

# CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

## DELEGATED AUTHORITY

The Audit Committee of the Board of Directors (the “Board”) of Rackspace Hosting, Inc. (the “Company”) is established pursuant to the Company’s Bylaws and Section 141(c) of the Delaware General Corporation Law.

## PURPOSE

The purpose of the Audit Committee of the Company’s Board shall be to:

- Oversee the Company’s accounting and financial reporting processes and the audits of the Company’s financial statements;
- Assist the Board in oversight and monitoring of (1) the integrity of the Company’s financial statements, (2) the performance of the Company’s internal audit function and independent auditors, (3) the Company’s compliance with legal and regulatory requirements, and (4) the independent auditor’s qualifications, independence and performance;
- Prepare the report that the rules of the Securities and Exchange Commission (the “SEC”) require be included in the Company’s annual proxy statement;
- Evaluate and monitor guidelines and standards with respect to risk assessment and risk management;
- Provide the Company’s Board with the results of its monitoring and recommendations derived therefrom; and
- Provide to the Board such additional information and materials as it may deem necessary to make the Board aware of significant financial matters that require the attention of the Board.

In addition, the Audit Committee will undertake those specific duties and responsibilities listed below and such other duties as the Board may from time to time prescribe.

## AUDIT COMMITTEE MEMBERSHIP

The Audit Committee will consist of at least three members of the Board. The members of the Audit Committee shall be appointed by the Board on recommendation of the Nominating and Governance Committee. Audit Committee members may be replaced by the Board and will serve at the discretion of the Board. Members of the Audit Committee must meet the following criteria (as well as any additional criteria required by the New York Stock Exchange Rules (the “NYSE Rules”) and the SEC):

- Each member must be an independent director in accordance with (i) the Audit Committee requirements of the NYSE Rules and (ii) the rules of the SEC;

Each member must not have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three (3) years;

- Each member must be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement and cash flow statement, in accordance with the Audit Committee requirements of the NYSE Rules;
- At least one member must have accounting or related financial management expertise, as the Board interprets such qualification in its business judgment, by virtue of such member's past employment experience in finance or accounting, requisite professional certification in finance or accounting, or any other comparable experience or background which results in such individual's financial sophistication; and
- No Audit Committee member shall simultaneously serve on the audit committees of more than two other public companies, unless the Board determines that such simultaneous service should not impair the ability of such member to effectively serve on the Audit Committee.

The Audit Committee shall be constituted to qualify as a Qualified Legal Compliance Committee for the purposes of the Sarbanes-Oxley Act of 2002.

## MEETINGS AND PROCEDURES

- The Audit Committee will set its own schedule of meetings and will meet at least quarterly, with the option of holding additional meetings at such times as it deems necessary or appropriate. Periodically, the Audit Committee shall meet separately with the Company's management, with the internal auditors and/or internal controls director, if applicable, and with the independent auditors. The Audit Committee will maintain written minutes of its meetings, which minutes will be filed with the minutes of the meetings of the Board.
- The Audit Committee may form subcommittees for any purpose that the Audit Committee deems appropriate and may delegate to such subcommittees such power and authority as the Audit Committee deems appropriate. The Audit Committee shall not delegate to a subcommittee any power or authority required by law, regulation or listing standard to be exercised by the Audit Committee as a whole.
- The Board may designate one member of the Audit Committee as its chairperson. If the Board does not designate a chairperson, a majority of the members of the Audit Committee may elect a chairperson of the Audit Committee.
- Members of the Audit Committee shall receive such fees, if any, for their service as Audit Committee members as may be determined by the Board in its sole discretion. Such fees may include retainers or per meeting fees. Fees may be paid in such form of consideration as is determined by the Board.
- Members of the Audit Committee may not receive any compensation from the Company except the fees that they receive for service as a member of the Board or any committee thereof.

## AUDIT COMMITTEE AUTHORITY AND RESPONSIBILITIES

- The Audit Committee shall appoint and oversee the work of the independent auditors, approve the compensation of the independent auditors and review and, if appropriate, discharge the independent auditors. In this regard, the independent auditors shall report directly to the Audit Committee, and the Audit Committee shall have the sole authority to approve the hiring and discharging of the independent auditors, all audit engagement fees and terms and all permissible non-audit engagements with the independent auditors.
- The Audit Committee shall pre-approve (or, where permitted under the rules of the SEC, subsequently approve) engagements of the independent auditors to render audit services and/or establish pre-approval practices and procedures for such engagements, provided that (i) such practices and procedures are detailed as to the particular services rendered, (ii) the Audit Committee is informed of each such service and (iii) such practices and procedures do not include delegation to management of the Audit Committee's responsibilities under the Securities Exchange Act of 1934, as amended. The Audit Committee shall also pre-approve any non-audit services proposed to be provided to the Company by such independent auditors.
- The Audit Committee shall make regular reports to the Board, which reports shall include to the extent that the Audit Committee deems appropriate, any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's independent auditors or the performance of the internal audit function.
- The Audit Committee shall review and reassess the adequacy and scope of this Charter annually and recommend to the Board for approval any proposed improvements to this Charter that the Audit Committee considers necessary or valuable.
- At least annually, the Audit Committee shall evaluate its performance.
- The Audit Committee shall perform such other functions as assigned by law, the Company's certificate of incorporation or bylaws or the Board.
- To the extent deemed necessary or appropriate, the Audit Committee shall:

*Oversight of the Company's Relationship with the Independent Auditor*

- Review the independence of the independent auditors, including (i) obtaining on a periodic basis a formal written statement from the independent auditors delineating all relationships between the independent auditors and the Company, consistent with Independence Standards Board Standard No. 1, (ii) maintaining an active dialogue with the independent auditors, covering any disclosed relationship or services that may impair their objectivity and independence, (iii) presenting this statement to the Board and (iv) to the extent there are any such relationships, monitoring and investigating them and, if necessary, taking, or recommending to the Board that the Board take, appropriate action to oversee the independence of the outside auditors.
- Evaluate, at least annually, the independent auditors' qualifications, performance and independence, which evaluation shall include a review and evaluation of the lead partner of the independent auditors and consideration of whether there should be rotation of the lead audit partner or the auditing firm, and take appropriate action to oversee the independence of the independent auditors.

- Review, in consultation with the independent auditors, the annual audit plan and scope of audit activities and monitor such plan's progress.
- Set clear standards for the hiring by the Company of employees or former employees of the independent auditors.

#### *Financial Statements and Disclosure Matters*

- Discuss and, as appropriate, review with management and the independent auditors the Company's annual and quarterly financial statements and annual and quarterly reports on Forms 10-K and 10-Q, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," discuss with the independent auditors any other matters required to be discussed by Statement on Auditing Standards 61, and recommend to the Board whether the audited financial statements and Management's Discussion and Analysis should be included in the Company's Form 10-K or 10-Q.
- Discuss with management, the internal auditor and the independent auditors significant financial reporting issues raised and judgments made in connection with the preparation of the Company's financial statements, including the review of (i) major issues regarding accounting principles and financial statement presentation, including any significant changes in the Company's selection or application of accounting principles; (ii) analyses prepared by management and/or the independent auditors setting forth significant financial reporting issues raised and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements; (iii) the effect of regulatory and accounting initiatives, as well as off-balance sheet arrangements, on the Company's financial statements; and (iv) the type and presentation of information to be included in earnings press releases, as well as any financial information and earnings guidance to be provided to analysts and rating agencies.
- At least annually, obtaining and reviewing a report by the independent auditor describing: the audit firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the audit firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the audit firm, and any steps taken to deal with any such issues.
- Receive, review and discuss quarterly reports from the independent auditors on (i) the major critical accounting standards and practices to be used; (ii) significant alternative treatments of financial information within GAAP that have been discussed with management; (iii) ramifications of the use of such alternative disclosures and treatments; (iv) any treatments preferred by the independent auditors; and (v) other material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.
- Review on a regular basis with the Company's independent auditors any problems or difficulties encountered by the independent auditors in the course of any audit work, including management's response with respect thereto, any restrictions on the scope of the independent auditors' activities or on access to requested information, and any significant disagreements with management; and resolve any disagreements between management and the independent auditors regarding financial reporting.
- Oversee compliance with the SEC requirements for disclosure of auditor's services and Audit Committee member qualifications and activities.

- Review disclosures regarding the Company’s internal controls that are required to be included in SEC reports.
- Discuss with management and the independent auditors any correspondence with regulators or governmental agencies and any published reports that raise material issues regarding the Company’s financial statements or accounting standards.
- Discuss, in a general manner, earnings press releases and financial information and earnings guidance to be provided to analysts and rating agencies, including any proposed use of “pro forma” or “adjusted” non-GAAP information.

#### *Oversight of the Company’s Internal Control Function*

- Review the adequacy and effectiveness of the Company’s internal control standards and procedures on a regular basis, including the responsibilities, budget and staffing of the Company’s audit and internal control function, as applicable, as well as the need for any special audit procedures in response to material control deficiencies, through inquiry and discussions with the Company’s independent auditors and management.
- Review the reports prepared by management, and attested to by the Company’s independent auditors, assessing the adequacy and effectiveness of the Company’s internal controls and procedures, prior to the inclusion of such reports in the Company’s periodic filings as required under SEC rules.

#### *Compliance Oversight Responsibilities*

- Discuss guidelines and standards with respect to risk assessment and risk management.
- Review and approve the Company’s cash management standard on a not less than annual basis.
- Discuss with the Company’s general counsel legal matters that may have a material impact on the financial statements or the Company’s compliance procedures.
- Establish and review procedures for receiving, retaining and treating complaints received by the Company regarding accounting, internal accounting controls or auditing matters and procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
- Review and approve in advance any proposed related party transaction.
- Engage independent counsel and other advisers, including independent investigators, as it determines necessary to carry out its duties. The Company shall provide for appropriate funding, as determined by the Audit Committee, for payment of (i) compensation to the independent auditors engaged for the purpose of preparing or issuing an audit report or performing other audit review or attest services for the Company, (ii) compensation to any advisers employed by the Audit Committee and (iii) ordinary administrative expenses of the Audit Committee that are necessary or appropriate for carrying out its duties.

The Audit Committee shall perform any other activities consistent with Section 141 of the Delaware General Corporation Law, the Company’s Certificate of Incorporation, the bylaws and applicable listing standards and laws as the Audit Committee or the Board considers appropriate.

## LIMITATION OF AUDIT COMMITTEE'S ROLE

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete, accurate and in accordance with GAAP and applicable rules and regulations. These are the responsibilities of management and the independent auditors.

It is recognized that the members of the Audit Committee are not full-time employees of the Company, that it is not the duty or responsibility of the Audit Committee or its members to conduct "field work" or other types of auditing or accounting reviews or procedures or to set auditor independence standards, and that each member of the Audit Committee shall be entitled to rely on (i) the integrity of those persons and organizations within and outside the Company from which the Audit Committee receives information and (ii) the accuracy of the financial and other information provided to the Audit Committee, in either instance absent actual knowledge to the contrary.

As of November 3, 2010