



CREXENDO, INC. AUDIT COMMITTEE CHARTER

PURPOSE

This Audit Committee Charter of Crexendo, Inc. is effective December 3, 2003 by resolution of the Board of Directors of Crexendo, Inc. This Charter supersedes and replaces any previous charter of rules governing the conduct of the Audit Committee.

The Audit Committee is appointed by the Board to assist the Board in monitoring (1) the integrity of the financial statements of the Company, (2) the independent auditor's qualifications and independence, (3) the performance of the Company's independent auditors, and (4) the compliance by the Company with applicable legal and regulatory requirements

The Audit Committee shall prepare the report required by the rules of the Securities and Exchange Commission (the "Commission") to be included in the Company's annual proxy statement.

MEMBERSHIP

The Audit Committee shall consist of no fewer than three members, each of whom shall have been affirmatively determined by the Board to have met the independence and experience requirements of the rules of the NASDAQ Stock Market, Inc. ("Nasdaq"), except as permitted by Nasdaq Rule 4350(d) and the Sarbanes Oxley Act of 2002 and the rules promulgated hereunder. In addition, at least one member of the Audit Committee shall be a "financial expert" as defined by the rules of Nasdaq. . The members of the Audit Committee shall be appointed by the Board based on the recommendation of the Nominating Committee. Audit Committee members may be replaced by the Board.

The Board shall designate one member of the Audit Committee as its chairperson.



MEETINGS

The Audit Committee shall meet as often as it determines, but not less frequently than quarterly. All committee members are expected to attend each meeting, in person or via tele- or videoconference. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes of meetings will be prepared and circulated.

The Audit Committee shall meet periodically with management, or internal auditors as the Audit Committee sees fit, and the independent auditor in separate executive sessions. The Audit Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

AUTHORITY

The Audit Committee shall:

- Have the sole authority to appoint or replace the independent auditor (subject, if applicable, to shareholder ratification) and determine the auditor's compensation.
- Be directly responsible for the oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work, and the independent auditor shall report directly to the Audit Committee.
- Pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent auditor, subject to the de minimis exceptions for non-audit services described in Section 10A(i)(1)(B) of the Securities Exchange Act of 1934 which are approved by the Audit Committee prior to the completion of the audit.
- Seek any information it requires from employees of the Company – all of whom are directed to cooperate with the Committee's requests – or external parties.
- To the extent it deems necessary or appropriate, form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant pre-approvals shall be presented to the full Audit Committee at its next scheduled meeting.
- In accordance with Rule 10A-3, engage independent legal counsel and other advisors, 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 compensation to the independent auditor for the purpose of rendering or issuing an audit report and to any advisors employed by the Audit Committee and for payment of ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

RESPONSIBILITIES

The Audit Committee will carry out the following responsibilities:

Financial Statement and Disclosure Matters

- Review and discuss with management and the independent auditor the annual audited financial statements, including disclosures made in management's discussion and analysis, and the form of opinion the independent auditors propose to render, and recommend to the Board whether the audited financial statements should be included in the Company's Form 10-K.
- Review and discuss with management and the independent auditor the Company's quarterly financial statements prior to the filing of its Form 10-Q, including the results of the independent auditor's review of the quarterly financial statements.
- Discuss with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles and any analysis prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analysis of the effects of alternative accounting methods under accounting principles generally accepted in the United States of America (GAAP) on the financial statements..
- Review and discuss quarterly reports from the independent auditors on:
 - (a) All critical accounting policies and practices to be used.
 - (b) All alternative treatments of financial information within GAAP that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor.
 - (c) Other material written communications between the independent auditor and management, such as any "management" letter or schedule of unadjusted differences.
- Discuss with management the Company's earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies. Such discussion may be

done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made).

- Discuss with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.
- Discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.
- Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.
- Obtain from the independent auditors assurance that the audit was conducted in a manner consistent with Section 10A of the Securities Exchange Act of 1934, as amended, which sets forth certain procedures to be followed in any audit of financial statements required under the Securities Exchange Act of 1934.
- Discuss with the Company's General Counsel any significant legal, compliance or regulatory matters that may have a material effect on the financial statements or the Company's business, financial statements or compliance policies, including material notices to or inquiries received from governmental agencies.
- Discuss with management the types of financial information and earnings guidance provided, if any, and the types of presentations made, to analysts and rating agencies.
- Review disclosures made to the Audit Committee by the Company's CEO and CFO during their certification process for the Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.
- Discuss with the independent auditors and management any significant matters arising from any audit, including any audit problems or difficulties, whether raised by management, the internal auditing department or the independent auditors, relating to the Company's financial statements.
- Discuss with the independent auditors and management any difficulties the independent auditors encountered in the course of the audit, including any restrictions on their activities or access to requested information and any significant disagreements with management.

Internal Controls

- Inquire of the Company's chief executive officer and chief financial officer as to the existence of any significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report

financial information, and any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

- Consider the effectiveness of the Company's internal control system, including information technology, security and control.
- Understand the scope of auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

Oversight of the Company's Relationship with the Independent Auditor

- Review and evaluate the qualifications, performance and independence of the lead partner of the independent auditor team.
- Obtain and review a report from the independent auditor at least annually regarding (a) the independent auditor's internal quality-control procedures, (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, 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 firm, and any steps taken to deal with any such issues, and (c) to assess the auditor's independence, all relationships between the independent auditor and the Company, including each non-audit service provided to the Company and at least the matters set forth in Independent Standards Board No. 1.
- Evaluate the qualifications, performance and independence of the independent auditor, including considering whether the auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditor's independence, and taking into account the opinions of management and internal auditors. The Audit Committee shall present its conclusions with respect to the independent auditor to the Board.
- Obtain and review a report from the independent auditor annually a statement of the fees billed in the last fiscal year for each of the following categories of service: (a) the audit of the Company's annual financial statements and the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q or services that are normally provided by the independent auditors in connection with the statutory and regulatory filings or engagements; (b) assurance and related services not included in clause (a) that are reasonably related to the performance of the audit or review of the Company's financial statements, in the aggregate and by each service; (c) tax compliance, tax advice and tax planning services, in the aggregate and by each service; and (d) all other products and services rendered by the independent auditors, in the aggregate and by each service.

- Ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law.
- Consider whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the independent auditing firm on a regular basis.
- Recommend to the Board policies for the Company's hiring of employees or former employees of the independent auditor who participated in any capacity in the audit of the Company.
- Retain the right to discuss with the national office of the independent auditor issues on which the Company's audit team consulted it and matters of audit quality and consistency.
- Meet with the independent auditor prior to the audit to discuss the scope, planning and staffing of the audit.
- Take into account the opinions of management [and the internal auditing department] in assessing the independent auditors' qualifications, performance and independence.
- Instruct the independent auditors that the independent auditors are ultimately accountable to the Board and the Audit Committee, as representatives of the shareholders.

Oversight of the Company's Internal Audit Function

- Review the appointment and replacement of the senior internal auditing executive.
- Review the significant reports to management prepared by the internal auditing department and management's responses.
- Discuss with the independent auditor and management the internal audit department responsibilities, budget and staffing and any recommended changes in the planned scope of the internal audit.

Compliance Oversight Responsibilities

- Obtain assurance from the independent auditor that Section 10A(b) of the Securities Exchange Act of 1934 has not been implicated.
- Obtain reports from management and the independent auditor that the Company and its subsidiary/foreign-affiliated entities are in conformity with applicable legal requirements and the Company's code of business conduct and ethics. Review reports and disclosures of insider and affiliated party transactions. Advise the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations and with the Company's code of business conduct and ethics.
- Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and



the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

- Review and discuss with management and the independent auditor any correspondence with or the findings of any examinations by, regulators or governmental agencies and any published reports that raise material issues regarding the Company's financial statements or accounting policies.
- Obtain regular updates from management and Company counsel regarding compliance and legal matters that may have a material impact on the financial statements or the Company's compliance policies.

Reporting

- Regularly report to the Board about Committee activities, issues and related recommendations.
- Provide an open avenue of communication between the independent auditor and the Board.
- Review any other reports issued by the Company that relate to Committee responsibilities.

Other Responsibilities

- Review and approve all related party transactions of the Company.
- Perform other activities related to this charter as requested by the Board.
- Institute and oversee special investigations as needed.
- Review and assess, on an annual basis, the adequacy of the Committee charter, requesting Board approval for proposed changes.
- Annually review the Committee's own performance.

DELEGATION TO SUBCOMMITTEE

The Audit Committee may, in its discretion, delegate all or a portion of its duties and responsibilities to a subcommittee of the Audit Committee. The Audit Committee may, in its discretion, delegate to one or more of its members the authority to pre-approve any audit or non-audit services to be performed by the independent auditors, provided that any such approvals are presented to the Audit Committee at its next scheduled meeting.



LIMITATION OF AUDIT COMMITTEE'S ROLE

The function of the Audit Committee is oversight. 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 and accurate and are in accordance with GAAP and applicable rules and regulations. These are the responsibilities of management and the independent auditor.