

Submission Data File

General Information	
Form Type*	10-Q
Contact Name	Chico Kim
Contact Phone	866-683-5245
Filer File Number	
Filer CIK*	0001476638 [Rackwise, Inc.]
Filer CCC*	*****
Filer is Smaller Reporting Company	Yes
Confirming Copy	No
Notify via Website only	No
Return Copy	No
SROS*	NONE
Period*	09-30-2012
(End General Information)	

Document Information	
File Count*	5
Document Name 1*	v326277_10q.htm
Document Type 1*	10-Q
Document Description 1	Form 10-Q
Document Name 2*	v326277_ex31-1.htm
Document Type 2*	EX-31.1
Document Description 2	Exhibit 31.1
Document Name 3*	v326277_ex31-2.htm
Document Type 3*	EX-31.2
Document Description 3	Exhibit 31.2
Document Name 4*	v326277_ex32-1.htm
Document Type 4*	EX-32.1
Document Description 4	Exhibit 32.1
Document Name 5*	v326277_ex32-2.htm
Document Type 5*	EX-32.2
Document Description 5	Exhibit 32.2
(End Document Information)	

Notifications	
Notify via Website only	No
E-mail 1	chico@vfilings.com
(End Notifications)	

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2012**

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

For the transition period from _____ to _____

Commission File Number: **000-54519**

RACKWISE, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation)

27-0997534

(I.R.S. Employer Identification No.)

2365 Iron Point Road, Suite 190, Folsom, CA 95630

(Address of principal executive offices)

(888) 818-2385

(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 (§232.405 of this chapter) 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller Reporting company)

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

There were 104,889,459 shares of the issuer's common stock outstanding as of November 9, 2012.

RACKWISE, INC.
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012
TABLE OF CONTENTS

	<u>PAGE</u>
PART I - FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets as of September 30, 2012 (unaudited) and December 31, 2011	3
Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2012 and 2011 (unaudited)	4
Condensed Consolidated Statement of Changes in Stockholders' Deficiency for the nine months ended September 30, 2012 (unaudited)	5
Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and 2011 (unaudited)	6
Notes to Condensed Consolidated Financial Statements (unaudited)	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3. Quantitative and Qualitative Disclosures About Market Risk	35
Item 4. Controls and Procedures	36
PART II - OTHER INFORMATION	
Item 1. Legal Proceedings	36
Item 1A. Risk Factors	37
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	37
Item 3. Defaults Upon Senior Securities	38
Item 4. Mine Safety Disclosures	38
Item 5. Other Information	38
Item 6. Exhibits	38
SIGNATURES	40

**Rackwise, Inc. and Subsidiary
 Condensed Consolidated Balance Sheets**

	<u>September 30,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
	<u>(unaudited)</u>	
Assets		
Current Assets:		
Cash and cash equivalents	\$ 44,099	\$ 613,443
Accounts receivable, net of allowance for factoring fees of \$51,166 and \$3,582 respectively	133,649	212,950
Deferred financing costs	101,859	-
Prepaid expenses and other current assets	47,991	73,564
Total Current Assets	327,598	899,957
Property and equipment, net	337,763	130,072
Intangible assets, net	220,790	162,452
Deposits and other assets	55,847	22,132
Total Assets	\$ 941,998	\$ 1,214,613
Liabilities and Stockholders' Deficiency		
Current Liabilities:		
Accounts payable	\$ 2,262,039	\$ 1,072,716
Accounts payable - related parties	-	3,090
Due to factor	640,772	179,145
Accrued expenses	1,776,648	1,440,294
Accrued issuable equity	49,000	1,560,030
Accrued interest - related parties	17,005	7,648
Notes payable, net of deferred discount of \$3,075	1,453,897	-
Notes payable - related parties, net of deferred discount of \$3,075 and \$0, respectively	223,897	50,000
Capital lease obligations	-	3,815
Current portion of deferred rent	87,036	2,759
Deferred revenues	586,028	525,333
Total Current Liabilities	7,096,322	4,844,830
Deferred rent, non-current portion	101,107	21,650
Total Liabilities	7,197,429	4,866,480
Commitments and Contingencies		
Stockholders' Deficiency:		
Preferred stock, \$0.0001 par value; authorized - 10,000,000 shares; issued and outstanding - none	-	-
Common stock, \$0.0001 par value; authorized - 300,000,000 shares; issued and outstanding - 99,822,253 and 94,863,803 shares, respectively	9,982	9,487
Additional paid-in capital	35,423,763	30,225,066
Accumulated deficit	(41,689,176)	(33,886,420)
Total Stockholders' Deficiency	(6,255,431)	(3,651,867)
Total Liabilities and Stockholders' Deficiency	\$ 941,998	\$ 1,214,613

See Notes to these Condensed Consolidated Financial Statements

Rackwise, Inc. and Subsidiary
Condensed Consolidated Statements of Operations

(unaudited)

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues	\$ 545,859	\$ 664,822	\$ 2,422,497	\$ 1,461,403
Direct cost of revenues	256,463	63,746	374,760	162,217
Gross Profit	289,396	601,076	2,047,737	1,299,186
Operating Expenses				
Sales and marketing	1,214,102	445,079	3,626,168	1,022,654
Research and development	590,547	271,818	1,790,091	717,091
Transaction expenses	-	882,403	-	882,403
General and administrative	1,046,848	1,067,470	3,656,444	2,324,266
Total Operating Expenses	2,851,497	2,666,770	9,072,703	4,946,414
Loss From Operations	(2,562,101)	(2,065,694)	(7,024,966)	(3,647,228)
Other Income (Expense)				
Interest	(40,678)	(49,550)	(48,407)	(332,940)
Amortization of debt discount	(165,121)	(123,117)	(598,454)	(632,380)
Amortization of deferred financing costs	(20,372)	(179,062)	(20,372)	(347,632)
Gain on change in fair value of derivative liabilities	-	165,063	-	542,283
Loss on extinguishment	(113,925)	-	(113,925)	-
Other income	-	-	3,368	-
Total Other Expense	(340,096)	(186,666)	(777,790)	(770,669)
Net Loss	\$ (2,902,197)	\$ (2,252,360)	\$ (7,802,756)	\$ (4,417,897)
Net Loss Per Common Share - Basic and Diluted	\$ (0.03)	\$ (0.05)	\$ (0.08)	\$ (0.11)
Weighted Average Number of Common Shares Outstanding - Basic and Diluted	96,573,612	44,746,997	96,204,933	41,905,720

See Notes to these Condensed Consolidated Financial Statements

Rackwise, Inc. and Subsidiary
Condensed Consolidated Statement of Changes in Stockholders' Deficiency
For The Nine Months Ended September 30, 2012

(unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance - January 1, 2012	94,863,803	\$ 9,487	\$ 30,225,066	\$ (33,886,420)	\$ (3,651,867)
Issuance of common stock and warrants - private placement, net	4,931,668	493	1,514,733	-	1,515,226
Issuance of accrued equity	145,000	14	1,560,016	-	1,560,030
Issuance of restricted shares as compensation	100,000	10	34,490	-	34,500
Warrants and beneficial conversion features issued as debt discount in connection with notes payable	-	-	604,605	-	604,605
Stock-based compensation	-	-	1,408,042	-	1,408,042
Exercise of warrants	31,782	3	19,861	-	19,864
Cancellation of shares pursuant to settlement agreement	(250,000)	(25)	(56,975)	-	(57,000)
Incremental value of warrants issued to extinguish debt	-	-	113,925	-	113,925
Net loss	-	-	-	(7,802,756)	(7,802,756)
Balance - September 30, 2012	<u>99,822,253</u>	<u>\$ 9,982</u>	<u>\$ 35,423,763</u>	<u>\$ (41,689,176)</u>	<u>\$ (6,255,431)</u>

See Notes to these Condensed Consolidated Financial Statements

Rackwise, Inc. and Subsidiary
Condensed Consolidated Statements of Cash Flows
 (unaudited)

	For The	
	Nine Months Ended September 30,	
	2012	2011
Cash Flows From Operating Activities		
Net loss	\$ (7,802,756)	\$ (4,417,897)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	69,965	37,653
Amortization of intangible assets	107,930	104,057
Loss on sale of fixed assets	5,837	-
Forgiveness of note receivable - stockholder	-	187,717
Stock-based compensation	1,491,542	255,799
Cancellation of shares pursuant to settlement agreement	(57,000)	-
Loss on extinguishment	113,925	-
Change in fair value of derivative liabilities	-	(542,283)
Amortization of debt discount	598,454	632,380
Amortization of deferred financing costs	20,372	347,632
Provision for factoring fees	47,584	(122,133)
Deferred rent	163,734	-
Changes in operating assets and liabilities:		
Accounts receivable	31,717	1,056,369
Prepaid expenses and other current assets	25,573	(85,642)
Deposits and other assets	(33,715)	(4,191)
Accounts payable	1,189,323	458,496
Accounts payable – related parties	(3,090)	103,637
Accrued expenses	340,299	393,728
Accrued interest – related parties	9,357	326,429
Deferred revenues	60,695	(354,733)
Total Adjustments	<u>4,182,502</u>	<u>2,794,915</u>
Net Cash Used in Operating Activities	<u>(3,620,254)</u>	<u>(1,622,982)</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	(283,493)	(51,202)
Acquisition of intangible assets	(166,268)	(70,022)
Net Cash Used in Investing Activities	<u>(449,761)</u>	<u>(121,224)</u>
Cash Flows From Financing Activities		
Proceeds from notes payable	405,000	2,337,980
Proceeds from notes payable - related party	175,000	-
Proceeds from bridge units	1,050,000	-
Issuance of common stock and warrants, net [1]	1,515,226	513,093
Proceeds of warrant exercise	19,864	3,045
Deferred financing costs	(122,231)	(347,632)
Due to factor, net	461,627	(605,730)
Payment of capital lease obligations	(3,815)	(5,239)
Net Cash Provided by Financing Activities	<u>3,500,671</u>	<u>1,895,517</u>
Net (Decrease)/Increase In Cash	<u>(569,344)</u>	<u>151,311</u>
Cash - Beginning	<u>613,443</u>	<u>47,366</u>
Cash - Ending	<u>\$ 44,099</u>	<u>\$ 198,677</u>

[1] Gross proceeds of \$1,748,747, less issuance costs of \$233,521.

Rackwise, Inc. and Subsidiary
Condensed Consolidated Statements of Cash Flows

(unaudited)

For The
Nine Months Ended September 30,
2012 **2011**

Supplemental Disclosures of Cash Flow Information:

Non-cash financing activities:			
Issuance of accrued equity	\$	1,560,030	\$ -
Conversion of accrued interest into shares of common stock	\$	-	\$ 688,337
Conversion of accrued interest into notes payable	\$	3,945	\$ -
Cancellation of shares	\$	(57,000)	\$ -
Conversion of notes payable into common stock	\$	-	\$ 5,750,753
Reclassification of derivative liabilities into equity	\$	-	\$ 1,133,186
Warrants issued in connection with convertible notes	\$	-	\$ 4,750

See Notes to these Condensed Consolidated Financial Statements

Rackwise, Inc.
Note to Condensed Consolidated Financial Statements (Unaudited)

Note 1 – Organization, Operations, and Basis of Presentation

Organization and Operations

Rackwise, Inc. and Subsidiary (collectively “Rackwise” or the “Company”) is headquartered in Folsom, California, with a software development and data center in Research Triangle, North Carolina. The Company creates Microsoft applications for network infrastructure administrators that provide for the modeling, planning, and documentation of data centers. The Company sells its applications in four primary products: Rackwise Standard Edition, Rackwise Enterprise Edition, Rackwise Data Center Manager and Rackwise Web Edition.

On August 24, 2010, MIB Digital, Inc., a Florida public corporation formed on September 23, 2009, merged with Cahaba Pharmaceuticals, Inc., a Nevada corporation formed on August 20, 2010 (“Cahaba”), for the sole purpose of effecting the merger. Cahaba was the survivor in the merger and the principal purposes of the merger were to change the domicile of the company from Florida to Nevada and to effect a recapitalization. On July 8, 2011, Cahaba merged with its newly formed, wholly owned subsidiary, Visual Network Design, Inc., a Nevada corporation. Cahaba was the survivor in the merger, but changed its name in the merger to Visual Network Design, Inc. (“Visual”). On September 21, 2011, Visual effected a merger with Visual Network Design, Inc., a Delaware corporation d/b/a Rackwise (“VNDP”) (the “Reverse Merger”). As a result of the Reverse Merger, Visual acquired the business of VNDI and continued the existing business operations of VNDI, as its wholly owned subsidiary. On September 29, 2011, Visual merged with its newly formed, wholly owned subsidiary, Rackwise, Inc., a Nevada corporation formed on September 28, 2011. Visual was the survivor in the merger, but changed its name in the merger to Rackwise, Inc.

Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of the consolidated financial statements of the Company as of September 30, 2012. The results of operations for the three and nine months ended September 30, 2012 are not necessarily indicative of the operating results for the full year. It is recommended that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and related disclosures for the year ended December 31, 2011 included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on March 30, 2012.

Note 2 - Liquidity, Going Concern and Management’s Plans

The Company has incurred substantial recurring losses since its inception. The Company’s current strategy is to raise capital and invest that capital in such a way that the Company rapidly grows its market share and revenues, eventually resulting in profits and cash from operations. However, this strategy requires a rapid build-up of infrastructure that will initially exacerbate the Company’s operating deficit and use of cash in operations, because the expected revenue expansion will lag the investment in infrastructure. The capital that the Company has raised, and likely will continue to raise, will be used to invest in an expanded salesforce, to fund development of the software product, to fund incremental legal and accounting costs associated with being a public company and to fund the Company’s operating deficit and general working capital requirements.

Note 2 - Liquidity, Going Concern and Management's Plans - Continued

During the nine months ended September 30, 2012 and the twelve months ended December 31, 2011, the Company raised net proceeds of approximately \$3,043,000 (gross proceeds of approximately \$3,399,000 less approximately \$356,000 of issuance costs) and approximately \$6,088,000 (gross proceeds of approximately \$6,544,000 less issuance costs of approximately \$455,000), respectively, in private offerings of common stock, warrants and debt funding. This capital has permitted the Company to proceed with its infrastructure investments.

As expected, the Company's net losses and usage of cash have increased, while it awaits the expected benefits of its investment. During the nine months ended September 30, 2012 and 2011, the Company recorded net losses of approximately \$7,803,000 and \$4,418,000, respectively, while revenues increased to approximately \$2,422,000 from approximately \$1,461,000. During the nine months ended September 30, 2012 and 2011, the Company used cash in operating activities of approximately \$3,620,000 and \$1,623,000, respectively. As of September 30, 2012, the Company has limited cash of approximately \$44,000, a working capital deficiency of approximately \$6,769,000, an accumulated deficit of approximately \$41,689,000 and has withheld approximately \$732,000 of payroll tax liabilities from wages paid which have yet to be remitted to the taxing authorities. Subsequent to September 30, 2012, the Company raised an additional \$676,250 of gross proceeds from a private placement offering. The Company plans to raise an additional \$6,000,000 from the offering underway, which should provide enough cash to fund operations for the next twelve months. However, there can be no assurance that the Company will be successful in raising this amount of capital.

The Company believes it will be successful in its efforts to continue to grow its business; however, there can be no assurance that it will meet its revenue forecasts or, when necessary, be successful in raising additional debt or equity financing to fund its operations on terms agreeable to the Company. These matters raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might be necessary if the Company were unable to continue as a going concern.

Note 3 – Significant Accounting Policies

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to ensure that accounts receivable are not overstated due to uncollectibility. At the time accounts receivable are originated, the Company considers a reserve for doubtful accounts based on the creditworthiness of customers. The provision for uncollectible amounts is continually reviewed and adjusted to maintain the allowance at a level considered adequate to cover future losses. The allowance is management's best estimate of uncollectible amounts and is determined based on historical performance that is tracked by the Company on an ongoing basis. During the three and nine months ended September 30, 2012 and 2011, the Company's losses from bad debts were not material. Actual losses could differ materially in the near term from the amounts estimated in determining the allowance.

In addition, the Company also factors its receivables with full recourse and, as a result, accounts for the factoring akin to a secured borrowing, maintaining the gross receivable asset and due to factor liability on its books and records. In connection with the factoring of its receivables, the Company estimates an allowance for factoring fees associated with the collections. These fees range from 2% to 30% depending on the actual timing of the collection. The actual recognition of such fees may differ from the estimates depending upon the timing of collections.

Note 3 – Significant Accounting Policies - Continued

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and reported amounts of revenues and expenses in the consolidated financial statements and the accompanying notes. Actual results could differ from those estimates. The significant estimates and assumptions of the Company are stock-based compensation, the useful lives of fixed assets and intangibles, depreciation and amortization, the allowances for factoring fees and income taxes, and the fair value of derivative liabilities and warrants.

Derivative Financial Instruments

The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risks. The Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the statements of operations. For stock-based derivative financial instruments, the Company uses the binomial lattice options pricing model to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period.

Concentration of Credit Risk and Customers

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company's cash and cash equivalents are deposited with major financial institutions. At times, such deposits may be in excess of the Federal Deposit Insurance Corporation insurable amount. The Company generally does not require collateral from its customers and generally requires payment in 30 days. The Company evaluates the collectability of its accounts receivable and provides an allowance for potential credit losses as necessary. Historically, such losses have been within management's expectations.

The majority of revenues were derived from customers in the United States of America. In the three and nine months ended September 30, 2012, 89% and 88%, respectively, of revenues were from customers in the United States of America. For the nine months ended September 30, 2012, approximately 8% of revenues were from the European region, 1% from Americas countries not including the United States and 2% from the Asia Pacific region. Comparatively, in the nine months ended September 30, 2011, 95% of revenues were from the United States and 5% from the European region. Two customers provided 13% and 11%, respectively, of revenues during the three months ended September 30, 2012 while one customer provided 29% of revenues during the three months ended September 30, 2011. During the nine months ended September 30, 2012, one customer provided 33% of revenues while one customer provided 13% of revenues during the nine months ended September 30, 2011. All of the Company's long-lived assets are located in the United States of America.

As of September 30, 2012, the Company had three customers representing 39%, 31% and 13% of accounts receivable, respectively. As of December 31, 2011, the Company had two customers each representing 46% of accounts receivable.

Note 3 – Significant Accounting Policies – Continued

Intangible Assets

All of the Company's intangible assets consist of shapes acquired from a graphics designer for the Company's database library that are schematics of specific computer equipment. These shapes are utilized in the Company's software with multiple customers in order to enable them to visualize and differentiate the specific computer equipment in their overall network. For example, the Company's software's graphical user interface displays a unique shape for each make and model of computer server. Intangible assets are recorded at cost less accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives of 2.5 years.

Revenue Recognition

In accordance with ASC topic 985-605, "Software Revenue Recognition," perpetual license revenue is recognized when (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the sales price is fixed or determinable; and (iv) collectability is reasonably assured. Delivery is considered to have occurred when title and risk of loss have been transferred to the customer, which generally occurs after a license key has been delivered electronically to the customer. The Company's perpetual license agreements do not (a) provide for a right of return, (b) contain acceptance clauses or (c) contain refund provisions.

In the case of the Company's (a) subscription-based licenses, and (b) maintenance arrangements, when sold separately, revenues are recognized ratably over the service period. The Company defers revenue for software license and maintenance agreements when cash has been received from the customer and the agreement does not qualify for recognition under ASC Topic 985-605. Such amounts are reflected as deferred revenues in the accompanying financial statements. The Company's subscription license agreements do not (a) provide for a right of return, (b) contain acceptance clauses or (c) contain refund provisions.

The Company provides professional services to its customers. Such services, which include training, installation, and implementation, are recognized when the services are performed. The Company also provides volume discounts to various customers. In accordance with ASC Topic 985-605, the discount is allocated proportionally to the delivered elements of the multiple-element arrangement and recognized accordingly.

For software arrangements with multiple elements, which in the Company's case are comprised of (1) licensing fees, (2) professional services, and (3) maintenance/support, revenue is recognized dependent upon whether vendor specific objective evidence ("VSOE") of fair value exists for separating each of the elements. Licensing rights are generally delivered at time of invoice, professional services are delivered within one to nine months and maintenance is for a twelve month contract. Accordingly, licensing revenues are recognized upon invoice, professional services are recognized when all services have been delivered and maintenance revenue is amortized over a twelve month period. The Company determined that VSOE exists for both the delivered and undelivered elements of its multiple-element arrangements. The Company limits its assessment of fair value to either (a) the price charged when the same element is sold separately or (b) the price established by management having the relevant authority. There may be cases, however, in which there is objective and reliable evidence of fair value of the undelivered item(s) but no such evidence for the delivered item(s). In those cases, the selling price method is used to allocate the arrangement consideration, if all other revenue recognition criteria are met. Under the selling price method, the amount of consideration allocated to the delivered item(s) is calculated based on estimated selling prices.

Note 3 – Significant Accounting Policies – Continued

Revenue Recognition – Continued

The Company manages the business as a single segment, but it has revenues from multiple sources.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash and cash equivalents, receivables, accounts payable, accrued expenses and deferred revenue, approximated fair value as of the balance sheet date presented, because of the relatively short maturity dates on these instruments. The carrying amounts of the financing arrangements issued approximate fair value as of the balance sheet date presented, because interest rates on these instruments approximate market interest rates after consideration of stated interest rates, anti-dilution protection and associated warrants.

Debt Discount and Amortization of Debt Discount

Debt discount represents the fair value of embedded conversion options of various convertible debt instruments and attached convertible equity instruments issued in connection with debt instruments. The debt discount is amortized over the earlier of (i) the term of the debt or (ii) conversion of the debt, using the straight-line method which approximates the interest method. The amortization of debt discount is included as a component of other expenses in the accompanying statements of operations.

Deferred Financing Costs

Costs issued in conjunction with the issuance of debt are amortized over the initial term of the debt instrument, using the straight-line method which approximates the effective interest rate.

Stock-Based Compensation

The Company has an equity plan which allows for the granting of stock options to its employees, directors and consultants for a fixed number of shares with an exercise price equal to the fair value of the shares at date of grant. The Company measures the cost of services received in exchange for an award of equity instruments based on the fair value of the award. For employees and directors, the fair value of the award is measured on the grant date and for non-employees, the fair value of the award is generally re-measured on interim financial reporting dates until the service period is complete. The fair value amount is then recognized over the period during which services are required to be provided in exchange for the award, usually the vesting period.

Stock-based compensation for directors is reflected in general and administrative expenses in the consolidated statements of operations. Stock-based compensation for employees and consultants could be reflected in (a) sales and marketing expenses; (b) research and development expenses; or (c) general and administrative expenses in the consolidated statements of operations.

Note 3 – Significant Accounting Policies – Continued

Net Loss Per Common Share

Basic net loss per share is computed by dividing the net loss applicable to common shares by the weighted average number of common shares outstanding during the period. Weighted average shares outstanding for the three and nine months ended September 30, 2012 (1) includes the weighted average impact of 925,000 shares of common stock issuable as of September 30, 2012; and (2) excludes the weighted average impact of the 3,000,000 shares of common stock being held in escrow (the “Escrowed Shares”). Weighted average shares outstanding for the three and nine months ended September 30, 2011 (1) includes the weighted average underlying shares exercisable with respect to the issuance of 1,609,747 warrants exercisable at less than \$0.01 per share; and (2) excludes the weighted average impact of the Escrowed Shares. In accordance with the accounting literature, (1) the Company has given effect to the issuance of the issuable stock and the warrants in computing basic net loss per share because the underlying shares are issuable for little or no cash consideration; and (2) the Company has excluded the impact of the Escrowed Shares because they are contingently returnable.

Diluted net loss per common share adjusts basic net loss per common share for the effects of potentially dilutive financial instruments, only in the periods in which such effects exist and are dilutive. At September 30, 2012, outstanding stock options and warrants to purchase 25,558,334 and 51,965,901 shares of common stock, respectively, were excluded from the calculation of diluted net loss per common share because their impact would have been anti-dilutive. At September 30, 2011, outstanding stock warrants to purchase 36,558,880 shares of common stock were excluded from the calculation of diluted net loss per common share because their impact would have been anti-dilutive.

Reclassification

Certain accounts in the prior period condensed consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current period condensed consolidated financial statements. These reclassifications have no effects on the previously reported net loss.

Note 4 – Notes Payable

5% Note

In December 2008, the Company issued a \$50,000 5% note payable (the “5% Note”) to a related party that is a greater than 10% beneficial owner. The 5% Note was due in June 2009 and was in default at September 30, 2012 and December 31, 2011. Accrued interest related to the note was \$9,521 and \$7,648 at September 30, 2012 and December 31, 2011, respectively, which is included in Accrued Interest –Related Parties in the accompanying balance sheet.

12% Notes – Original Issuance

In April and May 2012, the Company completed and closed an offering of ninety day 12% convertible promissory notes (the “12% Notes”) in which it sold an aggregate principal amount of \$580,000 in notes to five investors. Each of the 12% Notes was scheduled to mature ninety days after issuance and was convertible, at the option of the holder, into Company units, at a price of \$0.40 to \$0.45 per unit, each unit consisting of one share of the Company’s common stock and one warrant representing the right to purchase one share of the Company’s common stock for a period of five years from issuance at an exercise price of \$0.80 to \$1.00 per share. The warrants were exercisable on a cashless basis and contain weighted average anti-dilution price protection.

Note 4 – Notes Payable – Continued

12% Notes – Original Issuance - Continued

The Company determined that the warrants issuable in conjunction with the conversion of the notes were equity instruments and calculated the aggregate value of the warrants to be \$638,013, by utilizing the Black-Scholes option pricing model (inputs were stock price of \$0.68 to \$0.94; exercise prices of \$0.80 to \$1.00; expected term of 5.3 years; volatility of 75%; dividend rate of 0% and discount rate of 0.75%-0.88%). The Company then compared the value of the warrants to the face value of the 12% Notes and determined that the aggregate relative fair values of the 12% Notes and the issuable warrant were \$281,799 and \$298,201, respectively.

The Company determined that the embedded conversion options were equity instruments and should not be bifurcated and accounted for as a derivative. The Company then determined that the aggregate beneficial conversion features' value exceeded the relative fair value attributed to the 12% Notes and therefore the value attributed to the beneficial conversion was limited to \$281,799 and the aggregate debt discount (attributable to both the beneficial conversion feature and the warrants) was equal to the \$580,000 total proceeds of the 12% Notes. The individual debt discounts were amortized over the ninety-day life of the 12% Notes, such that the Company recorded debt discount amortization of \$146,667 and \$580,000 related to the 12% Notes for the three and nine months ended September 30, 2012, respectively.

12% Notes – Amended Terms

During July and August 2012, the Company and the investors agreed to extend the maturity of the 12% Notes an additional ninety days, while amending the terms of the 12% Notes (the "Amended 12% Notes") and the warrants that are issuable upon conversion. In addition, two of the existing investors each purchased half of a 12% Note (the "Purchased 12% Note") for the original face value plus \$3,945 of accrued interest, such that the original \$100,000 12% Note was canceled and each of the investors received a new \$51,973 Amended 12% Note. The embedded conversion option was repriced at the lesser of \$0.20 per unit or the Subsequent Offering (a subsequent offering of \$4,000,000 or greater of equity or convertible securities) price and became subject to weighted average anti-dilution protection. The warrants issuable upon conversion of the Amended 12% Notes into units were repriced at the lesser of \$0.30 per share of common stock or the exercise price of the warrants offered in the Subsequent Offering. In addition, if the Subsequent Offering has warrant coverage that exceeds 100%, the Amended 12% Note holders will be entitled to the same warrant coverage.

The Company determined that the amendments to the terms of the 12% Notes and the warrants that are issuable upon conversion constituted an extinguishment for accounting purposes on account of the fact that the Purchased 12% Note was now held by new creditors and because the change in the fair value of the issuable warrants associated with the rest of the Amended 12% Notes exceeded 10% of the face value of the original 12% Notes. The Company determined that the warrants issuable in conjunction with the conversion of the Amended 12% Notes were equity instruments and the Company valued the modified and original issuable warrants on the modification date by utilizing the Black-Scholes option pricing model (inputs for the modified issuable warrants were restricted stock price of \$0.14; exercise prices of \$0.30; expected term of 4.9-5.0 years; volatility of 75%; dividend rate of 0% and discount rate of 0.60%-0.80%).

Note 4 – Notes Payable – Continued

12% Notes – Amended Terms - Continued

There was no extinguishment gain or loss associated with the Purchased 12% Notes because the original investor did not receive any additional consideration other than the face value plus accrued interest. Therefore, the \$24,605 relative fair value of the modified issuable warrants associated with the Purchased 12% Notes was recorded as a new debt discount. The \$113,925 change in the fair value of the issuable warrants associated with the rest of the Amended 12% Notes was recognized as a loss on extinguishment of the original 12% Notes. The Company then determined that the embedded conversion options associated with the Amended 12% Notes were equity instruments and should not be bifurcated and accounted for as a derivative. In addition, the Company determined that there was no beneficial conversion feature associated with the Amended 12% Notes because the embedded conversion option was out-of-the money. The individual debt discounts are being amortized over the new ninety day life of the Amended 12% Notes, such that the Company recorded debt discount amortization of \$18,454 related to the Amended 12% Notes for the three and nine months ended September 30, 2012 and the remaining unamortized debt discount related to the Amended 12% Notes was \$6,151 at September 30, 2012. Accrued interest was \$7,485 and \$18,740 related to the \$176,973 of Amended 12% Notes held by a related party (a director) and the \$406,973 of other Amended 12% Notes at September 30, 2012, respectively.

8% Notes

In June, July and August 2012, the Company completed and closed on an offering of Bridge Units (as hereafter defined) which consists of a twelve month 8% convertible note (the “8% Notes”) and a warrant (the “Bridge Warrant”). Bridge Units are being offered in anticipation of the Subsequent Offering. The Company closed on \$500,000 of Bridge Units on June 29, 2012 and another \$550,000 during July and August 2012.

The 8% Notes are convertible into shares of common stock, at the option of the holder, at a price equal to 65% of the conversion date twenty-day volume weighted average price of the common stock, if the Company does not complete a Subsequent Offering by maturity. The 8% Notes are contingently and automatically convertible upon completion of the Subsequent Offering, into the Subsequent Offering securities at a price equal to 65% of the Subsequent Offering price. Conversion of the 8% Notes is subject to a conversion blocker such that conversion is limited to the issuance of common stock that would give the holder beneficial ownership of 4.99% of the common stock outstanding. The note holder is permitted to demand immediate repayment of principal and interest for any portion of the 8% Notes that is unable to be converted due to the conversion blocker.

The Bridge Warrants to purchase an aggregate of 1,050,000 shares of common stock are exercisable for three years after issuance at the exercise date twenty-day volume weighted average price of the common stock. Upon completion of the Subsequent Offering, the exercise price is contingently adjustable to 150% of the Subsequent Offering price to purchase the Subsequent Offering securities and the term is extended to three years from the completion of the Subsequent Offering. The Bridge Warrants are (a) exercisable on a cashless basis after the first anniversary of warrant issuance; (b) subject to weighted average anti-dilution protection; and are (c) contingently redeemable by the Company at \$0.00001 per share. The contingent redemption feature is permitted if (1) there is an effective registration statement covering resale of the shares issuable pursuant to the warrant; (2) the twenty day average closing bid price of the common stock is at least 200% of the current exercise price; (3) the twenty day average trading volume is at least 100,000 shares per day; and (4) there is not more than one trading day where there is no trading volume.

Note 4 – Notes Payable – Continued

8% Notes - Continued

Conversion of the 8% Note and the Bridge Warrant are limited to the number of shares of common stock issuable without exceeding the Company's authorized maximum number of shares outstanding. The Company has agreed to use its commercially reasonable best efforts to obtain shareholder approval to increase the authorized maximum number of shares outstanding, if necessary.

It was determined that contingent conversion options, triggered by future events not controlled by the issuer (such as the Subsequent Offering which requires the participation of investors willing to invest an aggregate of \$4,000,000), are not recognized unless the triggering event occurs.

The Company determined that the freestanding Bridge Warrants were equity instruments, but also separately determined that the aggregate value of the Bridge Warrants, pursuant to the operative exercise price, was immaterial, because the Bridge Warrant currently may only be exercised into restricted or illiquid, thinly traded stock at the exercise date twenty-day volume weighted average price. Accordingly, the Company believes that the accounting impact of this warrant is immaterial, particularly considering that any immaterial value attributable to the Bridge Warrant would be subject to further discount, pursuant to the relative fair value method of determining the amount of the debt discount.

The Company determined that the embedded conversion option was an equity instrument and should not be bifurcated and accounted for as a derivative for the reasons discussed above. The Company then determined that there were no beneficial conversion features attributable to the 8% Notes because the embedded conversion option was out-of-the-money.

Accordingly, no debt discount was recorded in conjunction with the 8% Notes. Accrued interest related to the 8% Notes was \$16,326 at September 30, 2012.

Three-year placement agent warrants to purchase 45,000 shares of common stock at the exercise date twenty-day volume weighted average price of the common stock are issuable in conjunction with the offering of Bridge Units (subject to adjustment if the 8% Notes are converted) and were determined to currently have an immaterial value. There were \$122,231 of offering costs. Since no value was allocated to the equity instruments, all of the offering costs were allocated to the debt and were capitalized as deferred financing costs and are being amortized over the twelve-month life of the 8% Notes. Deferred financing costs of \$20,372 were amortized during the three and nine months ended September 30, 2012.

Note 5 – Derivative Liabilities – Related Parties

In accordance with ASC 815-40, "*Derivatives and Hedging - Contracts in Entity's Own Equity*", instruments which do not have fixed settlement provisions are deemed to be derivative instruments. The Company determined that embedded conversion options of various notes payable outstanding in 2011 which did not have fixed settlement provisions and accordingly were not indexed to the Company's own stock, were deemed to be derivative liabilities. The embedded conversion options of certain notes issued by the Company prior to 2012 did not have fixed settlement provisions as the conversion and exercise prices were not fixed and determinable on the date of issuance. In accordance with ASC Topic 718, "Stock Compensation" ("ASC 718"), the conversion options of the notes were bifurcated from their respective host contracts and recognized as derivative liabilities. The warrants issued in connection with the same notes payable were not deemed to be derivative liabilities because they had a fixed settlement provision. The fair values of these derivative liabilities were re-measured at the end of every reporting period with the change in value reported in the statement of operations.

Note 5 – Derivative Liabilities – Related Parties - Continued

The fair values of the embedded conversion options, which were associated with certain notes payable issued to related parties prior to 2012, were measured using the binomial lattice options pricing model with the following assumptions:

	For The Nine Months Ended September 30, 2011
Risk free rate	0.10% - 0.17%
Expected volatility	65% - 70%
Expected life (in years)	0.13 - 0.38
Expected dividend yield	0%

The risk-free interest rate was based on the rates of treasury securities with the same terms as the terms of the instruments. The Company based expected volatility on the historical volatility for ten comparable publicly traded company's common stock. The expected life of the notes was based on the maturity of the notes. The expected dividend yield of zero was based upon the fact that the Company has not historically paid dividends and does not expect to pay dividends in the future.

On September 21, 2011, immediately prior to, and conditioned upon the effectiveness of the Reverse Merger, all of the outstanding non-bridge convertible notes and the related accrued interest converted into 19,533,586 shares of the Company's common stock. At that time the derivative liability associated with the embedded conversion options of notes issued to related parties was revalued at \$1,133,186 and was reclassified to equity. The gain (loss) on change in fair value of derivative liabilities, included in other income in the accompanying statements of operations was \$165,063 and \$542,283 for the three and nine months ended September 30, 2011, respectively.

Note 6 – Equity

Consulting Agreements

On August 21, 2011, the Company entered into a three-month agreement for public relations and financial communications services. In consideration of services to be rendered, the Company agreed to pay \$15,000 in cash per month in advance, for an aggregate of \$45,000, and, subject to the consummation of the Reverse Merger, to issue 70,000 shares of vested Company common stock per month, for an aggregate of 210,000 shares, of which, 70,000 shares remained unissued as of December 31, 2011. Accordingly, during 2011, the Company accrued the equity issuance liability of \$15,960. During the nine months ended September 30, 2012, the remaining 70,000 shares were issued and the fair value of shares of \$15,960 was credited to equity.

Note 6 – Equity –Continued

Consulting Agreements - Continued

On November 16, 2011, the Company entered into a twelve-month agreement for investor relations services with a consultant. In consideration of services to be rendered, the Company agreed to pay \$6,000 in cash per month in advance, for an aggregate of \$72,000, and to immediately issue 500,000 shares of vested Company common stock, plus an additional 500,000 shares of common stock at the six month anniversary of the agreement. The Company valued the shares and recorded the full value of issued shares and cash payments as consulting expense at the issuance date. For the year ended December 31, 2011, the Company recorded stock-based compensation expense of \$114,000 (value of the first 500,000 shares), included in general and administrative expenses in the accompanying statements of operations. On January 11, 2012, the Company terminated this agreement and on January 16, 2012, the Company entered into a settlement agreement whereby the consultant agreed to accept the initial \$12,000 of 2011 cash payments and 250,000 shares of common stock (by returning 250,000 shares of common stock to the Company for cancellation) in full satisfaction of the terminated agreement. During the nine months ended September 30, 2012, the Company reversed \$57,000 of stock-based compensation expense upon cancellation of the returned shares.

On November 30, 2011, the Company entered into a six-month agreement for investor relations services. In consideration of services to be rendered, the Company agreed to pay a minimum of \$7,000 in cash per month in advance (subject to supplemental performance-based bonuses), for an aggregate of \$42,000, and to immediately issue 75,000 shares of vested Company common stock, of which, 75,000 shares remained unissued as of December 31, 2011. Accordingly, during 2011, the Company accrued the equity issuance liability of \$17,100. During the nine months ended September 30, 2012, the remaining 75,000 shares were issued and the fair value of share of \$17,100 was credited to equity.

On December 19, 2011, the Company renewed an agreement for public relations and financial communications services for a three-month term. In consideration of services to be rendered, the Company agreed to pay \$7,500 in cash per month in advance, for an aggregate of \$22,500, and to issue 25,000 shares of vested Company common stock per month, for an aggregate of 75,000 shares. On February 3, 2012, after the Company had made an initial cash payment of \$7,500 in December 2011, the Company terminated this agreement for non-performance. No shares were issued and no stock-based compensation expense was recorded related to this renewal agreement.

On January 15, 2012, the Company entered into a six-month agreement for investor relations services. In consideration of services to be rendered, the Company agreed to pay a minimum of \$10,000 in cash per month for an aggregate of \$60,000, and to issue 300,000 shares of vested Company common stock, of which, 300,000 shares remained unissued as of June 30, 2012 and September 30, 2012. In connection with the unissued shares, at June 30, 2012, the Company accrued the equity issuance liability at the fair value of \$68,750 and at September 30, 2012, the Company reduced the equity issuance liability to the fair value of \$42,000 with a corresponding charge or credit to stock-based compensation expense.

On April 18, 2012, the Company amended a consulting services agreement pursuant to which, among other things, the Company agreed to issue an immediately vested, seven-year warrant to purchase an additional 500,000 shares of the Company's common stock at an exercise price of \$1.00 per share. The grant date value of \$198,500 was recognized immediately. In addition, the Company agreed to pay a one-time cash fee of \$100,000, which was paid on April 20, 2012.

Note 6 – Equity –Continued

Consulting Agreements - Continued

On August 30, 2012, the Company entered into a six-month agreement for public relations and financial communication services. In consideration of services to be rendered, the Company agreed to pay a minimum of \$15,000 in cash per month in advance, for an aggregate of \$90,000, and to issue 50,000 shares of vested Company common stock per month, for an aggregate of 300,000 shares. As of September 30, 2012, 50,000 earned shares were unissued. In connection with the unissued shares, at September 30, 2012, the Company accrued the equity issuance liability of \$7,000 with a corresponding charge to stock-based compensation expense.

Second Private Offering

During the nine months ended September 30, 2012, the Company had three additional closings of a private offering that commenced in December 2011 (the “Second Private Offering”) pursuant to which an aggregate of 4,356,669 investor units (“Second Units”) were sold at a price of \$0.375 per Second Unit, resulting in \$1,447,114 of aggregate net proceeds (\$1,633,750 of gross proceeds less \$186,636 of issuance costs). Each Second Unit consisted of one share of common stock and a warrant to purchase one-quarter share of common stock (the “Second Investor Warrants”), such that an aggregate of 4,356,669 shares of common stock and Second Investor Warrants to purchase 1,089,169 shares of common stock were issued. The Second Investor Warrants are redeemable in certain circumstances, are exercisable for a period of five years at an exercise price of \$1.00 per full share of common stock and are subjected to weighted average anti-dilution protection.

The placement agent for the Second Private Offering earned a cash commission of 10% or 5% of the funds raised from investors in the Second Private Offering that were directly attributable to or referred by the placement agent, respectively. In addition, the placement agent received five-year warrants to purchase shares of common stock (the “Second Broker Warrants”) equal to 10% or 5% of the Second Units sold to investors in the Second Private Offering that were directly attributable or referred to the placement agent, respectively. The Second Broker Warrants are identical to the Second Investor Warrants in all material respects except that (i) the resale of the common stock underlying them is not covered by a registration statement; and (ii) they have an exercise price of \$0.375 per share of common stock. As a result of the foregoing arrangement, in connection with the three 2012 closings, the placement agent (1) was paid aggregate cash commissions of \$136,500; and (2) was issued Second Broker Warrants to purchase 364,000 shares of common stock.

Third Private Offering

During the nine months ended September 30, 2012, the Company had one closing of a private offering that commenced on September 1, 2012 (the “Third Private Offering”), pursuant to which an aggregate of 575,000 investor units (“Third Units”) were sold at a price of \$0.20 per Third Unit resulting in \$68,113 of aggregate net proceeds (\$115,000 of gross proceeds less \$46,887 of issuance costs). Each Third Unit consists of one share of common stock and a redeemable warrant to purchase one share of common stock (the “Third Investor Warrants”), such that investors received an aggregate of 575,000 shares of common stock and Third Investor Warrants to purchase 575,000 shares of common stock (see Note 10 – Subsequent Events for details of closings subsequent to September 30, 2012).

Note 6 – Equity – Continued

Third Private Offering – Continued

Pursuant to the Third Private Offering, Third Units will be offered at a purchase price equal to the lesser of (a) \$0.20 per Third Unit or the five day volume weighted average price (“VWAP”), until the earlier of a maximum of 25,000,000 Third Units (subject to an additional 5,000,000 Third Units (b) for over-allotments) have been sold or until December 30, 2012, which date may be extended by the Company in writing. If an investor elects to participate in the Third Private Offering for at least 50% of the funds that such investor has invested in the Company since September 21, 2011, the Company will reduce the exercise price of such investor’s warrants previously issued by the Company to \$0.30 per share. The first closing of the Third Private Offering on September 21, 2012 resulted in warrants to purchase 186,667 shares of common stock having their exercise price reduced to \$0.30 per share, including warrants to purchase 86,667 and 100,000 shares whose original exercise price was \$1.00 per share and the twenty day VWAP, respectively.

The Third Investor Warrants are exercisable for a period of five years at an exercise price of \$0.30 per share of common stock, are subject to weighted average anti-dilution protection and possess piggy-back registration rights. The Third Investor Warrants are redeemable at a price of \$0.0001 per share upon the provision of adequate notice, if and only if (a) the common stock’s average closing bid price exceeds \$1.00 for five of any ten consecutive days; and (b) the twenty-day average daily volume exceeds 20,000 shares and there is no more than one single day of no volume.

The placement agent for the Third Private Offering is entitled to a cash commission of 10% of the funds raised from investors in the Third Private Offering. In addition, the placement agent is entitled to five-year redeemable warrants to purchase shares of common stock (the “Third Broker Warrants”) equal to 10% of the Third Units purchased by investors in the Third Private Offering. As a result of the foregoing arrangement, in connection with the one closing during the nine months ended September 30, 2012, the placement agent (1) was paid aggregate cash commissions of \$11,500; and (2) was issued Third Broker Warrants to purchase 57,500 shares of common stock. The Third Broker Warrants are identical to the Third Investor Warrants in all material respects except that (i) the resale of the common stock underlying them is not covered by a registration statement; and (ii) they have an exercise price of \$0.20 per share of common stock.

Note 6 – Equity – Continued

Stock Warrants

A summary of the stock warrant activity during the nine months ended September 30, 2012 is presented below:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life In Years	Intrinsic Value
Balance, December 31, 2011	48,362,014	\$ 0.628		
Issued	3,635,669	0.739[1]		
Exercised	(31,782)	0.625		
Cancelled	-	-		
Balance, September 30, 2012	<u>51,965,901</u>	<u>\$ 0.632</u> [2]	<u>4.27</u>	<u>\$ -</u>
Exercisable, September 30, 2012	<u>51,965,901</u>	<u>\$ 0.632</u> [2]	<u>4.27</u>	<u>\$ -</u>

[1] - Investor warrants to purchase 1,050,000 shares of common stock had a variable exercise price at issuance equal to the twenty day VWAP. These warrants are excluded from the weighted average exercise price.

[2] - Investor warrants to purchase 950,000 shares of common stock had a variable exercise price as of September 30, 2012. These warrants are excluded from the weighted average exercise price.

The following table presents information related to stock warrants at September 30, 2012:

Warrants Outstanding		Warrants Exercisable	
Exercise Price	Number of Warrants	Weighted Average Remaining Life In Years	Exercisable Number of Warrants
\$ 0.200	57,500	4.97	57,500
0.250	1,012,000	4.04	1,012,000
0.300	761,667	4.60	761,667
0.375	580,253	4.25	580,253
0.625	40,123,845	3.99	40,123,845
0.660	6,000,000	6.15	6,000,000
1.000	2,480,636	4.71	2,480,636
Variable	950,000	2.80	950,000
	<u>51,965,901</u>	<u>4.27</u>	<u>51,965,901</u>

Note 6 – Equity – Continued

Stock Warrants - Continued

The first closing of the Third Private Offering on September 21, 2012 resulted in warrants to purchase 186,667 shares of common stock having their exercise price reduced to \$0.30 per share, including warrants to purchase 86,667 and 100,000 shares whose original exercise price was \$1.00 per share and variable (the twenty day VWAP), respectively. See Note 6 – Equity – Third Private Offering for additional details.

The warrants outstanding in the tables above do not include (1) warrants issuable to investors upon conversion of their convertible notes; and (2) warrants issuable to the 8% bridge unit placement agent. See Note 4 – Notes Payable for additional details.

As of September 30, 2012, the warrants with a variable exercise price were exercisable at approximately \$0.25 per share.

In addition, all of the warrants are subject to weighted average anti-dilution protection upon the issuance of common stock, or securities convertible into common stock, at prices below specified trigger prices. The Third Private Offering results in dilutive issuances pursuant to the terms of the warrants. The single third quarter closing of the Third Private Offering did not have a material effect on the exercise prices or quantities of the outstanding warrants as of September 30, 2012.

Stock Options

During the first quarter of 2012, the Company granted to its directors, officers, employees and consultants ten-year options to purchase an aggregate of 23,275,000 shares of common stock at an exercise price of \$0.345 per share, of which options to purchase an aggregate of 12,475,000 shares of common stock were granted under the Company's 2011 Equity Incentive Plan (the "2011 Plan") and the remaining options to purchase an aggregate of 10,800,000 shares of common stock (of which 6,900,000 were granted to the Company's new Chief Executive Officer ("New CEO")) were not granted pursuant to an established plan. The options vest as follows: (i) an option to purchase 6,900,000 shares of common stock granted to the New CEO vested on an accelerated basis in November 2011 based on the New CEO meeting specified performance criteria; (ii) an option to purchase 2,500,000 shares of common stock vests one-third immediately, one-third on September 21, 2012 and one-third on September 21, 2013; (iii) options to purchase an aggregate of 13,325,000 shares of common stock vest one-third 0.7-1.0 years from the date of grant, one-third 1.7-2.0 years from the date of grant and one-third 2.7-3.0 years from the date of grant; and (iv) options to purchase an aggregate of 550,000 shares of common stock vest ratably on a quarterly basis over a three-year term. The aggregate grant date value of approximately \$5,090,000 will be recognized proportionate to the vesting terms.

In March 2012, the Compensation Committee of the Company's Board of Directors determined that the New CEO's options became fully vested effective November 2011 as a result of the execution of a strategic alliance with a major customer. Although the option was not formally granted prior to December 31, 2011, the New CEO had a contractual right to the vested options pursuant to his employment agreement, and, accordingly, the Company accrued the equity issuance liability of \$1,526,970 at December 31, 2011 based on the full value of the option as of December 31, 2011, when the restricted stock was valued at \$0.345 per share. On January 9, 2012, the New CEO's options were issued and the \$1,444,170 issuance date value of the options was credited to equity.

Note 6 – Equity – Continued

Stock Options – Continued

During the third quarter of 2012, the Company granted to its directors, employees and consultants options ranging from one to ten years to purchase an aggregate of 3,983,334 shares of common stock at exercise prices ranging from \$0.345 to \$0.348 per share, of which options to purchase an aggregate of 1,370,000 shares of common stock were granted under the Company's 2011 Plan and the remaining options to purchase an aggregate of 2,613,334 shares of common stock were not granted pursuant to an established plan. The options vest as follows: (i) an option to purchase 333,334 shares of common stock granted pursuant to an employee's severance agreement vested immediately; (ii) options to purchase an aggregate of 500,000 shares of common stock granted to directors vested immediately; (iii) options to purchase an aggregate of 1,250,000 shares of common stock granted to directors vest on their respective one-year anniversary dates of service; (iv) options to purchase an aggregate of 950,000 shares of common stock granted to employees and a consultant vest ratably over three years on the grant date anniversaries; (v) an employee option to purchase 350,000 shares of common stock vests one-third on April 2, 2013, one-third on April 2, 2014 and one-third on April 2, 2015; (vi) an employee option to purchase 100,000 shares of common stock vests one-third on September 21, 2012, one-third on September 21, 2013 and one-third on September 21, 2014; and (vii) options to purchase an aggregate of 500,000 shares of common stock granted to members of the Company's advisory board vest ratably on a quarterly basis over a term beginning on August 1, 2012 and ending on May 1, 2015. The aggregate grant date value of approximately \$230,000 will be recognized proportionate to the vesting terms.

On July 18, 2012, the Company modified options to purchase an aggregate of 1,250,000 shares of common stock previously granted to the Company's Board of Directors, such that the options became vested immediately. As a result of the modification, the Company immediately recorded incremental expense of \$172,666.

In applying the Black-Scholes option pricing model to options granted, the Company used the following weighted average assumptions:

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
Risk free interest rate	0.66%	0.93%
Expected term (years)	5.11	5.51
Expected volatility	75.00%	75.00%
Expected dividends	0.00%	0.00%

The weighted average estimated fair value of the stock options granted during the three and nine months ended September 30, 2012 was \$0.06 and \$0.20 per share, respectively. No stock options were granted during the three and nine months ended September 30, 2011. The Company used forfeiture assumptions of 10% to 20% per annum, per grantee.

The Company recorded stock-based compensation expense associated with options of approximately \$515,000 and \$1,210,000 during the three and nine months ended September 30, 2012, respectively, and approximately \$93,000 and \$256,000 during the three and nine months ended September 30, 2011, respectively. These amounts have been included in operating expenses in the accompanying condensed consolidated statements of operations. As of September 30, 2012, there was approximately \$1,763,000 of unrecognized stock-based compensation expense that will be amortized over a weighted average period of 2.0 years.

Note 6 – Equity – Continued

Stock Options – Continued

A summary of the option activity during the nine months ended September 30, 2012 is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Life In Years	Intrinsic Value
Outstanding, December 31, 2011	-	\$ -		
Granted	27,258,334	0.345		
Exercised	-	-		
Forfeited	(1,700,000)	0.345		
Outstanding, September 30, 2012	<u>25,558,334</u>	<u>\$ 0.345</u>	<u>9.3</u>	<u>\$ -</u>
Exercisable, September 30, 2012	<u>13,516,676</u>	<u>\$ 0.345</u>	<u>9.1</u>	<u>\$ -</u>

The following table presents information related to stock options at September 30, 2012:

Options Outstanding		Options Exercisable	
Exercise Price	Number of Options	Weighted Average Remaining Life In Years	Exercisable Number of Options
\$ 0.345	21,675,000	9.3	12,141,674
0.348	3,883,334	7.6	1,375,002
	<u>25,558,334</u>	<u>9.1</u>	<u>13,516,676</u>

Note 7 – Related Party Transactions

On January 1, 2012, the Company entered into a new agreement with a stockholder to provide financial advisory services to the Company. The Company agreed to pay fees of \$10,000 per month for twelve months, as well as a one-time fee of \$40,000, which represented \$30,000 and \$130,000 for the three and nine months ended September 30, 2012, respectively.

See Note 4 – Notes Payable for additional related party transactions.

Note 8 - Accrued Expenses

Accrued expenses consist of the following:

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Accrued commissions	\$ 449,782	\$ 164,123
Accrued payroll	328,294	328,942
Accrued vacation liability	194,816	150,207
Accrued professional fees	33,180	259,733
Payroll tax payable (1)	735,510	537,289
Accrued interest	35,066	-
TOTAL	\$ 1,776,648	\$ 1,440,294

(1) Includes accrual for interest and penalties.

Accrued expenses include liabilities for unpaid payroll taxes along with an estimate of related interest and penalties. In 2011, the IRS placed Federal tax liens aggregating approximately \$502,000 against the Company in connection with these unpaid payroll taxes. The Company is currently in discussions with the IRS to implement an installment payment plan.

Note 9 – Commitments and Contingencies

Employment Agreements

The Company hired a new Chief Financial Officer (the “New CFO”) on January 23, 2012. In connection with his appointment, the New CFO received (i) an annual base salary of \$175,000; (ii) eligibility for bonus compensation; (iii) an option to purchase 1,000,000 shares of the Company’s common stock, vesting over a period of three years, under the 2011 Plan, exercisable at a price of \$0.345 per share; and (iv) 100,000 shares of the Company’s restricted common stock with a grant date of January 23, 2012, which was recognized immediately. In addition, in the event that the New CFO was terminated without reasonable cause, he would be entitled to a severance payment equal to six months of his base salary at the time of termination. On February 15, 2012, the New CFO was granted an option to purchase 500,000 shares of the Company’s common stock, vesting over a period of three years, under the 2011 Plan, exercisable at a price of \$0.345 per share. Both of the New CFO’s options are included in the above “Option Grants” discussion.

Operating Leases

The Company leases facilities in Folsom, California, Las Vegas, Nevada and Raleigh, North Carolina under non-cancelable operating leases. For the three months ended September 30, 2012 and 2011, rent expense was \$98,839 and \$65,370, respectively, and for the nine months ended September 30, 2012 and 2011, rent expense was \$223,089 and \$192,137, respectively, and was recorded as part of general and administrative expenses within the statements of operations.

In January 2012, the Company executed a 63-month lease for 3,465 square feet of new headquarters office space in Folsom, California. The lease commenced on March 30, 2012. The base rent commences at \$6,757 per month and escalates to \$7,833 per month over the lease term. The Company is entitled to pay no base rent during each of the 13th, 26th, and 39th months of the lease.

Note 9 – Commitments and Contingencies – Continued

Operating Leases - Continued

In February 2012, the Company executed a 37-month sub-lease for the remaining terms of its Las Vegas, Nevada office space. The sub-lease rent income commences at \$8,983 per month and escalates to \$9,818 per month over the lease term. During the three months ended March 31, 2012, the Company recognized a charge of \$155,000, included in general and administrative expense in the accompanying statements of operations, representing the aggregate differential between the lease expense and sublease income over the life of the leases.

In February 2012, the Company executed a new five-year lease for 5,772 square feet of office space in Raleigh, North Carolina. The base rent commences at \$7,922 per month and escalates to \$11,073 per month over the lease term. The landlord is spending up to \$132,760 on leasehold improvements in order to prepare the space for occupancy and the lease has not yet commenced. The lease contains an option which permits the Company to terminate the lease on January 31, 2015, provided that the Company pay \$102,795 and provide nine months written advance notice.

Future minimum payments (exclusive of the benefit of the Las Vegas sublease income) at September 30, 2012 required under the operating leases are as follows:

Years Ending December 31,

2012	\$	88,699
2013		360,394
2014		379,695
2015		225,426
2016		90,593
2017		46,313
	\$	<u>1,191,121</u>

Note 10 – Subsequent Events

Third Private Offering

Subsequent to September 30, 2012, the Company had four additional closings of the Third Private Offering (see Note 6 - Equity – Third Private Offering), pursuant to which 3,922,975 Third Units were sold at a price per unit equal to the lesser of (i) \$0.20 and (ii) the five-day VWAP as quoted on the OTC Bulletin Board, resulting in \$676,250 of aggregate gross proceeds. Each Third Unit consists of one share of common stock and a redeemable warrant to purchase one share of common stock. In addition, the Company incurred offering costs of \$10,795, plus the placement agent was paid cash commissions of \$67,625 and was issued five-year Third Broker Warrants to purchase shares of the Company's common stock equal to 10% of the number of Third Units sold to investors, at an exercise price of \$0.20 per share. The four closings resulted in warrants to purchase 1,578,209 shares of the Company's common stock having their exercise price reduced to \$0.30 per share, including warrants to purchase 939,875, 488,334 and 150,000 shares whose original exercise price was \$0.625 per share, \$1.00 per share and the twenty day VWAP, respectively.

Note 10 – Subsequent Events - Continued

Note Conversions

On October 4, 2012, a noteholder elected to convert a \$75,000 Amended 12% Note and a \$100,000 8% Note into an aggregate of 1,144,231 shares of common stock and five-year warrants to purchase an aggregate of 1,144,231 shares of common stock at an exercise price of \$0.30 per share.

Non-binding Term Sheet

On November 9, 2012, the Company entered into a non-binding term sheet with Black Diamond Financial Group, LLC (“BD”) with respect to its proposed sale to BD of up to an aggregate principal amount of \$5,500,000 in 3 year, Series A, 6% Convertible Senior Secured Notes (the “Notes”). The proposed purchase and sale transaction is subject to the execution of a definitive agreement and other closing conditions. A \$750,000 Note is to be issued and sold to BD on the initial closing date of the transaction which is expected to be on December 1, 2012. Additional \$750,000 Notes are to be issued and sold to BD in four installments on each of December 15, 2012, January 15, 2013, February 15, 2013 and March 15, 2013. A final Note in the principal amount of \$1,750,000 is to be issued and sold to BD on April 15, 2013. The purchase price of the Notes will be equal to 91% of the principal amount of the Notes. The Notes will be secured by a first priority security interest in and lien on all of our assets.

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

The following discussion should be read in conjunction with the financial information included elsewhere in this Quarterly Report on Form 10-Q ("Quarterly Report"), including our unaudited condensed consolidated financial statements as of September 30, 2012 and December 31, 2011 and for the three and nine months ended September 30, 2012 and 2011 and the related notes. References in this Management's Discussion and Analysis of Financial Condition and Results of Operations to "us," "we," "our," and similar terms refer to Rackwise, Inc., a Nevada corporation. This discussion includes forward-looking statements, as that term is defined in the federal securities laws, based upon current expectations that involve risks and uncertainties, such as plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors. Words such as "anticipate," "estimate," "plan," "continuing," "ongoing," "expect," "believe," "intend," "may," "will," "should," "could," and similar expressions are used to identify forward-looking statements.

We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control, which may influence the accuracy of the statements and the projections upon which the statements are based. Factors that may affect our results include, but are not limited to, the risk factors in Item 1.A in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 30, 2012 ("Annual Report"). Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether from new information, future events or otherwise.

Overview

We are a software development, sales and marketing company. We create Microsoft applications for network infrastructure administrators that provide for the modeling, planning and documentation of data centers. Our Data Center Management (DCM) software product, Rackwise®, is used by over 100 companies worldwide. Our product provides a multi-layered set of solutions for reporting on the multiple aspects of a company's data center, including power consumption, power efficiency, carbon footprint, green grid and density requirements. This reporting allows customers to plan data center expansions and contractions as well as equipment usage more energy efficiently and cost effectively. Our product's advanced design and ability to tightly interface with other new technologies, like Intel's newest proprietary computer chips, enables it to collect more real-time information (real-time means instantaneous and continuous) associated with more data center equipment usage than products from our competitors. We intend to continue to take advantage of new technologies that will add to our competitive differentiators.

As reflected in our financial statements for the three and nine months ended September 30, 2012, we have generated significant losses raising substantial doubt that we will be able to continue operations as a going concern. Our independent registered public accounting firm included an explanatory paragraph in their report for the years ended December 31, 2011 and 2010 stating that we have not achieved a sufficient level of revenues to support our business and have suffered recurring losses from operations. Our ability to execute our business plan is dependent upon our generating cash flow sufficient to fund operations. Our business strategy may not be successful in addressing these issues. If we cannot execute our business plan, our stockholders may lose their entire investment in us.

We expect that with the infusion of additional capital and with additional management we will be able to increase software and professional services sales, and to expand the breadth of our product offerings. We intend to do the following:

- Continue to add interfaces to our existing product offerings, which would make us a differentiator in the market.
- Establish industry partners, “value added resellers” (VARs), and strategic services partners to sell our product to customers, and to perform some of the services necessary to support the installation and maintenance of our product.
- Initiate specific new marketing efforts to coordinate and lead our initiatives for greater market recognition with special emphasis on contacting and educating industry analysts to spread the word of our capabilities.
- Increase sales of our product by through our sales team and partners. During the first and second quarter of 2012, we hired sales personnel to cover all regions in the US and Latin America and further added sales personnel to support sales of our products through strategic partnerships.
- Expand our product offerings to include monitoring and managing the balance of our customer’s IT infrastructure.

Recent Developments and Trends

During the three months ended September 30, 2012, the Company had four closings of bridge units for aggregate gross proceeds of \$550,000; and one closing of a private offering of investor units resulting in \$115,000 of gross proceeds. Subsequent to September 30, 2012, the Company raised an additional \$676,250 of gross proceeds from the private placement offering.

Revenues

Revenues are generated from the licensing, subscription and maintenance of our enterprise software product and professional services fees.

Direct cost of revenues

Direct cost of revenues includes the cost of server hosting, the cost of installing our software for new clients, commissions to third parties for installation of our software, royalties for third party software utilized in our products, the costs of support and operations dedicated to customer services and the costs of maintaining and amortizing our proprietary database.

Sales and marketing expenses

Sales expenses consist of compensation and overhead associated with our channel sales, inside sales, direct sales and product sales support functions. Marketing expenses consist primarily of compensation and overhead associated with our marketing function, trade shows and Google ads, which are used as a main source of sales leads.

Research and development expenses

Research and development expenses consist mainly of compensation and overhead of research and development personnel and professional services firms performing research and development functions, plus amortization of our proprietary database.

Transaction expenses

Transaction expenses represent the costs associated with professional services utilized to support the planning and implementation of our 2011 reverse merger transaction.

General and administrative expenses

General and administrative expenses consist of the compensation and overhead of administrative personnel and professional services firms performing administrative functions, including management, accounting, finance and legal services, plus expenses associated with infrastructure, including depreciation, information technology, telecommunications, facilities and insurance.

Interest, net

Interest, net consists primarily of interest expense associated with our notes payable.

Amortization of debt discount

Amortization of debt discount represents the amortization of the debt discount over the shorter of (a) the term of the related debt, or (b) the conversion of the debt into equity instruments. Debt discount consists of the fair value of the conversion options associated with certain debt, plus the fair value of the warrants provided to certain debt holders.

Amortization of deferred financing costs

Amortization of deferred financing costs represents the amortization of the deferred financing costs over the shorter of (a) the term of the related debt, or (b) the conversion of the debt into equity instruments. Deferred financing costs represent the professional fees incurred in conjunction with our debt financing activities.

Gain on change in fair value of derivative liabilities

Gain on change in fair value of derivative liabilities represents the change in the fair value of derivative liabilities over a reporting period, since derivative liabilities are required to be revalued at each reporting date.

Loss on extinguishment

Costs associated with the extension of the 12% notes, primarily the incremental value of the amended warrants.

Other income

Other income generally represents non-recurring income.

Results of Operations

Three and Nine months Ended September 30, 2012 Compared to Three and Nine months Ended September 30, 2011

Overview

Our current strategy is to raise capital and invest that capital in such a way that we rapidly grow our market share and revenues, eventually resulting in profits and cash from operations. However, this strategy requires a rapid build-up of infrastructure that will initially exacerbate our operating deficit, as the expected revenue expansion will lag the investment in infrastructure. The capital that we have raised, and likely will continue to raise, will be used to invest in an expanded salesforce, to fund development of the software product, to fund incremental legal and accounting costs associated with being a public company and to fund our operating deficit and general working capital requirements.

The capital that we raised in 2011 and into 2012 has permitted us to proceed with our planned infrastructure investments. During the nine months ended September 30, 2012, we hired 18 people, including 12 salespersons, which brought us to a full complement of sales staff to support sales in the U.S. and Latin America markets. We also increased staffing to support sales of our product through resellers, system integrators, distribution and other partners, resulting in increased revenues over prior periods. We expect this sales force to enable us to continue to grow our revenues and capture additional market share of the Data Center Infrastructure Management (DCIM) market, however, there can be no assurance that we will be successful in meeting our goals.

We reported net losses of \$2,902,167 and \$7,802,756 and \$2,252,360 and \$4,417,897 for the three and nine months ended September 30, 2012 and 2011, respectively. The increase in net loss was \$649,807 or 29% for the three months ended September 30, 2012 and was \$3,384,859 or 77% for the nine months ended September 30, 2012.

Revenues

Our revenues for the three and nine months ended September 30, 2012 were \$545,859 and \$2,422,497, as compared to revenues of \$664,822 and \$1,461,403 for the three and nine months ended September 30, 2011. Revenues decreased by \$118,963, or 18%, for the three months ended September 30, 2012, and increased by \$961,094, or 66%, for the nine months ended September 30, 2012. The decrease for the three months period was due to a slippage of license deals into the fiscal fourth quarter. The nine months increase was primarily due to increased sales efforts from our expanded sales force. Software license revenues were \$151,468 and \$1,284,416 in the three and nine month periods ended September 30, 2012, as compared to \$336,335 and \$609,415 in the comparative periods in 2011, a decrease of \$184,867 and an increase of \$675,001, or (55)% and 111%, respectively. Maintenance revenues were \$275,635 and \$831,750 in the three and nine month periods ended September 30, 2012, as compared to \$258,072 and \$747,851 in the comparative periods in the prior year, increases of \$17,563 and \$83,899, or 7% and 11%, respectively. Software subscription revenues were \$56,846 and \$193,216 in the three and nine month periods ended September 30, 2012, as compared to \$60,415 and \$94,137 in the comparative periods, a decrease of \$3,569 and an increase of \$99,079 or (6)% and 105%, respectively. We recorded \$61,910 and \$113,115 of professional service revenues during the three and nine months ended September 30, 2012, as compared to \$10,000 in the comparative periods in the prior year, increases of \$51,910 and \$103,115, or 519% and 1031%, respectively.

Direct cost of revenues

The direct cost of revenues during the three and nine months ended September 30, 2012 and 2011 was \$256,463 and \$374,760, and \$63,746 and \$162,217, respectively, representing increases of \$192,717 and \$212,543, or 302% and 131%. The direct cost of revenues as a percentage of revenues was approximately 47% and 15% during the three and nine months ended September 30, 2012, and 10% and 11% during the comparative periods in the prior year. The increase in cost of revenues was mainly due to software royalty expense that commenced July 1, 2012 and the cost of handheld mobile devices which were procured and sold. It is impractical for us to break out direct cost of revenues by the types of revenues cited in the revenue discussion above, because it would be necessary to implement time reporting in our small customer support function, which would reduce productivity with little added value.

Sales and marketing expenses

Sales and marketing expenses increased by \$769,023 and \$2,603,514, or 173% and 255%, during the three and nine months ended September 30, 2012, to \$1,214,102 and \$3,626,168, from \$445,079 and \$1,022,654 during the three and nine months ended September 30, 2011. These increases primarily relate to hiring additional sales personnel, and increased commission expense resulting from increased revenues. These expenses declined \$288,891 compared to the three months ended June 30, 2012, mainly due to reduced commissions.

Research and development expenses

Research and development expenses increased by \$318,729 and \$1,073,000, or 117% and 150%, during the three and nine months ended September 30, 2012, to \$590,547 and \$1,790,091 from \$271,818 and \$717,091 during the three and nine months ended September 30, 2011. These increases also primarily relate to recruiting and compensation costs associated with expansion of the research and development staff in accordance with our strategic plan.

Transaction expenses

Transaction expenses were \$0 during the three and nine months ended September 30, 2012 compared to \$882,403 during the three and nine months ended September 30, 2011. The decrease is attributable to no company transactions occurring in 2012 compared to the reverse merger completed in September 2011.

General and administrative expenses

General and administrative expenses were \$1,046,848 and \$3,656,444 during the three and nine months ended September 30, 2012, as compared to \$1,067,470 and \$2,324,266 during the three and nine months ended September 30, 2011, a decrease of \$20,622 and an increase of \$1,332,178, respectively, or -2% or and 57%. The nine months increase resulted primarily from additional legal and audit fees associated with public company reporting, an approximate \$155,000 non-cash charge associated with the future cash flow shortfall associated with the subletting of our Las Vegas office space, plus increased executive and administrative costs to drive and support our business expansion.

Interest

Interest expense was \$40,678 and \$48,407 during the three and nine months ended September 30, 2012 as compared to \$49,550 and \$332,940 during the three and nine months ended September 30, 2011, representing decreases of 18% and 85%. The decreases resulted primarily from the conversion of outstanding notes payable from a liability to equity on September 21, 2011.

Amortization of debt discount

During the three and nine months ended September 30, 2012, we recorded \$165,121 and \$598,454 for amortization of debt discount, as compared to \$123,117 and \$632,380 during the three and nine months ended September 30, 2011, representing an increase of 34% for the three month period and a decrease of 5% for the nine month period. The increase for the three month period was due to the issuance of convertible notes payable. The decrease in the nine month period resulted primarily from the reduction of overall debt financing.

Amortization of deferred financing costs

During the three and nine months ended September 30, 2012, we recorded \$20,372 for amortization of deferred financing costs, as compared to \$179,062 and \$347,632 during the three and nine months ended September 30, 2011, representing decreases of 89% for the three month period and 94% for the nine month period.

Gain on change in fair value of derivative liabilities

During the three and nine months ended September 30, 2012, we recorded no gain on change in fair value of our derivative liabilities as compared to gains of \$165,063 and \$542,283 during the three and nine months ended September 30, 2011, representing a decrease of 100%. On September 21, 2011, upon the conversion of outstanding notes payable to equity, the derivative liabilities were marked to fair value and then were reclassified to equity.

Loss on extinguishment

During the three and nine months ended September 30, 2012 we recorded a loss on extinguishment of \$113,925 as compared to no similar losses in the comparable periods in 2011. The loss was related to the extension of maturity of the 12% convertible notes sold in May and June 2012.

Other income

During the nine months ended September 30, 2012, we recorded other income of \$3,368 which primarily related to the disposition of fixed assets.

Liquidity and Capital Resources

We measure our liquidity a variety of ways, including the following:

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Cash	\$ 44,099	\$ 613,443
Working Capital Deficiency	\$ (6,768,724)	\$ (3,944,873)
Notes Payable (Gross - Current)	\$ 1,683,944	\$ 50,000

Due to our brief history and historical operating losses, our operations have not been a source of liquidity, and our primary sources of liquidity have been debt and proceeds from the sale of our equity securities in several private placements. Our current business plan requires us to raise additional capital in order to fund a rapid build-up of infrastructure. As a result, we expect revenue expansion will lag spending on investment in infrastructure, which will initially exacerbate our operating deficit and use of cash in operations.

Prior to the reverse merger we consummated on September 21, 2011, we relied primarily on debt financing from our directors and principal stockholders and their affiliates to fund our operations. We borrowed an aggregate of \$2,337,980 and \$1,453,757 (net of repayments of \$200,000) during the years ended December 31, 2011 and 2010, respectively.

In November 2011, we completed a private placement offering in which we sold an aggregate of 20,311,251 units of our securities at a price of \$0.25 per unit, consisting of 20,311,251 shares of common stock and warrants to purchase 10,155,627 shares of common stock, and received gross proceeds of \$5,077,811, which included the conversion of the \$2,275,000 principal amount, plus accrued interest, of outstanding bridge notes. In connection with this offering, we paid the placement agent in the offering aggregate commissions of \$153,000 and issued to the placement agent warrants to purchase an aggregate of 612,000 shares of our common stock, and incurred other offering costs of approximately \$186,000.

In January 2012, we completed a private placement offering in which we sold an aggregate of 8,269,203 units of our securities at a price of \$0.375 per unit, consisting of 8,269,203 shares of common stock and warrants to purchase 2,067,303 shares of common stock, and received gross proceeds of \$3,100,950. In connection with this offering, we paid the placement agent in the offering aggregate commissions of \$217,595 and issued to the placement agent warrants to purchase an aggregate of 580,253 shares of our common stock.

In May 2012, we completed a private placement offering in which we sold an aggregate of \$580,000, in principal amount of 12% convertible promissory notes.

In July and August 2012, we completed and closed on an offering of Bridge Units which consisted of a twelve month 8% convertible note and a warrant. The Bridge Units were being offered in anticipation of a subsequent offering. We closed an aggregate of \$1,050,000 of Bridge Units.

During September 2012, we had one closing of a Third Private Offering pursuant to which an aggregate of 575,000 investor units were sold at a price of \$0.20 per unit resulting in \$68,113 of aggregate net proceeds (\$115,000 of gross proceeds less \$46,887 of issuance costs). Subsequent to September 30, 2012, we raised an additional \$676,250 of gross proceeds from the private placement offering. We plan to raise an additional \$6,000,000 from the offering underway, which should provide enough cash to fund operations for the next twelve months. However, there can be no assurance that we will be successful in raising this amount of capital.

The proceeds from these private placement offerings are being used to fund (1) \$180,000–\$240,000 per annum of recurring legal and accounting expenses as a result of being a public company, (2) our existing operating deficits while we invest in our sales, research and development and support functions, which we believe will enable us to broaden our product line(s) and enhance our marketing efforts to increase revenues and generate operating surpluses by the end of 2013, and (3) general working capital needs of our business. We do not currently anticipate any material capital expenditures.

Availability of Additional Funds

Looking forward, our business plan relies on accelerated sales to provide cash to fund our working capital needs. Working capital needs include funding the development of future releases of our software, additional headcount to sell and to service a broader market for our products, and other investments necessary to grow our Company. Our ability to generate additional sales, and the timing of such sales, is dependent on many factors outside of our control. As a result, we may need to raise additional funds through one or more offerings of debt, equity or convertible securities. There can be no assurance, however, that such financing will be available or will be available on acceptable terms.

Various factors outside of our control, including the spending on IT infrastructure, overall market and economic conditions, the downturn and volatility in the U.S. equity markets and the trading price of our common stock may limit our ability to raise the capital needed to execute our plan of operations. We recognize that the U.S. economy is currently experiencing a period of uncertainty and investor appetite for our securities may not be at their peak. These or other factors could adversely affect our ability to raise additional capital. As a result of an inability to raise additional capital, our short-term or long-term liquidity and our ability to execute our plan of operations could be significantly impaired. These matters raise substantial doubt about our ability to continue as a going concern. If we are unable to obtain adequate funds on reasonable terms, we may be required to significantly curtail or discontinue operations or obtain funds by entering into financing agreements on unattractive terms.

Nine months Ended September 30, 2012 and 2011

As expected, our net losses and usage of cash has expanded, while we await the expected benefits of our infrastructure investments.

Operating Activities

Net cash used in operating activities for the nine months ended September 30, 2012 and 2011, amounted to \$3,620,254 and \$1,622,982, respectively. During the nine months ended September 30, 2012, the net cash used in operating activities was primarily attributable to the \$7,802,756 net loss, partially offset by \$2,562,343 of non-cash adjustments, and \$1,620,159 was generated from changes in operating assets and liabilities. During the nine months ended September 30, 2011, the net cash used in operating activities was primarily attributable to the \$4,417,897 net loss, partially offset by \$900,822 of non-cash adjustments, and \$1,894,093 was generated from changes in operating assets and liabilities.

Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2012 and 2011 amounted to \$449,761 and \$121,224, respectively. The net cash used in investing activities for the nine months ended September 30, 2012 related primarily to technology for new hires and furniture for the new Folsom, California office. Acquisitions of intangible assets (shapes acquired from a graphic designer for our database library that are schematics of specific computer equipment) for the nine months ended September 30, 2012 and 2011 amounted to \$166,268 and \$70,022, respectively.

Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2012 and 2011 amounted to \$3,500,671 and \$1,895,517, respectively. For the nine months ended September 30, 2012, the net cash provided by financing activities resulted primarily from net proceeds from the issuance of common stock and warrants of \$1,515,226 (gross proceeds of \$1,748,747 less \$233,521 of issuance costs) and proceeds from new borrowings of \$1,630,000. For the nine months ended September 30, 2011, the net cash provided by financing activities resulted primarily from new borrowings of \$2,337,980.

Off-Balance Sheet Arrangements

None.

Critical Accounting Policies and Estimates

There are no material changes from the critical accounting policies set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our December 31, 2011 financial statements included in our Annual Report on Form 10-K filed with the SEC on March 30, 2012. Please refer to that document for disclosures regarding the critical accounting policies related to our business.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that material information required to be disclosed in our periodic reports filed under the Securities Exchange Act of 1934, as amended, or 1934 Act, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to ensure that such information 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. During the quarter ended September 30, 2012 we carried out an evaluation, under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13(a)-15(e) under the 1934 Act. Based on this evaluation, management concluded that as of September 30, 2012 our disclosure controls and procedures were effective.

Limitations on Effectiveness of Controls and Procedures

Our management, including our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), does not expect that our internal controls and procedures will prevent all errors 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. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. 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 our company have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that breakdowns can occur because of 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.

Changes in Internal Controls

During the fiscal quarter ended September 30, 2012, there were no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time we may be a defendant and plaintiff in various legal proceedings arising in the normal course of our business. We are currently not a party to any material legal proceedings or government actions, including any bankruptcy, receivership, or similar proceedings. Furthermore, as of the date of this Quarterly Report, our management is not aware of any proceedings to which any of our directors, officers, or affiliates, or any associate of any such director, officer, affiliate, or security holder is a party adverse to our company or has a material interest adverse to us.

ITEM 1A. RISK FACTORS

Not applicable.

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

In April 2012, we sold an aggregate principal amount of \$400,000 in 12% convertible promissory notes. The notes mature 90 days after issuance and are convertible, at the option of the holder, into units of our securities, at a price of \$0.20 per unit, each unit consisting of one share of our common stock and a warrant representing the right to purchase one share of our common stock for a period of five years from issuance at an exercise price of \$0.30 per share. The notes contain weighted average anti-dilution protection. If issued, the warrant will be exercisable on a cashless basis and will contain weighted average anti-dilution price protection.

In May 2012, we sold an aggregate principal amount of \$180,000 in 12% convertible promissory notes. The notes mature 90 days after issuance and are convertible, at the option of the holder, into Company units, at a price of \$0.20 per unit, each unit consisting of one share of our common stock and a warrant representing the right to purchase one share of our common stock for a period of five years from issuance at an exercise price of \$0.30 per share. If issued, the warrant will be exercisable on a cashless basis and will contain weighted average anti-dilution price protection.

In June through August 2012, we completed a private placement offering of Bridge Units which consisted of a twelve month 8% convertible note and a warrant (as more fully discussed above under Overview — Recent Developments and Trends). The Bridge Units were being offered in anticipation of a subsequent offering. The Company closed an aggregate of \$1,050,000 of Bridge Units. Each of the Bridge Units consists of (i) an 8% convertible promissory note (the “8% Notes”) and (ii) a three-year warrant to purchase one share of the Company’s common stock (the “Bridge Warrants”) for each dollar invested at an initial exercise price per share equal to the average of the daily volume weighted average prices of the shares of our common stock for the 20 consecutive trading days (the “20-day VWAP”) immediately preceding the date of the exercise of the Bridge Warrants. The 8% Notes are convertible into shares of our common stock, at the option of the holder, at a price equal to 65% of the 20-day VWAP immediately prior to the conversion date. The 8% Notes are also automatically convertible upon completion of the Subsequent Offering, into the Subsequent Offering securities at a price equal to 65% of the Subsequent Offering price. Subsequent Offering refers to our sale of our equity (or any convertible) securities first sold after the date of the issuance of the 8% Notes and on or prior to the 1 year anniversary of the issuance date, yielding aggregate gross proceeds to us of greater than \$4,000,000. Conversion of the 8% Notes is subject to a conversion blocker such that conversion is limited to the issuance of common stock that would give the holder beneficial ownership of 4.99% of the common stock outstanding. In the event of completion of the Subsequent Offering, the exercise price is adjustable to 150% of the Subsequent Offering price to purchase the Subsequent Offering securities and the term is extended to three years from the completion of the Subsequent Offering. The Bridge Warrants are (a) exercisable on a cashless basis after the first anniversary of warrant issuance, (b) subject to weighted average anti-dilution protection and are (c) contingently redeemable by us at \$0.00001 per share. The contingent redemption feature is permitted if (i) there is an effective registration statement covering resale of the shares issuable pursuant to the Bridge Warrants, (ii) the twenty day average closing bid price of our common stock is at least 200% of the then current exercise price, (iii) the twenty day average trading volume is at least 100,000 shares per day and (iv) there is not more than one trading day where there is no trading volume.

In September and October 2012, we completed five closings of our ongoing private placement offering pursuant to which we sold 4,497,975 units of securities ("PPO Unit") for gross proceeds of \$791,250, at a purchase price equal to the lesser of (i) \$0.20 per PPO Unit or (ii) the five day volume weighted average price immediately preceding the applicable closing ("VWAP"), with each PPO Unit consisting of (a) one share of common stock and (b) a five-year warrant to purchase one share of our common stock at an exercise price of \$0.30 per share (the "PPO Warrants"). We used the net proceeds from the closings of the PPO for general working capital. The five closings resulted in warrants to purchase 1,764,876 shares of our common stock having their exercise price reduced to \$0.30 per share, including warrants to purchase 939,375, 575,001 and 250,000 shares whose original exercise price was \$0.625 per share, \$1.00 per share and the twenty day VWAP, respectively. The PPO Warrants are subject to weighted average anti-dilution protection and possess piggy-back registration rights. The Investor Warrants are redeemable at a price of \$0.0001 per share if (x) our common stock's average closing bid price exceeds \$1.00 for five of any ten consecutive days, (y) the twenty-day average daily volume exceeds 20,000 shares and (z) there is no more than one single day of no volume.

All of our unregistered sales of equity securities during the quarter ended September 30, 2012 were made in reliance on Section 4(2) of the Securities Act of 1933, as amended and/or Rule 506 of Regulation D promulgated thereunder and involved transactions by an issuer not involving any public offering. As more fully described in Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources, the net proceeds from such securities sales were used for general working capital.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

We are in default under a December 8, 2008, 5% Senior Promissory Note (the "Note") issued to a principal shareholder. Interest and principal became due on the Note in June, 2009. As at September 30, 2012 we owed \$50,000 in principal and \$9,521 in accrued interest on the Note. We intend to pay off the Note, including all accrued interest due thereon, as and when funding or revenues permit.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

In reviewing the agreements included as exhibits to this Form 10-Q, please remember that they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about us or the other parties to the agreements. The agreements may contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and

- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about us may be found elsewhere in this Form 10-Q and our other public filings, which are available without charge through the SEC's website at <http://www.sec.gov>.

The following exhibits are included as part of this report:

<u>Exhibit No.</u>	<u>Description</u>
31.1	Certification of Principal Executive Officer pursuant to Section 302 the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Section 302 the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	XBRL Instance Document
101.SCH**	XBRL Schema Document
101.CAL**	XBRL Calculation Linkbase Document
101.DEF**	XBRL Definition Linkbase Document
101.LAB**	XBRL Label Linkbase Document
101.PRE**	XBRL Presentation Linkbase Document

* This certification is being furnished and shall not be deemed "filed" with the SEC for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

** Pursuant to Rule 406T of Regulation S-T, this XBRL related information shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed part of a registration statement, prospectus or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filings.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RACKWISE, INC.

Date: November 14, 2012

By: /s/ Guy A. Archbold
Guy A. Archbold, Chief Executive Officer

Date: November 14, 2012

By: /s/ Jeff Winzeler
Jeff Winzeler, Chief Financial Officer

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
31.1	Certification of Principal Executive Officer pursuant to Section 302 the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Section 302 the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	XBRL Instance Document
101.SCH**	XBRL Schema Document
101.CAL**	XBRL Calculation Linkbase Document
101.DEF**	XBRL Definition Linkbase Document
101.LAB**	XBRL Label Linkbase Document
101.PRE**	XBRL Presentation Linkbase Document

* This certification is being furnished and shall not be deemed "filed" with the SEC for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

** Pursuant to Rule 406T of Regulation S-T, this XBRL related information shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed part of a registration statement, prospectus or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filings.

**CERTIFICATION OF PRINCIPAL EXECUTIVE AND FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Guy A. Archbold, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rackwise, Inc. for the quarterly period ended September 30, 2012;

2. Based on my knowledge, the quarterly report does not contain any untrue statement of 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers 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 quarterly 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 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 officers 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 function):

(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 controls.

Date: November 14, 2012

By: /s/ Guy A. Archbold

Name: Guy A. Archbold

Title: Chief Executive Officer (principal executive officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE AND FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeff Winzeler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rackwise, Inc. for the quarterly period ended September 30, 2012;

2. Based on my knowledge, the quarterly report does not contain any untrue statement of 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers 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 quarterly 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 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 officers 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 function):

(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 controls.

Date: November14, 2012

By: /s/ Jeff Winzeler

Name: Jeff Winzeler

Title: Chief Financial Officer (principal financial officer)

**CERTIFICATION 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 of Rackwise, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Guy A. Archbold, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: November 14, 2012

By: /s/ Guy A. Archbold
Name: Guy A. Archbold
Title: Chief Executive Officer

**CERTIFICATION 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 of Rackwise, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeff Winzeler, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: November 14, 2012

By: /s/ Jeff Winzeler
Name: Jeff Winzeler
Title: Chief Financial Officer