/A Management and Business Advisors vs. Rackspace Hosting, Inc. and Graham Weston*, was filed in the 37th District Court in Bexar County Texas by a former consultant to the company, Benjamin E. Rodriguez. The suit alleges breach of an oral agreement to issue Mr. Rodriguez a 1% interest in our stock in the form of options or warrants for compensation for services he was engaged to perform for us. We believe that the plaintiff's position is without merit and intend to vigorously defend this lawsuit. We do not expect the results of this claim or any other current proceeding to have a material adverse effect on our business, results of operations or financial condition.

ITEM 1A – RISK FACTORS

Risks Related to Our Business and Industry

Our operating results may be adversely impacted by worldwide political and economic uncertainties and specific conditions in the markets we address. As a result, the market price of our common stock decline.

Recently general worldwide economic conditions have experienced a deterioration due to credit conditions resulting from the recent financial crisis affecting the banking system and financial markets and other factors, slower economic activity, concerns about inflation and deflation, volatility in energy costs, decreased consumer confidence, reduced corporate profits and capital spending, the ongoing effects of the war in Iraq and Afghanistan, recent international conflicts and terrorist and military activity, and the impact of natural disasters and public health emergencies. These conditions make it extremely difficult for both us and our customers to accurately forecast and plan future business activities, and they could cause U.S. and foreign businesses to slow spending on our services, which could delay and lengthen our new customer sales cycle and cause existing customers to do one or more of the following:

- Cancel or reduce planned expenditures for our services;
- Seek to lower their costs by renegotiating their contracts with us;
- Move their hosting services in-house; or
- Switch to lower-priced solutions provided by us or our competitors.

Customer collections are our primary source of cash. We have historically grown through a combination of an increase in new customers and revenue growth from our existing customers. We have experienced a decrease in revenue from our existing customer base, and if the current market conditions continue to deteriorate we may experience continued or more substantial decrease in revenue from our customer base, including through reductions in their commitments to us, and/or longer new customer sales cycles. If these events were to occur, we could experience a decrease in revenues and reduction in operating margins. Furthermore, during challenging economic times our customers may face issues gaining timely access to sufficient credit, which could result in an impairment of their ability to make timely payments to us. We have experienced an increase in our allowance for doubtful accounts already. If our customers' ability to pay is further challenged, we may be required to further increase our allowance for doubtful accounts. We cannot predict the timing, strength or duration of any economic slowdown or subsequent economic recovery. If the economy or markets in which we operate do not continue at their present levels or continue to deteriorate, we may record additional charges related to the impairment of goodwill and other long-lived assets, and our business, financial condition and results of operations could be materially and adversely affected.

Finally, like many other stocks, our stock price decreased during the onset of the economic downturn. Although our stock price has recently increased, if investors have concerns that our business, financial condition and results of operations will be negatively impacted by a continued worldwide economic downturn, our stock price could decrease again.

If we are unable to manage our growth effectively our financial results could suffer and our stock price could decline.

The growth of our business and our service offerings has strained our operating and financial resources. Further, we intend to continue to expand our overall business, customer base, headcount, and operations. Creating a global organization and managing a geographically dispersed workforce requires substantial management effort and significant additional investment in our operating and financial system capabilities and controls. If our information systems are unable to support the demands placed on them by our growth, we may be forced to implement new systems which would be disruptive to our business. We may be

Table of Contents

unable to manage our expenses effectively in the future due to the expenses associated with these expansions, which may negatively impact our gross margins or operating expenses. If we fail to improve our operational systems or to expand our customer service capabilities to keep pace with the growth of our business, we could experience customer dissatisfaction, cost inefficiencies, and lost revenue opportunities, which may materially and adversely affect our operating results.

If we overestimate our data center capacity requirements, our operating margins and profitability could be adversely affected.

The costs of construction, leasing, and maintenance of our data centers constitute a significant portion of our capital and operating expenses. In order to manage growth and ensure adequate capacity for new and existing customers while minimizing unnecessary excess capacity costs, we continuously evaluate our short and long-term data center capacity requirements. Due to the lead time in expanding existing data centers or building new data centers, we are required to estimate demand for our services as far as two years into the future. We currently plan to increase our infrastructure as required through the expansion and addition of data centers in the U.S. and internationally. In contrast to our data centers that we have established to date, several of which were acquired relatively inexpensively as distressed assets of third parties, our current expansion plans may require us to pay full market rates for new data center facilities. If we overestimate the demand for our services and therefore overbuild our data center capacity or commit to long term facility leases, our operating margins could be materially reduced, which would materially impair our profitability.

If we underestimate our data center capacity requirements, our financial results and services could be impaired.

If we underestimate our data center capacity requirements, we may not be able to service any expanding needs of our existing customers, or we may be required to limit new customer acquisition while we work to increase data center capacity to satisfy demand, either of which may materially impair our revenue growth.

Our physical infrastructure is concentrated in very few facilities and any failure in our physical infrastructure or services could lead to significant costs and disruptions and could reduce our revenues, harm our business reputation and have a material adverse effect on our financial results.

Our network and power supplies and data centers are subject to various points of failure, and a problem with our generators, uninterruptible power supply, or UPS, routers, switches, or other equipment, whether or not within our control, could result in service interruptions for some or all of our customers or equipment damage. Because our hosting services do not require geographic proximity of our data centers to our customers, our hosting infrastructure is consolidated into a few large facilities. Accordingly, any failure or downtime in one of our data center facilities could affect a significant percentage of our customers. While data backup services are included in our hosting services, the majority of our customers do not elect to pay the additional fees required to store their backup data offsite in a separate facility. The total destruction or severe impairment of any of our data center facilities could result in significant downtime of our services and the loss of vast amounts of customer data. Since our ability to attract and retain customers depends on our ability to provide customers with highly reliable service, even minor interruptions in our service could harm our reputation. The services we provide are subject to failure resulting from numerous factors, including:

- Human error or accidents (such as an airplane crash into one of our facilities, some of which are located near major airports);
- Power loss;
- Equipment failure;
- Internet connectivity downtime;
- Improper building maintenance by the landlords of the buildings in which our facilities are located;
- Physical or electronic security breaches;
- Fire, earthquake, hurricane, tornado, flood, and other natural disasters;
- Water damage;
- Terrorism;
- Sabotage and vandalism; and
- Failure by us or our vendors to provide adequate service to our equipment.

Additionally, in connection with the expansion or consolidation of our existing data center facilities from time to time, there is an increased risk that service interruptions may occur as a result of server relocation or other unforeseen construction-related issues.

Table of Contents

We have experienced interruptions in service in the past, due to such things as power outages, power equipment failures, cooling equipment failures, routing problems, hard drive failures, database corruption, system failures, software failures, and other computer failures.

Any future interruptions could:

- Cause our customers to seek damages for losses incurred;
- Require us to replace existing equipment or add redundant facilities;
- Damage our reputation as a reliable provider of hosting services;
- Cause existing customers to cancel or elect to not renew their contracts; or
- Make it more difficult for us to attract new customers.

Any of these events could materially increase our expenses or reduce our revenues, which would have a material adverse effect on our operating results.

Customers with mission-critical applications could potentially expose us to lawsuits for their lost profits or damages, which could impair our financial condition.

Because our hosting services are critical to many of our customers' businesses, any significant disruption in our services could result in lost profits or other indirect or consequential damages to our customers. Although we require our customers to sign agreements that contain provisions attempting to limit our liability for service outages, we cannot assure you that a court would enforce any contractual limitations on our liability in the event that one of our customers brings a lawsuit against us as the result of a service interruption or other Internet site or application problems that they may ascribe to us. The outcome of any such lawsuit would depend on the specific facts of the case and any legal and policy considerations that we may not be able to mitigate. In such cases, we could be liable for substantial damage awards that may significantly exceed our liability insurance coverage by unknown but significant amounts, which could seriously impair our financial condition.

If we do not prevent security breaches, we may be exposed to lawsuits, lose customers, suffer harm to our reputation, and incur additional costs.

We rely on third-party suppliers to protect our equipment and hardware against breaches in security and cannot be certain that they will provide adequate security. The services we offer involve the transmission of large amounts of sensitive and proprietary information over public communications networks as well as the processing and storage of confidential customer information. Unauthorized access, computer viruses, accidents, employee error or malfeasance, fraudulent service plan orders, intentional misconduct by computer "hackers", and other disruptions can occur that could compromise the security of our infrastructure, thereby exposing such information to unauthorized access by third parties and leading to interruptions, delays or cessation of service to our customers. Techniques used to obtain unauthorized access to, or to sabotage, systems change frequently and generally are not recognized until launched against a target, so we may be unable to implement security measures in a timely manner or, if and when implemented, these measures could be circumvented as a result of accidental or intentional actions by parties within or outside of our organization. Any breaches that occur could expose us to increased risk of lawsuits, loss of existing or potential customers, harm to our reputation and increases in our security costs. Although we typically require our customers to sign agreements that contain provisions attempting to limit our liability for security breaches, we cannot assure you that a court would enforce any contractual limitations on our liability in the event that one of our customers brings a lawsuit against us as the result of a security breach that they may ascribe to us. The outcome of any such lawsuit would depend on the specific facts of the case and legal and policy considerations that we may not be able to mitigate. In such cases, we could be liable for substantial damage awards that may significantly exceed our liability insurance coverage by unknown but significant amounts, which could seriously impair our financial condition.

Terrorist activity throughout the world and military action to counter terrorism could adversely impact our operating results.

Terrorist attacks and other acts of violence, as well as governments' responses to such activities, may have an adverse effect on business, financial, and general economic conditions internationally. Terrorist activities may disrupt our ability to provide our services or may increase our costs due to the need to provide enhanced security, which would have a material adverse effect on our business and results of operations. These circumstances may also adversely affect our ability to attract and retain customers, our ability to raise capital, and the operation and maintenance of our facilities. We may not have adequate property and liability insurance to cover catastrophic events or attacks brought on by terrorist attacks and other acts of violence. In addition, we depend heavily on the physical infrastructure, particularly as it relates to power, that exists in the markets in which we operate. Any damage to such infrastructure in these markets where we operate may materially and adversely affect our operating results.

Table of Contents

We rely on third-party hardware that may be difficult to replace or could cause errors or failures of our service, which could adversely affect our operating results or harm our reputation.

We rely on hardware acquired from third parties in order to offer our services. This hardware may not continue to be available on commercially reasonable terms in quantities sufficient to meet our business needs, which could adversely affect our ability to generate revenue. Any errors or defects in third-party hardware could result in errors or a failure of our service, which could harm our reputation and operating results. Indemnification from hardware providers, if any, would likely be insufficient to cover any damage to our business or our customers resulting from such hardware failure.

We rely on third-party software that may be difficult to replace or which could cause errors or failures of our service that could lead to lost customers or harm to our reputation.

We rely on software licensed from third parties to offer our services. This software may not continue to be available to us on commercially reasonable terms, or at all. Any loss of the right to use any of this software could result in delays in the provisioning of our services until equivalent technology is either developed by us, or, if available, is identified, obtained, and integrated, which could harm our business. Any errors or defects in third-party software could result in errors or a failure of our service which could harm our operating results by adversely affecting our revenues or operating costs.

We provide service level commitments to our customers, which could require us to issue credits for future services if the stated service levels are not met for a given period and could significantly decrease our revenues and harm our reputation.

Our customer agreements provide that we maintain certain service level commitments to our customers relating primarily to network uptime, critical infrastructure availability, and hardware replacement. If we are unable to meet the stated service level commitments, we may be contractually obligated to provide these customers with credits for future services. As a result, a failure to deliver services for a relatively short duration could cause us to issue these credits to a large number of affected customers. In addition, we cannot be assured that our customers will accept these credits in lieu of other legal remedies that may be available to them. Our failure to meet our commitments could also result in substantial customer dissatisfaction or loss. Because of the loss of future revenues through these credits, potential customer loss and other potential liabilities, our revenue could be significantly impacted if we cannot meet our service level commitments to our customers.

If we are unable to maintain a high level of customer service, customer satisfaction and demand for our services could suffer.

We believe that our success depends on our ability to provide customers with quality service that not only meets our stated commitments, but meets and then exceeds customer service expectations. If we are unable to provide customers with quality customer support in a variety of areas, we could face customer dissatisfaction, decreased overall demand for our services, and loss of revenues. In addition, our inability to meet customer service expectations may damage our reputation and could consequently limit our ability to retain existing customers and attract new customers, which would adversely affect our ability to generate revenue and negatively impact our operating results.

We may not be able to continue to add new customers and increase sales to our existing customers, which could adversely affect our operating results.

Our growth is dependent on our ability to continue to attract new customers while retaining and expanding our service offerings to existing customers. Growth in the demand for our services may be inhibited and we may be unable to sustain growth in our customer base, for a number of reasons, such as:

- Our inability to market our services in a cost-effective manner to new customers;
- The inability of our customers to differentiate our services from those of our competitors or our inability to effectively communicate such distinctions;
- Our inability to successfully communicate to businesses the benefits of hosting;
- The decision of businesses to host their Internet sites and web infrastructure internally or in colocation facilities as an alternative to the use of our hosting services;
- Our inability to penetrate international markets;
- Our inability to expand our sales to existing customers;
- Our inability to strengthen awareness of our brand; and
- Reliability, quality or compatibility problems with our services.

A substantial amount of our past revenue growth was derived from purchases of service upgrades by existing customers. Our costs associated with increasing revenues from existing customers are generally lower than costs associated with generating revenues from new customers. Therefore, a reduction in the rate of revenue increase or a rate of revenue decrease from our existing customers, even if offset by an increase in revenues from new customers, could reduce our operating margins.

Table of Contents

Any failure by us to continue attracting new customers or grow our revenues from existing customers for a prolonged period of time could have a material adverse effect on our operating results.

Our existing customers could elect to reduce or terminate the services they purchase from us because we do not have long-term contracts with our customers, which could adversely affect our operating results.

Our customer contracts for our services typically have initial terms of one to two years, which unless terminated, may be renewed or automatically extended on a month-to-month basis. Our customers have no obligation to renew their services after their initial contract periods expire. Moreover, our customers could cancel their service agreements before they expire. Our costs associated with maintaining revenue from existing customers are generally much lower than costs associated with generating revenue from new customers. Therefore, a reduction in revenue from our existing customers, even if offset by an increase in revenue from new customers, could reduce our operating margins. Any failure by us to continue to retain our existing customers could have a material adverse effect on our operating results.

Our corporate culture has contributed to our success, and if we cannot maintain this culture, we could lose the innovation, creativity, and teamwork fostered by our culture, and our operating results may be harmed.

We believe that a critical contributor to our success has been our corporate culture, which we believe fosters innovation, creativity, and teamwork. If we implement more complex organizational management structures because of growth or other structural changes, we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture. This could negatively impact our future operating results. In addition, being a public traded company may create disparities in personal wealth among our employees, which may adversely impact relations among employees and our corporate culture.

If we fail to hire and retain qualified employees and management personnel, our growth strategy and our operating results could be harmed.

Our growth strategy depends on our ability to identify, hire, train, and retain IT professionals, technical engineers, operations employees, and sales and senior management personnel who maintain relationships with our customers and who can provide the technical, strategic, and marketing skills required for our company to grow. There is a shortage of qualified personnel in these fields, specifically in the San Antonio, Texas area, where we are headquartered and a majority of our employees are located, and we compete with other companies for this limited pool of potential employees. There is no assurance that we will be able to recruit or retain qualified personnel, and this failure could cause our operations and financial results to be negatively impacted.

Our success and future growth also depends to a significant degree on the skills and continued services of our management team, especially Graham Weston, our Chairman, and A. Lanham Napier, our Chief Executive Officer and President. We do not have long-term employment agreements with any members of our management team, including Messrs. Weston and Napier. Mr. Napier is the only member of our management team on whom we maintain key man insurance.

Our operating results may fluctuate significantly, which could make our future results difficult to predict and could cause our operating results to fall below investor or analyst expectations.

Our operating results may fluctuate due to a variety of factors, including many of the risks described in this section, which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on our operating results for any prior periods as an indication of our future operating performance. Fluctuations in our revenue can lead to even greater fluctuations in our operating results. Our budgeted expense levels depend in part on our expectations of long-term future revenue. Given relatively fixed operating costs related to our personnel and facilities, any substantial adjustment to our expenses to account for lower than expected levels of revenue will be difficult and take time. Consequently, if our revenue does not meet projected levels, our operating expenses would be high relative to our revenue, which would negatively affect our operating performance.

If our revenue or operating results do not meet or exceed the expectations of investors or securities analysts, the price of our common stock may decline.

Increased energy costs, power outages, and limited availability of electrical resources may adversely affect our operating results.

Our data centers are susceptible to increased regional, national or international costs of power and to electrical power outages. Our customer contracts do not allow us to pass on any increased costs of energy to our customers, which could harm our business. Further, power requirements at our data centers are increasing as a result of the increasing power demands of today's servers. Increases in our power costs could harm our operating results and financial condition.

Table of Contents

Since we rely on third parties to provide our data centers with power sufficient to meet our needs, our data centers could have a limited or inadequate amount of electrical resources necessary to meet our customer requirements. We attempt to limit exposure to system downtime due to power outages by using backup generators and power supplies. However, these protections may not limit our exposure to power shortages or outages entirely. Any system downtime resulting from insufficient power resources or power outages could damage our reputation and lead us to lose current and potential customers, which would harm our operating results and financial condition.

Increased Internet bandwidth costs and network failures may adversely affect our operating results.

Our success depends in part upon the capacity, reliability, and performance of our network infrastructure, including the capacity leased from our Internet bandwidth suppliers. We depend on these companies to provide uninterrupted and error-free service through their telecommunications networks. Some of these providers are also our competitors. We exercise little control over these providers, which increases our vulnerability to problems with the services they provide. We have experienced and expect to continue to experience interruptions or delays in network service. Any failure on our part or the part of our third-party suppliers to achieve or maintain high data transmission capacity, reliability or performance could significantly reduce customer demand for our services and damage our business.

As our customer base grows and their usage of telecommunications capacity increases, we will continue to need to make additional investments in our capacity to maintain adequate data transmission speeds, the availability of which may be limited or the cost of which may be on terms unacceptable to us. If adequate capacity is not available to us as our customers' usage increases, our network may be unable to achieve or maintain sufficiently high data transmission capacity, reliability or performance. In addition, our business would suffer if our network suppliers increased the prices for their services and we were unable to pass along the increased costs to our customers.

We may not be able to renew the leases on our existing facilities on terms acceptable to us, if at all, which could adversely affect our operating results.

We do not own the facilities occupied by our current data centers, but occupy them pursuant to commercial leasing arrangements. The initial terms of our main existing data center leases expire over a period ranging from 2009 to 2027, with each having at least one renewal period of no less than three years, except two of our data centers located in the U.K., which have no contractual renewal terms. Both of our U.K. data center leases without renewal terms, expire in 2009 and we plan to exit one of the facilities at the end of the lease term and migrate our customers at this location to another facility, and we expect to renew the lease for the other facility. Upon the expiration or termination of our data center facility leases, we may not be able to renew these leases on terms acceptable to us, if at all. If we fail to renew any data center lease and are required to move the data center to a new facility, we would face significant challenges due to the technical complexity, risk, and high costs of relocating the equipment. For example, if we are required to migrate customer servers to a new facility, such migration could result in significant downtime for our affected customers. This could damage our reputation and lead us to lose current and potential customers, which would harm our operating results and financial condition.

Even if we are able to renew the leases on our existing data centers, we expect that rental rates, which will be determined based on then-prevailing market rates with respect to the renewal option periods and which will be determined by negotiation with the landlord after the renewal option periods, will be higher than rates we currently pay under our existing lease agreements. If we fail to increase revenue in our existing data centers by amounts sufficient to offset any increases in rental rates for these facilities, our operating results may be materially and adversely affected.

We could be required to repay substantial amounts of money to certain state and local governments if we lose tax exemptions or grants previously awarded to us, which could adversely affect our operating results.

On August 3, 2007, we entered into a lease for approximately 67 acres of land and a 1.2 million square foot facility in Windcrest, Texas, which is in the San Antonio, Texas area, to house our corporate headquarters and potentially a future data center operation.

In connection with this lease, we also entered into a Master Economic Incentives Agreement with the Cities of Windcrest and San Antonio, Texas, Bexar County, and certain other parties, pursuant to which we agreed to locate existing and future employees at the new facility location. The agreement requires that we meet certain employment levels each year, with an ultimate employee base requirement of 4,500 jobs by December 31, 2012. In addition, the agreement requires that the median compensation of those employees be no less than \$51,000 per year. In exchange for meeting these employment obligations, the parties agreed to enter into the lease structure, pursuant to which, as a lessee of the Windcrest Economic Development Corporation, we will not be subject to most of the property taxes associated with the property for a 14 year period. If we fail to meet these job creation requirements, we could lose a portion or all of the tax benefit being provided during the 14-year period by having to make payments in lieu of taxes (PILOT) to the City of Windcrest. The amount of the PILOT payment would be calculated based on the amount of taxes that would have been owed for that period if the property were not exempt, and then such amount would be adjusted pursuant to certain factors, such as the percentage of employment achieved compared to the stated requirements.

[Table of Contents](#)

Further, we entered into an agreement with the State of Texas under which we have received \$5.0 million, and could receive up to an additional \$17.0 million in state enterprise fund grants in three subsequent installments on the condition that we meet certain employment levels each year, with a requirement that we ultimately create at least 4,000 new jobs in the State of Texas paying an average compensation of at least \$56,000 per year (subject to a 2% per year increase commencing in 2009) by December 31, 2012. We must sustain these jobs through December 31, 2018. To the extent we fail to meet these requirements, we would be required to repay all or a portion of the grants plus interest.

In October 2008, we received a grant in partnership with the State of Texas and Alamo Community College District, which will provides us the opportunity to be reimbursed for up to \$4.7 million for certain training expenses conducted through Alamo Community College over the next three years. In order to fulfill our requirements, we must meet the employment requirements defined in the grant with the State of Texas from the state enterprise fund.

In the current economic environment, unless we are able to modify the terms of our agreements, it is likely we will not fulfill the job creation requirements levels for the end of 2009. We are currently seeking to modify all such agreements. The loss of any anticipated tax benefits or grants described above or the repayment of the grant funds from the State of Texas could have a material adverse effect on our liquidity or results of operations.

We have significant debt obligations that include restrictive covenants limiting our flexibility to manage our business; failure to comply with these covenants could trigger an acceleration of our outstanding indebtedness and adversely affect our financial position and operating results.

As of March 31, 2009, outstanding indebtedness under our credit facility totaled \$100.0 million, with an outstanding letter of credit of \$0.8 million. Our credit facility requires that we maintain specific financial ratios and comply with covenants, including financial covenants, which contain numerous restrictions on our ability to incur additional debt, pay dividends or make other restricted payments, sell assets, enter into affiliate transactions and take other actions. Our existing credit facility is, and any future financing arrangements may be, secured by all of our assets. If we are unable to meet the terms of the financial covenants or if we breach any of these covenants, a default could result under one or more of these agreements, which may require us to repay all amounts owing under our credit facility.

If we are unable to generate sufficient cash available to repay our debt obligations when they become due and payable, either when they mature or in the event of a default, we may not be able to obtain additional debt or equity financing on favorable terms, if at all, which may negatively impact our ability to continue as a going concern.

We also have substantial equipment lease obligations, which totaled approximately \$91.5 million as of March 31, 2009. The payment obligations under these equipment leases are secured by a significant portion of the hardware used in our data centers. If we are unable to generate sufficient cash flow from our operations or cash from other sources in order to meet the payment obligations under these equipment leases, we may lose the right to possess and operate the equipment used in our data centers, which would substantially impair our ability to provide our services, which could have a material adverse effect on our liquidity or results of operations.

We may require additional capital and may not be able to secure additional financing on favorable terms to meet our future capital needs, which could adversely affect our financial position and result in stockholder dilution.

In order to fund future growth, we will be dependent on significant capital expenditures. We may need to raise additional funds through equity or debt financings in the future in order to meet our operating and capital needs. We may not be able to secure additional debt or equity financing on favorable terms, or at all, at the time when we need such funding. If we are unable to raise additional funds, we may not be able to pursue our growth strategy and our business could suffer. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences, and privileges senior to those of holders of our common stock. In addition, any debt financing that we may obtain in the future could have restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions.

We are exposed to commodity and market price risks that have the potential to substantially influence our profitability and liquidity.

We are a large consumer of power. During the first quarter of 2009, we paid approximately \$4.6 million to utility companies to power our data centers. We anticipate an increase in our consumption of power in the future as our sales grow.

Table of Contents

Power costs vary by locality and are subject to substantial seasonal fluctuations. Our largest exposure to energy prices currently exists at our Grapevine, Texas facility in the Dallas-Fort Worth area, where the energy market is deregulated. Power costs have historically risen with general costs of energy, and continued increases in electricity costs may negatively impact our gross margins or operating expenses. We periodically evaluate the advisability of entering into fixed price utilities contracts. If we choose not to enter into a fixed price contract, we expose our cost structure to this commodity price risk.

The majority of our customers are invoiced, and substantially all of our expenses are paid, by us or our subsidiaries in the functional currency of our company or our subsidiaries, respectively. However, some of our customers are currently invoiced in currencies other than the applicable functional currency, such as the Euro. As a result, we may incur foreign currency losses based on changes in exchange rates between the date of the invoice and the date of collection. In addition, large changes in foreign exchange rates relative to our functional currencies could increase the costs of our services to non-U.S. customers relative to local competitors, thereby causing us to lose existing or potential customers to these local competitors. As a result, our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. Further, as we grow our international operations, our exposure to foreign currency risk could become more significant. To date, we have not entered into any hedging contracts, although we may do so in the future.

If we are unable to adapt to evolving technologies and customer demands in a timely and cost-effective manner, our ability to sustain and grow our business may suffer.

Our market is characterized by rapidly changing technology, evolving industry standards, and frequent new product announcements, all of which impact the way in which hosting services are marketed and delivered. These characteristics are magnified by the continued rapid growth of the Internet and the intense competition in our industry. To be successful, we must adapt to our rapidly changing market by continually improving the performance, features, and reliability of our services and modifying our business strategies accordingly. We could also incur substantial costs if we need to modify our services or infrastructure in order to adapt to these changes. For example, our data center infrastructure could require improvements due to the development of new systems to deliver power to or eliminate heat from the servers we house or as a result of the development of new server technologies that require levels of critical load and heat removal that our facilities are not designed to provide. We may not be able to timely adapt to changing technologies, if at all. Our ability to sustain and grow our business would suffer if we fail to respond to these changes in a timely and cost-effective manner.

New technologies or industry standards have the potential to replace or provide lower cost alternatives to our hosting services. Additionally, the adoption of such new technologies or industry standards could render our services obsolete or unmarketable. We cannot guarantee that we will be able to identify the emergence of these new service alternatives successfully and modify our services accordingly, or develop and bring new products and services to market in a timely and cost-effective manner to address these changes. In addition, if and when we do identify the emergence of new service alternatives and bring new products and services to market, those new products and services may need to be made available at lower price points than our then-current services.

Our failure to provide services to compete with new technologies or the obsolescence of our services could lead us to lose current and potential customers or could cause us to incur substantial costs, which would harm our operating results and financial condition. Our introduction of new service alternative products and services that have lower price points than current offerings may result in our existing customers switching to the lower cost products, which could reduce our revenue and have a material adverse effect of our operating results.

We may not be able to compete successfully against current and future competitors.

The market for hosting services is highly competitive. We expect that we will face additional competition from our existing competitors as well as new market entrants in the future.

Our current and potential competitors vary by size and service offerings and by geographic region. These competitors may elect to partner with each other or with focused companies like us to grow their businesses. They include:

- Do-it-yourself solutions with a colocation partner such as AT&T, Equinix, SAVVIS, Switch & Data, and telecommunications companies;
- IT outsourcing providers such as CSC, EDS, and IBM;
- Hosting providers such as AT&T, Pipex, SAVVIS, Terremark, The Planet, and Verio; and
- Large Internet companies such as Microsoft, Google, and Amazon.

The primary competitive factors in our market are: customer service and technical expertise; security reliability and functionality; reputation and brand recognition; financial strength; breadth of services offered; and price.

Table of Contents

Many of our current and potential competitors have substantially greater financial, technical and marketing resources, larger customer bases, longer operating histories, greater brand recognition, and more established relationships in the industry than we do. As a result, some of these competitors may be able to:

- Develop superior products or services, gain greater market acceptance, and expand their service offerings more efficiently or more rapidly;
- Adapt to new or emerging technologies and changes in customer requirements more quickly;
- Bundle hosting services with other services they provide at reduced prices;
- Take advantage of acquisition and other opportunities more readily;
- Adopt more aggressive pricing policies and devote greater resources to the promotion, marketing, and sales of their services; and
- Devote greater resources to the research and development of their products and services.

We may be accused of infringing the proprietary rights of others, which could subject us to costly and time-consuming litigation and require us to discontinue services that infringe the rights of others.

There may be intellectual property rights held by others, including issued or pending patents, trademarks, and service marks that cover significant aspects of our technologies, branding or business methods, including technologies and intellectual property we have licensed from third parties. Companies in the technology industry, and other patent and trademark holders seeking to profit from royalties in connection with grants of licenses, own large numbers of patents, copyrights, trademarks, service marks, and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. These or other parties could claim that we have misappropriated or misused intellectual property rights and any such intellectual property claim against us, regardless of merit, could be time consuming and expensive to settle or litigate and could divert the attention of our technical and management personnel. An adverse determination also could prevent us from offering our services to our customers and may require that we procure or develop substitute services that do not infringe. For any intellectual property rights claim against us or our customers, we may have to pay damages, indemnify our customers against damages or stop using technology or intellectual property found to be in violation of a third party's rights. We may be unable to replace those technologies with technologies that have the same features or functionality and that are of equal quality and performance standards on commercially reasonable terms or at all. Licensing replacement technologies and intellectual property may significantly increase our operating expenses or may require us to restrict our business activities in one or more respects. We may also be required to develop alternative non-infringing technology and intellectual property, which could require significant effort, time, and expense.

Our use of open source software could impose limitations on our ability to provide our services, which could adversely affect our financial condition and operating results.

We utilize open source software, including Linux-based software, in providing a substantial portion of our services. The terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that such licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to offer our services. Additionally, the use and distribution of open source software can lead to greater risks than the use of third-party commercial software, as open source software does not come with warranties or other contractual protections regarding infringement claims or the quality of the code. From time to time parties have asserted claims against companies that distribute or use open source software in their products and services, asserting that open source software infringes their intellectual property rights. We could be subject to suits by parties claiming infringement of intellectual property rights with respect to what we believe to be open source software. In such event, we could be required to seek licenses from third parties in order to continue using such software or offering certain of our services or to discontinue the use of such software or the sale of our affected services in the event we could not obtain such licenses, any of which could adversely affect our business, operating results and financial condition. In addition, if we combine our proprietary software with open source software in a certain manner, we could, under some of the open source licenses, be required to release the source code of our proprietary software.

We may not be successful in protecting and enforcing our intellectual property rights, which could adversely affect our financial condition and operating results.

We primarily rely on copyright, trademark, service mark, and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights, all of which provide only limited protection. We rely on copyright laws to protect software and certain other elements of our proprietary technologies, although to date we have not registered for copyright protection. We cannot assure you that any future copyright, trademark or service mark registrations will be issued for pending or future applications or that any registered or unregistered copyrights, trademarks or service marks will be enforceable or provide adequate protection of our proprietary rights. We also currently have one patent in the U.S. Our patent may be contested, circumvented, found unenforceable or invalidated.

Table of Contents

We endeavor to enter into agreements with our employees and contractors and agreements with parties with whom we do business to limit access to and disclosure of our proprietary information. The steps we have taken, however, may not prevent unauthorized use or the reverse engineering of our technology. Moreover, others may independently develop technologies that are substantially equivalent, superior to, or otherwise competitive to the technologies we employ in our services or that infringe our intellectual property. Moreover, we may be unable to prevent competitors from acquiring trademarks or service marks and other proprietary rights that are similar to, infringe upon, or diminish the value of our trademarks and service marks and our other proprietary rights. Enforcement of our intellectual property rights also depends on successful legal actions against infringers and parties who misappropriate our proprietary information and trade secrets, but these actions may not be successful, even when our rights have been infringed.

In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the U.S. Despite the measures taken by us, it may be possible for a third party to copy or otherwise obtain and use our technology and information without authorization. Policing unauthorized use of our proprietary technologies and other intellectual property and our services is difficult, and litigation could become necessary in the future to enforce our intellectual property rights. Any litigation could be time consuming and expensive to prosecute or resolve, result in substantial diversion of management attention and resources, and harm our business, financial condition, and results of operations.

We may be liable for the material that content providers distribute over our network and we may have to terminate customers that provide content that is determined to be illegal, which could adversely affect our operating results.

The law relating to the liability of private network operators for information carried on, stored on, or disseminated through their networks is still unsettled in many jurisdictions. We have been and expect to continue to be subject to legal claims relating to the content disseminated on our network, including claims under the Digital Millennium Copyright Act and other similar legislation. In addition, there are other potential customer activities, such as online gambling and pornography, where we, in our role as a hosting provider, may be held liable as an aider or abettor of our customers. If we need to take costly measures to reduce our exposure to these risks, terminate customer relationships and the associated revenue or defend ourselves against such claims, our financial results could be negatively affected.

Government regulation of data networks is largely unsettled, and depending on its evolution, may adversely affect our operating results.

We are subject to varying degrees of regulation in each of the jurisdictions in which we provide services. Local laws and regulations, and their interpretation and enforcement, differ significantly among those jurisdictions. Future regulatory, judicial, and legislative changes may have a material adverse effect on our ability to deliver services within various jurisdictions. National regulatory frameworks that are consistent with the policies and requirements of the World Trade Organization have only recently been, or are still being, put in place in many countries. Accordingly, many countries are still in the early stages of providing for and adapting to a liberalized telecommunications market. As a result, in these markets we may encounter more protracted and difficult procedures to obtain any necessary licenses or negotiate interconnection agreements, which could negatively impact our ability to expand in these markets or increase our operating costs in these markets.

Our ability to operate and expand our business is susceptible to risks associated with international sales and operations.

We anticipate that, for the foreseeable future, a significant portion of our revenues will continue to be derived from sources outside of the U.S. A key element of our growth strategy is to further expand our customer base internationally and successfully operate data centers in foreign markets. We have limited experience operating in foreign jurisdictions and expect to rapidly grow our international operations. Managing a global organization is difficult, time consuming, and expensive. Our inexperience in operating our business globally increases the risk that international expansion efforts that we may undertake will not be successful. In addition, conducting international operations subjects us to new risks that we have not generally faced. These risks include:

- Localization of our services, including translation into foreign languages and adaptation for local practices and regulatory requirements;
- Lack of familiarity with and unexpected changes in foreign regulatory requirements;
- Longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
- Difficulties in managing and staffing international operations;
- Fluctuations in currency exchange rates;

Table of Contents

- Potentially adverse tax consequences, including the complexities of transfer pricing, foreign value added tax systems, and restrictions on the repatriation of earnings;
- Dependence on certain third parties, including channel partners with whom we do not have extensive experience;
- The burdens of complying with a wide variety of foreign laws and legal standards;
- Increased financial accounting and reporting burdens and complexities;
- Political, social, and economic instability abroad, terrorist attacks and security concerns in general; and
- Reduced or varied protection for intellectual property rights in some countries.

Operating in international markets also requires significant management attention and financial resources. The investment and additional resources required to establish operations and manage growth in other countries may not produce desired levels of revenue or profitability.

Our acquisitions may divert our management's attention, result in dilution to our stockholders and consume resources that are necessary to sustain our business.

We have made acquisitions and, if appropriate opportunities present themselves, we may make additional acquisitions or investments or enter into joint ventures or strategic alliances with other companies. Risks commonly encountered in such transactions include:

- The difficulty of assimilating the operations and personnel of the combined companies;
- The risk that we may not be able to integrate the acquired services or technologies with our current services, products, and technologies;
- The potential disruption of our ongoing business;
- The diversion of management attention from our existing business;
- The inability of management to maximize our financial and strategic position through the successful integration of the acquired businesses;
- Difficulty in maintaining controls, procedures, and policies;
- The impairment of relationships with employees, suppliers, and customers as a result of any integration;
- The loss of an acquired base of customers and accompanying revenue; and
- The assumption of leased facilities, other long-term commitments or liabilities that could have a material adverse impact on our profitability and cash flow.

As a result of these potential problems and risks, businesses that we may acquire or invest in may not produce the revenue, earnings, or business synergies that we anticipated. In addition, there can be no assurance that any potential transaction will be successfully identified and completed or that, if completed, the acquired business or investment will generate sufficient revenue to offset the associated costs or other potential harmful effects on our business.

We have and will continue to incur significant increased costs as a result of operating as a public company, and our management will be required to devote substantial time to new compliance initiatives.

As a public company, we have and will continue to incur significant legal, accounting, and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, as well as rules subsequently implemented by the Securities and Exchange Commission, or the SEC, and the New York Stock Exchange have imposed various requirements on public companies, including requiring changes in corporate governance practices. Our management and other personnel will need to devote a substantial amount of time to these new compliance initiatives. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. For example, these new rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantial costs to maintain the same or similar coverage. These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers.

In order to respond to additional regulations applicable to public companies, such as Section 404 of the Sarbanes-Oxley Act, we have hired a number of finance and accounting personnel. We use independent contractors to fill certain positions and provide certain accounting functions. In the future, we may be required to hire additional full-time accounting employees to fill these and other related finance and accounting positions. Some of these positions require candidates with public company experience, and we may be unable to locate and hire such individuals as quickly as needed, if at all. In addition, new employees

[Table of Contents](#)

will require time and training to learn our business and operating processes and procedures. If our finance and accounting organization is unable for any reason to respond adequately to the increased demands resulting from being a public company, the quality and timeliness of our financial reporting may suffer and we could experience internal control weaknesses. Any consequences resulting from inaccuracies or delays in our reported financial statements could have an adverse effect on the trading price of our common stock as well as an adverse effect on our business, operating results, and financial condition.

We are in the process of evaluating our system of internal controls and may not be able to demonstrate that we can accurately report our financial results or prevent fraud. As a result, our stockholders could lose confidence in our financial reporting, which could harm our business and the trading price of our common stock.

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. generally accepted accounting principles, or GAAP. We are in the process of documenting, reviewing and improving our internal controls and procedures for compliance with Section 404 of the Sarbanes-Oxley Act, which requires an annual management assessment of the effectiveness of our internal controls over financial reporting and a report by our independent auditors assessing the effectiveness of such internal controls.

Changes to financial accounting standards or practices may affect our reported financial results and cause us to change our business practices.

We prepare our financial statements to conform to GAAP. These accounting principles are subject to interpretation by the SEC and various other bodies. A change in those policies can have a significant effect on our reported results and may affect our reporting of transactions completed before a change is announced. Changes to those rules or the interpretation of our current practices may adversely affect our reported financial results or the way we conduct our business.

Risks Related to the Ownership of Our Common Stock

The trading price of our common stock is likely to be volatile.

The market price of our common stock could be subject to wide fluctuations in response to, among other things, the risk factors described in this periodic report, and other factors beyond our control, such as fluctuations in the valuation of companies perceived by investors to be comparable to us.

Furthermore, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political, and market conditions, such as recessions, interest rate changes or international currency fluctuations, may negatively affect the market price of our common stock. We may experience additional volatility as a result of the limited number of our shares available for trading in the market.

In the past, many companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

Our common stock has only been publicly traded since our initial public offering on August 7, 2008 and the price of our common stock has fluctuated substantially since then and may fluctuate substantially in the future.

Our common stock has only been publicly traded since our initial public offering on August 7, 2008. The trading price of our common stock has fluctuated significantly since then. For example, between December 31, 2008 and April 30, 2009, the closing trading price of our common stock was very volatile, ranging between \$4.38 and \$9.40 per share, including single-day increases of up to 12.9% and declines up to 11.7%. Our trading price could fluctuate substantially in the future due to the factors discussed in this Risk Factors section and elsewhere in this quarterly report on Form 10-Q.

Contractual lock-up restrictions on the sale of approximately 99 million shares held by certain stockholders expired on February 3, 2009 and to the extent a stockholder is not an affiliate, its shares are now eligible for sale without restriction. Affiliate sales are subject to the volume, manner of sale and other restrictions of Rule 144 of the Securities Exchange Act of 1933 which

Table of Contents

allow the holder to sell up to the greater of 1% of our outstanding common stock or our average weekly trading volume during any three-month period. Shares beneficially held by Graham Weston, Norwest Venture Partners, Sequoia Capital, and certain other parties will be subject to such requirements to the extent they are deemed to be our "affiliates" as that term is defined in Rule 144. Additionally, Weston, Norwest, Sequoia, and other holders possess registration rights with respect to some of the shares of our common stock that they hold. If they choose to exercise such rights, their sale of the shares that are registered would not be subject to the Rule 144 limitations. If a significant amount of the shares that become eligible for resale enter the public trading markets in a short period of time, the market price of our common stock may decline.

The issuance of additional stock in connection with acquisitions, our stock option plans, or otherwise will dilute all other stockholdings.

We have a large number of shares of common stock authorized but unissued and not reserved for issuance under our stock option plans or otherwise. We may issue all of these shares without any action or approval by our stockholders. We intend to continue to actively pursue strategic acquisitions. We may pay for such acquisitions, partly or in full, through the issuance of additional equity. Any issuance of shares in connection with our acquisitions, the exercise of stock options or otherwise would dilute the percentage ownership held by our then existing stockholders.

Your ability to influence corporate matters may be limited because a small number of stockholders beneficially own a substantial amount of our common stock.

Our directors and executive officers and their affiliates beneficially own a significant portion of our outstanding common stock. As a result, these stockholders will be able to exercise significant influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. Although our directors and executive officers are not currently party to any agreements or understandings to act together on matters submitted for stockholder approval, this concentration of ownership could limit your ability to influence corporate matters and may have the effect of delaying or preventing a third party from acquiring control over us.

Anti-takeover provisions in our organizational documents and Delaware law may discourage or prevent a change of control, even if an acquisition would be beneficial to our stockholders, which could affect our stock price adversely and prevent attempts by our stockholders to replace or remove our current management.

Our restated certificate of incorporation and amended and restated bylaws contain provisions that could delay or prevent a change of control of our company or changes in our board of directors deemed undesirable by our board of directors that our stockholders might consider favorable. Some of these provisions:

- Authorize the issuance of blank check preferred stock which can be created and issued by our board of directors without prior stockholder approval, with voting, liquidation, dividend, and other rights senior to those of our common stock;
- Provide for a classified board of directors, with each director serving a staggered three-year term;
- Prohibit our stockholders from filling board vacancies or increasing the size of our board, calling special stockholder meetings or taking action by written consent;
- Provide for the removal of a director only with cause and by the affirmative vote of the holders of a majority of the shares then entitled to vote at an election of our directors; and
- Require advance written notice of stockholder proposals and director nominations.

In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, which may prohibit certain business combinations with stockholders owning 15% or more of our outstanding voting stock. These and other provisions in our restated certificate of incorporation, amended and restated bylaws and Delaware law could make it more difficult for stockholders or potential acquirers to obtain control of our board of directors or initiate actions that are opposed by our then-current board of directors, including a merger, tender offer or proxy contest involving our company. Any delay or prevention of a change of control transaction or changes in our board of directors could cause the market price of our common stock to decline.

[Table of Contents](#)

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

Sales of Unregistered Securities

On March 27, 2009, we paid 140,935 shares of our common stock to the sole stockholder of Jungle Disk, Inc. as partial consideration for reaching an earn-out target related to our acquisition of Jungle Disk, Inc. on October 22, 2008. Also, on April 15, 2009, we paid 200,000 shares of our common stock to the two owners of Slicehost, LLC as partial consideration for reaching an earn-out target related to our acquisition of substantially all of the assets of Slicehost, LLC on October 22, 2008. The issuances of these shares of common stock were made in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 – SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the first quarter of fiscal year 2009.

ITEM 5 – OTHER INFORMATION

None

[Table of Contents](#)

ITEM 6 – EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>
10.1**†	Lease Agreement by and between Grizzly Ventures LLC and Rackspace US, Inc. dated February 5, 2009.
31.1 *	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2 *	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1 **	Certifications of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith

** Furnished herewith

† Confidential treatment has been requested for portions of this exhibit. These portions have been omitted from this Quarterly Report on Form 10-Q and submitted separately to the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized, on May 12, 2009.

Rackspace Hosting, Inc.

By: /s/ Bruce R. Knooihuizen

Bruce R. Knooihuizen
Chief Financial Officer, Senior Vice President and Treasurer
(Principal Financial Officer)

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

DEED OF LEASE

BY AND BETWEEN

GRIZZLY VENTURES LLC

AND

RACKSPACE US, INC.

BUILDING 4 (ACC4)
ASHBURN CORPORATE CENTER
ASHBURN, VIRGINIA

CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION

DEED OF LEASE

THIS DEED OF LEASE (the "*Lease*") is made as of the 5th day of February, 2009 (the "*Effective Date*") by and between GRIZZLY VENTURES LLC, a Delaware limited liability company (hereinafter referred to as "*Landlord*"), and RACKSPACE US, INC., a Delaware corporation (hereinafter referred to as "*Tenant*").

RECITALS:

A. Landlord is the owner of a data center facility known as "*ACC4*", located in the Phase II of Ashburn Corporate Center, Ashburn, Virginia consisting of approximately three hundred thousand (300,000) gross square feet and approximately one hundred seventy-one thousand two hundred (171,200) rentable square feet of raised floor area (the "*Building*") and situated on certain real property owned by Landlord legally described on Exhibit A attached hereto (the "*Land*"). The Building and the Land shall constitute the "*Property*".

B. The Building is comprised of two (2) phases ("*ACC4 Phase I*" and "*ACC4 Phase II*", respectively), each containing approximately 150,000 gross square feet, comprised in part of approximately 85,600 square feet of raised floor area, and each of ACC4 Phase I and ACC4 Phase II having 18.2 mega volt amps of Critical Load Power (as hereinafter defined) available to it. The raised floor space in each phase of the Building is divided into computer rooms of varying sizes (each a "*Pod*").

C. Tenant desires to lease a portion of the rentable area of said Building, and Landlord is willing to rent such portion of the rentable area of said Building to Tenant, upon the terms, conditions, covenants and agreements set forth herein.

Now, THEREFORE, the parties hereto, intending to be legally bound, hereby covenant and agree as follows:

ARTICLE I

THE PREMISES

1.1 Landlord hereby leases and demises to Tenant and Tenant hereby leases and accepts from Landlord, for the term and upon the terms and conditions hereinafter set forth, the space designated as computer room 8b in ACC4 Phase II ("*Pod 8b*") and containing in the aggregate approximately eleven thousand (11,000) rentable square feet of raised floor, as shown on the floor plan attached hereto as Exhibit B and as Pod 8b on the floor plans attached hereto as Exhibit B-1 and Exhibit B-2 (Pod 8b together with the Office Space (defined below) and the Storage Space (defined below), the "*Premises*"). Subject to the terms and provisions of Section V below, Tenant shall, at all times throughout the Lease Term, have access to the Premises, twenty-four (24) hours per day, seven (7) days per week.

1.2 Subject to the terms of this Lease, Tenant shall also have the right to use the public and common areas and facilities in the Building and on the Land (the "*Common Areas*"),

1.

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

including any lobby area, the loading dock, and any other areas devoted to the public, such as corridors, fire vestibules, restrooms, janitor closets and other similar facilities, and those areas of the Building provided for use in common by Landlord and Tenant and other tenants of the Building, whether or not any such area is open to the general public, but includes no other rights not specifically set forth herein. In addition, Tenant shall have the right, to the extent reasonably necessary in order for Tenant to use the Premises for Permitted Uses (as defined in Section 6.1 below), upon request to Landlord whenever practicable, (but in all cases subject to Landlord's reasonable security procedures), to access the telephone rooms located in the Building. Tenant shall have the right to access the mechanical and electrical rooms and closets located in the Building, to the extent such access is reasonably necessary or desirable in connection with Tenant's use of the Premises for the Permitted Uses, subject to Landlord's approval, not to be unreasonably withheld or delayed and subject to Landlord's reasonable security procedures.

1.3 Landlord hereby leases to and demises to Tenant and Tenant hereby leases and accepts from Landlord for the period beginning on the Effective Date and ending upon the expiration of the Lease Term (defined below) (the "**Office Space Term**") and upon the terms and conditions hereinafter set forth, office space in the Building consisting of Office No. 3 (containing approximately seven hundred ninety-two (792) square feet) and Office Space No. 4 (containing approximately eight hundred twenty-four (824) square feet), as more particularly described on the floor plan attached hereto as Exhibit B-1 (Office No. 3 and Office No. 4 shall hereinafter collectively be referred to as the "**Office Space**"). Except as otherwise expressly provided herein, the Office Space shall be considered a part of the Premises for all purposes hereunder. Prior to the Storage Space Commencement Date (as hereinafter defined), Landlord shall, at its sole cost and expense, create a wide pass-through in the demising wall (the "**Office Demising Wall**") existing between Office No. 3 and Office No.4 as of the Effective Date, in a manner reasonably agreed to by Landlord and Tenant. Notwithstanding anything to the contrary contained herein, in the event Landlord does not deliver the Office Space broom clean, with a security access card reader allowing entry only to persons on the Tenant Access List pursuant to Article V below, and with a wide pass-through in the Office Demising Wall as aforesaid, on the Storage Space Commencement Date, then Tenant's obligation to commence paying Office Rent in accordance with Section 3.3 below shall be delayed until the date on which Landlord delivers the Office Space to Tenant as aforesaid.

1.4 Landlord hereby leases to and demises to Tenant and Tenant hereby leases and accepts from Landlord for the period beginning May 1, 2009 ("**Storage Space Commencement Date**") and ending upon the expiration of the Lease Term (the "**Storage Space Term**"), and upon the terms and conditions hereinafter set forth, storage space in the Building consisting of Storage Room No. 108A (containing approximately three hundred and two (302) square feet), as more particularly described on the floor plan attached hereto as Exhibit B-1 (the "**Storage Space**"). Except as otherwise expressly provided herein, the Storage Space shall be considered a part of the Premises for all purposes hereunder. Notwithstanding the foregoing, in the event Landlord does not deliver the Storage Space broom clean, with a security access card reader allowing entry only to persons on the Tenant Access List pursuant to Article V below, and with appropriate demising walls (walls consist of coated and painted steel mesh), on May 1, 2009, then the Storage Space Commencement Date shall be delayed until the date on which Landlord delivers the Storage Space to Tenant as aforesaid.

2.

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

ARTICLE II

TERM

2.1 Except as otherwise set forth herein, all of the provisions of this Lease shall be in full force and effect from and after the Effective Date. The term of this Lease (hereinafter referred to as the "**Lease Term**") shall commence on the Lease Commencement Date, as determined pursuant to Section 2.2 below, and continue for a period of fifteen (15) years thereafter unless such Lease Term shall be extended, renewed or terminated earlier in accordance with the provisions hereof. The term "**Lease Term**" shall include any properly exercised renewals and extensions of the term of this Lease.

2.2 (a) The "**Lease Commencement Date**" shall be the earlier of (i) the date that is one hundred eighty (180) days after the Effective Date (the "**Anticipated Lease Commencement Date**") and (ii) the date on which Tenant commences the conduct of its business upon any portion of the Premises, but only with respect to such portion. Landlord represents that as of the Effective Date, the following items have been completed, obtained and/or are true, as applicable, and Landlord warrants and covenants that the same will be completed, in effect and/or true, as applicable, as of the Lease Commencement Date: (I) Landlord's Work (as hereinafter defined) has been substantially completed in accordance with Section 9.1 below; (II) all mechanical and electrical systems for Pod 8b, and all components thereof, including, without limitation, computer room air conditioning units ("**CRACs**") and other components of the HVAC system, uninterruptible power systems ("**UPSs**"), EPO kiosks, and back-up diesel engine generators ("**Engine Generators**"), and the Building Security Systems (as hereinafter defined) and Building Management System (as hereinafter defined), are in good working order; (III) data center level 4 testing and level 5 commissioning have been completed with respect to all mechanical and electrical systems for Pod 8b as certified by CCG Facilities Integration Incorporated, the Building engineer; and (IV) a certificate of occupancy and any other required occupancy and/or use permits have been issued by Loudoun County for the Building, including Pod 8b. For avoidance of doubt, except as otherwise expressly provided in Section 2.4 below, the Early Access (as hereinafter defined), the Electrical and Mechanical Systems Testing (as hereinafter defined) and Tenant's performance of Tenant's Work (as hereinafter defined) shall not constitute the conduct of Tenant's business upon any portion of the Premises.

(b) [*****] Notwithstanding the foregoing, 2.275 megawatts of Critical Load Power will be available to the Premises as of the Lease Commencement Date, and Tenant may use more than the applicable Phase Load Limit, up to the Maximum Load Limit (as hereinafter defined), at any time during the Lease Term, subject to and in accordance with the terms and provisions of this Section 2.2(b).

(c) Notwithstanding anything to the contrary contained herein, Landlord and Tenant acknowledge that, as of the Effective Date, Landlord has not installed the Building-standard number of power distribution units ("**PDU**s") in Pod 8b. Landlord covenants that, after receipt and approval of Tenant's plans and specifications for Tenant's Installations (as hereinafter defined) in accordance with Article IX below (the "**Installations Plans and**

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

Specifications”), and after consulting with and reasonably considering suggestions by Tenant, Landlord shall install the Building-standard number of PDUs in Pod 8b as set forth in this subsection (c). In connection therewith, Tenant shall use commercially-reasonable, diligent efforts to deliver the Installations Plans and Specifications to Landlord within thirty (30) days after the Effective Date. Landlord agrees to review and either approve or disapprove of the Installation Plans and Specifications within ten (10) days after its receipt thereof from Tenant and Landlord further agrees to not unreasonably withhold or condition its approval of the Installation Plans and Specifications. Landlord shall use commercially-reasonable, diligent efforts to install the Building-standard number of PDUs in Pod 8b within forty-five (45) days after Landlord approves the Installation Plans and Specifications. Notwithstanding the foregoing, provided that Landlord approves the Installations Plans and Specifications by May 15, 2009 in accordance with this Section 2.2(c), Landlord shall, subject to any delays caused by Tenant, install the Building-standard number of PDUs in Pod 8b by no later than the Anticipated Lease Commencement Date. As used herein, “*Building-standard number of PDUs*” shall mean ten (10) 300 kVA PDUs.

(d) Notwithstanding anything to the contrary contained herein, in the event: (i) Landlord does not install the Building-standard number of PDUs in Pod 8b as set forth in subsection (c) above; and (ii) DFTS (as hereinafter defined) or another affiliate of Landlord, is engaged by Tenant to perform Tenant’s Work but fails to complete Tenant’s Work, all on or prior to the Anticipated Lease Commencement Date, then the Lease Commencement Date shall be delayed until the date on which both such conditions are satisfied or completed as provided herein. Notwithstanding the foregoing, if Landlord shall be delayed in satisfying the conditions set forth in clause (i) and/or clause (ii) above as a result of delays caused by Tenant, then, for purposes of determining when any such condition is satisfied, such condition shall be deemed satisfied on the date such condition would have been satisfied absent any such Tenant-caused delay. Within ten (10) days after the occurrence of a Tenant-caused delay, Landlord shall notify Tenant in writing of such Tenant-caused delay. If Landlord fails to so notify Tenant within said ten (10) day period and such failure to notify continues for twenty (20) days thereafter, then Landlord shall be deemed to have waived and excused any such Tenant-caused delay.

(e) Promptly after the Lease Commencement Date and the commencement of each subsequent Phase are ascertained, Landlord and Tenant shall execute a written declaration setting forth, as applicable, the Lease Commencement Date, the commencement date of each subsequent Phase (subject to the provisions of Section 2.2(b) above), and the date upon which the Lease Term and the applicable Phase will expire. The form of such declaration is attached hereto as Exhibit C and made a part hereof.

2.3 For purposes of this Lease, the term “*Lease Year*” shall mean either (a) if the Lease Commencement Date shall not occur on the first day of a calendar month, each period of twelve (12) consecutive calendar months commencing on the first day of the month immediately following the month in which the Lease Commencement Date occurs, and on each anniversary of such date, provided that the first Lease Year shall also include the period from the Lease Commencement Date to the first day of the month immediately following the Lease Commencement Date; or (b) if the Lease Commencement Date shall occur on the first day of a calendar month, each period of twelve (12) consecutive calendar months commencing on the Lease Commencement Date and on each anniversary of such date; whichever is applicable.

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

2.4 Landlord shall permit Tenant to enter Pod 8b starting on the Effective Date (the “*Early Access*”), in order to commence installation of racks, infrastructure, furniture and other equipment in the Premises (“*Tenant’s Installations*”) and to perform the remainder of Tenant’s Work (as hereinafter defined), provided that, prior to commencing any such work in the Premises, Tenant shall comply in all respects with the requirements of Article IX below. In performing Tenant’s Work during Tenant’s Early Access, Tenant shall be permitted to use [*****] and normal, non-Critical Load Power in the Premises, at its expense, for installation and testing. Except as otherwise expressly provided herein below, [*****] Tenant will be deemed to have commenced the conduct of its business for purposes of subpart (ii) of the first sentence of Section 2.2(a) hereof, provided, that Landlord shall not be required to give Tenant more than one (1) such notice and opportunity to cure during Early Access. All terms and conditions of this Lease, as executed, shall apply to Tenant’s Early Access[*****]. Notwithstanding anything to the contrary contained herein, Landlord acknowledges and agrees that: (a) Tenant, at Tenant’s sole cost and expense pursuant to a separate agreement between Tenant and DFTS (as hereinafter defined), shall be permitted during the Early Access to perform certain testing reasonably agreed to by Landlord, Tenant and DFTS, with respect to the electrical and mechanical systems for the Building and Pod 8b (the “*Electrical and Mechanical Systems Testing*”), and (b) the use of Critical Load Power, including the use of [*****], in Pod 8b for any period of time in connection with such Electrical and Mechanical Systems Testing shall not be considered the conduct of Tenant’s business for purposes of subpart (ii) of the first sentence of Section 2.2(a) above.

ARTICLE III

BASE RENT

3.1 Commencing on the Lease Commencement Date, Tenant shall pay to Landlord as monthly base rent (“*Base Rent*”), net of all Operating Expenses (which term is defined in Section 4.2 below), without set off, deduction (unless otherwise expressly agreed to herein) or demand, an amount equal to [*****]. The monthly Base Rent payable hereunder shall be due and payable in advance on the first day of each month. Payment of monthly Base Rent for any fractional calendar month shall be prorated.

3.2 The Base Rent Rate shall be escalated on the first day of the second Lease Year, and each anniversary of such date thereafter during the Lease Term (each, an “*Escalation Date*”) by [*****].

“*CPI*” means the Consumer Price Index for all Urban Consumers, U.S., City Average (1982-84 = 100) All Items Index, published by the Bureau of Labor Statistics, United States Department of Labor. If the CPI ceases to be compiled and published at any time during the Lease Term, but a comparable successor index is compiled and published by the Bureau of Labor Statistics, United States Department of Labor, the adjustments to Base Rent and any other adjustments provided for in this Lease which are based on the CPI will be computed according to such successor index, with appropriate adjustments in the index to reflect any differences in the

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

method of computation from the CPI. If, at any time during the Lease Term, neither the CPI nor a comparable successor index is compiled and published by the Bureau of Labor Statistics, the index for "all items" compiled and published by any other branch or department of the federal government will be used as a basis for calculation of the CPI-related adjustments to Base Rent and other amounts provided for in this Agreement, and if no such index is compiled and published by any branch or department of the federal government, the statistics reflecting cost of living increases or decreases, as applicable, as compiled by any institution or organization or individual generally recognized as an authority by financial and insurance institutions will be used.

3.3 Commencing on the Storage Space Commencement Date, in addition to the monthly Base Rent set forth in Section 3.1 above, Tenant shall pay to Landlord (i) monthly base rent in the amount of [****] (the "**Office Rent**") and (ii) [****] for the Storage Space (the "**Storage Rent**"). The Office Rent and Storage Rent shall be due and payable in advance of the first day of each month. The Office Rent and Storage Rent shall be increased each Lease Year as and when Base Rent is increased pursuant to Section 3.2 above. Payments of Office Rent and/or Storage Rent for any fractional calendar month shall be prorated.

3.4 All rent shall be paid to Landlord in legal tender of the United States at the address to which notices to Landlord are to be given or to such other address as Landlord may designate from time to time by written notice to Tenant. If Landlord shall at any time accept rent after it shall come due and payable, such acceptance shall not excuse a delay upon subsequent occasions, or constitute or be construed as a waiver of any of Landlord's rights hereunder.

ARTICLE IV

ADDITIONAL RENT

4.1 From and after the Lease Commencement Date, Tenant shall pay its Pro Rata Share of Operating Expenses (as defined below) incurred each year in the operation of the Property, including the Management Fees (as defined below), in the manner set forth herein below. Tenant's "**Pro Rata Share**" shall mean six and twenty-five hundredths percent (6.25%). Commencing on the Lease Commencement Date and continuing throughout the Lease Term, Tenant shall pay its Pro Rata Share of all Operating Expenses[****].

4.2 (a) "**Operating Expenses**" shall, subject to the exclusions set forth below, mean and include those direct reasonable expenses actually incurred (directly or indirectly) by Landlord in operating and maintaining the Property (or any portion thereof), calculated in accordance with generally accepted accounting principles and real property management practices, both consistently applied, including the following: [****]. Notwithstanding the foregoing to the contrary, Operating Expenses shall not include: (i) the cost of any capital improvement to the Property other than those included in clause (6) above; (ii) expenses Landlord incurs in connection with leasing or procuring tenants or renovating space for new or existing tenants, including brokerage commissions, legal fees, lease concessions, rental abatements and construction allowances; (iii) costs and fees including, without limitation, legal fees, incurred in disputes with Tenant or other tenants at the Building, in connection with

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

enforcing leases at the Building and in connection with violations of laws by Landlord with respect to the Property; (iv) interest or principal payments on any mortgages or, subject to clause (6) above, other indebtedness of Landlord; (v) ground lease payments; (vi) the cost of repairs or other work to the extent Landlord is reimbursed by insurance (or would have been reimbursed had Landlord maintained the insurance coverages required in Article 12 below) or condemnation proceeds; (vii) costs incurred in connection with the sale, financing or refinancing of the Building; (viii) organizational expenses associated with the creation and/or operation of the ownership entity which constitutes Landlord; (ix) Landlord's administrative costs, except as they relate to the management and operation of the Property; (x) advertising, promotion, charitable and tenant relations expenses; (xi) any amount for which Landlord receives payment directly by a tenant or non-tenant other than as an Operating Expense; (xii) the cost of correcting defects in the original construction or any renovation of the Building; (xiii) the cost of maintaining, repairing and/or replacing the foundation, roof, exterior walls and/or any other structural element of the Building; (xiv) depreciation (except to the extent permitted in clause 6 above); (xv) costs associated with the cleanup or removal of Hazardous Materials that are in existence as of the Effective Date in violation of applicable laws; and (xvi) costs for which Landlord is compensated by warranties.

(b) "Taxes" shall mean and include (i) all taxes on real property and personal property, ad valorem taxes, surcharges, general and special assessments and impositions, general and special, ordinary and extraordinary, foreseen or unforeseen, of any kind levied or, imposed upon Landlord, the Building or the Land, or assessed against the Property or any machinery, equipment, fixtures or other personal property of Landlord thereon or therein, or in connection with the use thereof (including any transit, personal property, sales, rental, use, gross receipts and occupancy tax and other similar charges); (ii) any other present or future taxes or governmental charges which are imposed upon Landlord or assessed against the Building or the Land, including, but not limited to, any tax levied on or measured by the rents payable by Tenant which is in the nature of, or in substitution for, real property taxes; (iii) any assessments against the Building or the Land, or against Landlord with respect to the Building or the Land, by the Ashburn Corporate Center Owners Association or any other association now or hereafter established to administer, oversee or enforce common covenants or other rules and regulations to which the Building, Land or common areas are subject or to operate, maintain, repair or replace common or public areas or facilities thereof; and (iv) all taxes which are imposed upon Landlord, and which are assessed against the value of any improvements to the Premises made by Tenant or any machinery, equipment, fixtures or other personal property of Tenant used therein. Taxes shall not include any income taxes, excess profits taxes, excise taxes, franchise taxes, estate taxes, inheritance taxes, succession taxes, grantor's taxes, recordation taxes, and transfer taxes, except to the extent such taxes fall within clause (ii) above, and shall not include any interest or penalties for late payment of taxes. If Landlord contests Taxes for any calendar year(s) contained within the Lease Term and such contest results in a decrease in Taxes for such calendar year(s), then Landlord shall credit against the monthly installments of Base Rent next coming due Tenant's proportionate share of such refund, but only up to an amount equal to the payment made by Tenant for such contested calendar year(s) on account of Taxes. If Landlord contests the Taxes for any calendar year(s) and such contest results in an increase in Taxes for such calendar year(s), Landlord shall have the right to bill Tenant for prior underpayments of Taxes thereby resulting. Landlord's and Tenant's obligations under this Section 4.2(b) shall survive the expiration or earlier termination of the Lease Term.

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

(c) Notwithstanding anything to the contrary contained herein, Landlord shall use commercially reasonable efforts to minimize Operating Expenses without compromising the integrity of the Building, the Premises or the services Landlord is required to provide under the Lease. Furthermore, Landlord shall pay, promptly when due, all Taxes relating to the Property.

4.3 Tenant shall pay to Landlord, as Additional Rent for the Premises, Tenant's Pro Rata Share of Operating Expenses incurred by Landlord in the operation of the Building during any calendar year falling entirely or partly within the Lease Term, but Tenant's obligation to pay Operating Expenses for any calendar year during the Lease Term shall be apportioned so that Tenant shall pay only that portion of Tenant's Pro Rata Share of Operating Expenses for such year as fall within the Lease Term. This provision shall survive the expiration or earlier termination of this Lease.

4.4 In the event the average occupancy rate for the entire Building shall be less than one hundred percent (100%) or if any tenant is paying separately for electricity or other utilities or services furnished to its premises, then, for purposes of calculating the additional rent payable by Tenant pursuant to this Article IV for each calendar year, the Operating Expenses for such calendar year that fluctuate depending on the level of occupancy of the Building shall be increased by the amount of additional costs and expenses that Landlord reasonably estimates would have been incurred if the average occupancy rate for the entire Building had been one hundred percent (100%) and as if no tenants had separately paid for electricity or other utilities and services for such calendar year. It is the intent of this provision to permit Landlord to recover Operating Expenses attributable to occupied space in the Building only, even though the aggregate of such expenses shall have been reduced as a result of vacancies in the Building. This Section 4.4 shall not be construed to permit Landlord to, and Landlord shall not, recover from Tenant additional rent on account of Operating Expenses for any calendar year which, when added to the total amount of additional rent payable by all tenants of the Building on account of Operating Expenses for such year, will exceed the actual Operating Expenses incurred by Landlord for such year.

4.5 Commencing on the Lease Commencement Date and on the first day of each month thereafter, Tenant shall make estimated monthly payments to Landlord on account of the Operating Expenses that are expected to be incurred during each calendar year falling entirely or partially within the Lease Term. The amount of such monthly payments shall be determined as follows: commencing with the Lease Commencement Date and at the beginning of each calendar year thereafter, Landlord shall submit to Tenant a statement setting forth Landlord's reasonable estimate of the Operating Expenses that are expected to be incurred during such calendar year and Tenant's Pro Rata Share thereof (as determined in accordance with Section 4.1 hereof). Except with respect to charges for heat rejection HVAC, which shall be paid by Tenant pursuant to Section 13.4 below, Tenant shall pay to Landlord on the first day of each month following receipt of such statement during such calendar year an amount equal to Tenant's Pro Rata Share of the anticipated Operating Expenses multiplied by a fraction, the numerator of which is one (1) and the denominator of which is twelve (12). Except with respect to estimated charges for heat

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

rejection HVAC, which shall be reconciled in accordance with Section 13.4 below, within approximately ninety (90) days, but not later than one hundred fifty (150) days, after the expiration of each calendar year, Landlord shall submit to Tenant a statement (the "**Reconciliation Statement**"), showing (i) the Operating Expenses actually incurred during the preceding calendar year and Tenant's Pro Rata Share thereof, and (ii) the aggregate amount of the estimated payments made by Tenant on account thereof. If the aggregate amount of such estimated payments exceeds Tenant's actual liability for such Operating Expenses, then Landlord shall credit the net overpayment against the next monthly installment(s) of Additional Rent coming due under this Lease (except that any such overpayment during the last calendar year falling wholly or partly within the Lease Term shall be promptly refunded to Tenant by Landlord). If Tenant's actual liability for such Operating Expenses exceeds the estimated payments made by Tenant on account thereof, then Tenant shall pay to Landlord the total amount of such deficiency within thirty (30) days after its receipt of the applicable Reconciliation Statement from Landlord. The provisions of this paragraph shall survive the expiration or earlier termination of this Lease. [*****]

4.6 Provided no Event of Default exists hereunder, Tenant or an independent certified public accountant (on behalf of Tenant) reasonably approved by Landlord, shall have the right, during regular business hours, at the metropolitan Washington, D.C. area management office for the Building, and after giving at least fifteen (15) days' advance written notice to Landlord, to commence to have Landlord's books and records related to Operating Expenses for the immediately preceding calendar year reviewed (and if so commenced, to diligently pursue such review to completion), provided that such review shall be concluded not later than nine (9) months following the date of Tenant's receipt of the Reconciliation Statement for the year to which such review relates, so long as Landlord's books and records remain reasonably available for review by Tenant and/or Tenant's accountant. In connection therewith, Landlord shall maintain its books and records in a commercially reasonable condition, capable of being audited by Tenant and/or its accountant. If Landlord disagrees with the results of Tenant's review and audit, then Landlord and Tenant's auditor shall together select a neutral auditor of similar qualifications to conduct a review of such books and records (the fees of such neutral auditor to be shared equally by Landlord and Tenant), and the determination of Operating Expenses reached by such neutral auditor shall be final and conclusive. Notwithstanding anything to the contrary contained herein, in the event Landlord does not contest Tenant's review and audit within forty-five (45) days after receipt thereof, then Landlord shall be deemed to have approved such review and audit. If the amounts paid by Tenant to Landlord on account of Operating Expenses (a) exceed the amounts to which Landlord is entitled hereunder, then Landlord shall credit the amount of such excess toward the next monthly payment(s) of Additional Rent due hereunder, or (b) are less than the amounts to which Landlord is entitled hereunder, then Tenant shall pay such deficiency as Additional Rent within thirty (30) days after final determination of said Operating Expenses and receipt of written request. Excluding the fees of any neutral auditor selected by the parties hereto as aforesaid, which shall be shared equally by Landlord and Tenant, all costs and expenses of any such review by Tenant and/or Tenant's accountant shall be paid by Tenant; provided, however, that if the amount of Operating Expenses used in such Reconciliation Statement to calculate Tenant's Proportionate Share thereof was overstated by Landlord by more than five percent (5%), Landlord shall, within thirty (30) days after receipt of written request from Tenant, accompanied by back-up documentation reasonably acceptable to

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

Landlord, reimburse Tenant for the commercially reasonable, out of pocket hourly or flat fee costs and expenses paid by Tenant in connection with Tenant's review. Any and all information obtained through any such review (including without limitation, any matters pertaining to Landlord, its managing agent or the Building), and any compromise, settlement or adjustment that may be proposed or reached between Landlord and Tenant as a result of such review, shall be held in strict confidence, and neither Tenant nor any of Tenant's Agents shall disclose any such information to any person or entity other than a Permitted Recipient. A "**Permitted Recipient**" shall be the officers, directors, partners and employees of Tenant, Tenant's certified public accountants who have responsibilities related to Operating Expenses, Tenant's attorneys involved with the Lease or such review, any employees of Tenant's auditor involved with such review, or any person or entity to whom disclosure is required by applicable judicial or governmental authority. Prior to disclosing any such information to any Permitted Recipient (including its auditor), Tenant shall instruct such Permitted Recipient to abide by this confidentiality provision. Notwithstanding anything herein to the contrary, if Tenant does not notify Landlord in writing of any objection to an annual Operating Expenses Reconciliation Statement within one hundred fifty (150) days after receipt thereof, then Tenant shall be deemed to have waived any such objection and shall have no right to review Landlord's books and records related to Operating Expenses that are the subject of such Reconciliation Statement [*****].

ARTICLE V

SECURITY

5.1 Landlord shall provide the following security services and operate and maintain, in a manner consistent with a first-class data center, the following systems with respect to the Building and the Premises, the cost of which shall be included in Operating Expenses: (i) administration of Building perimeter security including, without limitation, the Common Areas, (ii) monitoring and administration of the Building's access card system, (iii) monitoring and oversight of loading dock security and the parking lot located on the Land (the "**Parking Lot**"), (iv) monitoring and operation of security cameras throughout the Building, and (v) monitoring of the routes of ingress to, and egress from, the Premises and the Building (the "**Building Security Systems**").

5.2 Tenant shall have the right to, subject to Article IX hereof, install, manage and/or maintain, at its sole cost and expense, security services and systems to protect the Premises and vault environments including, without limitation, a secondary security perimeter within the Premises and electronic "key card" security system and/or biometric access system, in addition to the standard Building and Property security services provided by Landlord. Tenant agrees that such security systems shall not (i) limit Landlord's ability to access the space in the event of an emergency or to perform routine maintenance, subject to Section 11.1 hereof, or (ii) materially, adversely affect any area outside of the Premises. Tenant shall, upon ten (10) days' advance written notice to Landlord, have the right to obtain, at no additional cost to Tenant, monthly reports from Landlord regarding entry data and card access for: (a) each person on the Tenant Access List (as hereinafter defined) that enters the Building and (b) each person that enters the Premises. Tenant shall, further, have the right to request entry data, review video and card

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

access for the Premises, the Building and the Parking Lot, as situations dictate to resolve its own reasonable security concerns or support any necessary personnel inquires, and Landlord or the Management Company (hereinafter defined in Section 13.5 below) shall use commercially reasonable efforts to furnish all such records, all subject to availability, no more than forty-eight (48) hours after such request by Tenant.

5.3 Notwithstanding anything to the contrary contained herein, if (i) any breach of security in the Premises shall occur, (ii) any Service Interruption (as hereinafter defined), or (iii) any other event adversely impacting the operation of the Premises occurs, Tenant shall immediately provide notice to Landlord via (a) email to [*****] (twenty-four (24) hours per day, seven (7) days per week and three hundred sixty-five (365) days per year) and (b) telephone call to Landlord's Emergency/Security Response Center in Ashburn, Virginia at [*****] (twenty-four (24) hours per day, seven (7) days per week and three hundred sixty-five (365) days per year), and/or to such other email address and/or phone number as Landlord shall from time to time notify Tenant in writing ("**Landlord's Emergency Contacts**").

5.4 Notwithstanding anything to the contrary contained herein, if (i) any breach of security in the Building and/or the Premises shall occur, (ii) any Service Interruption (as hereinafter defined) and/or reductions in levels of redundancy as provided in Section 13.2 below shall occur, or (iii) any other event adversely impacting the operation of the Premises and/or the Building occurs, Landlord shall immediately provide notice to Tenant via (a) email to [*****] (twenty-four (24) hours per day, seven (7) days per week and three hundred sixty-five (365) days per year) and (b) telephone call to [*****] (twenty-four (24) hours per day, seven (7) days per week and three hundred sixty-five (365) days per year), and/or to such other email address and/or phone number as Tenant shall from time to time notify Landlord in writing ("**Tenant's Emergency Contacts**").

5.5 Tenant shall provide to Landlord an access list (as updated and/or modified from time to time by Tenant, the "**Tenant Access List**") designating employees of Tenant and Permitted Licensees (defined in Section 7.6 below) that are permitted to enter the Premises. Each Tenant employee/Permitted Licensee designated by Tenant on the Tenant Access List shall receive a permanent access badge (an "**Access Badge**"). [*****] Tenant shall be solely responsible for updating the Tenant Access List and providing any changes to Landlord. In the event that any Tenant employee or Permitted Licensee is removed from the Tenant Access List by Tenant or no longer requires access to the Premises for any reason, Tenant shall return such Tenant employee/Permitted Licensee's Access Badge to Landlord promptly. Landlord agrees and acknowledges that: (a) the contents of the Tenant Access List and/or the identities of those parties visiting the Premises shall remain strictly confidential and shall not be disclosed to any other party, other than the Management Company, without the prior written consent of Tenant, and (b) Landlord shall destroy, and not re-use, any and all Access Badges returned by Tenant to Landlord as aforesaid. If any person seeking to gain access to the Premises is not on the Tenant Access List, then such person shall be refused access to the Premises; provided, however, that, so long as an employee or representative of Tenant has escort authorization as specifically indicated on the Tenant Access List, such employee and/or representative may escort any visitor, including, without limitation, any vendor, supplier, partner, customer or prospective customer of Tenant, that is not on the Tenant Access List to and/or within the Premises. Without limiting the

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

foregoing, in no event shall Landlord permit any representative or employee of Tenant that does not have escort authorization to escort any person that is not on the Tenant Access List to and/or within the Premises. Notwithstanding anything to the contrary contained herein, Landlord shall have the right, at any time, to require the immediate removal of any employee, agent, representative, and/or contractor of Tenant, including, but not limited to, persons included on the Tenant Access List, from: (i) the Building or the Land for disruptive behavior or safety concerns occurring on the Property outside of the Premises or (ii) the Premises for material interference with Landlord's performance of its obligations within the Premises, as determined in the sole but reasonable discretion of Landlord. [*****] Landlord will provide a security orientation for its non-employee, third-party contractors, consultants, technicians and other personnel (excluding Tenant or any of Tenant's employees, agents or invitees) that will have access to the Premises. [*****]

ARTICLE VI

USE OF PREMISES

6.1 Tenant shall use and occupy the Premises solely for data center, computing, hosting and managed services purposes (including Permitted Interconnections (as hereinafter defined)) and uses accessory thereto, including, without limitation, general office, storage, assembly and repair ("**Permitted Uses**"), and for no other use or purpose. Tenant shall not use or occupy the Premises for any unlawful purpose, or in any manner that will violate the certificate of occupancy for the Premises or the Building or that will constitute waste, nuisance or unreasonable annoyance to Landlord or any other tenant or user of the Building, or in any manner (other than the Permitted Uses) that will increase the number of parking spaces required for the Building as required by law. Tenant's use of the Premises shall comply with all present and future laws (including, without limitation, the Americans with Disabilities Act (the "**ADA**") and the regulations promulgated thereunder, as the same may be amended from time to time), ordinances (including without limitation, zoning ordinances and land use requirements), regulations, orders and recommendations (including, without limitation, those made by any public or private agency having authority over insurance rates) (collectively, "**Laws**") concerning the use, occupancy and condition of the Premises and all of Tenant's machinery, equipment, furnishings, fixtures and improvements therein, all of which shall be complied with in a timely manner at Tenant's sole expense. Notwithstanding the foregoing, Landlord at its expense (subject to reimbursement pursuant to Article IV above, if and to the extent permitted thereby) shall comply with Laws (including, without limitation, the ADA and Environmental Laws (hereinafter defined)) to the extent the same apply directly to the Building Structure and Systems (as hereinafter defined in Section 8.2), Common Areas of the Property as a whole, and any other portions of the Building located outside of tenant premises, including, without limitation, telephone rooms, mechanical and electrical rooms and closets; provided, however, that to the extent any non-compliance is a result of Tenant's particular use or occupancy of the Premises (as opposed to the Permitted Uses) or any negligence or willful misconduct of Tenant or any Agent, or if any improvements made by Landlord to comply with such Laws benefit solely the Premises (and not any other premises) and are atypical of those performed for similarly situated tenants, then such compliance shall be at Tenant's cost. Landlord represents and warrants that, as of the Lease Commencement Date, the Premises and the Building shall be in material compliance with

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

all Laws. Notwithstanding any other provisions herein to the contrary, the parties hereto acknowledge and agree that in the event the Premises and/or the Building are not in compliance with all laws as of the Lease Commencement Date, and provided that any non-compliance is not a result of Tenant's breach of its obligations under this Lease or any negligence or willful misconduct of Tenant or any Agent, Landlord shall bear any and all costs and expenses of achieving such compliance, and such costs and expenses shall not be included as an Operating Expense. If any such Law requires an occupancy or use permit or license for the Premises or the operation of the business conducted therein, then Tenant shall obtain and keep current such permit or license at Tenant's expense and shall promptly deliver a copy thereof to Landlord, provided, that Landlord shall be responsible, at its sole cost and expense and not to be included as an Operating Expense, for obtaining the initial certificate of occupancy required for the Premises and Tenant's use of the Premises for the Permitted Uses. Use of the Premises is subject to all covenants, conditions and restrictions of record. Tenant shall not use any space in the Building or the Land for the sale of goods to the public at large or for the sale at auction of goods or property of any kind. Tenant shall not conduct any operations, sales, promotions, advertising or special events outside the Premises, in the Building or on the Land.

6.2 Tenant shall pay before delinquency any business, rent or other taxes or fees that are now or hereafter levied, assessed or imposed upon Tenant's use or occupancy of the Premises, the conduct of Tenant's business at the Premises, or Tenant's equipment, fixtures, furnishings, inventory or personal property. If any such tax or fee is enacted or altered so that such tax or fee is levied against Landlord or so that Landlord is responsible for collection or payment thereof, then Tenant shall pay, as Additional Rent the amount of such tax or fee.

6.3 (a) Tenant shall not allow, cause or permit any Hazardous Materials to be generated, used, treated, released, stored or disposed of in or about the Building or the Land, provided that Tenant may use and store normal and reasonable quantities of Hazardous Materials in the Premises as are customarily maintained by data center tenants and as may be reasonably necessary for Tenant to conduct normal operations in the Premises taking into account the Permitted Uses, so long as such Hazardous Materials are properly, safely and lawfully stored and used by Tenant. At the expiration or earlier termination of this Lease, with respect to conditions existing on account of Tenant's use or occupancy of the Premises, Tenant shall surrender the Premises to Landlord free of Hazardous Materials attributable to an Environmental Default and in full compliance with all Environmental Laws.

(i) "Hazardous Materials" means (a) asbestos and any asbestos containing material and any substance that is then defined or listed in, or otherwise classified pursuant to, any Environmental Law or any other applicable Law as a "hazardous substance," "hazardous material," "hazardous waste," "infectious waste," "toxic substance," "toxic pollutant" or any other formulation intended to define, list, or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, toxicity, reproductive toxicity, or Toxicity Characteristic Leaching Procedure (TCLP) toxicity, (b) any petroleum and drilling fluids, produced waters, and other wastes associated with the exploration, development or production of crude oil, natural gas, or geothermal resources, and (c) any petroleum product, polychlorinated biphenyls, urea formaldehyde, radon gas, radioactive material (including any source, special nuclear, or by product material), medical waste, chlorofluorocarbon, lead or lead based product, and any other substance whose presence could be detrimental to the Building or the Land or hazardous to health or the environment.

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

(ii) **“Environmental Law”** means any present and future Law and any amendments (whether common law, statute, rule, order, regulation or otherwise), permits and other requirements or guidelines of governmental authorities applicable to the Building or the Land and relating to the environment and environmental conditions or to any Hazardous Material (including, without limitation, CERCLA, 42 U.S.C. § 9601 et seq., the Resource Conservation and Recovery Act of 1976, 42 U.S.C. § 6901 et seq., the Hazardous Materials Transportation Act, 49 U.S.C. § 1801 et seq., the Federal Water Pollution Control Act, 33 U.S.C. § 1251 et seq., the Clean Air Act, 42 U.S.C. § 7401 et seq., the Toxic Substances Control Act, 15 U.S.C. § 2601 et seq., the Safe Drinking Water Act, 42 U.S.C. § 300f et seq., the Emergency Planning and Community Right To Know Act, 42 U.S.C. § 1101 et seq., the Occupational Safety and Health Act, 29 U.S.C. § 651 et seq., and any so called “Super Fund” or “Super Lien” law, any Law requiring the filing of reports and notices relating to hazardous substances, environmental laws administered by the Environmental Protection Agency, and any similar state and local Laws, all amendments thereto and all regulations, orders, decisions, and decrees now or hereafter promulgated thereunder concerning the environment, industrial hygiene or public health or safety).

(iii) **“Environmental Default”** means any material violation of any Environmental Law by Tenant or any Tenant invitee (other than Landlord or Landlord’s agents, contractors, employees or agents) including, without limitation, a release, spill, or discharge of a Hazardous Material on or from the Premises, the Land or the Building.

(b) Notwithstanding any termination of this Lease, Tenant shall indemnify and hold Landlord, its employees and agents harmless from and against any damage, injury, loss, liability, charge, demand or claim based on or arising out of the presence or removal of, or failure to remove, Hazardous Materials generated, used, released, spilled, stored or disposed of by Tenant or any Tenant invitee (other than Landlord or Landlord’s agents, contractors, employees or agents) in or about the Building, after the date hereof. In addition, Tenant shall give Landlord prompt written notice of any actual or threatened Environmental Default of which Tenant has actual knowledge, which Environmental Default Tenant shall cure in accordance with all Environmental Laws. Upon any Environmental Default, in addition to all other rights available to Landlord under this Lease, at law or in equity, Landlord shall have the right but not the obligation to immediately enter the Premises, to supervise and approve any actions taken by Tenant to address the Environmental Default, and, if Tenant fails to promptly address same to Landlord’s reasonable satisfaction, to perform, at Tenant’s sole cost and expense, any lawful action necessary to address same. If any lender or governmental agency shall require testing to ascertain whether an Environmental Default is pending or threatened, and such testing discloses the existence of an Environmental Default, then Tenant shall pay the reasonable costs of such testing as Additional Rent.

(c) Notwithstanding anything to the contrary contained herein, Landlord represents and warrants to Tenant that Landlord has no knowledge of the current existence of any Hazardous Materials in or about the Property. Notwithstanding anything to the contrary

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

contained herein, Landlord shall indemnify and hold Tenant, its employees and agents harmless from and against any damage, injury, loss, liability, charge, demand or claim based on, or arising out of, the presence or removal of, or failure to remove, Hazardous Materials generated, used, released, stored or disposed of by Landlord, any Landlord invitee or any other party (other than Tenant or Tenant's agents, contractors, employees, invitees or guests) prior to or after the Lease Commencement Date. In addition, Landlord shall give Tenant prompt written notice of any actual or threatened violation of any Environmental Law affecting the Premises of which Landlord has actual knowledge, which violation Landlord shall cure in accordance with all Environmental Laws. For purposes of this Section 6.3(c), Hazardous Materials excludes substances of a type and in a quantity normally used in connection with the occupancy or operation of data centers, which substances are being held, stored and used in compliance with federal, state and local Laws.

ARTICLE VII

ASSIGNMENT AND SUBLETTING

7.1 Subject to the terms and provisions of Sections 7.2(b) and 7.6 below, Tenant shall not assign, transfer or otherwise encumber (collectively, "*assign*") this Lease or all or any of Tenant's rights hereunder or interest herein, or sublet or permit anyone to use or occupy (collectively, "*sublet*") the Premises or any part thereof, without obtaining the prior written consent of Landlord, which consent, provided no Event of Default exists under this Lease, and subject to Landlord's rights and Tenant's obligations pursuant to Sections 7.3, 7.4 and 7.5 below, Landlord shall not unreasonably withhold, condition or delay. For purposes of the immediately preceding sentence, it shall be reasonable for Landlord to withhold its consent if, for example: (i) the proposed subtenant or assignee is engaged in a business, or the Premises will be used in a manner, that is inconsistent with the use of the Property as a first-class data center; or (ii) Landlord is not reasonably satisfied with the financial condition of the proposed subtenant or assignee taking into account the remaining obligations under this Lease and the fact that Tenant is not released; or (iii) the proposed use of the Premises is not in compliance with Article VI or is not compatible with the other uses within, and the terms of other leases with respect to, the Building; or (iv) the initial Tenant does not remain fully liable as a primary obligor for the payment of all rent and other charges payable by Tenant under this Lease and for the performance of all other obligations of Tenant under this Lease; or (v) the proposed subtenant or assignee is a governmental or quasi governmental agency; or (vi) the holders of Mortgages encumbering the Building shall fail to consent (Landlord hereby agreeing to use commercially reasonable, diligent efforts to obtain such consent if Landlord approves such transaction); or (vii) the proposed subtenant or assignee is either (A) an existing tenant of the Building (or any parent, subsidiary or affiliate thereof) if Landlord has adequate space available in the Building for a comparable term, or (B) for a period of forty-five (45) days following the submission of a written proposal for the lease of space (and thereafter if a mutual agreement such as a letter of intent is executed within such period), any person or entity with which Landlord is in the process of negotiating for the rental of space in the Building. Except as otherwise set forth herein, no assignment or right of occupancy hereunder may be effectuated by operation of law or otherwise without the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed. Any assignment or subletting, Landlord's consent thereto, the listing or

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

posting of any name other than Tenant's, or Landlord's collection or acceptance of rent from any assignee or subtenant, shall not be construed either as waiving or releasing Tenant from any of its liabilities or obligations under this Lease as a principal and not as a guarantor or surety, or as relieving Tenant or any assignee or subtenant from the obligation of obtaining Landlord's prior written consent to any subsequent assignment or subletting. As security for this Lease, Tenant hereby assigns to Landlord the rent due from any assignee or subtenant of Tenant. During any period that there exists an Event of Default under this Lease, Tenant hereby authorizes each such assignee or subtenant to pay said rent directly to Landlord upon receipt of notice from Landlord specifying same. Landlord's collection of such rent shall not be construed as an acceptance of such assignee or subtenant as a tenant. Tenant shall not mortgage, pledge, hypothecate or encumber (collectively "*mortgage*") this Lease without Landlord's prior written consent, which consent may be granted or withheld in Landlord's sole but reasonable discretion. Any sublease, assignment or mortgage shall, at Landlord's option, be effected on forms reasonably approved by Landlord. Tenant shall deliver to Landlord a fully executed copy of each agreement evidencing a sublease, assignment or mortgage, and Landlord's consent thereto, within thirty (30) days after execution thereof.

7.2 (a) If Tenant is a partnership or a limited liability company, then any event (whether voluntary, concurrent or related) resulting in a dissolution of Tenant, any withdrawal or change (whether voluntary, involuntary or by operation of law) of the partners or members, as applicable, owning a controlling interest in Tenant (including each general partner or manager, as applicable), or any structural or other change having the effect of limiting the liability of the partners shall be deemed a voluntary assignment of this Lease subject to the provisions of this Article VII. If Tenant is a corporation or a partnership with a corporate general partner, then any event (whether voluntary, concurrent or related) resulting in a dissolution, merger, consolidation or other reorganization of Tenant (or such corporate general partner) and that causes a change in control of Tenant, or the sale or transfer or relinquishment of the interest of shareholders who, as of the date of this Lease, own a controlling interest of the capital stock of Tenant (or such corporate general partner) and that causes a change in control of Tenant, shall be deemed a voluntary assignment of this Lease subject to the provisions of this Article VII; provided, however, that if Tenant is a corporation, or a wholly-owned subsidiary of a corporation, whose stock is traded through a national or regional exchange or over the counter market, then the foregoing portion of this sentence shall be applicable only if such event has or is intended to have the effect of eliminating liability under this Lease.

(b) Notwithstanding anything contained in this Article VII to the contrary, provided no Event of Default exists hereunder, Tenant may, upon not less than ten (10) days' prior written notice to Landlord (which notice shall contain a written certificate from Tenant, signed by an authorized representative of Tenant, containing a representation as to the true, correct and complete legal and beneficial relationship of Tenant and the proposed assignee, transferee or subtenant) but without Landlord's prior written consent and without being subject to Landlord's rights and Tenant's obligations set forth in Sections 7.4 and 7.5 below, assign or transfer its entire interest in this Lease or sublease the entire or any portion of the Premises to any of the following (each, an "*Affiliate*"): (i) to a corporation or other business entity (herein sometimes referred to as a "*successor corporation*") into or with which Tenant shall be merged or consolidated, or to which substantially all of the assets of Tenant may be transferred or sold,

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

provided that such successor corporation shall have a net worth and liquidity factor at least equal to the net worth and liquidity factor of Tenant as of the date hereof or otherwise reasonably acceptable to Landlord taking into account the fact that the original Tenant under this Lease is not being released, and provided that the successor corporation shall assume in writing all of the obligations and liabilities of Tenant under this Lease and the proposed use of the Premises is in compliance with Article VI above; or (ii) to a corporation or other business entity (herein sometimes referred to as a "*related corporation*") which shall control, be controlled by or be under common control with Tenant, provided that such related corporation shall assume in writing all of the obligations and liabilities of Tenant under this Lease (without relieving Tenant therefrom) and the proposed use of the Premises is in compliance with Article VI above. In the event of any such assignment or subletting, Tenant shall remain fully liable as a primary obligor for the payment of all rent and other charges required hereunder and for the performance of all obligations to be performed by Tenant hereunder. For purposes of this Section 7.2, "control" shall be deemed to be ownership of more than fifty percent (50%) of the stock or other voting interest of the controlled corporation or other business entity. Notwithstanding the foregoing, if Tenant structures one or more assignment or sublease transactions to an entity that meets the definition of Affiliate as specified above for the purpose of circumventing the restrictions on subleases and assignments provided elsewhere in this Article VII, then such subtenant(s) or assignee(s) shall conclusively be deemed not to be an Affiliate and subject to all such restrictions.

7.3 (a) If at any time during the Lease Term Tenant desires to assign, sublet or mortgage all or part of this Lease or the Premises, then in connection with Tenant's request to Landlord for Landlord's consent thereto, Tenant shall give notice to Landlord in writing ("*Tenant's Request Notice*") containing: the identity of the proposed assignee, subtenant or other party and a description of its business; the terms of the proposed assignment, subletting or other transaction (including a copy of the proposed document for same), including whether any premium or other consideration is being paid for the assignment, sublease or other transaction; the anticipated commencement date of the proposed assignment, subletting or other transaction (the "*Proposed Sublease Commencement Date*"); the area proposed to be assigned, sublet or otherwise encumbered (the "*Proposed Sublet Space*"); and financial statements for the prior two (2) years certified by an authorized officer of Tenant or a certified public accounting firm, or other evidence of financial responsibility, of such proposed assignee, subtenant or other party. If financial statements for such proposed assignee, subtenant or other party are not available for the prior two years, then Tenant shall submit any financial statements that are available for the prior two years and any other available evidence of financial responsibility reasonably requested by Landlord.

(b) Landlord shall grant or deny, with reasonable specificity, Tenant's request for consent contained in any Tenant's Request Notice within thirty (30) days after Landlord has received any such Tenant's Request Notice (including all other items required to be delivered by Tenant to Landlord as set forth in Section 7.3(a) above). If Landlord fails to timely grant or deny such request with reasonable specificity, then Landlord shall be deemed to have granted its consent thereto.

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

7.4 If the proposed term with respect to the Proposed Sublet Space extends (including any renewal or extension options) beyond the first (1st) day of the twelfth (12th) calendar month before the then-scheduled expiration of the Lease Term, or if the Proposed Sublet Space is (or, when aggregated with other space being sublet or assigned by Tenant, will be) more than fifty percent (50%) of the total number of rentable square feet in the Premises, or if the Critical Load Power associated with the Proposed Sublet Space is (or, when aggregated with the Critical Load Power associated with other space being sublet or assigned by Tenant, will be) more than fifty percent (50%) of the Maximum Load Limit (hereinafter defined), then, in any such event, except as set forth in Section 7.2(b) concerning Affiliates, Landlord shall have the right in its sole and absolute discretion to terminate this Lease with respect to the Proposed Sublet Space by sending Tenant written notice of such termination within thirty (30) days after Landlord's receipt of Tenant's Request Notice. Notwithstanding any of the foregoing to the contrary, if Landlord sends Tenant a written notice pursuant to the immediately preceding sentence indicating Landlord's intention to terminate this Lease with respect to the Proposed Sublet Space, then Tenant shall have the right, for a period of ten (10) days after receipt of such notice, to withdraw (by written notice to Landlord) the applicable Tenant's Request Notice. If the Proposed Sublet Space does not constitute the entire Premises and Landlord exercises its option to terminate this Lease with respect to the Proposed Sublet Space, then (a) Tenant shall tender the Proposed Sublet Space to Landlord on the Proposed Sublease Commencement Date and such space shall thereafter be deleted from the Premises, and (b) as to that portion of the Premises which is not part of the Proposed Sublet Space, this Lease shall remain in full force and effect except that Base Rent and additional rent shall be reduced pro rata. Fifty percent (50%) of the cost of any construction required to permit the operation of the Proposed Sublet Space separate from the balance of the Premises shall be paid by Tenant to Landlord as additional rent hereunder. If the Proposed Sublet Space constitutes the entire Premises and Landlord elects to terminate this Lease, then Tenant shall tender the Proposed Sublet Space to Landlord, and this Lease shall terminate, on the Proposed Sublease Commencement Date.

7.5 If any sublease or assignment (whether by operation of law or otherwise, including without limitation an assignment pursuant to the provisions of the Bankruptcy Code or any other Insolvency Law) provides that the subtenant or assignee thereunder is to pay any amount in excess of the sum of (a) the rent and other charges due under this Lease plus (b) the reasonable out-of-pocket expenses (including any costs attributable to vacancy periods or "downtime") that Tenant reasonably incurred in connection with the procurement of such sublease, assignment or other transfer (which expenses shall be amortized on a straight-line basis over the initial sublease term for the purposes hereof), then whether such net excess be in the form of an increased monthly or annual rental, a lump sum payment, payment for the sale, transfer or lease of Tenant's fixtures, leasehold improvements, furniture and other personal property, or any other form of payment having the effect of a "disguised" rental payment (and if the subleased or assigned space does not constitute the entire Premises, the existence of such excess shall be determined on a pro rata basis), Tenant shall pay to Landlord, along with the next monthly installment of Base Rent due, [****] of any such net excess or other premium applicable to the sublease or assignment, which amount shall be calculated and paid by Tenant to Landlord on a monthly basis as Additional Rent. Acceptance by Landlord of any payments due under this Section 7.5 shall not be deemed to constitute approval by Landlord of any sublease or assignment, nor shall such acceptance waive any rights of Landlord hereunder. Landlord shall have the right to inspect and audit Tenant's books and records relating to any sublease or assignment.

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

7.6 Landlord acknowledges that the business to be conducted by Tenant in the Premises may include the installation of certain equipment (described below) owned, licensed or otherwise used by customers, vendors or co-locators of the undersigned Tenant ("**Permitted Licensees**") in the Premises, in order for Permitted Licensees to place, use, operate and/or maintain computer, switch, communications and/or other related facilities and equipment which may interconnect with Tenant's equipment and facilities and/or other Permitted Licensees' equipment and facilities (the "**Permitted Interconnection**"). To expedite access of Permitted Licensees' access to the Premises for Permitted Interconnections, Landlord expressly agrees that Tenant may, without Landlord's consent, license portions of the Premises to Permitted Licensees for the sole purpose of Permitted Interconnections pursuant to written agreements or other arrangements by and between Tenant and Permitted Licensees (collectively, "**Permitted Agreements**"); provided, however, that (a) Tenant acknowledges and agrees that access of Permitted Licensees to the Building and the Premises is subject to the terms and provisions of Article V above and (b) the Permitted Licensee's license of a portion of the Premises may not violate the terms of this Lease or any Applicable Laws. The Permitted Agreements and the Permitted Licensees' rights thereunder shall be subject and subordinate at all times to the Lease and all of its provisions, covenants and conditions. Except to the extent caused by the negligence or willful acts or omissions of Landlord or its agents, and subject to Section 12.3 below, Tenant hereby agrees to indemnify, defend, and hold harmless Landlord from and against (and to reimburse Landlord for) any and all claims, costs, damages, causes of action and/or litigation arising from or in any manner relating to (i) any Permitted Agreement, (ii) the use of the Premises or any other portion of the Building or the Property by any Permitted Licensee or any person claiming by, through or under any Permitted Licensee, its officers, agents or employees (collectively, the "**Colocating Parties**"), and (iii) the acts or omissions of any Permitted Licensee or any Colocating Parties. Notwithstanding anything to the contrary contained herein, Landlord and Tenant acknowledge and agree that Permitted Agreements shall not constitute, or be deemed to be, the grant of a leasehold interest or otherwise constitute, or be deemed to be, a real property interest. Additionally, Landlord and Tenant agree that Tenant's right to enter into Permitted Agreements related to the Premises is a right that is granted specifically and solely to Rackspace U.S., Inc. and Rackspace Hosting, Inc. and Affiliates of each, and, as such, such right shall not be exercisable by any party (who is not an Affiliate of Rackspace U.S., Inc. and/or Rackspace Hosting, Inc.) to whom any or all of the rights of "Tenant" under this Lease are hereafter assigned or otherwise transferred, or by any Colocating Party (who is not an Affiliate of Rackspace U.S., Inc. and/or Rackspace Hosting, Inc.).

7.7 All restrictions and obligations imposed pursuant to this Lease on Tenant shall be deemed to extend to any subtenant, assignee, licensee, concessionaire or other occupant or transferee, and Tenant shall cause such person to comply with such restrictions and obligations. Any assignee shall be deemed to have assumed obligations as if such assignee had originally executed this Lease and at Landlord's request shall execute promptly a document confirming such assumption. Each sublease is subject to the condition that if the Lease Term is terminated or Landlord succeeds to Tenant's interest in the Premises by voluntary surrender or otherwise, at Landlord's option the subtenant shall be bound to Landlord for the balance of the term of such sublease and shall attorn to and recognize Landlord as its landlord under the then executory terms of such sublease.

ARTICLE VIII

MAINTENANCE AND REPAIRS

8.1 Subject to Landlord's obligations in Section 8.2, Article XVI and Article XVII below and in the Services Exhibit attached hereto as Exhibit F, Tenant, at Tenant's sole cost and expense, shall promptly make all repairs, perform all maintenance, and make all replacements in and to the Premises that are necessary or desirable to keep the Premises in proper operating condition and repair, in a clean, safe and tenantable condition, and otherwise in accordance with all Laws and the requirements of this Lease (Tenant's repair, maintenance and replacement obligations, including but not limited to obligations with respect to the Tenant Items (as hereinafter defined), shall hereinafter be collectively referred to as "**Tenant's Repair and Maintenance Obligations**"). Subject to Landlord's obligations in Section 8.2, Article XVI and Article XVII below, Tenant shall maintain all fixtures, furnishings and equipment installed by Tenant or any Tenant invitee in the Premises (excluding any PDUs installed by Tenant) in clean, safe and sanitary condition, shall take good care thereof and make all required repairs and replacements thereto. Tenant shall maintain throughout the Lease Term, at Tenant's sole cost and expense, customary maintenance and service contracts for the maintenance and repair of any and all non-Building standard supplemental heating, ventilation and air conditioning equipment and systems and any and all non-Building standard supplemental power distribution equipment and systems installed by Tenant or any Tenant invitee in the Premises, and Tenant shall maintain throughout the Lease Term, at Tenant's sole cost and expense, all such supplemental heating, ventilation and air conditioning equipment and systems and supplemental power distribution equipment and systems; as well as any special tenant areas, facilities and finishes installed by Tenant or any Tenant invitee; special fire protection equipment, telecommunications and computer equipment installed by Tenant or any Tenant invitee; kitchen/galley equipment and fixtures, all other furniture, furnishings, equipment and systems of Tenant and all Alterations (collectively, "**Tenant Items**"). Each such contract shall be with a contractor licensed to do business in the jurisdiction in which the Building is located and otherwise reasonably approved by Landlord. From time to time, at Landlord's request, Tenant shall provide Landlord with copies of all maintenance and service contracts. In the event that Tenant fails to commence and diligently prosecute to completion any item of Tenant's Repair and Maintenance Obligations within fifteen (15) Business Days following Tenant's receipt of notice from Landlord, then Landlord shall have the right, at Landlord's option, to perform any such item of Tenant's Repair and Maintenance Obligations and to charge Tenant for all reasonable costs and expenses actually incurred by Landlord in connection therewith. Tenant shall give Landlord prompt written notice of any defects or damage to the structure of, or equipment or fixtures in, the Building or any part thereof of which Tenant has knowledge. Tenant shall suffer no waste or injury to any part of the Premises, and shall, at the expiration or earlier termination of the Lease Term, surrender the Premises in an order and condition equal to or better than their order and condition on the Lease Commencement Date, except for ordinary wear and tear and as otherwise provided in Article IX, Article XII and/or Article XVI. Except as otherwise provided in Article XVI, all injury, breakage and damage to the Premises and to any other part of the Building or the Land caused by

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

any act or omission of any agent, employee, subtenant, assignee, contractor, client, licensee, customer, invitee or guest of Tenant (collectively, "**Agents**") or Tenant, shall be repaired by and at Tenant's expense, except that: (A) if either an emergency condition exists or the Lease Term has expired or Tenant fails to commence and diligently prosecute to completion repair of any such injury, breakage or damage within ten (10) days following Tenant's receipt of notice from Landlord, then Landlord shall have the right at Landlord's option to make any such repair and to charge Tenant for all reasonable costs and expenses actually incurred by Landlord in connection therewith; and (B) if such injury, breakage and damage is caused by the negligence of Tenant or any Agent (as opposed to the gross negligence or willful misconduct of Tenant or any Agent), then the mutual waiver of subrogation specified in Sections 12.2 and 12.3 shall apply (subject to the limitations of the remainder of Article XII, including, without limitation, the fact that Tenant's insurance shall be primary and non-contributory). Landlord shall provide and install replacement tubes for Building-standard fluorescent light fixtures (subject to reimbursement pursuant to Article IV). All other lights and/or light bulbs within the Premises shall be provided and installed by Tenant at Tenant's sole cost and expense. The provision, installation and replacement of such lights and light bulbs shall be expressly required as an item of Tenant's Repair and Maintenance Obligations.

8.2 Except as otherwise provided in this Lease, Landlord, at its expense (subject to reimbursement pursuant to Article IV if and to the extent permitted thereby), shall promptly make all repairs, perform all maintenance and make all replacements (which shall be new or comparable materials, facilities or equipment only) to keep the exterior and demising walls, main lobby in the Building, slab floors, exterior windows, load bearing elements, foundations, roof and common areas that form a part of the Building; the driveways, parking and grounds on the Land; the raised floor, the PDUs (up to the load side of each PDU, up to and including the output bus), CRACs, Engine Generators, electrical distribution switchgear, uninterruptible power systems, HVAC cooling support equipment, the Building Management System, the Building Security Systems, fire detection and alarm system and fire protection system, and any other equipment, facilities or other property of Landlord, located within the Premises and the Building, as well as the mechanical, telecommunications, electrical, HVAC and plumbing systems, equipment, rooms, closets, pipes, cables, risers, vaults, manholes and conduits that are provided by Landlord in the operation of the Building (collectively, the "**Building Structure and Systems**"), clean and in good operating condition, consistent with industry standards for first-class data centers (Landlord's repair, maintenance and replacement obligations, collectively, "**Landlord's Repair and Maintenance Obligations**"). Landlord's Repair and Maintenance Obligations shall include Landlord's duties and obligations set forth in Section B of the Services Exhibit attached hereto as Exhibit F. Notwithstanding any of the foregoing to the contrary, maintenance and repair of all Tenant Items shall be the sole responsibility of Tenant and Tenant Items shall be deemed not to be a part of the Building Structure and Systems.

ARTICLE IX

ALTERATIONS

9.1 Except for installation of the Building-standard number of PDUs in Pod 8b, Landlord represents and warrants that it has constructed and installed at its sole cost and expense,

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

the Building and infrastructure and leasehold improvements (“*Landlord’s Work*”) as outlined in Exhibit D attached hereto and made a part hereof, in a good, workmanlike and first-class manner, and in compliance with all applicable Laws and building codes. It is understood and agreed that, except for: (i) installation of the Building-standard number of PDUs in Pod 8b in accordance with Section 2.2(c) above and (ii) delivery of the Office Space and Storage Space as set forth in Sections 1.3 and 1.4 above, respectively, Landlord will not make, and is under no obligation to make, any structural or other alterations, installations, additions or improvements in or to the Building, Land or Premises other than Landlord’s Work.

9.2 Tenant shall not make or permit anyone to make any material alterations, additions, improvements or replacements in or to the Premises, the Building, or the Property (collectively, “*Alterations*”) without the prior written consent of Landlord, which consent may be withheld or granted in Landlord’s sole and absolute discretion with respect to structural Alterations and those non-structural Alterations which are visible from the exterior of the Premises, and which consent shall not be unreasonably withheld, conditioned or delayed with respect to all other non-structural Alterations. Structural Alterations shall be deemed to include, without limitation, any Alteration that will or may necessitate any changes, replacements or additions to the load-bearing or exterior walls, non-drop ceilings, partitions (load-bearing or non-demising), columns or floor, or to the fire protection, water, sewer, electrical, mechanical, plumbing or HVAC systems, of the Premises or the Building. Notwithstanding the foregoing, Tenant shall have the right to make Minor Changes (as defined below) within the Premises without requiring the consent of Landlord. “*Minor Changes*” shall mean those minor, non-structural Alterations which will not cause an interruption of, or a reduction in, the functioning of the Building’s mechanical, electrical, life safety, security, plumbing, HVAC, telecommunications or other systems, and which cost (including installation) in the aggregate less than [*****] (as reasonably determined by Landlord). The construction of any cage(s), security fencing or similar structure within the Premises shall not be a Minor Change and shall be subject to Landlord’s consent, such consent not to be unreasonably withheld, conditioned or delayed. Any Alterations made by Tenant shall be made: (a) in a good, workmanlike, first class and prompt manner; (b) using new or comparable materials only; (c) by a contractor included on Landlord’s list of approved contractors or a contractor otherwise reasonably approved in writing by Landlord (each, an “*Approved Contractor*”); (d) on days and at times that do not unreasonably interfere with Landlord’s performance of its obligations under this Lease; (e) under the supervision of an architect reasonably approved in writing by Landlord; (f) in accordance with plans and specifications prepared by an engineer and/or architect reasonably acceptable to Landlord, and, with respect to Alterations that are not Minor Changes, which plans and specifications shall be approved in writing by Landlord at Landlord’s standard charge, which shall not exceed [*****] except in the event that Landlord reasonably obtains the services of a non-affiliated third party in its review of the plans and specifications (i.e., where Alteration affects the Building Structure and Systems), Tenant shall be responsible for all reasonable, third-party, out-of-pocket costs and expenses actually incurred by Landlord; (g) in accordance with all Laws and, if made available to Tenant by Landlord, the reasonable requirements of any insurance company insuring the Building or any portion thereof; (h) with respect to any Alterations that are not Minor Changes, after Landlord shall have obtained any required consent of the holder of any Mortgage of whom Tenant has notice; (i) after obtaining public liability and worker’s compensation insurance policies approved in writing by Landlord, which policies shall

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

cover every person who will perform any work with respect to such Alteration; and (j) with the obligation for Tenant to obtain and deliver to Landlord written, unconditional full or partial (as applicable) waivers of mechanics' and materialmen's liens against the Premises, the Building and the Property from all contractors, subcontractors, laborers and material suppliers (individually and collectively, "*Contractors*") for all work, labor and services performed and materials furnished in connection with Alterations within ten (10) Business Days after Tenant submits payment to the applicable Contractor(s) for the applicable portion(s) of the Alterations. If any lien (or a petition to establish such lien) is filed in connection with any Alteration made by or on behalf of Tenant, such lien (or petition) shall be discharged by Tenant as soon as commercially reasonable, but in no event more than thirty (30) days after Tenant receives notice thereof, at Tenant's sole cost and expense, by the payment thereof or by the filing of a bond legally sufficient to discharge such lien. If Landlord gives its consent to the making of any Alteration, such consent shall not be deemed to be an agreement or consent by Landlord to subject its interest in the Premises, or the Building to any liens which may be filed in connection therewith. Tenant acknowledges that any Alterations are accomplished for Tenant's account, Landlord having no obligation or responsibility in respect thereof. Landlord's approval of any plans and drawings (and changes thereto) regarding any Alterations or any contractor or subcontractor performing such Alterations shall not constitute Landlord's representation that such approved plans, drawings, changes or Alterations comply with all Laws. Any deficiency in design or construction, although same had prior approval of Landlord, shall be solely the responsibility of Tenant, unless Landlord performed design work or construction work (other than reviewing and/or approving plans, drawings or construction work) with respect to such Alterations. All Alterations involving structural, electrical, mechanical or plumbing work, the heating, ventilation and air conditioning system of the Premises or the Building, fire and life safety system or the roof of the Building shall, at Landlord's election, be performed by Landlord's designated contractor or subcontractor, who shall be reasonably approved by Tenant, at Tenant's expense (provided the cost therefor is competitive). For any approved Alterations performed by Tenant and/or its contractor(s), Tenant shall not be required to pay a construction supervision fee or coordination fee to Landlord; however, if Landlord's contractor or subcontractor performs any Alteration, then Tenant shall pay a reasonable construction supervision fee [*****]. Promptly after the completion of an Alteration, Tenant, at its expense, shall deliver to Landlord three (3) sets of as-built (or record) drawings and CAD drawings prepared by Tenant's engineer showing such Alteration in place. Notwithstanding the foregoing, subject to Landlord's written approval, which shall not be unreasonably withheld or delayed, Tenant may elect not to cause as-built drawings and CAD drawings to be prepared for Minor Changes that, in Landlord's sole but reasonable discretion, do not affect the Building Structure and Systems.

9.3 If any Alterations that require Landlord's consent are made without the prior written consent of Landlord then, if either an emergency condition exists or the Lease Term has expired or Tenant fails to commence and diligently prosecute to completion, removal and correction of such Alterations and restoration of the Premises and the Building within ten (10) days following Tenant's receipt of notice from Landlord, Landlord shall have the right, at Tenant's expense, to so remove and correct such Alterations and restore the Premises and the Building to their condition immediately prior thereto. All tenant improvements to the Premises made by Landlord shall immediately become the property of Landlord and shall remain upon and

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

be surrendered with the Premises as a part thereof at the expiration or earlier termination of the Lease Term. Tenant shall have the right to remove, at or prior to the expiration or earlier termination of the Lease Term, all movable furniture, furnishings, trade fixtures, facilities and equipment installed in the Premises or elsewhere in the Building or on the Land solely at the expense of Tenant, including all Tenant Items, and Tenant may remove, at its expense, all Alterations and other items (including any telecommunications equipment and wiring) made or installed by Tenant in the Premises or the Building, provided, that Tenant may, at its option, surrender those Alterations and/or Tenant Items or other Tenant facilities or equipment requested by Landlord in writing.

9.4 [***]**

9.5 Landlord waives, releases and relinquishes any statutory, common law or constitutional liens it may have or at any time hereafter be entitled to assert against the personal property, trade fixtures and telecommunications, computer or other equipment and facilities which Tenant, its agents, employees and/or its Permitted Licensees, install in the Premises or elsewhere in the Building or on the Land, or is otherwise located in the Premises.

ARTICLE X

SIGNS

Tenant shall not place, inscribe, paint, affix or otherwise display any sign, advertisement or notice of any kind on any part of the exterior or the interior of the Building without the prior written approval of Landlord, which may be granted or withheld in Landlord's sole and absolute discretion, provided, that Tenant may display signs within the Premises without Landlord's consent; however, the location of any such sign displayed within the Premises is subject to Landlord's approval, not to be unreasonably withheld or delayed. All signage installed by Tenant in accordance with this Article X shall be installed and removed at the expiration or earlier termination of the Lease Term, and Tenant shall repair any damage to the Building resulting therefrom, at Tenant's cost and expense. If any sign, advertisement or notice requiring Landlord's approval as aforesaid is exhibited or installed by Tenant without Landlord's prior approval, Landlord shall have the right to immediately remove the same at Tenant's expense. Landlord reserves the right to affix, install and display signs, advertisements and notices on any part of the exterior or interior of the Building, including those required by applicable law, provided, that Landlord shall not affix, install or display any signs, advertisements or notices not required by applicable law and identifying Tenant, Tenant's Affiliates or Tenant's customers on or within the Building without Tenant's prior written consent, which consent may be granted or withheld in Tenant's sole and absolute discretion.

ARTICLE XI

LANDLORD ACCESS

11.1 Tenant will permit Landlord, or its agents or representatives, and the holder of any Mortgage, to enter the Premises, without charge therefor to Landlord and without diminution of the rent payable by Tenant, (i) to examine, inspect and protect the Premises and the Building,

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

(ii) to make such alterations, replacements and/or repairs as in Landlord's reasonable judgment may be required by law or be necessary in order for Landlord to perform its obligations under Article VIII hereof, and (iii) to otherwise comply with and carry out Landlord's obligations under this Lease. In connection with any such entry, Landlord shall (A) diligently endeavor to minimize the disruption to Tenant's use of the Premises and, in all events, shall not materially interfere with Tenant's use of, or access to, the Premises for the Permitted Uses, (B) except in the event of emergency, give Tenant reasonable advance written, telephonic or email notice of such entry pursuant to Section 5.4 above, which shall not be less than two (2) Business Days prior to the date of entry and (C) diligently endeavor to conduct such entry only during normal working hours (except in the event of an emergency). Tenant may, at its option, require that Landlord be accompanied by a representative of Tenant during any such entry (except in the case of emergency), provided that such representative of Tenant does not interfere with or delay Landlord in exercising its rights or satisfying its obligations hereunder.

11.2 Landlord reserves the right to grant easements, rights, and dedications that Landlord deems necessary or desirable for the benefit of the Property, and to record personal maps and restrictions in connection therewith; provided, however, Landlord shall not enter into any such agreement or grant any such rights that would unreasonably interfere with Tenant's use or occupancy of, or access to, the Premises in accordance with the Permitted Uses.

11.3 Upon written request by Tenant, Landlord shall grant, subject to Landlord's rules and regulations and upon commercially reasonable terms, as determined by Landlord in its sole but reasonable discretion, license rights coterminous with the Lease Term to one or more reputable telecommunications utility provider(s) designated by Tenant (any such utility provider, an "**Approved Fiber Provider**"), to permit any such Approved Fiber Provider to bring such Approved Fiber Provider's telecommunications fiber, cable and related equipment and facilities from and through conduits [****] duct banks on the Property (the "**Telecommunications Duct Banks**") into [****] the Building's telecommunications points of entry (each, a "**POE**"), to provide cross-connects within the Premises and to permit any such Approved Fiber Provider to maintain and operate such cable, fiber and related facilities and equipment on the Property. Landlord agrees that Landlord shall not charge Tenant or any Approved Fiber Provider any fee and/or other amount in connection with any such license granted pursuant to this Section 11.3 (other than direct costs incurred in connection with maintaining and restoring the Property, systems, and equipment directly affected by such license). Tenant shall have the right, subject to Landlord's reasonable rules and regulations, to use the secure telecommunications conduits exclusively serving the Premises and extending to two (2) POEs within the Building (the "**Telecommunications Conduits**") in order to connect Tenant's telecommunications network cables and related telecommunications and computer facilities and equipment to the telecommunications equipment and facilities of third parties located within the two (2) POEs ("**AFP Telecommunications Facilities**"). Tenant shall not be charged any fee for the use of the Telecommunications Duct Banks, the Telecommunications Conduits and/or the POEs in accordance with this Section 11.3. Furthermore, Tenant shall have the right, subject to Article IX above and Landlord's reasonable rules and regulations, and accompanied by an employee of Landlord or the Management Company or an agent designated by Landlord or the Management Company, to enter the POEs solely to install, use, operate, maintain, inspect, repair, replace and remove telecommunications facilities and equipment reasonably approved by Landlord in order

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

to connect to AFP Telecommunications Facilities located within the POEs, all in locations reasonably designated by Landlord. Tenant acknowledges and agrees that, in connection with its use of the Telecommunications Conduits and the POEs: (a) any of Tenant's telecommunications network cables and wires entering the POEs must terminate in optical cable entrance termination facilities reasonably approved by Landlord, (b) Tenant may use only non-heat rejecting fiber termination facilities within the POEs, and (c) Tenant shall not materially disrupt, interfere with, or adversely affect (i) the operations of Landlord or other tenants within the Building, (ii) the structure of the Premises or the Building, and/or (iii) the telecommunications equipment and facilities or other personal property of Landlord or other tenants within the Building. Tenant shall be responsible, at its sole cost and expense, for (1) connections to Approved Fiber Providers and for any services provided by Approved Fiber Providers to Tenant and (2) all costs associated with the population of the Telecommunications Conduits, including the installation of innerducts. [*****]

ARTICLE XII

INSURANCE

12.1 Tenant shall not conduct or permit to be conducted any activity, or place or permit to be placed any equipment or other item in or about the Premises or the Building, which is inconsistent with the Permitted Uses and which will in any way increase the rate of property insurance or other insurance on the Building. If any increase in the rate of property or other insurance is due to any specific activity, equipment or other item of Tenant, then (whether or not Landlord has consented to such activity, equipment or other item) Tenant shall pay, as Additional Rent due hereunder, the amount of such increase. The statement of any applicable insurance company or insurance rating organization (or other organization exercising similar functions in connection with the prevention of fire or the correction of hazardous conditions) that an increase is due to any such specific activity, equipment or other item shall be conclusive evidence thereof.

12.2 (a) Throughout the Lease Term, Tenant shall obtain and maintain: (1) commercial general liability insurance (written on an occurrence basis) including contractual liability coverage insuring the obligations assumed by Tenant under this Lease, premises and operations coverage, broad form property damage coverage, independent contractors coverage, and personal injury, an exception to any pollution exclusion which insures damage or injury arising out of heat, smoke or fumes from a hostile fire, and a standard separation of insureds provision; (2) business interruption insurance; (3) all risk property insurance; (4) comprehensive automobile liability insurance (covering automobiles owned, hired or used by Tenant in carrying on its business, if any); (5) worker's compensation insurance (covering Tenant's employees); (6) employer's liability insurance (covering Tenant's employees); and (7) umbrella excess liability coverage on a following form basis in excess of the primary commercial liability, business auto liability, and employer's liability coverages specified above and which insures against bodily injury, property damage, personal injury and advertising injury claims. Such commercial general liability insurance shall be in amounts of One Million Dollars (\$1,000,000) combined single limit per occurrence, and Two Million Dollar (\$2,000,000) annual general aggregate (on a per location basis). Such business interruption insurance shall be in minimum amounts typically

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

carried by prudent tenants engaged in similar operations, but in no event shall be in an amount less than the Base Rent then in effect during any Lease Year. Such property insurance shall be in an amount not less than that required to replace all tenant improvements installed by Tenant in the Premises, all Alterations (excluding Landlord's Work) and all of Tenant's contents within the Premises (including, without limitation, Tenant's trade fixtures, decorations, furnishings, inventory, equipment, facilities and personal property), but excluding PDUs, CRACs, HVAC cooling support equipment, fire detection and alarm and fire suppression systems and equipment and any other equipment, facilities or other property of Landlord comprising the Building Structure and Systems and located within the Premises. Such automobile liability insurance shall be in an amount of One Million Dollars (\$1,000,000) combined single limit for each accident. Such worker's compensation insurance shall meet statutory limits as defined by the law of the jurisdiction in which the Building is located (as the same may be amended from time to time). Such employer's liability insurance shall be in an amount of One Million Dollars (\$1,000,000) for each accident, One Million Dollars (\$1,000,000) disease policy limit, and One Million Dollars (\$1,000,000) disease each employee. Such umbrella excess liability insurance shall be in amounts of Five Million Dollars (\$5,000,000) per occurrence and Five Million Dollars (\$5,000,000) annual aggregate, in addition to the limits stated above for the commercial general liability, business auto liability and employer's liability insurance.

(b) All such insurance shall: (1) be issued by a company that is licensed to do business in the jurisdiction in which the Building is located, and that has a rating equal to or exceeding A:XII from the most current Best's Insurance Guide; (2) with respect to Tenant's commercial general liability insurance, name Landlord, the Management Company and the holder of any Mortgage (as hereinafter defined) of which Tenant has notice as additional insureds; (3) contain a waiver of subrogation (Tenant hereby waiving its right of action and recovery against and releasing Landlord and Landlord's shareholders, partners, directors, officers and employees ("**Landlord's Representatives**") from liabilities, claims and losses for which they may otherwise be liable to the extent that (i) Tenant is covered therefor by insurance carried or required to be carried under this Lease and (ii) provided that Tenant is carrying such required insurance, Tenant receives proceeds therefor); (4) be reasonably acceptable in form and content to Landlord; (5) be primary and non-contributory; and (6) contain an endorsement requiring the insurance company to provide Landlord with written notice (by certified or registered mail, return receipt requested to the addresses listed in Section 24.6 hereof) of cancellation or non-renewal at least thirty (30) days' prior to the effective date of such cancellation or non renewal. Landlord reserves the right from time to time to require higher minimum amounts or different types of insurance if it becomes customary for other landlords of comparable data centers in the Northern Virginia area to require similar tenants in similar industries to carry insurance of such higher minimum amounts or of such different types. Tenant shall deliver an Accord 27 certificate of all such insurance (which certificate shall evidence an endorsement for each policy indicating that the Landlord Insured Parties are named as additional insureds on liability policies (except employer's liability, workers' compensation and umbrella excess liability coverage) and that Landlord is named as a loss payee on the property insurance policies with respect to Landlord's interest in improvements and betterments) to Landlord on or before the Lease Commencement Date and at least annually thereafter. If Tenant fails to provide evidence of insurance required to be provided by Tenant hereunder, prior to the Lease Commencement Date and, thereafter, within thirty (30) days following Landlord's request during the Lease Term (and

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

in any event within thirty (30) days prior to the expiration date of any such coverage, any other cure or grace period provided in this Lease not being applicable hereto), Landlord shall be authorized (but not required), after ten (10) days' prior notice, to procure such coverage in the amount stated, with all costs thereof to be chargeable to Tenant and payable as Additional Rent within thirty (30) days after receipt of written invoice therefor.

12.3 Throughout the Lease Term, Landlord agrees to carry and maintain all-risk property insurance (with full replacement cost coverage) covering the Building, including the Building Structure and Systems, and any other equipment, fixtures and property of Landlord therein, in an amount required by its insurance company to avoid the application of any coinsurance provision. Landlord hereby waives its right of action and recovery against and releases Tenant and Tenant's Affiliates, shareholders, partners, directors, officers, employees, agents and representatives ("*Tenant's Representatives*") from any and all liabilities, claims and losses for which they may otherwise be liable to the extent that (i) Landlord is covered therefor by insurance carried or required to be carried under this Lease and (ii) provided that Landlord is carrying such required insurance, Landlord receives proceeds therefor. Landlord shall secure a waiver of subrogation endorsement from its insurance carrier with respect to Tenant and Tenant's Representatives. Landlord also agrees to carry and maintain, throughout the Lease Term, commercial general liability insurance in limits it reasonably deems appropriate (but in no event less than the limits required of Tenant pursuant to Section 12.2 above). Landlord may elect to carry such other additional insurance or higher limits as it reasonably deems appropriate. Tenant acknowledges that Landlord shall not carry insurance on, and shall not be responsible for damage to, Tenant's personal property or any Alterations installed by Tenant (including, without limitation, Tenant's Work), and that Landlord shall not carry insurance against, or be responsible for any loss suffered by Tenant due to, interruption of Tenant's business.

ARTICLE XIII

SERVICES AND UTILITIES

13.1 The Building is at all times subject to the exclusive control, management and operation of Landlord. Subject to the terms and provisions of this Lease, Landlord has the right with respect to such control, management and operation to:

(i) obstruct or close off all or any part of the Property for the purpose of maintenance, repair or construction, provided that Tenant's use of or access to the Premises is not unreasonably impaired thereby;

(ii) employ all personnel necessary for the operation and management of the Building, either directly or through an experienced third party property management company and, in connection therewith, Landlord shall maintain adequate personnel at the Building twenty-four (24) hours per day, seven (7) days per week;

(iii) construct other improvements and make alterations, additions, subtractions or re-arrangements, construct facilities adjoining or proximate to the Building, including underground tunnels and pedestrian walkways and overpasses, provided that Tenant's use of, normal operations in or access to, the Premises in accordance with the Permitted Uses is not impaired thereby;

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

(iv) do and perform such other acts in and to the Building and, in connection with performing any maintenance or repair obligations of Landlord, in and to the Premises and to have access thereto, as, in the use of good business judgment, Landlord determines to be advisable for the more efficient and proper operation of the Building and Premises, provided that Tenant's use of, normal operations in or access to, the Premises in accordance with the Permitted Uses is not unreasonably impaired thereby; and

(v) reasonably control, supervise and regulate the parking areas in such manner as the Landlord determines from time to time.

13.2 During the Term, the Landlord shall provide, or cause to be provided to the Premises, the following services and utilities upon the terms and subject to the conditions set out in this Article XIII and in Exhibit F attached hereto:

(i) heating, ventilation and air conditioning ("*HVAC*") for the Premises shall be provided at all times in order to maintain the Environmental Conditions (as hereinafter defined), including maintaining a temperature adequate for normal occupancy in accordance with the Permitted Uses, including heat rejection equipment capable of handling 2.275 megawatts of Critical Load Power;

(ii) water, gas and fuel in amounts no less than the amounts customarily provided by the owners of similarly sized, first-class data centers, as installed in the Building and Premises;

(iii) PDUs sufficient to support 2.275 megawatts of Critical Load Power to the Premises (the "*Maximum Load Limit*");

(iv) Landlord-installed, secure conduits that enable Tenant to access connectivity to one or more fiber providers from the Premises to [*****] POEs within the Building; provided, however, that Tenant may, pursuant to Section 11.3 above, utilize one or more Approved Fiber Providers for the connection of new fiber lines from and through each of the Telecommunications Duct Banks to the Building and into [*****] POEs;

(v) security for the Building in accordance with Article V hereof; and

(vi) loading dock facilities convenient to the Premises twenty-four (24) hours a day, seven (7) days a week.

Landlord represents, warrants and covenants to Tenant that, commencing on the Lease Commencement Date and throughout the Lease Term, (I) Critical Load Power up to the Maximum Load Limit will be available to the Premises, (II) the Premises shall be provided with a dedicated back-up system for such Critical Load Power, including UPS and Engine Generators and (III) all Building infrastructure shall be operational in accordance with industry standards and procedures for first-class data centers, accounting for, among other things, repairs, scheduled

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

maintenance and emergency situations. Landlord further represents and warrants that the critical electrical and mechanical systems of each of ACC4 Phase I and Phase II are designed in a 14N + 2R configuration with 18.2 megawatts of Critical Load Power over the raised floor space, thus 2.275 megawatts of Critical Load Power, with N+2R redundancy, shall be available to the Premises when all infrastructure is operational as provided herein above.

As used herein, “**Critical Load Power**” shall mean the total electrical power supplied to the input circuit breakers of the PDUs within the Premises and excluding electrical power needed for any heat rejection or HVAC system, lighting or other common facility systems or services.

13.3 Tenant hereby acknowledges that the proper functioning of the Building as a data center requires Tenant to, at all times, maintain a clean Premises environment. In connection with the foregoing and notwithstanding anything to the contrary contained herein, Tenant shall clean the Premises, including the raised floor surface and subsurface, in accordance with industry standards and procedures for cleaning first-class, mission critical data center environments; provided, however, all cleaning of subsurface environments (i.e., beneath the raised floor in the Premises) must be approved in advance by Landlord, supervised by Landlord or Landlord’s agent, and performed in accordance with Landlord’s reasonable rules and regulations for performing such work. Tenant shall be solely responsible for providing, and shall pay directly all janitorial and other charges relating to, such cleaning services to the Premises.

13.4 Tenant shall be solely responsible for the distribution of electrical power from the load side of each PDU (including the output circuit breakers) within the Premises to the remainder of the Premises and for the installation and related maintenance of equipment and systems required in connection with such distribution. Tenant shall, in no event, whether by the installation or placement of equipment or improvements or otherwise, interfere with Landlord’s delivery of electrical power to the line side of each PDU (up to and including the output bus) within the Premises. All charges for, or associated with, any service or utility which is separately measured or submetered to the Premises (including without limitation the Critical Load Power and charges for CRAC usage) shall be billed directly to Tenant (without any mark-up by Landlord) and paid to Landlord, or, if requested in writing by Landlord (where applicable), paid directly by Tenant to the utility provider. In each case, payment shall be made within thirty (30) days of Tenant’s receipt of an invoice therefor. Charges for or associated with all other services or utilities which are required to be provided by Landlord under Section 13.2 which are not separately measured shall be included in Operating Expenses and shall be paid by Tenant each month as provided in Article IV based on Tenant’s Pro Rata Share. Notwithstanding the foregoing, Tenant shall be charged monthly, in advance, for electricity to be consumed to supply the Premises with heat rejection HVAC for the following month in an amount equal to the estimated monthly charge for Critical Load Power to be used by Tenant for the following month (based on the prior month’s usage) multiplied by [****] (the “**Monthly Heat Rejection Charge**”). The estimated Monthly Heat Rejection Charges will be reconciled with the actual monthly charges for electricity used to supply the Premises with heat rejection HVAC not less frequently than annually and not more often than monthly. The reconciliation of Monthly Heat Rejection Charges for any particular month shall be added to, or subtracted from, as applicable, the Monthly Heat Rejection Charge for the month following the date of any such reconciliation. The Monthly Heat Rejection Charge shall be payable by Tenant on the later to occur of: (i) the

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

first day of the calendar month immediately following the date on which Tenant receives an invoice from Landlord setting forth the Monthly Heat Rejection Charge for the following month or (ii) within fifteen (15) Business Days of receipt of such invoice from Landlord setting forth the Monthly Heat Rejection Charge. In the event any electrical utility serving the Premises imposes a "power factor" surcharge or similar surcharge as a result of Tenant's use of the Premises, including, without limitation, as a result of the power factor of any of Tenant's equipment, Landlord shall reasonably determine the portion of the surcharge allocable to Tenant and invoice Tenant therefor. Tenant shall pay amounts so invoiced within thirty (30) days of receipt of each such invoice, accompanied by reasonable back-up documentation. The Critical Load Power supplied to the Premises shall be separately metered or submetered.

13.5 It is understood and agreed that Landlord shall, prior to the Lease Commencement Date, engage the services of a professional data center management company (together with its successors and/or assigns, the "**Management Company**") to provide certain management services in connection with the operation of the Building, including, without limitation, on-site facility engineering support services, maintenance and repair required of Landlord under this Lease and other services customary to first class data centers. The initial Management Company shall be DuPont Fabros Technology, L.P. In addition, DF Technical Services LLC ("**DFTS**"), an affiliate of Landlord, shall be available to Tenant, on a direct contract basis and pursuant to a separate agreement at market rates to provide services with respect to the Premises, including, without limitation, tenant deployment services. To the extent that Tenant is not satisfied with the pricing of the services of DFTS, Tenant shall have the right, subject to Article IX of this Lease, to contract those services directly with a vendor included on Landlord's list of approved vendors or a vendor otherwise proposed by Tenant and approved by Landlord, which approval shall not be unreasonably withheld, conditioned or delayed (each an "**Approved Vendor**"). To the extent the Management Company carries out the duties and obligations of Landlord under this Lease, then all restrictions and obligations imposed pursuant to this Lease on Landlord shall be deemed to extend to the Management Company, and Landlord shall cause the Management Company to comply with all such restrictions and obligations.

13.6 [*****] Tenant will neither utilize more than the Maximum Load Limit nor install any equipment which will exceed or overload the capacity of any utility, electrical, HVAC, or mechanical facilities in the Premises or Building. Tenant will not bring into the Premises or install any utility, electrical, HVAC, or mechanical facility which Landlord does not approve, such approval not to be unreasonably withheld, conditioned, or delayed. Notwithstanding the foregoing, provided that Tenant's plans for configuration of the Premises have been approved by Landlord in accordance with Article IX above, Tenant shall not be required to obtain Landlord's approval to bring into the Premises, or install, any computer, network or telecommunications equipment and facilities to be used by Tenant or any Permitted Licensees where the installation of such equipment and/or facilities is consistent with Tenant's approved plans.

13.7 If any damage is caused to the Building or the Premises by any of Tenant's machinery, equipment, objects or things or by overloading by Tenant as described in Section 13.6 above, Tenant will forthwith repair such damage, or, at the option of Landlord, pay Landlord within thirty (30) days after receipt of written demand accompanied by reasonable back-up documentation and invoices, as Additional Rent, the cost of repairing such damage plus a sum equal to five percent (5%) of such cost representing Landlord's overhead and administrative costs.

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

13.8 Landlord acknowledges that Tenant's business operations require the continuous provision of electrical power, HVAC, and monitoring services in accordance with the standards, and in the amounts, specified herein (collectively, the "**Critical Services**"). Except as expressly set forth in this Lease, neither Landlord nor Tenant will take any action which would interrupt the Critical Services without the prior written consent of the other party, which consent may be granted or withheld in such party's sole and absolute discretion. Landlord will use diligent and best efforts not to interfere with or interrupt Tenant's operations within the Premises and will take immediate action to remedy any circumstances in which Landlord or any Landlord Party interferes with Tenant's Critical Services (except to the extent expressly permitted by this Lease). In the event of any interruption of Critical Services (a "**Service Interruption**"), Tenant shall, promptly upon becoming aware thereof, notify Landlord's Emergency Contacts in accordance with Article V hereof; such notice shall state with reasonable detail the nature of the interruption in question (each such notice, an "**Interruption Notice**"). Upon receipt of notice of any Interruption Notice or upon Landlord or the Management Company otherwise gaining knowledge of any Service Interruption, Landlord shall immediately undertake diligent efforts, consistent with first class data center providers, to cause the Service Interruption to be immediately remedied. Landlord shall maintain periodic contact with Tenant until the Service Interruption is resolved. [*****]

13.9 [*****]

**ARTICLE XIV
LIABILITY OF LANDLORD**

14.1 Except as otherwise set forth in this Lease, Landlord and Landlord's Representatives shall not be liable to Tenant, any Agent or any other person or entity for any and all damage, injury, loss or claim based on or arising out of any cause whatsoever, including without limitation the following: repair to any portion of the Premises (except for Landlord's maintenance, repair and replacement obligations as set forth in Article VIII above); interruption in the use of the Premises or any equipment therein (except for Landlord's obligations as set forth in Article XIII above); any accident or damage resulting from any use or operation (by Landlord, Tenant or any other person or entity) of heating, cooling, electrical, sewage or plumbing equipment or apparatus (except for Landlord's obligations as set forth in Article XIII above); termination of this Lease by reason of damage to the Premises or the Building; any fire, robbery, theft, vandalism, mysterious disappearance or any other casualty; actions of any other tenant of the Building or of any other person or entity; failure or inability to furnish any service specified in this Lease (except for Landlord's obligations to provide services and utilities as provided in Article XIII); and leakage in any part of the Premises or the Building from water, rain, ice or snow that may leak into, or flow from, any part of the Premises or the Building, or from drains, pipes or plumbing fixtures in the Premises or the Building. If any condition exists which may be the basis of a claim of constructive eviction, then Tenant shall give Landlord written notice thereof and a reasonable opportunity to correct such condition, and in the interim

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

Tenant shall not claim that it has been constructively evicted or is entitled to a rent abatement. Any property placed by Tenant or any Agent in or about the Premises or the Building shall be at the sole risk of Tenant, and Landlord shall not in any manner be held responsible therefor. Any person receiving an article delivered for Tenant shall be acting as Tenant's agent for such purpose and not as Landlord's agent. For purposes of this Article XIV, the term "Building" shall be deemed to include the Land. Notwithstanding the foregoing provisions of this Section 14.1, and subject to Section 12.2(b) above, Landlord shall not be released from liability (a) to Tenant for any physical injury to any natural person or damage to Tenant's personal property caused by the negligence or willful misconduct of Landlord or Landlord's Representatives, provided that for damage to personal property, Landlord shall only be liable to the extent that such damage is not covered by insurance either carried by Tenant or required by this Lease to be carried by Tenant or (b) to the extent resulting from the breach or default by Landlord of its representations, warranties, covenants, duties and/or obligations under this Lease; provided, however, that neither Landlord nor any of Landlord's Representatives (nor any past, present or future board member, partner, trustee, director, member, officer, employee, agent, representative or advisor of any of them) shall under any circumstances under this Lease (including, without limitation, with respect to its reimbursement and indemnity obligations set forth in Section 14.2(b) below) be liable for: (i) any exemplary or punitive damages or (ii) any consequential or indirect damages (or for any interruption of or loss to business) to the extent that (A) Landlord is not covered therefor by insurance carried, or required to be carried under this Lease, and (B) provided that Landlord is carrying such required insurance, Landlord receives proceeds therefor, all in connection with or relating to this Lease.

14.2 (a) Except to the extent caused by the negligence or willful misconduct of Landlord or its agents, and subject to Section 12.3 above, Tenant shall reimburse Landlord, its employees and agents for (as additional rent), and shall indemnify, defend upon request and hold them harmless from and against all reasonable costs, damages, claims, liabilities, expenses (including reasonable attorneys' fees), losses, penalties and court costs (collectively, "*Costs*") suffered by or claimed against them, directly or indirectly, based on or arising out of, in whole or in part, (i) use and occupancy of the Premises or the business conducted therein, (ii) any negligent or willful act or omission of Tenant or any Agent, (iii) any breach of Tenant's obligations under this Lease, including failure to comply with Laws or surrender the Premises upon the expiration or earlier termination of the Lease Term, or (iv) any entry by Tenant or any Agent upon the Land prior to the Lease Commencement Date in violation of the terms and provisions of this Lease. In no event, however, shall Tenant, Guarantor (as hereinafter defined), or any of Tenant's Representatives (nor any past, present or future board member, partner, trustee, director, member, officer, employee, agent, representative or advisor of any of them), under any circumstances under this Section 14.2(a) or elsewhere under this Lease, be liable for: (I) any exemplary or punitive damages or (II) any consequential or indirect damages (or for any interruption of or loss to business) to the extent that (A) Tenant is not covered therefor by insurance carried, or required to be carried under this Lease, and (B) provided that Tenant is carrying such required insurance, Tenant receives proceeds therefor.

(b) Except to the extent caused by the negligence or willful misconduct of Tenant or an Agent of Tenant, and subject to Section 12.2(b) above, Landlord shall reimburse Tenant and shall indemnify and hold Tenant harmless from and against all Costs suffered or

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

claimed against Tenant as a result of: (i) Landlord's use or control of the common areas of the Building and the Building Structure and Systems, (ii) any negligent or willful act or omission of Landlord, its agents, employees or contractors, or (iii) any breach of Landlord's obligations under this Lease.

14.3 No landlord hereunder shall be liable for any obligation or liability based on or arising out of any event or condition occurring during the period that such landlord was not the owner of the Property. Within five (5) days after request, Tenant shall attorn to any transferee landlord and execute, acknowledge and deliver any document submitted to Tenant confirming such attornment, provided such transferee assumes the obligations of Landlord hereunder which accrue from and after the date of the transfer.

14.4 Except as otherwise expressly provided herein, Tenant shall not have the right to set off or deduct any amount allegedly owed to Tenant pursuant to any claim against Landlord from any rent or other sum payable to Landlord. Tenant's sole remedy for recovering upon such claim shall be to institute an independent action against Landlord, which action shall not be consolidated with any action of Landlord; provided, however, that the foregoing shall not prohibit Tenant from asserting a compulsory counterclaim in any proceeding instituted by Landlord against the Tenant that is required to be brought by applicable statute and will be deemed forever waived if not then asserted by Tenant.

14.5 If Tenant or any Agent is awarded a money judgment against Landlord, then recourse for satisfaction of such judgment shall be limited to execution against Landlord's estate and interest in the Property, which shall be deemed to include proceeds actually received by Landlord from any sale of the Building (net of all expenses of sale), insurance or condemnation proceeds (subject to the rights of any Mortgagees), and rental income from the Building (net of all expenses). No other asset of Landlord, and no asset of any of Landlord's Representatives (or any past, present or future board member, partner, director, member, officer, trustee, employee, agent, representative or advisor of any of them (each, an "officer")) or any other person or entity, shall be available to satisfy or be subject to any such judgment. No such Landlord's Representative, officer or other person or entity shall be held to have personal liability for satisfaction of any claim or judgment whatsoever under this Lease.

ARTICLE XV

RULES AND REGULATIONS

15.1 Tenant agrees to comply with and observe the rules and regulations pertaining to the use and occupancy of the Premises or the Building set forth in Exhibit E attached hereto, together with all reasonable amendments thereto as may be promulgated in writing hereafter by Landlord in accordance with the terms and provisions of this Section 15.1 (the "**Rules and Regulations**"). Tenant's failure to keep and observe said Rules and Regulations after notice and opportunity to cure as set forth in Section 18.1(b) hereof shall constitute a material breach of the terms of this Lease. Landlord reserves the right from time to time to reasonably amend or supplement said Rules and Regulations and to adopt and promulgate additional reasonable Rules and Regulations applicable to the Premises and the Building, provided, that any such

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

amendments, supplements or additional Rules and Regulations shall not materially reduce Tenant's rights under this Lease or materially interfere with Tenant's use of the Premises. Upon receipt thereof, Tenant agrees thereupon to comply with and observe any such additional, amended or supplemental Rules and Regulations promulgated by Landlord in accordance with this Section 15.1. In the event of any inconsistency between this Lease and the Rules and Regulations, the provisions of this Lease shall prevail and control. Any violation of the Rules and Regulations by any individual that is not under Tenant's control shall not constitute a default under this Lease. Landlord shall apply and enforce the Rules and Regulations in a uniform and non-discriminatory manner.

ARTICLE XVI

DAMAGE OR DESTRUCTION

16.1 If the Premises or the Building are totally or partially damaged or destroyed thereby rendering the Premises totally or partially inaccessible or unusable, then Landlord shall diligently repair and restore the Premises and the Building to substantially the same condition they were in prior to such damage or destruction; provided, however, that if in Landlord's reasonable judgment such repair and restoration cannot be completed within one hundred eighty (180) days after the occurrence of such damage or destruction (taking into account the time needed for effecting a satisfactory settlement with any insurance company involved, removal of debris, preparation of plans and issuance of all required governmental permits), then Landlord shall have the right to terminate this Lease by giving written notice of termination within forty-five (45) days after the occurrence of such damage or destruction. If this Lease is terminated pursuant to this Article XVI, then rent shall be apportioned as of the date of the happening of the damage or destruction (based on the portion of the Premises and Critical Load Power which is usable or used after such damage or destruction) and paid to the earlier of the date of termination or the date Tenant completely vacates and abandons the Premises on account of such damage. If this Lease is not terminated as a result of such damage or destruction, then until such repair and restoration of the Premises are substantially complete, as of the date of the happening of the damage or destruction, Tenant shall be required to pay rent only for the portion of the Premises and Critical Load Power that is usable while such repair and restoration are being made; provided, however, that if such damage or destruction was caused by the grossly negligent or willful misconduct of Tenant or any Agent, then Tenant shall not be entitled to any such rent reduction. After receipt of all insurance proceeds (including proceeds of insurance maintained by Tenant), Landlord shall diligently proceed with, and bear the expenses of, such repair and restoration of the Premises and the Building as aforesaid; provided, however, that (a) if such damage or destruction was caused by the grossly negligent or willful misconduct of Tenant or any Agent, then Tenant shall pay Landlord's deductible and the amount by which such expenses exceed the insurance proceeds, if any, actually received by Landlord on account of such damage or destruction (or, if Landlord fails to maintain the insurance required by Section 12.3, that Landlord would have received to the extent Landlord maintained such insurance required by Section 12.3), (b) Tenant shall pay the amount by which the cost of restoring any item which Landlord is required to restore and Tenant is required to insure exceeds the insurance proceeds received with respect thereto, and (c) Landlord shall not be required to repair or restore any tenant improvements installed by Tenant in the Premises (except to the extent Landlord receives

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

proceeds therefor from Tenant's insurance), any Alterations (excluding Landlord's Work) or any of Tenant's contents within the Premises (including, without limitation, Tenant's trade fixtures, decorations, furnishings, equipment, facilities or personal property, but excluding PDUs, CRACs, HVAC cooling support equipment, fire detection and alarm and fire suppression systems and equipment and any other equipment, facilities or other property of Landlord comprising the Building Structure and Systems and located within the Premises, which shall be Landlord's responsibility). Notwithstanding anything herein to the contrary, Landlord shall have the right to terminate this Lease if (1) insurance proceeds plus deductibles are insufficient to pay the full cost of such repair and restoration so long as Landlord maintains the insurance required by Section 12.3 above, (2) the holder of any Mortgage fails or refuses to make such insurance proceeds available for such repair and restoration, (3) zoning or other applicable Laws or regulations do not permit such repair and restoration, or (4) the damage to the Building exceeds thirty five percent (35%) of the replacement value of the Building; provided, however, that Landlord shall be entitled to terminate this Lease under subsections (1), (2), (3) and (4) above only if Landlord simultaneously terminates the leases (or applicable portions thereof) of all other tenants leasing Pods that are in a substantially similar condition to the Premises after such damage or destruction.

16.2 If, within forty five (45) days after the occurrence of the damage or destruction described in Section 16.1 above, Landlord determines in its sole but reasonable judgment that the repairs and restoration cannot be substantially completed within one hundred eighty (180) days after the date of such damage or destruction, and Landlord does not elect to terminate this Lease pursuant to this Article XVI, then Landlord shall notify Tenant of such determination within such forty-five (45) day period. For a period continuing through the later of the thirtieth (30th) day after the occurrence of the damage or destruction or the tenth (10th) day after receipt of such notice, Tenant shall have the right to terminate this Lease by providing written notice to Landlord (which date of such termination shall be not more than thirty (30) days after the date of Tenant's notice to Landlord). [*****]

ARTICLE XVII

CONDEMNATION

17.1 If one third or more of the Premises, or the use or occupancy thereof, or any portion of the Building required for the reasonable and proper use of the Premises, shall be taken or condemned by any governmental or quasi governmental authority for any public or quasi public use or purpose or sold under threat of such a taking or condemnation (collectively, "**condemned**"), then this Lease shall terminate on the day prior to the date title thereto vests in such authority and rent shall be apportioned as of such date. If less than one third of the Premises or occupancy thereof or portions of the Building not required for the proper use of the Building, is condemned, then this Lease shall continue in full force and effect as to the part of the Premises not so condemned, except that as of the date title vests in such authority Tenant shall not be required to pay rent with respect to the part of the Premises so condemned. Landlord shall notify Tenant of any condemnation contemplated by this Section 17.1 promptly after Landlord receives notice thereof. Within ten (10) days after receipt of such notice, Tenant shall have the right to terminate this Lease with respect to the remainder of the Premises not so condemned as

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

of the date title vests in such authority, but only if such condemnation renders said remainder of the Premises totally unusable for their intended purpose. Notwithstanding anything herein to the contrary, if twenty five percent (25%) or more of the Land or the Building is condemned, then whether or not any portion of the Premises is condemned, Landlord shall have the right to terminate this Lease as of the date title vests in such authority, provided, that, as a condition to such right, Landlord must simultaneously terminate the leases (or applicable portions thereof) of all other tenants in the Building leasing Pods that are affected in a substantially similar manner as the premises by such condemnation.

17.2 All awards, damages and other compensation paid by the condemning authority on account of such taking or condemnation (or sale under threat of such a taking) shall belong to Landlord, and Tenant hereby assigns to Landlord all rights to such awards, damages and compensation. Tenant agrees not to make any claim against Landlord or the condemning authority for any portion of such award or compensation attributable to damages to the Premises, the value of the unexpired term of this Lease, the loss of profits or goodwill, leasehold improvements or severance damages. Nothing contained herein, however, shall prevent Tenant from pursuing a separate claim against the condemning authority for the value of furnishings, equipment and trade fixtures installed in the Premises at Tenant's expense and for relocation expenses, provided that such claim does not in any way diminish the award or compensation payable to or recoverable by Landlord in connection with such taking or condemnation.

ARTICLE XVIII

DEFAULT

18.1 Each of the following shall constitute an "*Event of Default*" by Tenant under this Lease:

(a) Tenant's failure to make when due any payment of Base Rent, Additional Rent or other sum, which failure shall continue for a period of five (5) days after receipt by Tenant of written notice thereof, provided, however, that landlord shall not be required to give Tenant more than two (2) such written notices during any Lease Year during the Lease Term;

(b) Tenant's failure to perform or observe any covenant or condition of this Lease not otherwise specifically described in this Section 18.1, which failure shall continue for a period of thirty (30) days after receipt by Tenant of written notice thereof; provided, however, that if such cure cannot reasonably be effected within such thirty (30) day period and Tenant begins such cure promptly within such thirty (30) day period and is pursuing such cure in good faith and with diligence and continuity during such thirty (30) day period, then, except in the event of an emergency, Tenant shall have such additional time as is reasonably necessary to effect such cure;

(c) an Event of Bankruptcy as specified in Article XIX hereof;

(d) Tenant's dissolution or liquidation;

(e) any Environmental Default as specified in Section 6.3 hereof;

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

(f) Tenant's failure to execute, acknowledge and deliver the written statement required by Section 24.4 hereof after receipt by Tenant of written notice thereof and a ten (10) day cure period;

(g) excluding any sublease or assignment requiring Landlord's consent but that Tenant believed in good faith was permitted under Section 7.2(b) above, any sublease, assignment or mortgage not permitted by Article VII hereof; or

(h) the occurrence of [*****] Prohibited Spikes [*****].

18.2 If there shall be an Event of Default (even if prior to the Lease Commencement Date), then the provisions of this Section 18.2 shall apply. Landlord shall have the right, at its sole option, to terminate this Lease upon delivery of written notice to Tenant. In addition, with or without terminating this Lease, Landlord may re-enter, terminate Tenant's right of possession and take possession of, the Premises. The provisions of this Article XVIII shall operate as a notice to quit, and Tenant hereby waives any other notice to quit or notice of Landlord's intention to re-enter the Premises. If necessary, Landlord may proceed to recover possession of the Premises under applicable Laws, or by such other proceedings, including re-entry and possession, as may be applicable. If Landlord elects to terminate this Lease and/or elects to terminate Tenant's right of possession, everything contained in this Lease on the part of Landlord to be done and performed shall cease without prejudice, however, to Tenant's liability for all Base Rent, additional rent and other sums specified herein. Whether or not this Lease and/or Tenant's right of possession is terminated, Landlord shall have the right, at its sole option, to terminate any renewal or expansion right contained in this Lease and to grant or withhold any consent or approval pursuant to this Lease in its sole and absolute discretion. If an Event of Default has occurred under this Lease and Tenant has vacated the Premises, and if Landlord has terminated this Lease as a result of such Event of Default, then Landlord shall thereafter use reasonable efforts to relet the Premises; provided, however, that Tenant understands and agrees that Landlord's main priority will be the leasing of other space in the Building (and not then leased by Landlord), and the reletting of the Premises will be of lower priority. Tenant hereby expressly waives, for itself and all persons claiming by, through or under it, any right of redemption, re-entry or restoration of the operation of this Lease under any present or future Law, including without limitation any such right which Tenant would otherwise have in case Tenant shall be dispossessed for any cause, or in case Landlord shall obtain possession of the Premises as herein provided. Landlord may relet the Premises or any part thereof, alone or together with other premises, for such term(s) (which may extend beyond the date on which the Lease Term would have expired but for Tenant's default) and on such terms and conditions (which may include any concessions or allowances granted by Landlord) as Landlord, in its sole and absolute but reasonable discretion, may determine, but Landlord shall not be liable for, nor shall Tenant's obligations hereunder be diminished by reason of, any failure by Landlord to relet all or any portion of the Premises or to collect any rent due upon such reletting. Whether or not this Lease is terminated or any suit is instituted, Tenant shall be liable for any Base Rent, additional rent, damages or other sum which may be due or sustained prior to such Event of Default, and for all costs, fees and expenses (including, but not limited to, attorneys' fees and costs, brokerage fees (to the extent proportionately allocable to the remaining Lease Term), expenses incurred in placing the Premises in first-class rentable condition, advertising expenses,

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

and any concessions or allowances granted by Landlord) incurred by Landlord in pursuit of its remedies hereunder and/or in recovering possession of the Premises and renting the Premises to others from time to time until the date the Lease Term would have expired but for Tenant's default. Tenant also shall be liable for additional damages which at Landlord's election shall be either: (a) an amount equal to the Base Rent and additional rent due or which would have become due from the date of Tenant's default through the remainder of the Lease Term, less the amount of rental, if any, which Landlord receives during such period from others to whom the Premises may be rented (other than any additional rent received by Landlord as a result of any failure of such other person to perform any of its obligations to Landlord), which amount shall be computed and payable in monthly installments, in advance, on the first day of each calendar month following Tenant's default and continuing until the date on which the Lease Term would have expired but for Tenant's default, it being understood that separate suits may be brought from time to time to collect any such damages for any month(s) (and any such separate suit shall not in any manner prejudice the right of Landlord to collect any damages for any subsequent month(s)), or Landlord may defer initiating any such suit until after the expiration of the Lease Term (in which event such deferral shall not be construed as a waiver of Landlord's rights as set forth herein and Landlord's cause of action shall be deemed not to have accrued until the expiration of the Lease Term); or (b) an amount equal to the difference between (i) all Base Rent, additional rent and other sums due or which would be due and payable under this Lease as of the date of Tenant's default through the end of the scheduled Lease Term, and (ii) the fair market value rental of the Premises over the same period (net of all expenses (including attorneys' fees) and all vacancy periods reasonably projected by Landlord to be incurred in connection with the reletting of the Premises), as determined by Landlord in its sole and absolute discretion, which difference shall be discounted at a rate equal to one (1) whole percentage point above the discount rate in effect on the date of payment at the Federal Reserve Bank nearest the Building, and which resulting amount shall be payable to Landlord in a lump sum on demand, it being understood that upon payment of such liquidated and agreed final damages, Tenant shall be released from further liability under this Lease with respect to the period after the date of such payment, and that Landlord may bring suit to collect any such damages at any time after an Event of Default shall have occurred. Tenant shall pay all expenses (including attorneys' fees) incurred by Landlord in connection with or as a result of any Event of Default whether or not a suit is instituted. The provisions contained in this Section 18.2 shall be in addition to, and shall not prevent the enforcement of, any claim Landlord may have against Tenant for anticipatory breach of this Lease (including, without limitation, the right of injunction and the right to invoke any remedy allowed at law or in equity as if reentry, summary proceedings and other remedies were not provided for herein). Nothing herein shall be construed to affect or prejudice Landlord's right to prove, and claim in full, unpaid rent accrued prior to termination of this Lease. If Landlord is entitled, or Tenant is required, pursuant to any provision hereof to take any action upon the termination of the Lease Term, then Landlord shall be entitled, and Tenant shall be required, to take such action also upon the termination of Tenant's right of possession.

18.3 All rights and remedies of Landlord set forth herein are cumulative and in addition to all other rights and remedies available to Landlord at law or in equity including those available for anticipatory breach. The exercise by Landlord of any such right or remedy shall not prevent the concurrent or subsequent exercise of any other right or remedy. No delay in the enforcement or exercise of any right or remedy by Landlord or Tenant shall constitute a waiver

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

of any default by the other party hereunder or of such party's rights or remedies in connection therewith. Neither party hereto shall be deemed to have waived any default by the other party hereunder unless such waiver is set forth in a written instrument signed by the party against whom such waiver is asserted. If either party waives in writing any default by Tenant, such waiver shall not be construed as a waiver of any covenant, condition or agreement set forth in this Lease except as to specific circumstances described in such written waiver.

18.4 If Landlord shall institute proceedings against Tenant and a compromise or settlement thereof shall be made, the same shall not constitute a waiver of default or of any other covenant, condition or agreement set forth herein, nor of any of Landlord's rights hereunder, except to the extent agreed by Landlord in writing in connection with such compromise or settlement. Neither the payment by Tenant of a lesser amount than the installments of Base Rent, Additional Rent or of any sums due hereunder nor any endorsement or statement on any check or letter accompanying a check for payment of rent or other sums payable hereunder shall be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such rent or other sums or to pursue any other remedy available to Landlord. Notwithstanding any request or designation by Tenant, Landlord may apply any payment received from Tenant to any payment then due. No re-entry by Landlord, and no acceptance by Landlord of keys from Tenant, shall be considered an acceptance of a surrender of this Lease.

18.5 If Tenant defaults in the making of any payment or in the doing of any act herein required to be made or done by Tenant, then Landlord may, but shall not be required to, make such payment or do such act after Landlord delivers written notice to Tenant. If Landlord elects to make such payment or do such act, all costs incurred by Landlord, plus interest thereon at the rate per annum which is three percent (3%) higher than the Prime Rate published in the Money Section of the Wall Street Journal (the "**Prime Rate**") from the date paid by Landlord to the date of payment thereof by Tenant, shall constitute Additional Rent hereunder and shall be immediately paid by Tenant to Landlord; provided, however, that nothing contained herein shall be construed as permitting Landlord to charge or receive interest in excess of the maximum rate then allowed by law. The taking of such action by Landlord shall not be considered as a cure of such default by Tenant or prevent Landlord from pursuing any remedy it is otherwise entitled to in connection with such default.

18.6 If Tenant fails, on more than two (2) occasions in any Lease Year during the Lease Term, to make any payment of Base Rent on or before the date that is five (5) Business Days after such payment is due and payable, Tenant shall pay to Landlord a late charge of two percent (2%) of the amount of such payment of Base Rent. If Tenant fails to make any payment of Base Rent or Additional Rent on or before the date such payment is due and payable, such payment shall bear interest at the rate per annum which is three percent (3%) higher than the Prime Rate from the date such payment became due to the date of payment thereof by Tenant; provided, however, that nothing contained herein shall be construed as permitting Landlord to charge or receive interest in excess of the maximum rate then allowed by law. Such interest shall constitute Additional Rent due and payable hereunder with the next installment of Base Rent due hereunder.

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

ARTICLE XIX

BANKRUPTCY

19.1 An “*Event of Bankruptcy*” is the occurrence with respect to any of Tenant, a Guarantor or any other person liable for Tenant’s obligations hereunder (including, without limitation, any general partner of Tenant (a “*General Partner*”)) of any of the following: (a) such person becoming insolvent, as that term is defined in Title 11 of the United States Code (the “*Bankruptcy Code*”) or under the insolvency laws of any state (the “*Insolvency Laws*”); (b) appointment of a receiver or custodian for any property of such person, or the institution of a foreclosure or attachment action upon any property of such person; (c) filing by such person of a voluntary petition under the provisions of the Bankruptcy Code or Insolvency Laws; (d) filing of an involuntary petition against such person as the subject debtor under the Bankruptcy Code or Insolvency Laws, which either (1) is not dismissed within sixty (60) days after filing, or (2) results in the issuance of an order for relief against the debtor; (e) such person making or consenting to an assignment for the benefit of creditors or a composition of creditors; or (f) an admission by Tenant or Guarantor of its inability to pay debts as they become due. At any time (but in no event more than one (1) time during any calendar year unless Landlord reasonably and in good faith believes that a substantial change in Tenant’s financial condition shall have occurred) upon not less than ten (10) days’ prior written notice, Tenant shall submit such information concerning the financial condition of any such person as Landlord may reasonably request. Tenant warrants that all such information heretofore and hereafter submitted is and shall be correct and complete.

19.2 Upon occurrence of an Event of Bankruptcy, Landlord shall have all rights and remedies available pursuant to Article XVIII above; provided, however, that while a case (the “*Case*”) in which Tenant is the subject debtor under the Bankruptcy Code is pending, Landlord’s right to terminate this Lease shall be subject, to the extent required by the Bankruptcy Code, to any rights of Tenant or its trustee in bankruptcy (collectively, “*Trustee*”) to assume or assume and assign this Lease pursuant to the Bankruptcy Code. After the commencement of a Case: (i) Trustee shall perform all post-petition obligations of Tenant under this Lease; and (ii) if Landlord is entitled to damages (including, without limitation, unpaid rent) pursuant to the terms of this Lease, then all such damages shall be entitled to administrative expense priority pursuant to the Bankruptcy Code. Any person or entity to which this Lease is assigned pursuant to the Bankruptcy Code shall be deemed without further act or deed to have assumed all of the obligations arising under this Lease on and after the date of assignment, and any such assignee shall upon request execute and deliver to Landlord an instrument confirming such assumption. Trustee shall not have the right to assume or assume and assign this Lease unless Trustee promptly (a) cures all defaults under this Lease, (b) compensates Landlord for damages incurred as a result of such defaults, (c) provides adequate assurance of future performance on the part of Trustee as debtor in possession or Trustee’s assignee, and (d) complies with all other requirements of the Bankruptcy Code. If Trustee desires to assume and assign this Lease to any person who shall have made a bona fide offer, then Trustee shall give Landlord written notice of such proposed assignment (which notice shall set forth the name and address of such person, all of the terms and conditions of such offer, and the adequate assurance to be provided Landlord to assure such person’s future performance under this Lease) no later than fifteen (15) days after

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

receipt by Trustee of such offer, but in no event later than thirty (30) days prior to the date Trustee shall make application to the appropriate court for authority and approval to enter into such assignment and assumption, and Landlord shall thereupon have the prior right and option, to be exercised by notice to Trustee given at any time prior to the effective date of such proposed assignment, to accept (or to cause Landlord's designee to accept) an assignment of this Lease upon the same terms and conditions and for the same consideration, if any, as the bona fide offer made by such person, less any brokerage commissions which may be payable out of the consideration to be paid by such person for the assignment of this Lease. If Trustee fails to assume or assume and assign this Lease in accordance with the requirements of the Bankruptcy Code within sixty (60) days after the initiation of the Case (or such other period as may be provided by the Bankruptcy Code or allowed by the United States Bankruptcy Court for same), then Trustee shall be deemed to have rejected this Lease. If this Lease is rejected or deemed rejected, then Landlord shall have all rights and remedies available to it pursuant to Article XVIII above.

ARTICLE XX

SUBORDINATION MORTGAGES

20.1 This Lease is subject and subordinate to the lien, provisions, operation and effect of all mortgages, deeds of trust, ground leases or other security instruments which may now or hereafter encumber any portion of the Building or the Land (collectively, "*Mortgages*"), to all funds and indebtedness intended to be secured thereby, and to all renewals, extensions, modifications, recastings or refinancings thereof. Said subordination and the provisions of this Section shall be self operative and no further instrument of subordination shall be required by the holder of any Mortgage. The holder of any Mortgage to which this Lease is subordinate shall have the right (subject to any required approval of the holders of any superior Mortgage) at any time to declare this Lease to be superior to the lien, provisions, operation and effect of such Mortgage.

20.2 Tenant shall, at Landlord's request, promptly execute any requisite or appropriate document confirming such subordination. Tenant waives the provisions of any statute or rule of law now or hereafter in effect which may give or purport to give Tenant any right to terminate or otherwise adversely affect this Lease and Tenant's obligations hereunder in the event any foreclosure proceeding is prosecuted or completed or in the event the Building, the Land or Landlord's interest therein is transferred by foreclosure, by deed in lieu of foreclosure or otherwise. At the request of any transferee and assumption of Landlord's obligations as required hereby, Tenant shall attorn to such transferee and shall recognize such transferee as the landlord under this Lease. Within ten (10) days after the request of such transferee, Tenant shall execute acknowledge and deliver any requisite or appropriate document submitted to Tenant confirming such attornment.

20.3 Notwithstanding anything to the contrary contained herein, the effectiveness of any subordination by Tenant to any Mortgage as provided herein above shall be subject to the condition that Landlord obtain from the holder of any such Mortgage a non-disturbance agreement, in form reasonably acceptable to Tenant, that provides: (a) so long as Tenant is not in

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

default under this Lease beyond any applicable notice and cure period and (b) Tenant agrees to attorn to the holder of any such Mortgage or to any transferee in connection with any foreclosure, or sale or transfer in lieu thereof, and recognize such party as landlord under this Lease, as provided in Section 20.2 above, then, in the event of any foreclosure, or sale or transfer in lieu thereof, this Lease shall remain in full force and effect and Tenant's use and possession of the Premises as provided herein shall not be disturbed. Landlord represents to Tenant that, as of the Effective Date, KeyBank National Association ("**Lender**") has made a loan to Landlord that is secured by the lien of a Mortgage encumbering the Property (the "**Existing Mortgage**") and that no Mortgage other than the Existing Mortgage is a lien on the Property. Prior to or concurrent with the Effective Date, Landlord shall obtain from Lender a subordination, non-disturbance and attornment agreement (a "**SNDA**") in a form set forth on Exhibit G attached hereto and made a part hereof. Landlord acknowledges and agrees that, unless waived by Tenant in its sole and absolute discretion, the effectiveness of this Lease is conditioned upon the execution and delivery by Lender of a SNDA in the form attached hereto as Exhibit G within thirty (30) days after the Effective Date. [*****] For avoidance of doubt, Landlord and Tenant acknowledge and agree that, upon full execution and delivery of such SNDA, such SNDA shall be promptly recorded among the land records of Loudoun County, Virginia. Furthermore, Landlord shall secure for Tenant a SNDA (recognizing Tenant's rights under this Lease) from the holder of each Mortgage hereafter encumbering the Building and/or the Land on such holder's standard form nondisturbance agreement, subject to Tenant's reasonable approval.

**ARTICLE XXI
HOLDING OVER**

21.1 If Tenant (or anyone claiming through Tenant) does not immediately surrender the Premises or any portion thereof upon the expiration or earlier termination of the Lease Term, then, unless otherwise agreed to by the parties hereto in writing for the first six months of such holdover period, the rent payable by Tenant hereunder shall be increased to equal one hundred fifty percent (150%) of the Base Rent, plus Additional Rent and other sums that would have been payable pursuant to the provisions of this Lease if the Lease Term had continued during such holdover period. If such holdover period is longer than six (6) months, commencing on the first day of the seventh month of the holdover period and for each month of the holdover period thereafter, the rent payable by Tenant shall be increased to one hundred seventy-five percent (175%) of the Base Rent, additional rent and other sums that would have been payable pursuant to the provisions of this Lease if the Lease Term had continued during such holdover period. Such rent shall be computed by Landlord and paid by Tenant on a monthly basis and shall be payable on the first day of such holdover period and the first day of each calendar month thereafter during such holdover period until the Premises have been vacated. Notwithstanding any other provision of this Lease, Landlord's acceptance of such rent shall not in any manner adversely affect Landlord's other rights and remedies, including Landlord's right to evict Tenant and to recover all damages. Any such holdover shall be deemed to be a tenancy at sufferance. In no event shall any holdover be deemed a permitted extension or renewal of the Lease Term, and nothing contained herein shall be construed to constitute Landlord's consent to any holdover or to give Tenant any right with respect thereto.

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

ARTICLE XXII

COVENANTS OF LANDLORD

22.1 Landlord covenants that it has the right to enter into this Lease for the term aforesaid, and that so long as Tenant is not in default (beyond the expiration of any applicable notice and cure period) under this Lease, then, subject to the provisions of this Lease, Tenant shall during the Lease Term, peaceably and quietly occupy and enjoy the full possession of the Premises without hindrance by Landlord, its employees or agents. Tenant acknowledges and agrees that its leasehold estate in and to the Premises vests on the date this Lease is executed, notwithstanding that the Lease Term will not commence until a future date.

ARTICLE XXIII

PARKING

23.1 During the Lease Term, Landlord shall maintain no less than one hundred fifty (150) parking spaces for parking in the surface parking areas located adjacent to the Building available on a non-exclusive, unassigned, first-come, first-served basis. Landlord covenants that, throughout the Lease Term, Landlord will maintain on the Land, at a minimum, the number of parking spaces required by applicable Law.

23.2 It is understood and agreed that Landlord does not assume any responsibility for, and shall not be held liable for, any damage or loss to any automobiles parked in the parking areas or to any personal property located therein, or for any injury sustained by any person in or about the parking areas, except, subject to the insurance requirements and the waiver of subrogation provision set forth in Section 12.2(b) above, for any physical injury to any natural person or damage to Tenant's personal property caused by the negligence or willful misconduct of Landlord or Landlord's Representatives.

ARTICLE XXIV

GENERAL PROVISIONS

24.1 Tenant acknowledges that neither Landlord nor any broker, agent or employee of Landlord has made any representations or promises with respect to the Premises or the Building except as herein expressly set forth, and no rights, privileges, easements or licenses are being acquired by Tenant except as herein expressly set forth.

24.2 Nothing contained in this Lease shall be construed as creating a partnership or joint venture of or between Landlord and Tenant, or to create any other relationship between the parties hereto other than that of landlord and tenant.

24.3 Tenant represents and warrants that Tenant has not dealt directly or indirectly with any broker or agent in connection with this Lease other than Rackhouse Group, LLC ("**Broker**"). The execution and delivery of this Lease by Landlord shall be conclusive evidence that Landlord has relied upon the forgoing representation and warranty. Tenant agrees to

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

indemnify and hold Landlord harmless from and against any claims for commissions, fees or other compensation by any person or entity, other than Broker, who shall claim to have dealt with Tenant in connection with this Lease and for any and all costs incurred in connection with such claims, including, without limitation, reasonable attorneys' fees and disbursements. Landlord agrees to pay any commission or compensation due Broker in connection with this Lease pursuant to a separate written agreement between Landlord and Broker (any such commission paid to Broker, the "*Brokerage Commission*").

24.4 Tenant agrees, at any time and from time to time, upon not less than ten (10) days' prior written notice by Landlord, to execute, acknowledge and deliver to the requesting party a statement in writing (i) certifying, if true, that this Lease is unmodified and in full force and effect (or if there have been any modifications, that the Lease is in full force and effect as modified and stating the modifications); (ii) stating the dates to which the rent and any other charges hereunder have been paid by Tenant; (iii) stating whether or not, to the best knowledge of Tenant, Landlord is in default in the performance of any covenant, agreement or condition contained in this Lease, and if so, specifying the nature of such default; (iv) stating the address to which notices to Tenant are to be sent; and (v) stating such other information as Landlord or any mortgagee or prospective mortgagee of the Building may reasonably request. Any such statement delivered by Tenant may be relied upon by any landlord of the Building or the Land, any prospective purchaser of the Building or the Land, any mortgagee or prospective mortgagee of the Building or the Land or of Landlord's interest therein, or any prospective assignee of any such mortgagee.

24.5 LANDLORD AND TENANT EACH HEREBY WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER OF THEM AGAINST THE OTHER IN CONNECTION WITH ANY MATTER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT HEREUNDER, TENANT'S USE OR OCCUPANCY OF THE PREMISES, AND/OR ANY CLAIM OF INJURY OR DAMAGE.

24.6 Subject to the terms and conditions of Article V above, all notices or other communications required hereunder shall be in writing and shall be deemed duly given if delivered in person (with receipt therefor), if delivered by overnight delivery by a nationally-recognized company, or if sent by certified or registered mail, return receipt requested, postage prepaid, to the following addresses:

If to Landlord: Grizzly Ventures LLC
c/o DuPont Fabros Technology, L.P.
1212 New York Avenue, NW, Suite 900
Washington, D.C. 20005
Attn: General Counsel
Phone: (202) 728-0044
Fax: (202) 728-0220

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

With a copy to: Cooley Godward Kronish LLP
11951 Freedom Drive
Reston, Virginia 20190-5601
Attn: John H. Toole
Phone: (703) 456-8651
Fax: (703) 456-8000

If to Tenant: Rackspace US, Inc.
5000 Walzem Road
San Antonio, Texas 78218
Attention: Director of Real Estate
Telephone: (210) 312-4861
Facsimile: (210) 312-4300

With copies to: Rackspace US, Inc.
5000 Walzem Road
San Antonio, Texas 78218
Attention: General Counsel
Telephone: (210) 312-4721
Facsimile: (210) 312-4848

Smith, Robertson, Elliott, Glen, Klein & Bell, LLP
221 West 6th Street, Suite 1100
Austin, Texas 78701
Attention: Gavin Klein
Telephone: (512) 225-1708
Facsimile: (512) 225-5838

If to Guarantor: Rackspace Hosting, Inc.
5000 Walzem Road
San Antonio, Texas 78218
Attn: General Counsel
Telephone: (210) 312-4721
Facsimile: (210) 312-4848

With copies to: Smith, Robertson, Elliott, Glen, Klein & Bell, LLP
221 West 6th Street, Suite 1100
Austin, Texas 78701
Attention: Gavin Klein
Telephone: (512) 225-1708
Facsimile: (512) 225-5838

Any such notice shall be deemed effective upon the earlier of: (i) receipt, (ii) refusal to accept delivery, (iii) three (3) days after being deposited in the U.S. Mail, postage pre-paid, via registered or certified mail, return receipt requested, or (iv) one (1) day after being deposited with a nationally-recognized overnight carrier.

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

Either party may change its address for the giving of notices by notice given in accordance with this Section 24.6.

24.7 If any provision of this Lease or the application thereof to any person or circumstances shall to any extent be invalid or unenforceable, the remainder of this Lease, or the application of such provision to persons or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each provision of this Lease shall be valid and enforced to the fullest extent permitted by law.

24.8 Feminine or neuter pronouns shall be substituted for those of the masculine form, and the plural shall be substituted for the singular number, in any place or places herein in which the context may require such substitution.

24.9 The provisions of this Lease shall be binding upon, and shall inure to the benefit of, the parties hereto and each of their respective representatives, successors and assigns, subject to the provisions hereof restricting assignment or subletting by Tenant.

24.10 This Lease contains and embodies the entire agreement of the parties hereto and supersedes all prior agreements, negotiations and discussions between the parties hereto. Any representation, inducement or agreement that is not contained in this Lease shall not be of any force or effect. This Lease may not be modified or changed in whole or in part in any manner other than by an instrument in writing duly signed by both parties hereto.

24.11 This Lease shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia.

24.12 Article and section headings are used herein for the convenience of reference and shall not be considered when construing or interpreting this Lease.

24.13 The submission of an unsigned copy of this document to Tenant for Tenant's consideration does not constitute an offer to lease the Premises or an option to or for the Premises. This document shall become effective and binding only upon the execution and delivery of this Lease by both Landlord and Tenant.

24.14 Time is of the essence with respect to each provision of this Lease.

24.15 Neither this Lease nor a memorandum thereof shall be recorded; however, this Section 24.15 shall not be construed as prohibiting the recordation of the SNDA in accordance with Section 20.3 above.

24.16 Except as otherwise provided in this Lease, any additional rent or other sum owed by Tenant to Landlord, and any cost, expense, damage or liability incurred by Landlord for which Tenant is liable, shall be considered "**Additional Rent**" and unless otherwise provided in this Lease, shall be paid by Tenant to Landlord no later than thirty (30) days after the date Landlord notifies Tenant of the amount of such Additional Rent or such cost, expense, damage or liability.

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

24.17 For purposes of this Lease, “*Business Day*” shall mean a day other than a Saturday, Sunday or Federal holiday.

24.18 Except as expressly set forth herein to the contrary, all of the parties’ duties and obligations hereunder shall survive the termination of this Lease for any reason whatsoever.

24.19 If Landlord or Tenant is in any way delayed, interrupted or prevented from performing any obligation (except, with respect to Tenant, its obligations to pay rent and other sums due under this Lease, any obligation with respect to insurance pursuant to Article XII, and any obligation to give notice with respect to extensions, expansions or otherwise due to fire, act of God, governmental act or failure to act, war, enemy action, strike, labor dispute, inability to procure materials, or any cause beyond Landlord’s or Tenant’s (as applicable) reasonable control (whether similar or dissimilar to the foregoing events) (all of which are collectively referred to herein as “*Force Majeure*”), then the time for performance of such obligation shall be excused for the period of such delay, interruption or prevention and extended for a period equal to the period of such delay or prevention. Notwithstanding the foregoing, neither financial disability or hardship shall constitute a Force Majeure event. By way of clarification, the occurrence of an event of Force Majeure will not prevent the occurrence of a Power Deficiency or HVAC Deficiency and same shall be determined without regard to such Force Majeure.

24.20 Each party hereby represents and warrants to the other that all necessary corporate or company action has been taken to enter into this Lease and that the person signing this Lease on behalf of such party has been duly authorized to do so and all consents required by such party to enter into this Lease have been received and no further consent from any party is required to enter into this Lease.

24.21 Landlord and Tenant each agrees that it will not publicly disclose the terms of this Lease, provided that communication of such information may be made in connection with any valid legal order issued by a court or governmental agency or any legally required official filing with any governmental agency or if required by the applicable rules of a national securities exchange, and provided further that communication by either party to its lenders, private investors, purchasers, accountants, attorneys, consultants and brokers shall be permitted. The sole remedy for a breach by either party hereto of any of the terms and provisions of this Section 24.21 shall be an action for specific performance, injunction or restraining order, and such a breach shall not otherwise be deemed to constitute a default under this Lease or give rise to any claim for damages or other relief.

24.22 This Lease includes and incorporates the Recitals and the Exhibits A, B, C, D, E, F, G and H attached hereto.

24.23 This Lease may be executed in separate counterparts, each of which shall constitute an original and all of which, together, shall constitute one and the same instrument. This Lease shall be fully executed when each party whose signature is required has signed and delivered to each of the parties at least one counterpart, even though no single counterpart contains the signatures of all parties hereto.

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

24.24 For purposes of Section 55-2, Code of Virginia (1950), as amended, this Lease is and shall be deemed to be a deed of lease.

ARTICLE XXV

RENEWAL

25.1 Landlord hereby grants to Tenant two (2) successive five (5)-year renewal options, each exercisable at Tenant's option and subject to the conditions described below (each such five-year term, if exercised, being referred to herein as a "**Renewal Term**"). If such right is exercised, and if the conditions applicable thereto have been satisfied, the first Renewal Term shall commence immediately following the end of the Lease Term provided in this Lease and the second Renewal Term shall commence immediately following the end of the first Renewal Term. The right of renewal herein granted to Tenant shall be subject to, and shall be exercised in accordance with, the following terms and conditions:

(a) Tenant shall exercise its right of renewal with respect to each Renewal Term by giving Landlord written notice thereof not earlier than eighteen (18) months and not later than twelve (12) months prior to the expiration date of the then-current Lease Term (the "**Renewal Notice**").

(b) In the event the Renewal Notice is not given timely, Tenant's right of renewal shall lapse and be of no further force or effect.

(c) All the terms, conditions, covenants and agreements set forth in this Lease shall continue to apply and be binding upon Landlord and Tenant during each Renewal Term, except for the determination of Base Rent which shall be as set forth in Section 25.2 below.

(d) In the event there exists an Event of Default on the date of receipt of a Renewal Notice or anytime thereafter until the date such Renewal Term is to commence, then, at Landlord's option, such Renewal Term shall not commence and the Lease Term shall expire at the date the Lease Term would have expired without such renewal.

(e) The renewal option shall be exercised only by the original Tenant hereunder or by an Affiliate of the original Tenant hereunder, and not by any other assignee, transferee or subtenant. In the event the original Tenant assigns this Lease to any entity other than an Affiliate of the original Tenant, Tenant's rights under this Section 25.1 shall lapse as though this Section 25.1 had never been included in the Lease.

(f) In the event this Lease is not renewed for the first Renewal Term, Tenant's right to renew this Lease for the second Renewal Term shall lapse and be of no further force and effect.

25.2 (a) The Base Rent charged for the first year of each Renewal Term shall be [*****].

(b) [*****]

(c) [*****]

ARTICLE XXVI

COMMUNICATIONS EQUIPMENT

26.1 (a) Subject to the terms and conditions in this Article XXVI, Tenant shall have the license, at Tenant's sole risk, cost and expense, to install and maintain in a designated location on the roof of the Building (the "**Satellite Area**") one (1) or more satellite dish antennae (together and singly the "**antenna**"), together with the cables extending from such antenna to the Premises through plenums, risers, electrical closets, ducts or pipes on or serving the floor on which the Premises are located (other than those installed for another tenant's exclusive use and provided Tenant shall have utilization of each such facility or area in no greater proportion than the ratio by which the square feet of rentable area in the Premises compares to the square feet of rentable area in the Building), all in accordance with plans and specifications to be reasonably approved by Landlord. The number, location, size, weight, height and all other features and specifications of the antenna and the manner of the initial installation of the same shall be subject to Landlord's prior written approval, which approval will not be unreasonably withheld, conditioned or delayed. The installation of such antenna and all related wiring and equipment shall be performed during normal working hours and under the supervision of Landlord's designated representative. Notwithstanding the foregoing, Tenant shall not be entitled to install such an antenna (i) which is greater than three (3) meters in diameter (or more if same is not visible from the grounds adjacent to the Building or appropriately screened from view in accordance with Building standards), (ii) which is more than four (4) meters in height (or more if same is not visible from the grounds adjacent to the Building or appropriately screened from view in accordance with Building standards), (iii) if such installation would violate (or in a manner that would violate) any warranty with respect to the roof or structure of the Building, (iv) if such installation would materially, adversely affect (or in a manner that would materially, adversely affect) the structure or any of the building systems of the Building, or if such installation would require (or in a manner that would require) any structural alteration to the Building, or if such installation would disturb the roof membrane or make any other penetration on the roof or the exterior facade of the Building, unless Landlord in its sole and absolute discretion approves in writing such structural alteration or roof penetration, (v) if such installation would violate (or in a manner that would violate) any covenant, condition, or restriction of record affecting the Building or any applicable federal, state or local law, rule or regulation, (vi) unless all required approvals and consents of all holders of Mortgages encumbering the Building of whom Tenant has notice are obtained (to the extent required by the loan documents and requested by Landlord), (vii) unless Tenant has obtained and maintains at Tenant's expense, and has submitted to Landlord copies of, all permits, licenses, special zoning variances, authorizations and approvals relating to such antenna and such installation and maintenance (including, without limitation, any permit required if a crane is necessary to place such antenna on the roof) and pays all taxes and fees related thereto, (viii) unless such antenna is white or of a beige or lighter color (or otherwise appropriately screened), (ix) unless such antenna is installed, at Tenant's sole cost and expense, by a qualified contractor chosen by Tenant and approved in advance by Landlord, which approval shall not be unreasonably withheld, (x) if the installation or operation would materially interfere with or materially disrupt

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

the use or operation of any other equipment (including antennae) on the roof of the Building on the Lease Commencement Date, (xi) unless Tenant obtains Landlord's prior consent to the manner and time in which such installation work is to be done; and (xii) unless screened from view from the grounds adjacent to the Building in a manner and with materials reasonably acceptable to Landlord. All plans and specifications concerning such installation shall be subject to Landlord's prior written approval, which approval shall not be unreasonably withheld, and Tenant shall reimburse Landlord's reasonable and customary third-party expenses actually incurred in such review. All maintenance, repairs and installations required after the initial installation of the antenna also shall be subject to Landlord's prior written approval, which approval shall not be unreasonably withheld, and Tenant shall reimburse Landlord's reasonable and customary third-party expenses actually incurred in such review. Any failure to complete the installation of the antenna and related equipment shall not delay the Lease Commencement Date. Tenant shall have no right to any abatement or reduction in the Base Rent, Additional Rent or any other sums due or payable under this Lease if for any reason Tenant is unable to obtain any required approval for installation of an antenna, or is thereafter unable to use the antenna for any reason.

(b) Tenant shall not have access to any such antenna without Landlord's prior consent, which consent shall be granted to the extent necessary or desirable for Tenant to perform its maintenance, repair, replacement or other obligations hereunder, and only if Tenant is accompanied by Landlord's representative (if Landlord so requests and no emergency circumstances required otherwise, and provided such representative of Landlord does not interfere with or delay Tenant in exercising its rights or satisfying its obligations hereunder). Any such access by Tenant shall be subject to reasonable rules and regulations relating thereto established from time to time by Landlord, including without limitation rules and regulations prohibiting such access unless Tenant is accompanied by Landlord's representative, provided such representative of Landlord does not interfere with or delay Tenant in exercising its rights or satisfying its obligations hereunder. Landlord shall have the right to access the Satellite Area at all times, provided Landlord does not unreasonably interfere with Tenant's use of the Satellite Area and any antenna as provided herein. Notwithstanding the foregoing, in the event Tenant is prevented or delayed from satisfying its obligations under this Article XXVI due to Landlord's failure to consent to Tenant's access to the Satellite Area and any such antenna and/or Landlord's requirement of a Landlord escort, then Tenant's obligations shall be excused until Landlord issues such consent and/or produces any such Landlord escort.

(c) At all times during the Lease Term, Tenant shall (i) perform maintenance and repairs so as to keep all said equipment in clean, good and safe condition and in a manner that avoids material interference with or material disruption to Landlord and other tenants of the Building, (ii) comply with all requirements of laws, ordinances, rules and regulations of all public authorities and insurance companies which shall impose any order or duty upon Landlord with respect to or affecting the antenna and/or associated wiring or Tenant's use or manner of use thereof, and (iii) register the equipment, if required, with appropriate governmental authorities and keep same current. All repairs and maintenance shall be performed by a qualified Approved Contractor. Tenant shall pay and discharge all costs and expenses incurred in connection with the furnishing, installation, maintenance, operation and removal of the antenna. All repairs and maintenance to the Building made necessary by reason of the furnishing,

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

installation, maintenance, operation or removal of the antenna or any replacements thereof (including, without limitation, any invalidation of the roof warranty due to Tenant's breach of its obligations hereunder) shall be at Tenant's sole cost. If the operation of the antenna shall require electrical power, Landlord may, at its sole option, install a separate meter, at Tenant's sole expense, to measure such electrical consumption and Tenant shall pay for such consumption at the then-current price per kilowatt hour charged Landlord by the utility. At the expiration or earlier termination of the Lease Term, or upon termination of the operation of the antenna and related equipment as provided in subsection (e) below, Tenant shall remove such antenna and related equipment from the Building and surrender the Satellite Area in good condition, ordinary wear and tear and damage by fire, casualty and the elements excepted. If Tenant fails to so remove the antenna and equipment in accordance with the foregoing, Landlord shall have the right to remove and dispose of such antenna and equipment, at Tenant's sole cost and expense, and Landlord shall have no liability therefor. Notwithstanding the foregoing to the contrary, in the event any repairs or maintenance to, or restoration of, the Building made necessary by reason of furnishing, installation, maintenance, operation or removal of the antenna or any replacements thereof are due to work performed or to be performed by DFTS pursuant to a separate agreement between DFTS and Tenant, then Landlord, and not Tenant, shall be responsible therefor at Landlord's sole cost and expense.

(d) Upon at least thirty (30) days' prior written notice to Tenant, Landlord shall have the right to require Tenant to relocate the antenna to another location of equivalent size; provided, however, that such relocation: (i) does not materially, adversely affect the operation of the antenna; and (ii) can be performed without any interruption in service. Any such relocation shall be performed by Tenant at Landlord's expense, and in accordance with all of the requirements of this Article XXVI. Nothing in this Section shall be construed as granting Tenant any line of sight easement with respect to such satellite dish antenna; provided, however, that if Landlord requires that such antenna be relocated in accordance with the preceding two (2) sentences, then Landlord shall provide either (i) the same line of sight for such antenna as was available prior to such relocation, or (ii) a line of sight for such antenna which is functionally equivalent to that available prior to such relocation.

(e) It is expressly understood that by granting Tenant the license hereunder, Landlord makes no representation as to the legality of such antenna or its installation. In the event that any federal, state, county, regulatory or other authority requires the removal or relocation of such antenna, Tenant shall remove or relocate such antenna at Tenant's sole cost and expense, and Landlord shall under no circumstances be liable to Tenant therefor. In addition, at Landlord's sole option and discretion, Landlord may require Tenant, at any time prior to the expiration or earlier termination of this Lease, to terminate the operation of the antenna and related equipment if it is causing material physical damage to the structural integrity of the Building, materially interfering with any other service provided to the Building in existence as of the Lease Commencement Date or causing the violation of any condition or provision of this Lease. The right granted to Tenant under this Article XXVI are non-exclusive, non-transferable (except to an Affiliate or in connection with a permitted sublease of the entire Premises or assignment of the Lease in its entirety pursuant to Article VII hereof), revocable license to use the Satellite Area solely in accordance with terms and conditions of this Article XXVI.

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

(f) Tenant shall indemnify and hold Landlord harmless from and against all costs, damages, claims, liabilities and expenses (including attorneys' fees) suffered by or claimed against Landlord, directly or indirectly, based on, arising out of or resulting from any act or omission by Tenant or Tenant's employees, agents, assignees, subtenants, contractors, clients, guests, licensees, customers or invitees with respect to the installation, use, operation, maintenance, repair, removal or disassembly of such antenna and related equipment (including, without limitation, any damage to other wires or equipment of the Building or other tenants/occupants of the Building).

(g) The antenna may be used by Tenant only in the conduct of Tenant's customary business. No assignee or subtenant shall have any rights pursuant to this Article except for an Affiliate or an assignee of the entire Lease or a subtenant of the entire Premises pursuant to a permitted assignment or sublease in accordance with Article VII hereof.

(h) Tenant shall maintain such insurance (in addition to that required by Article XII of this Lease) as is appropriate with respect to the installation, operation and maintenance of the antenna. Landlord shall have no liability on account of any damage to or interference with the operation of the antenna, except for physical damage caused by Landlord's gross negligence or willful misconduct not covered by Tenant's insurance carried or required to be carried by said Article XII, and Landlord expressly makes no representations or warranties with respect to the capacity for an antenna placed on the roof of the Building to receive or transmit signals. Except as otherwise expressly provided herein, the operation of the antenna shall be at Tenant's sole and absolute risk. Tenant shall in no event materially interfere with the use of any other communications equipment located on the roof, or anywhere else in, the Building pursuant to leases or other agreements entered into prior to the date of the Lease and will reasonably cooperate with Landlord, at no cost or expense to Tenant, to avoid material interference with any other antennas or equipment installed in the future.

ARTICLE XXVII

[*****]

ARTICLE XXVIII

GUARANTOR

The full and complete performance by Tenant of its obligations under the Lease shall be guaranteed by Rackspace Hosting, Inc., a Delaware corporation ("**Guarantor**"). The Guarantor shall execute and deliver contemporaneously with Tenant's execution of this Lease a guaranty in the form attached as Exhibit H hereto.

ARTICLE XXIX

[*****]

[Signature Page Follows]

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease under seal on or as of the day and year first above written.

LANDLORD:

GRIZZLY VENTURES LLC,
a Delaware limited liability company

By: Grizzly Equity LLC, a Delaware
limited liability company,
its Managing Member

By: DuPont Fabros Technology, L.P.,
a Maryland limited partnership,
its Managing Member

By: DuPont Fabros Technology, Inc.,
a Maryland corporation,
its General Partner

By: /s/ Lammot J. du Pont
Name: Lammot J. du Pont
Title: Executive Chairman of the Board

TENANT:

RACKSPACE US, INC., a Delaware corporation

By: /s/ A. Lanham Napier
Name: A. Lanham Napier
Title: President

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

EXHIBITS

- A Description of Land
- B Floor Plan of Building
- B-1 Floor Plan of Premises
- B-2 Floor Plan of Pod 8b
- C Declaration Affirming The Lease Commencement Date
- D Landlord's Work
- E Rules and Regulations
- F Services Exhibit
- G Form of Subordination Non-disturbance Agreement
- H Form of Guaranty

1.

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

EXHIBIT A

DESCRIPTION OF LAND

Lot 8A, Phase II, ASHBURN BUSINESS PARK, containing 17.1480 acres, more or less, as shown on plat entitled "Preliminary/Record Plat Showing A Resubdivision of Lots 8-12 PHASE II ASHBURN BUSINESS PARK, Dulles Magisterial District, Dulles Election District, Loudoun County, Virginia", dated January 12, 2001, a copy of which is attached to and recorded with Deed of Dedication, Consolidation, Subdivision, Easement and Vacation, dated December 14, 2001 and recorded March 8, 2002 among the land records of Loudoun County, Virginia in Deed Book 2128 at page 695.

A-1

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

EXHIBIT B

FLOOR PLAN OF BUILDING

B-1

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

EXHIBIT B-1

FLOOR PLAN OF PREMISES

B-1-1

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

EXHIBIT B-2

FLOOR PLAN OF POD 8B

B-2-1

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

EXHIBIT C

DECLARATION AFFIRMING THE LEASE COMMENCEMENT DATE

This Declaration is being provided pursuant to that certain Lease Agreement dated as of _____, 200 (the "*Lease*"), by and between GRIZZLY VENTURES LLC ("*Landlord*") and _____ ("*Tenant*"). The parties to the Lease desire to confirm the following:

1. The Lease Commencement Date is _____, 200 .
2. Unless earlier terminated in accordance with the Lease, the initial term of the Lease shall expire on _____, 20 .
3. [*****]

[Signature Page Below]

C-1

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

IN WITNESS WHEREOF, Landlord and Tenant have executed this Certificate under seal on _____, 200__ .

LANDLORD:

GRIZZLY VENTURES LLC,
a Delaware limited liability company

By: Grizzly Equity LLC, a Delaware
limited liability company,
its Managing Member

By: DuPont Fabros Technology, L.P.,
a Maryland limited partnership,
its Managing Member

By: DuPont Fabros Technology, Inc.,
a Maryland corporation,
its General Partner

By: _____
Name: _____
Title: _____

TENANT:

RACKSPACE US, INC., a Delaware corporation

By: _____
Name: _____
Title: _____

EXHIBIT D

LANDLORD'S WORK

ACC4 has been constructed as a mission critical facility capable of continuously serving approximately 36.4 megawatts of critical computer equipment load protected by an uninterruptible power system using inertial rotary storage. ACC4 is configured such that all heat loads in the building are continuously rejected to the outside of the facility, using packaged chilled water system as the primary cooling mechanism in the facility. The improvements constructed and installed include:

Exterior Architectural and Structural Work pursuant to schematic drawings

35kV Electrical Service and Transformers

600V Distribution Switchgear

UPS System

Engine Generators

PDUs

Power Monitoring System (for power billing and system monitoring)

Fire Protection System (no gaseous suppression)

Fire Detection and Alarm System (including VESDA system)

Security System

Lightning Protection

Evaporative Chilled Water System with Centrifugal Chillers

HVAC Controls

Building Monitoring and Alarm System

Raised Floor

Loading Dock

Secure Single Point Entry to Building

Common Area Restrooms

Elevator

Building Grounding System

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

EXHIBIT E

DUPONT FABROS ACC4

ASHBURN, VIRGINIA

**STANDARD OPERATING
PROCEDURES, RULES AND
REGULATIONS**

Any material violation of these rules and regulations by Tenant shall constitute a default by Tenant under the Lease.

The following rules shall be applicable to the Property and Tenant's activities therein:

Tenant shall not obstruct or encumber or use for any purpose other than ingress and egress to and from the Premises any sidewalk, entrance, passage, court, elevator, vestibule, stairway, corridor, hall or other part of the Building not exclusively occupied by Tenant. No bottles, parcels or other articles shall be placed, kept or displayed on window ledges, in windows or in corridors, stairways or other public parts of the Building. Tenant shall not place any showcase, mat or other article outside the Premises.

Where Landlord's consent is required under these Rules and Regulations, Landlord shall not unreasonably withhold, condition, or delay such consent. Canvassing, soliciting and peddling in the Building are prohibited, and Tenant shall cooperate to prevent the same.

Tenant shall have the right to attach, hang or use in connection with any window or door of the Premises any drape, blind, shade or screen to prevent any person outside the Premises from seeing into the Premises. Landlord shall have the right to approve the type of window or door covering, which approval shall not be unreasonably withheld, conditioned or delayed.

Tenant shall not use the water fountains, water and wash closets, and plumbing and other fixtures for any purpose other than those for which they were constructed, and Tenant shall not place any debris, rubbish, rag or other substance therein (including, without limitation, coffee grounds). All damages from misuse of fixtures shall be borne by the tenant causing same.

Tenant shall not construct, maintain, use or operate within the Premises any electrical device, wiring or apparatus in connection with a loudspeaker system or other sound system, in connection with any excessively bright, changing, flashing, flickering or moving light or lighting device, or in connection with any similar device or system, without Landlord's prior written consent. Tenant shall not construct, maintain, use or operate any such device or system outside of its Premises or within such Premises so that the same can be heard or seen from outside the Premises. Tenant will not permit or allow any vapors, steam, water, vibrations, noises or other

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

undesirable effects to emanate from the Premises or any equipment or installation therein, which in Landlord's reasonable discretion, are objectionable or cause any interference with the safety, comfort or convenience of the Building by Landlord or its agents, servants, invitees or employees.

Tenant shall not bring any child under the age of twelve (12) years old, animal, bird or pet of any kind into the Building, except seeing-eye or hearing-ear dogs for handicapped persons visiting the Premises.

Except as specifically provided to the contrary in the Lease and except in the office areas (including, without limitation, any network operations center), where customary microwave cooking and office kitchen use shall be permitted, Tenant shall not cook or permit any cooking on the Premises, except for microwave cooking and use of coffee machines by Tenant's employees for their own consumption. No food or drink of any kind is permitted in any raised floor environment. Tenant shall not cause or permit any unusual or objectionable odor to be produced upon or emanate from the Premises.

[*****] Tenant shall not place on any floor a load exceeding the floor load per square foot which such floor was designed to carry. Landlord shall have the right to repair at Tenant's expense any damage to the Premises or the Building caused by Tenant's moving property into or out of the Premises or to require Tenant to do the same, in accordance with the terms and provisions of the Lease.

Except as otherwise provided herein, Tenant shall not place additional locks or bolts of any kind on any of the doors or windows, and shall not make any change in any existing lock or locking mechanism therein, without Landlord's prior written approval, which shall not be unreasonably withheld or delayed. Tenant shall keep doors leading to a corridor or main hall closed at all times except as such doors may be used for ingress or egress and shall lock such doors during all times the Premises are unattended. Tenant shall, upon the termination of its tenancy: (a) restore to Landlord all keys and security cards to the Building and the Premises which were either furnished to, or otherwise procured by, Tenant, and in the event of the loss of any keys so furnished, Tenant shall pay the replacement cost thereof; and (b) inform Landlord of the combination of any lock, safe and vault in the Premises. Tenant's key system shall be consistent with that for the rest of the Building.

Subject to the terms and provisions of Article V of the Lease, Landlord shall require all persons not having permanent Access Badges admitted to the Building to show government-issued identification and to sign a register.

Tenant shall not permit or encourage any loitering in or about the Premises and shall not use or permit the use of the Premises for lodging, dwelling or sleeping.

Tenant shall not request Landlord's employees to perform any work or do anything outside of such employees' regular duties without Landlord's prior written consent. Tenant's special requirements will be attended to only upon application to Landlord, and any such special requirements shall be billed to Tenant in accordance with the schedule of charges maintained by

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

Landlord from time to time or as is agreed upon in writing in advance by Landlord and Tenant. Tenant shall not employ any of Landlord's employees for any purpose whatsoever without Landlord's prior written consent. Except as otherwise expressly provided herein, only Approved Contractors, Approved Vendors and/or Approved Fiber Providers, as applicable, will be permitted to furnish services to Tenant which require entry upon the Property, and only in accordance with the terms and provisions of the Lease and these Rules and Regulations.

There shall not be used in any space, or in the public halls of the Building, either by any tenant or by jobbers or others in the delivery or receipt of merchandise, any hand trucks, except those equipped with rubber tires and side guards. Tenant shall be responsible for any loss or damage resulting from any deliveries made by or for Tenant.

Tenant shall not remove, alter or replace the ceiling light diffusers, ceiling tiles or air diffusers in any portion of the Premises without the prior consent of Landlord.

Tenant shall not in any manner deface any part of the Premises or the Building. Except as otherwise expressly provided herein and/or in the Lease, no stringing of wires, boring or cutting shall be permitted except with Landlord's prior written consent.

Tenant shall not bring or keep, or permit to be brought or kept, in the Building any weapon or, except as otherwise provided herein, flammable, combustible or explosive fluid, chemical or substance.

Tenant shall comply with all workplace smoking Laws. There shall be no smoking in the Premises, the Building and the Common Areas.

Subject to the terms and provisions of Articles I and XXVI of the Lease, Tenant shall have no right of access to the roof of the Building and shall not install, repair or replace any satellite dish, antennae, fan, air conditioner or other devices on the roof of the Building without prior written consent of Landlord. Any such device installed without such written consent shall be subject to removal, at Tenant's expense, without notice, at any time.

Landlord may refuse admission to the Building to all persons except as otherwise provided in Section V of the Lease.

The Building loading docks shall be used pursuant to procedures reasonably designated by Landlord. Without limiting the generality of the foregoing, the Building loading docks may only be used for loading and unloading. Tenants may not place any dumpsters or other trash receptacles at the loading docks or any other portion of the Building without prior approval of Landlord.

Except in the event of an emergency, Tenant shall not turn on, shutdown, adjust or permit to be turned on, shutdown or adjusted any PDUs, computer room air conditioners, fire alarm systems, security systems or other systems within the Premises without Landlord's prior written approval and, in all cases, Tenant shall promptly notify Landlord's Emergency Contacts in accordance with Section 5.3 of the Lease. To the extent possible, a shutdown or adjustment shall be subject to the supervision of the Building engineer.

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

Tenant shall not install Direct Current {DC} power plants within the leased premises without Landlords prior written approval.

Tenant shall not remove, alter or replace any equipment associated with the electrical, communications, mechanical, fire protection, security and all other facility infrastructure. This shall include, without limitation, conduits, cable trays, cabling or other pathways which pass through the Premises but, subject to Article IX of the Lease, shall not include Tenant's own conduits, cable trays, cabling or other pathways used exclusively by Tenant.

Tenant shall not install wiring below the raised floor without Landlord's prior written approval in accordance with Section 9.2 of this Lease.

[****]

Except as otherwise expressly provided herein, Tenant's contractors or vendors may not use any space within the Building or Property for the storage or moving of materials or equipment (except on a temporary basis, as approved by Landlord in its reasonable discretion, to provide services to allow Tenant to operate in the Premises in accordance with the Permitted Uses) or for the location of a field office or facilities for the employees of any such contractor or vendor without Landlord's prior written consent. Landlord reserves the right to restrict the use of certain materials in the Building or on the Property if Landlord, in its reasonable discretion, determines that such materials are unsafe, provided Landlord shall not unreasonably interfere with Tenant's use of the Premises for the Permitted Uses.

Trucks using the Building loading dock will load and discharge at the place or places designated by the duly authorized representative of Landlord in charge of such operation.

The Building loading dock is intended to be used for transferring freight to and from the Building. The use of the Building loading dock by Tenant or any of its agents, servants, employees, representatives or contractors will be confined to such purpose, under the direction of, and pursuant to procedures established by, a duly authorized representative of Landlord in charge of such operation. No storage or holding of freight at the loading dock awaiting the arrival of trucks, or awaiting transfer by Tenant from the loading dock to the Premises, will be permitted. No automobiles of Tenant or any employee, agent, or invitee of Tenant may enter on or be stored in any portion of the Property, except in areas designated by Landlord. Any violation of this rule or disregard of directions issued by Landlord will give Landlord the right, upon notice to Tenant's Emergency Contacts, to transfer, remove or store the applicable freight or automobile. When such transfer, removal or storage is performed by or for Landlord in accordance with this provision, any and all expense associated therewith will be at Tenant's sole cost and expense. Landlord will not be responsible for any loss or damage to any freight or automobile as a result of such transfer, removal, or storage except to the extent the same arises as a result of Landlord's negligence or willful misconduct.

Tenant shall not, under any circumstances, permit the accumulation of sweepings or any other rubbish in the expansion joints of those portions of the Building located outside of the Premises, and all such sweepings or rubbish shall be removed daily by Tenant in such manner as Landlord

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

shall reasonably direct. Except as otherwise expressly provided herein, Tenant will not place machinery or equipment in a position so that such machinery or equipment straddles an expansion joint, or erect a partition which intersects an expansion joint. Tenant shall not broom sweep any portion of the Property outside of the Premises; Tenant shall clean dust, debris, and similar materials by use of a vacuum. Tenant shall clean the Premises in accordance with Section 13.3 of the Lease.

All damage to the Building caused by Tenant moving or using any heavy equipment or other office equipment or furniture shall be repaired by Tenant or otherwise at the expense of Tenant.

The moving of all heavy equipment and furniture may occur only with Landlord's prior approval, which approval shall not be unreasonably withheld, conditioned, or delayed. Safes and other heavy equipment, furniture and machinery must be moved through the halls and corridors on plywood or, depending on the weight, steel bearing plates. No oversized or bulky freight will be received into the Building or carried in the elevators, except as approved in advance by Landlord.

Tenant shall have the right to receive or ship fixtures, equipment or articles related to the Permitted Uses 24 hours a day, 7 days a week through facilities, doors and elevators designated by Landlord.

Tenant will, at its expense, comply with Landlord's reasonable waste management, disposal and recycling requirements. Landlord may, upon request of Tenant, waive Tenant's compliance with any of these Rules and Regulations, provided that (a) no waiver shall be effective unless signed by Landlord, (b) no waiver shall relieve Tenant from the obligation to comply with any such Rules and Regulations in the future unless otherwise agreed in writing by Landlord, and (c) no waiver shall relieve Tenant from any liability for any loss or damage resulting from Tenant's failure to comply with any of these Rules and Regulations.

EXHIBIT F
SERVICES EXHIBIT

A. DEFINITIONS

All capitalized terms not defined herein shall have the meanings ascribed to them in the Lease.

- (a) “**Building Management System**” (the “**BMS**”) shall refer to an environmental diagnostic system for power, temperature and humidity, with remote sensors located in the Tenant Space and capable of providing monitoring at the level specified herein.
- (b) “**CBEMA Curve**” means 208V AC line voltage, as measured at the PDU and maintained within the “No Interruption in Function Region” described in the ITI CBEMA Curve in Appendix 1 attached hereto.
- (c) “**Computer Room Air Conditioning Unit(s)**” or “**CRAC(s)**” shall mean the individual air conditioning/cooling devices that regulate temperature within the Premises raised floor space.
- (d) “**Environmental Conditions**” means the temperature and humidity conditions in the Tenant Space as described in Section B.i.
- (e) “**HVAC**” shall mean the heating, ventilation, and air conditioning system used for regulation of the Environmental Conditions and air filtering.
- (f) “**HVAC Deficiency**” is defined in Section B.i. A momentary interruption resulting from a switch from utility power to back-up or generator power shall not constitute a HVAC Deficiency.
- (g) “**HVAC Demand**” shall mean the quantity of HVAC required to reject the heat generated by the consumption of electricity within a Pod in order for Tenant to sufficiently conduct its business operations in such Pod.
- (h) “**Power Deficiency**” is defined in Section B.ii.
- (i) “**Power Distribution Unit**” (“**PDU**”) is defined as an electrical distribution component that steps down the building distribution voltage to the 120/208V level for use as branch circuit distribution to the computing equipment.
- (j) “**Service Deficiency**” means a Power Deficiency or a HVAC Deficiency.
- (k) “**Tenant Space**” is the Premises, as defined in the Lease, which includes the Pods and Office Space.

B. DESCRIPTION OF SERVICES

i. Environmental Conditions

Landlord shall, at all times throughout the Lease Term, use commercially reasonable, diligent efforts to maintain environmental conditions for temperature and humidity (“*Environmental Conditions*”) in accordance with those described in the “Recommended” range for a Class 1 Data Center Environment as defined by ASHRAE TC 9.9 “Thermal Guidelines for Data Processing Environments,” as such guidelines may be modified, revised and supplemented from time to time (the “*ASHRAE Guidelines*”), and Landlord shall at all times throughout the Lease Term, maintain Environmental Conditions in accordance with those described in the “Allowable” Range for a Class 1 Data Center Environment under the ASHRAE Guidelines. Landlord will place up to ten (10) temperature sensors at various locations around each POD, in amounts, at locations and at times during the Phasing Period reasonably agreed upon by both the Landlord and Tenant. Sensors shall be monitored 24x7 by the BMS.

Landlord shall use the BMS to proactively and continuously monitor Environmental Conditions at the sensor locations within each Pod. These monitors or data collection points shall be dispersed within the Pod to record rack inlet Environmental Conditions and not be limited to collection of return air at the CRAC units. [*****]

In the event that any BMS monitor or data collection point detects an Environmental Condition reading outside the “Recommended Range” per the ASHRAE Guidelines in any of the Pods of the Premises, an alarm will be triggered within the BMS specifying the Pod and location of the fault and Landlord shall immediately undertake all commercially reasonable action to cure the event and resolve the issue, which Landlord shall pursue diligently until the Environmental Condition is within the Recommended Range. [*****] Furthermore, in the event of a HVAC Deficiency, Landlord shall immediately undertake all commercially reasonable, best efforts to cure such HVAC Deficiency and resolve such HVAC Deficiency, which Landlord shall pursue diligently until the HVAC Deficiency is cured. Landlord shall immediately notify Tenant’s Emergency Contacts in the event of a HVAC Deficiency in accordance with Article V of the Lease, and Landlord will maintain periodic contact with Tenant until the HVAC Deficiency is cured.

ii. Power Quality and Power Availability

Landlord shall provide continuous electrical power, at all times to the load side of each PDU in accordance with recommendations for the AC power input envelope or curve formerly known as “CBEMA,” published by the TC3 of the Information Technology Industry Council in 2000 and attached as Appendix 1 hereto. Voltage shall remain within the region identified as the “No Interruption In Function Region.” Landlord shall maintain a BMS with event capture capabilities that will track compliance with this provision of CBEMA at the PDU level.

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

Tenant may, at its own expense and with Landlord's consent (which may not be unreasonably withheld), procure the installation of a Branch Circuit Monitoring system (BCM) to allow for monitoring power quality and availability of each circuit on the load side of the PDU.

[*****]

Landlord will provide Tenant annually with a maintenance schedule for the current Lease Year that targets the calendar month(s) in which Landlord will perform planned standard electrical maintenance and major power maintenance. [*****] Landlord shall in all events provide Tenant with at least two (2) Business Days' advance notice of the date of performance of any such planned standard electrical maintenance or major power maintenance. Landlord may deviate from the maintenance schedule, provided that such changes shall not unreasonably interfere with Tenant's beneficial use of the Premises.

In the event of a Power Deficiency for any reason, Landlord shall use all commercially reasonable, best efforts to immediately return all Critical Load Power to [*****] Landlord will immediately notify Tenant's Emergency Contacts of any Power Deficiency in accordance with Article V of the Lease, and Landlord will maintain periodic communication until all Critical Load Power is returned to [*****]

iii. Maintenance and Operations

(a) 24x7 On-site Facilities Engineering Staff

As part of Landlord's Repair and Maintenance Obligations, Landlord shall maintain [*****] onsite 24 hours a day, 7 days per week, who is qualified in their respective craft, and trained in systems, operations, procedures, and policies that are specific to the Building.

(b) System Tests

As part of Landlord's Repair and Maintenance Obligations, Landlord shall perform and document manufacturer recommended and all industry standard maintenance, repairs and confidence tests on all building systems and back-up systems to ensure ongoing operation and to validate that they operate properly under their rated load and design conditions as often as is recommended by the manufactures or is customary in the industry for first-class data centers, whichever is more frequent. All such maintenance, repairs and tests shall be conducted in accordance with best industry practices, and at such intervals recommended by the original equipment manufacturers and recognized industry experts. Under normal conditions, Landlord shall not utilize Tenant's equipment as the test load when troubleshooting or performing functional testing following maintenance activities. [****] Landlord shall in all events provide Tenant with at least two (2) Business Days' advance notice of the date on which maintenance or testing that will subject Tenant's circuits to intentional power source transfers shall be performed.

iv. Notifications

Notifications and alerts related to Service Deficiencies, whether generated electronically by the BMS, other electronic means or manually by security staff will be communicated in accordance with Sections B.i. and B.ii. above, as applicable.

C. [****]

D. GENERAL

Notwithstanding any provision to the contrary contained in this Exhibit F, neither Landlord nor the Management Company shall be obligated to perform any services requested by Tenant in addition to the services Landlord is obligated to provide or perform pursuant to the terms and provisions of the Lease, to the extent such additional services are beyond, or in conflict with, the documented design parameters of the Building and any industry-standard equipment, fixtures and installations thereto or thereon. Any and all costs and expenses that are approved by Tenant in writing and incurred by Landlord and/or the Management Company in performing the services required hereunder shall be included in Operating Expenses under the Lease.

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

Appendix 1

ITI CBEMA Curve

F-5

ITI (CBEMA) CURVE APPLICATION NOTE

The ITI (CBEMA) Curve, included within this Application Note, is published by Technical Committee 3 (TC3) of the Information Technology Industry Council, (ITI, formerly known as the Computer & Business Equipment Manufacturers Association). It is available at <http://www.itic.org/technical/iticurv.pdf>.

1) SCOPE

The ITI (CBEMA) Curve and this Application Note describe an AC input voltage envelope which typically can be tolerated (no interruption in function) by most Information Technology Equipment (ITE). The Curve and this Application Note comprise a single document and are not to be considered separately from each other. They are not intended to serve as a design specification for products or AC distribution systems. The Curve and this Application Note describe both steady-state and transitory conditions.

2) APPLICABILITY

The Curve and this Application Note are applicable to 120V nominal voltages obtained from 120V, 208Y/120V, and 120/240V 60Hz systems. Other nominal voltages and frequencies are not specifically considered and it is the responsibility of the user to determine its applicability of these documents for such conditions.

3) DISCUSSION

This section provides a brief description of the individual conditions which are considered in the Curve. For all conditions, the term “nominal voltage” implies an ideal condition of 120V RMS, 60Hz.

Seven types of events are described in this composite envelope. Each event is briefly described in the following sections, with two similar line voltage sags being described under a single heading. Two regions outside the envelope are also noted. All conditions are assumed to be mutually exclusive at any point in time, and with the exception of steady-state tolerances, are assumed to commence from the nominal voltage. The timing between transients is assumed to be such that the ITE returns to equilibrium (electrical, mechanical, and thermal) prior to commencement of the next transient.

3.1) Steady-State Tolerances

The steady-state range describes an RMS voltage which is either very slowly varying or is constant. The subject range is +/- 10% from the nominal voltage. Any voltages in this range may be present for an indefinite period, and are a function of normal loadings and losses in the distribution system.

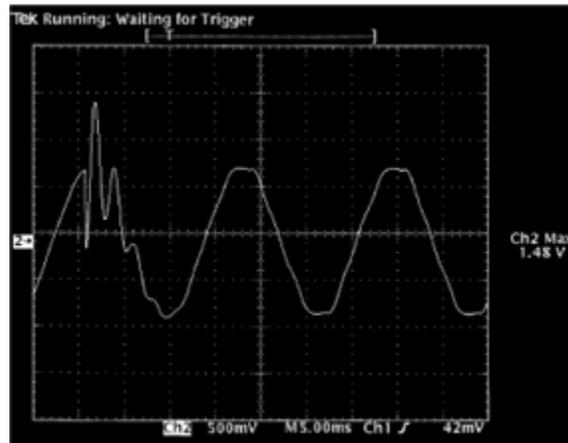
3.2) Line Voltage Swell

This region describes a voltage swell having an RMS amplitude of up to 120% of the RMS nominal voltage, with a duration of up to 0.5 seconds. This transient may occur when large loads are removed from the system or when voltage is supplied from sources other than the electric utility.

3.3) Low-Frequency Decaying Ringwave

This region describes a decaying ringwave transient which typically results from the connection of power-factor-correction capacitors to an AC distribution system. The frequency of this transient may range from 200Hz to 5KHz, depending upon the resonant frequency of the AC distribution system. The magnitude of the transient is expressed as a percentage of the peak 60Hz nominal voltage (not the RMS value). The transient is assumed to be completely decayed by the end of the half-cycle in which it occurs. The transient is assumed to occur near the peak of the nominal voltage waveform. The amplitude of the transient varies from 140% for 200Hz ringwaves to 200% for 5KHz ringwaves, with a linear increase in amplitude with increasing frequency. Refer to Figure 1 for an example of a typical waveform.

FIGURE 1



TYPICAL LOW FREQUENCY DECAYING RINGWAVE

3.4) High-Frequency Impulse Ringwave

This region describes the transients which typically occur as a result of lightning strikes. Wave shapes applicable to this transient and general test conditions are described in ANSI/IEEE C62.41-1991. This region of the curve deals with both amplitude and duration (energy), rather than RMS amplitude. The intent is to provide an 80 Joule minimum transient immunity.

3.5) Voltage Sags

Two different RMS voltage sags are described. Generally, these transients result from application of heavy loads, as well as fault conditions, at various points in the AC distribution system. Sags to 80% of nominal (maximum deviation of 20%) are assumed to have a typical duration of up to 10 seconds, and sags to 70% of nominal (maximum deviation of 30%) are assumed to have a duration of up to 0.5 seconds.

3.6) Dropout

A voltage dropout includes both severe RMS voltage sags and complete interruptions of the applied voltage, followed by immediate re-application of the nominal voltage. The interruption may last up to 20 milliseconds. This transient typically results from the occurrence and subsequent clearing of faults in the AC distribution system.

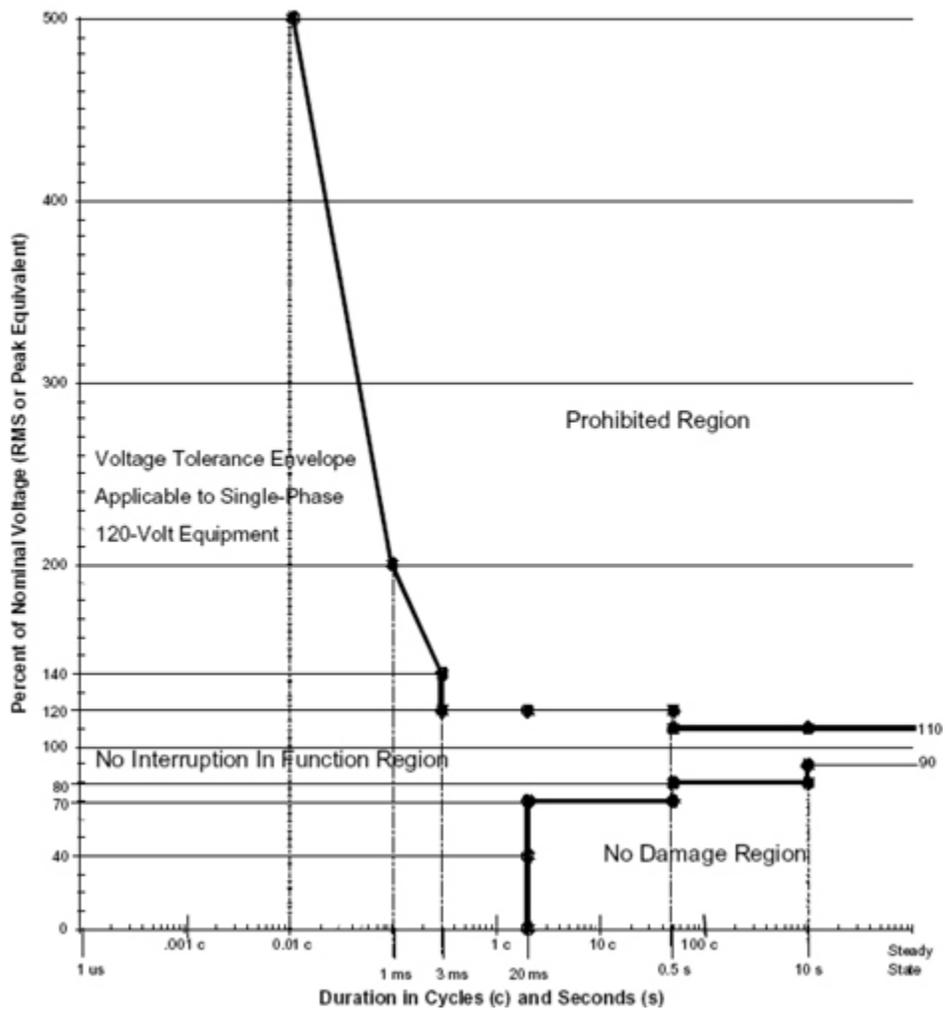
3.7) No Damage Region

Events in this region include sags and dropouts which are more severe than those specified in the preceding paragraphs, and continuously applied voltages which are less than the lower limit of the steady-state tolerance range. The normal functional state of the ITE is not typically expected during these conditions, but no damage to the ITE should result.

3.8) Prohibited Region

This region includes any surge or swell which exceeds the upper limit of the envelope. If ITE is subjected to such conditions, damage to the ITE may result.

ITI (CBEMA) Curve
(Revised 2000)



Published by:

Information Technology Industry Council (ITI)
1250 Eye Street NW Suite 200 Washington DC 20005
202-737-8888
<http://www.itic.org>

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

Appendix 2

**ASHRAE TC 9.9
“Thermal Guidelines for Data Processing Environments”**

F-9

**Equipment Thermal Guidelines
for Data Processing Environments
ASHRAE TC 9.9 Reference Card**

©2004 ASHRAE. This reference card, or portions thereof, may not be quoted or reproduced without permission from ASHRAE, 1791 Tullie Circle NE, Atlanta, GA 303229-2305; (404)636-8400; fax (404) 321-5478.

1. Environmental Conditions

- Recommended:** Facilities should be designed and operated to target the recommended range.
- Allowable:** Equipment should be designed to operate within the extremes of the allowable operating environment. In addition to the allowable dry-bulb temperature and relative humidity ranges, the maximum dew point and maximum elevation values are part of the allowable operating environment definitions.

2. Environmental Class Definitions

- General:** Compliance with a particular environmental class requires full-performance operation of the equipment over the entire allowable environmental range, based on non-failure conditions.
- Class 1:** Typically a data center with tightly controlled of environmental parameters (dew point, temperature, and relative humidity) and mission critical operations; types of products typically designed for this environment are enterprise servers and storage products.
- Class 2:** Typically an information technology space or office or lab environment with some control of environmental parameters (dew point, temperature, and relative humidity); types of products typically designed for this environment are small servers, storage products, personal computers, and workstations.
- Class 3:** Typically an office, home, or transportable environment with little control of environmental parameters (temperature only); types of products typically designed for this environment are personal computers, workstations, laptops, and printers.
- Class 4:** Typically a point-of-sale or light industrial or factory environment with weather protection, sufficient winter heating, and ventilation; types of products typically designed for this environment are point-of-sale equipment, ruggedized controllers, or computers and PDAs.
- NEBS:** In accordance with Telcordia GR-63-CORE (issue 2, April, 2002) and GR-3028-CORE (issue 1, Dec. 2001). Typically a telecommunications central office with some control of environmental parameters (dew point, temperature, and relative humidity); types of products typically designed for this environment are switches, transport equipment, and routers.
- Product Operation:** Product equipment is powered on.
- Product Power Off:** Product equipment is removed from the original shipping container and installed but not in use, e.g., during repair, maintenance, or upgrade.

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

Equipment Environment Specifications

Class	Product Operation ^{a,b}						Product Power off ^{b,c}			
	Dry-Bulb Temperature (°C)		Relative Humidity (%) Non-Condensing		Max Dew Point (°C)	Max. Elevation (m)	Max Rate of Change (°C/h)	Dry-Bulb Temperature (°C)	Relative Humidity (%)	Max. Dew Point (°C)
	Allowable	Recommended	Allowable	Recommended						
1	15 to 32 ^d	20 to 25	20 to 80	40 to 55	17	3050	5	5 to 45	8 to 80	27
2	10 to 35 ^d	20 to 25	20 to 80	40 to 55	21	3050	5	5 to 45	8 to 80	27
3	5 to 35 ^{d,e}	NA	8 to 80	NA	28	3050	NA	5 to 45	8 to 80	29
4	5 to 40 ^{d,e}	NA	8 to 80	NA	28	3050	NA	5 to 45	8 to 80	29

- a. Product equipment is powered on.
- b. Tape products require a stable and more restricted environment (similar to Class 1). Typical requirements: minimum temperature is 15°C, maximum temperature is 32°C, minimum relative humidity is 20%, maximum relative humidity is 80%, maximum dew point is 22°C, rate of change of temperature be less than 2°C/h, rate of change of humidity is less than 5% RH per hour, and no condensation.
- c. Product equipment is removed from the original shipping container and installed but not in use, e.g., during repair, maintenance, or upgrade.
- d. Derate maximum dry-bulb temperature 1°C/300 m above 900 m.
- e. With a diskette in the drive, the minimum temperature is 10°C.

NEBS ^l	5 to 40 ^{g,h,i}	18 to 27 ^l	5 to 85 ^{g,i}	Max 55 ^k	28 ^g	4000 ^g	NA	NA	NA	NA
-------------------	--------------------------	-----------------------	------------------------	---------------------	-----------------	-------------------	----	----	----	----

- f. The product operation values given for NEBS are from GR-63-CORE and GR-3028-CORE, GR-63-CORE also addresses conformance testing of new equipment for adequate robustness. Some of the test conditions are summarized below. For complete test details, please review GR-63-CORE. Conformance test conditions (short-term) of new equipment:

Dry-Bulb Temperature	
Frame Level	-5°C to 50°C, 16 hours at -5°C, 16 hours at 50°C, (per GR-63-CORE)
Shelf Level	-5°C to 55°C, 16 hours at -5°C, 16 hours at 55°C, (per GR-63-CORE)
Max Rate of Change	0.5°C/min. (per GR-63-CORE) 1.6°C/min. (per GR-3028-CORE)
Relative Humidity	5 to 90% 3 hours at <15% RH, 96 hours at 90% RH, (per GR-63-CORE)
Max Dew Point	28°C (per GR-63-CORE)

- g. Requirements for continuous operating conditions that new equipment shall tolerate (GR-63-CORE). A feature or function that, in the view of Telcordia, is necessary to satisfy the needs of a typical client company is labeled "Requirement" and is flagged by the letter "R." The conformance testing described in footnote "i" is designed to ensure that equipment tolerates the specified continuous operating conditions.
- h. Derate maximum dry-bulb temperature 10°C at and above 1800 m.
- i. Also ANSI T1.304-1997.
- j. Recommended facility operation per GR-3028-CORE. No NEBS requirements exist.
- k. Generally accepted telecom practice; the major regional service providers have shut down almost all humidification based on Telcordia research. Personal grounding is strictly enforced to control ESD failures. No NEBS requirements exist.

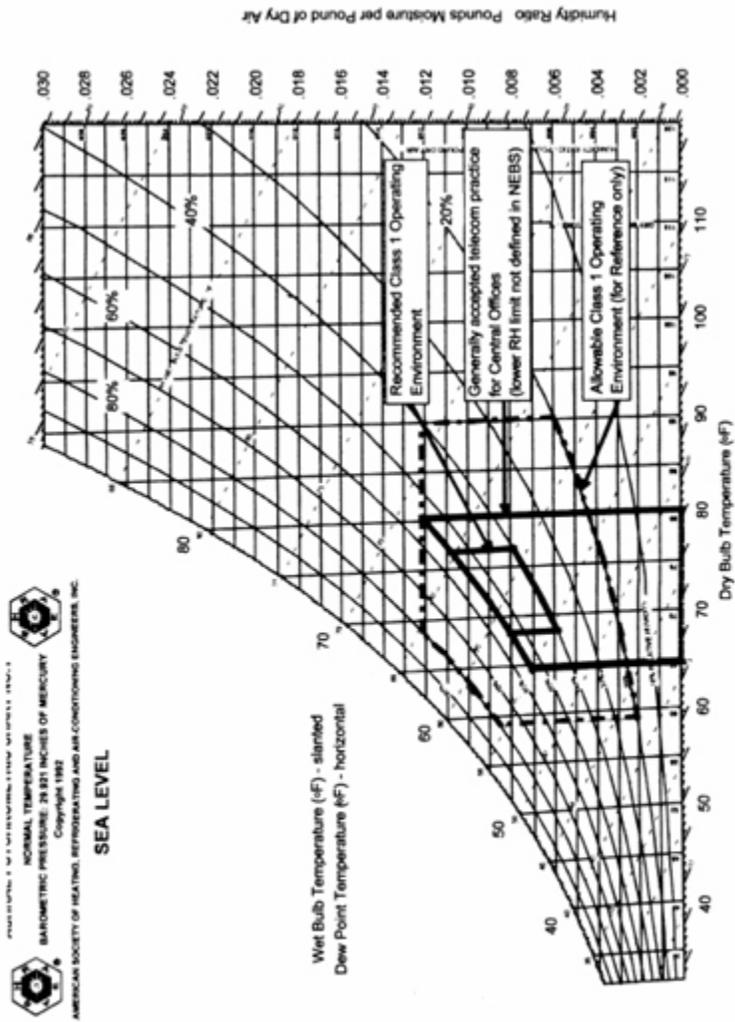


Figure A.6 Recommended data center and central office operating conditions (I-P units).

CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION

EXHIBIT G

[FORM OF SUBORDINATION NONDISTURBANCE AGREEMENT][SUBJECT TO REVIEW AND COMMENT BY TENANT]

Recorded at the Request of and After Recording Return to:

William F. Timmons, Esq.
McKenna Long & Aldridge LLP
303 Peachtree Street, Suite 5300
Atlanta, Georgia 30308

SUBORDINATION, NON-DISTURBANCE
AND ATTORNMENT AGREEMENT

Grantor #1 (Landlord):	GRIZZLY VENTURES LLC, a Delaware limited liability company
Grantor #2 (Tenant):	RACKSPACE US, INC., a Delaware corporation
Grantee (Lender):	KEYBANK NATIONAL ASSOCIATION, AS AGENT
Abbreviated Legal Description:	Official Legal Description on Exhibit A
Assessor's Tax Parcel ID #	060-17-8810-000
Reference No.	N/A

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT

THIS SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT (the "Agreement") is made as of the _____ day of _____, 2009 by and between:

KEYBANK NATIONAL ASSOCIATION,
a national banking association, as Agent
having an address at
127 Public Square
Cleveland, Ohio 44114
("Lender"),

and

RACKSPACE US, INC., a Delaware corporation
having an address at
5000 Walzem Road
San Antonio, Texas 78218
("Tenant").

RECITALS:

A. Tenant is the holder of a leasehold estate in a portion of those certain premises located in the County of Loudoun, State of Virginia, and more particularly described on Exhibit A attached hereto and made a part hereof (the "Property") under and pursuant to the provisions of a certain lease dated February _____, 2009 between Grizzly Ventures LLC, a Delaware limited liability company, as landlord ("Landlord"), and Tenant, as tenant (as amended, the "Lease"); and

B. Landlord is the owner in fee simple of the Property and the landlord under the Lease ("Landlord"); and

C. Lender is the agent for lenders which have made a loan (the "Loan") or are about to make a loan to Landlord, as borrower, having its principal place of business at 1212 New York Avenue, NW, Suite 900, Washington, D.C. 20005, evidenced or to be evidenced by one or more promissory notes made by Landlord to the order of such lenders (collectively, the "Note") and secured or to be secured by that certain Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing (the "Security Instrument") and that certain Assignment of Leases and Rents (the "Assignment of Rents") granted by Landlord to or for the benefit of Lender and encumbering the Property; and

D. Tenant has agreed to subordinate the Lease to the lien of the Security Instrument and Lender has agreed to grant non-disturbance to Tenant under the Lease on the terms and conditions hereinafter set forth.

AGREEMENT:

For good and valuable consideration, Tenant and Lender agree as follows:

1. **SUBORDINATION.** Subject to the terms hereof, Tenant agrees that the Lease and all of the terms, covenants and provisions thereof and all rights, remedies and options of Tenant thereunder are and shall at all times continue to be subject and subordinate in all respects to the lien of the Security Instrument and to all renewals, increases, modifications, spreaders, consolidations, replacements and extensions thereof, to the extent of all sums secured thereby and advances made thereunder with the same force and effect as if the Security Instrument had been executed, delivered and recorded prior to the execution and delivery of the Lease.

G-1

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

2. NON-DISTURBANCE. If any action or proceeding is commenced by Lender for the foreclosure of the Security Instrument or the sale of the Property, Tenant shall not be named as a party therein unless such joinder shall be required by law, provided, however, such joinder shall not result in the termination of the Lease or disturb the Tenant's possession or use of the premises demised thereunder, and the sale of the Property in any such action or proceeding and the exercise by Lender of any of its other rights under the Note or the Security Instrument shall be made subject to all rights of Tenant under the Lease and shall not disturb Tenant's right of possession or use of the premises demised thereunder, provided that at the time of the commencement of any such action or proceeding or at the time of any such sale or exercise of any such other rights Tenant shall not be in default under any of the terms, covenants or conditions of the Lease or of this Agreement on Tenant's part to be observed or performed beyond any applicable notice or grace period.

3. ATTORNNMENT. If Lender or any other subsequent purchaser of the Property shall become the owner of the Property by reason of the foreclosure of the Security Instrument or the acceptance of a deed or assignment in lieu of foreclosure or by reason of any other enforcement of the Security Instrument (Lender or such other purchaser being hereinafter referred to as "Purchaser"), and the conditions set forth in Section 2 above have been met at the time Purchaser becomes owner of the Property, the Lease shall not be terminated or affected thereby but shall continue in full force and effect as a direct lease between Purchaser and Tenant upon all of the terms, covenants and conditions set forth in the Lease and in that event, Tenant agrees to attorn to Purchaser and Purchaser by virtue of such acquisition of the Property shall be deemed to have agreed to accept such attornment, whereupon, subject to the observance and performance by Tenant of all the terms, covenants and conditions of the Lease on the part of Tenant to be observed and performed, Purchaser shall recognize the leasehold estate of Tenant under all of the terms, covenants and conditions of the Lease for the remaining balance of the term with the same force and effect as if Purchaser were the lessor under the Lease subject to the terms of Section 4 of this Agreement; provided, however, that Purchaser shall not be:

- (a) liable for the failure of any prior landlord (any such prior landlord, including Landlord and any successor landlord, being hereinafter referred to as a "Prior Landlord") to perform any of its obligations under the Lease which have accrued prior to the date on which Purchaser shall become the owner of the Property, provided that the foregoing shall not limit Purchaser's liability for, and obligations under the Lease to correct, any conditions that (i) existed as of the date Purchaser shall become the owner of the Property and (ii) violate Purchaser's obligations as landlord under the Lease; provided further, however, that Purchaser shall have received written notice of such omissions, conditions or violations and has had an opportunity to cure the same as provided in Section 5 below, all pursuant to the terms and conditions of the Lease;
- (b) subject to any offsets, defenses, abatement or counterclaims which shall have accrued in favor of Tenant against any Prior Landlord prior to the date upon which Purchaser shall become the owner of the Property, except for (i) the right to recapture from rent any reasonable amounts expended by Tenant to cure a default of any Prior Landlord for which Lender had received a copy of notice pursuant to the terms hereof and would have been required to cure upon succeeding to the interest of Prior Landlord, and (ii) any rental abatements and/or credits available to Tenant pursuant to Article 16 or Article 17 of, or the Services Exhibit attached as Exhibit F to, the Lease;
- (c) liable for damages for any breach, act or omission of any Prior Landlord which have accrued prior to the time Purchaser succeeded to any Prior Landlord's interest under the Lease by reason of the foreclosure of the Security Instrument or the acceptance of a deed or assignment in lieu of foreclosure or by reason of any other enforcement of the Security Instrument;
- (d) liable for the return of rental security deposits, if any, paid by Tenant to any Prior Landlord in accordance with the Lease unless such sums are actually received by Purchaser;
- (e) bound by any obligation which may appear in the Lease to perform any initial improvement work to the Property to prepare the premises demised under the Lease for occupancy by Tenant;

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

- (f) bound by any payment of rents, additional rents or other sums which Tenant may have paid more than one (1) month in advance to any Prior Landlord unless (i) such sums are actually received by Purchaser or (ii) such prepayment shall have been expressly approved of by Purchaser;
- (g) subject to the terms and provisions of Section 7 below, bound by any obligation to make any payment to Tenant which was required to be made prior to the time Purchaser succeeded to any Prior Landlord's interest under the Lease by reason of the foreclosure of the Security Instrument or the acceptance of a deed or assignment in lieu of foreclosure or by reason of any other enforcement of the Security Instrument, except for any payments resulting from any rental abatements and/or credits available to Tenant pursuant to Article 16 or Article 17 of, or the Services Exhibit attached as Exhibit F to, the Lease;
- (h) bound by any amendment or modification of the rent, term or other material term of the Lease made without Lender's or Purchaser's prior written consent prior to the time Purchaser succeeded to Landlord's interest, provided, however, that no consent from Lender or Purchaser shall be required to any amendment or modification (including, without limitation, termination) of the Lease either expressly provided for in the Lease or entered into as a result of Tenant's exercise of any renewal, expansion, first refusal, first offer or other options or rights contained in the Lease; or
- (i) responsible for the making of repairs in or to the Property in the case of damage or destruction to the Property or any part thereof due to fire or other casualty or by reason of condemnation unless Purchaser is obligated under the Lease to make such repairs and Purchaser receives insurance proceeds (or would have received insurance proceeds if Purchaser maintained the insurance required of Landlord under Article XII of the Lease) or condemnation awards sufficient to finance the completion of such repairs.

In the event that any liability of Purchaser does arise pursuant to this Agreement, such liability shall be limited and restricted to Purchaser's interest in the Property (and the rents, issues and profits derived therefrom and, in the event of a sale thereof, the proceeds of any such sale) and shall in no event exceed such interest.

4. NOTICE TO TENANT. After written notice is given to Tenant by Lender that the Landlord is in default under the Note and the Security Instrument and that the rentals under the Lease should be paid to Lender pursuant to the terms of the Assignment of Rents executed and delivered by Landlord to Lender in connection therewith, Tenant shall thereafter pay to Lender or as directed by the Lender, all rentals and all other monies due or to become due to Landlord under the Lease and Landlord hereby expressly authorizes Tenant to make such payments to Lender and hereby releases and discharges Tenant from any liability to Landlord on account of any such payments.

5. NOTICE TO LENDER AND RIGHT TO CURE. Subject to the terms and provisions of this Section 5 contained herein below, Tenant further agrees that, notwithstanding any provisions of the Lease other than the Services Exhibit attached as Exhibit F to the Lease and except as otherwise expressly provided herein below, no cancellation or termination of the Lease and no abatement or reduction of the rent or management fees payable thereunder due to a default on the part of Landlord under the Lease shall be effective unless Lender has received notice of the same and has failed within thirty (30) days after both Lender's receipt of said notice and the time when Lender shall have become entitled under the Security Instrument to remedy the same, to commence to cure the default which gave rise to the cancellation or termination of the Lease or abatement or reduction of the rent or management fee payable thereunder and thereafter fails to diligently prosecute such cure to completion, provided that in the event Lender cannot commence such cure without possession of the Property, no cancellation or termination of the Lease and no abatement or reduction of the rent or management fees payable thereunder shall be effective if Lender commences judicial or non judicial proceedings to obtain possession within such thirty (30) day period and thereafter diligently prosecutes such efforts and cure to completion. Notwithstanding the foregoing, Lender shall have no obligation to cure any default by Landlord except as provided in Section 3 above in the event Lender shall become the owner of the Property by reason of the foreclosure of the Security Instrument or the acceptance of a deed or assignment in lieu of foreclosure or by reason of any other enforcement of the Security Instrument. Furthermore, notwithstanding anything to the contrary contained herein, the requirements of notice and

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

an opportunity to cure afforded to Lender as set forth in this Section 5 shall not apply to any rent abatements and/or credits or termination rights: (a) set forth in Part C. of the Services Exhibit attached as Exhibit F to the Lease or (b) (i) that do not arise from a default on the part of the "Landlord" under the Lease and/or (ii) for which such a right or remedy in favor of Tenant ensues without the requirement of notice and an opportunity to cure being afforded to Landlord; provided, however Tenant agrees to notify Lender as provided in Section 8 below of any default on the part of Landlord under the Lease which would entitle Tenant to cancel or terminate the Lease or to abate or reduce the rent or management fees payable thereunder.

6. CASUALTY AND CONDEMNATION. Tenant understands and agrees that if the Property or any portion thereof are damaged by fire or other casualty, or are taken by eminent domain proceedings, any insurance proceeds or condemnation awards attributable to such casualty or condemnation proceeding shall be subject to, and shall be distributed in accordance with, the terms of the Security Instrument and other documents relating to the Loan.

7. BUILD-OUT ALLOWANCE. Notwithstanding anything to the contrary contained herein, in the event Purchaser shall become the owner of the Property by reason of the foreclosure of the Security Instrument or the acceptance of a deed or assignment in lieu of foreclosure or by reason of any other enforcement of the Security Instrument and Tenant provides Purchaser (i) written notice that Landlord failed to pay when due all or any portion of the Build-out Allowance (as defined in the Lease) and (ii) copies of the other documents required to be delivered by Tenant under Section 9.4 of the Lease for payment of the Build-out Allowance ("Tenant Allowance Notice"), then, within thirty (30) days of its receipt of the Tenant Allowance Notice, Purchaser shall, at Purchaser's election, either pay the portion of the Build-out Allowance due Tenant pursuant to terms of Section 9.4 of the Lease, or notify Tenant in writing that Tenant is entitled to, and will receive, a credit against monthly Base Rent due under the Lease in an amount equal to the total amount of the Build-out Allowance due Tenant as required under Section 9.4 of the Lease ("Build-out Rental Credits"). The total of Build-out Rental Credits to be credited by Purchaser to Tenant in a single calendar month for such month shall not exceed one hundred percent (100%) of the Base Rent due under the Lease for such month and any unapplied balance of the Build-out Rental Credits shall be carried forward to the next month for which Base Rent is payable. Landlord hereby acknowledges and agrees to provide Lender with copies of any written correspondence from Landlord to Tenant regarding payment or non-payment of the Build-out Allowance, provided, that, Landlord's failure to so provide any such copies of written correspondence to Lender shall in no way affect or impair Tenant's rights and entitlements under this Section 7.

8. NOTICES. Any notice, demand, request or other communication which any party hereto may be required or may desire to give hereunder shall be in writing and shall be deemed to have been properly given (a) if hand delivered, when delivered; (b) if mailed by United States Certified Mail (postage prepaid, return receipt requested), three Business Days after mailing (c) if by Federal Express or other reliable overnight courier service, on the next Business Day after delivered to such courier service or (d) if by telecopier on the day of transmission if confirmed receipt is obtained:

If to Tenant: Rackspace US, Inc.
 5000 Walzem Road
 San Antonio, Texas 78218
 Attention: General Counsel
 Facsimile: (210) 312-4848

With a copy to: Smith, Robertson, Elliott, Glen, Klein & Bell, L.L.P.
 221 West 6th Street, Suite 1100
 Austin, Texas 78701
 Attention: Gavin P. Klein
 Facsimile: (512) 225-5838

If to Lender: KeyBank National Association, as Agent
 127 Public Square
 Cleveland, OH 44114
 Attention: Real Estate Capital Services, John C. Scott
 Facsimile: (216) 689-5819

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

or addressed as such party may from time to time designate by written notice to the other parties. For purposes of this Section 8, the term "Business Day" shall mean a day on which commercial banks are not authorized or required by law to close in the state where the Property is located. Either party by notice to the other may designate additional or different addresses for subsequent notices or communications.

9. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of Lender, Tenant and Purchaser and their respective successors and assigns.

10. GOVERNING LAW. This Agreement shall be deemed to be a contract entered into pursuant to the laws of the Commonwealth of Virginia and shall in all respects be governed, construed, applied and enforced in accordance with the laws of the Commonwealth of Virginia.

11. MISCELLANEOUS. This Agreement may not be modified in any manner or terminated except by an instrument in writing executed by the parties hereto. If any term, covenant or condition of this Agreement is held to be invalid, illegal or unenforceable in any respect, this Agreement shall be construed without such provision. This Agreement may be executed in any number of duplicate originals and each duplicate original shall be deemed to be an original. This Agreement may be executed in several counterparts, each of which counterparts shall be deemed an original instrument and all of which together shall constitute a single Agreement. Whenever the context may require, any pronouns used herein shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns and pronouns shall include the plural and vice versa. Landlord and Lender each acknowledge and agree that neither the Security Instrument nor any other instrument evidencing, securing or relating to Lender's interest in the Property does or shall cover, or be construed as subjecting in any manner to the liens thereof, any of the improvements, personal property, trade fixtures, equipment or facilities located in or about the Property that is owned, financed, licensed and/or leased by Tenant. Subject to the terms and provisions of Section 3(h) above regarding amendments or other modifications to the Lease, Lender agrees that this Agreement satisfies any condition or requirement in the Security Instrument relating to the approval by Lender of the Lease. Tenant, Landlord and Lender each represents and warrants to the other that the individual signing on its behalf herein below has the right, power and authority to so execute this Agreement.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

Exhibit "A"
Legal Description

GA-1

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

EXHIBIT H

FORM OF GUARANTY

THIS GUARANTY is made as of January , 2009, by RACKSPACE HOSTING, INC., a Delaware corporation, having an address at 5000 Walzem Road, San Antonio, Texas 78218 (“**Guarantor**”), to GRIZZLY VENTURES LLC, a Delaware limited liability company (“**Landlord**”), having an address at 1212 New York Avenue, N.W., Suite 900, Washington, D.C. 20005.

WHEREAS, Landlord has leased to Rackspace US, Inc., a Delaware corporation (“**Tenant**”), certain space (the “**Premises**”) in the data center facility known as ACC4 and located in Ashburn Corporate Center, Ashburn, Virginia, pursuant to that certain Deed of Lease by and between Landlord and Tenant dated as of January , 2009 (the “**Lease**”);

WHEREAS, Guarantor is materially benefited by the Lease, and Guarantor’s executing this Guaranty is a material inducement to Landlord to enter into the Lease.

NOW THEREFORE, in consideration of the premises, and of other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, Guarantor agrees with Landlord as follows:

1. Guarantor unconditionally and irrevocably guarantees that all sums stated in the Lease to be payable by Tenant shall be promptly paid in full when due in accordance with the Lease and that Tenant shall perform and observe its covenants thereunder. If any such sum or covenant is not timely paid, performed or observed, then Guarantor shall, within ten (10) business days of receipt of written demand from Landlord, pay the same regardless of (a) whether Landlord shall have taken any steps to enforce any rights against Tenant or any other person, (b) termination of the Lease as a result of Tenant’s default, or (c) any other condition or contingency; provided that no such demand shall be made unless (i) with respect to payments of Base Rent and/or Additional Rent, an Event of Default has occurred, or (ii) with respect to payment of other sums, Tenant has defaulted in the payment of such sum, both Tenant and Guarantor have received written notice from Landlord of such default and such defaults shall have remained uncured for a period of twenty (20) days after both Tenant and Guarantor have received notice. Guarantor shall also pay all reasonable expenses of collecting such sum or any part thereof or of otherwise enforcing this Guaranty, including reasonable attorneys’ fees. This Guaranty is irrevocable, unconditional and absolute.

2. Guarantor’s obligations and covenants under this Guaranty shall in no way be affected or impaired by reason of the happening from time to time of any of the following, whether or not Guarantor has been notified thereof or consented thereto: (i) Landlord’s waiver of the performance or observance by Guarantor or any other party (other than Tenant) of any covenant or condition contained in the Lease or this Guaranty; (ii) any extension, in whole or in part, of the time for payment by Tenant or Guarantor of any sums owing or payable under the

H-1

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

Lease or this Guaranty, or of any other sums or obligations under or arising out of or on account of the Lease or this Guaranty, or the renewal of the Lease or this Guaranty; (iii) any assignment of the Lease or subletting of the Premises or any part thereof; provided, that, in the event Tenant assigns all of its interest in the Lease or subleases its interest in the Premises in its entirety, other than to an Affiliate, Guarantor shall not be liable hereunder for any option periods, renewals, extensions or modifications of the Lease negotiated or effected between Landlord and any such assignee/sublessee, unless Guarantor otherwise agrees in writing; (iv) any modification or amendment (whether material or otherwise) of any of the obligations of Tenant or Guarantor under the Lease or this Guaranty; (v) the doing or the omission of any act referred to in the Lease or this Guaranty (including the giving of any consent referred to in the Lease or this Guaranty); (vi) Landlord's failure or delay to exercise any right or remedy available to Landlord or any action on the part of Landlord granting indulgence or extension in any form whatsoever; (vii) the voluntary or involuntary liquidation, dissolution, sale of any or all of the assets, marshaling of assets and liabilities, receivership, conservatorship, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition or readjustment of, or other similar proceeding affecting, Tenant or Guarantor or any of Tenant's or Guarantor's assets; or (viii) the release of Guarantor from the performance or observation of any covenant or condition contained in the Lease or this Guaranty by operation of law.

3. To the extent not prohibited by law, Guarantor hereby expressly waives (a) any right Guarantor may now or hereafter have to any hearing prior to the attachment of any real or personal property to satisfy Guarantor's obligations, and (b) the benefits of any present or future constitution, statute or rule of law which exempts property from liability for debt. Guarantor also expressly waives the provisions of Sections 49-25 and 49-26 of the Code of Virginia (1950), as amended.

4. No rejection, disaffirmance or termination of the Lease by Tenant or Tenant's trustee in bankruptcy pursuant to bankruptcy law or any other law affecting creditors' rights, shall be effective to release and/or terminate the continuing liability of Guarantor to Landlord under this Guaranty.

5. Notice of acceptance of this Guaranty and notice of any obligations or liabilities contracted or incurred by Tenant are hereby waived by Guarantor. Guarantor hereby waives presentment, notice of dishonor, protest and notice of non-payment or non-performance.

6. This Guaranty shall be construed in accordance with the laws of the jurisdiction in which the Premises are located, without giving reference to conflict of law principles.

7. This Guaranty may not be modified or amended except by a written agreement duly executed by Guarantor and Landlord.

8. Subject to Guarantor's right to avail itself of any defenses available to Tenant, Guarantor's liability shall be primary and joint and several with that of Tenant. Landlord may proceed against Guarantor under this Guaranty without initiating or exhausting any remedy against Tenant, and may proceed against Tenant and Guarantor separately or

**CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION**

concurrently. If Guarantor consists of more than one person or entity, the liability of each person or entity comprising Guarantor shall be joint and several with that of all other persons or entities comprising Guarantor, and Landlord may proceed separately or concurrently against any or all persons or entities comprising Guarantor.

9. Within ten (10) business days after Landlord's written request, Guarantor shall execute and deliver to Landlord a written statement certifying any reasonable matter concerning this Guaranty or the Lease as Landlord may reasonably request.

10. Any notice which Landlord may elect to send shall be binding upon Guarantor if delivered by overnight delivery by a nationally recognized carrier, or if sent by certified or registered mail, return receipt requested, postage prepaid, to Guarantor's address as set forth in Section 24.6 of the Lease, .

11. All actions or proceedings arising in connection with this Guaranty shall be litigated only in a court of competent jurisdiction in the jurisdiction in which the Premises are located. Each person or entity comprising Guarantor consents to the jurisdiction of the courts of such jurisdiction, waives any objection to the venue of any action filed in any court situated in such jurisdiction, and waives any right under the doctrine of forum non-conveniens, or otherwise, to transfer any such action filed in any such court to any other court.

12. This Guaranty shall be binding upon, and inure to the benefit of, the parties hereto and their respective heirs, personal representatives, successors and assigns.

13. Capitalized terms not otherwise defined herein shall have the same meaning as set forth in the Lease.

14. THE UNDERSIGNED HEREBY WAIVES TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT EITHER BY LANDLORD OR THE UNDERSIGNED (OR ANY OF THEM) AGAINST THE OTHER WITH RESPECT TO ANY MATTERS WHATSOEVER ARISING OUT OF OR IN ANY WAY CONNECTED TO THE LEASE OR THIS GUARANTY.

IN WITNESS WHEREOF, Guarantor has caused this Guaranty to be executed under seal as of the date first above written.

WITNESS:

GUARANTOR:

Rackspace Hosting, Inc.,
a Delaware corporation

By: _____
Name: _____
Title: _____

CONFIDENTIAL MATERIAL HAS BEEN OMITTED AND
FILED SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION. BOXES AND ASTERIXES
DENOTE SUCH OMISSION

TABLE OF CONTENTS

		<u>PAGE</u>
ARTICLE I	THE PREMISES	1
ARTICLE II	TERM	3
ARTICLE III	BASE RENT	5
ARTICLE IV	ADDITIONAL RENT	6
ARTICLE V	SECURITY	10
ARTICLE VI	USE OF PREMISES	12
ARTICLE VII	ASSIGNMENT AND SUBLETTING	15
ARTICLE VIII	MAINTENANCE AND REPAIRS	20
ARTICLE IX	ALTERATIONS	21
ARTICLE X	SIGNS	24
ARTICLE XI	LANDLORD ACCESS	24
ARTICLE XII	INSURANCE	26
ARTICLE XIII	SERVICES AND UTILITIES	28
ARTICLE XIV	LIABILITY OF LANDLORD	32
ARTICLE XV	RULES AND REGULATIONS	34
ARTICLE XVI	DAMAGE OR DESTRUCTION	35
ARTICLE XVII	CONDEMNATION	36
ARTICLE XVIII	DEFAULT	37
ARTICLE XIX	BANKRUPTCY	41
ARTICLE XX	SUBORDINATION MORTGAGES	42
ARTICLE XXI	HOLDING OVER	43
ARTICLE XXII	COVENANTS OF LANDLORD	44
ARTICLE XXIII	PARKING	44
ARTICLE XXIV	GENERAL PROVISIONS	44
ARTICLE XXV	RENEWAL	49
ARTICLE XXVI	COMMUNICATIONS EQUIPMENT	50
ARTICLE XXVII	[*****]	53
ARTICLE XXVIII	GUARANTOR	53
ARTICLE XXIX	[*****]	53

**CERTIFICATION 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, A. Lanham Napier, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rackspace Hosting, 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: May 12, 2009

By: /s/ A. Lanham Napier

A. Lanham Napier
Chief Executive Officer, President and Director
(Principal Executive Officer)

**CERTIFICATION 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, Bruce R. Knooihuizen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rackspace Hosting, 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: May 12, 2009

By: /s/ Bruce R. Knooihuizen
Bruce R. Knooihuizen
Chief Financial Officer, Senior Vice President and Treasurer
(Principal Financial Officer)

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

In connection with the Quarterly Report on Form 10-Q of Rackspace Hosting, Inc. for the quarterly period ended March 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), A. Lanham Napier, as Principal Executive Officer of Rackspace Hosting, Inc., hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Rackspace Hosting, Inc.

Date: May 12, 2009

By: /s/ A. Lanham Napier

A. Lanham Napier
Chief Executive Officer, President and Director
(Principal Executive Officer)

In connection with the Quarterly Report on Form 10-Q of Rackspace Hosting, Inc. for the quarterly period ended March 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Bruce R. Knooihuizen, as Principal Financial Officer of Rackspace Hosting, Inc., hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Rackspace Hosting, Inc.

Date: May 12, 2009

By: /s/ Bruce R. Knooihuizen

Bruce R. Knooihuizen
Chief Financial Officer, Senior Vice President and Treasurer (Principal
Financial Officer)

Created by 10KWizard www.10KWizard.com