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Filer CIK*	0001476638 **[Rackwise, Inc.]**
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Document Type 11*	EX-101.INS
Document Description 11	XBRL INSTANCE DOCUMENT
Document Name 12*	rack-20121231.xsd
Document Type 12*	EX-101.SCH
Document Description 12	XBRL TAXONOMY EXTENSION SCHEMA
Document Name 13*	rack-20121231_cal.xml
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Document Description 13	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE
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Document Description 14	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)

☒ **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For Fiscal Year Ended: December 31, 2012

OR

☐ **TRANSITION REPORT UNDER 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	**27-0997534**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2365 Iron Point Road, Suite 190, Folsom, CA	**95630**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(916) 984-6000**

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, par value $0.0001 per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the past 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 the "large accelerated filer," "accelerated filer," "non-accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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 ☒

As of June 30, 2012, there were 99,247,253 shares of the registrant's common stock, par value $0.0001 per share, issued and outstanding. Of these, 41,952,724 shares were held by non-affiliates of the registrant. The market value of securities held by non-affiliates was $10,488,181 as of June 30, 2012, based on the closing price of $0.25 for the registrant's common stock on June 30, 2012.

As of April 12, 2013, there were 117,732,201 shares of the registrant's common stock, par value $0.0001 per share, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
Not Applicable.

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FORWARD-LOOKING STATEMENTS

Except for historical information, this Annual Report on Form 10-K (this "Annual Report") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements involve risks and uncertainties, including, among other things, statements regarding our business strategy, future revenues and anticipated costs and expenses. Such forward-looking statements include, among others, those statements including the words "expects," "anticipates," "intends,", "plans," "may," "could," "should," "anticipates," "likely," "believes" and similar language. Our actual results may differ significantly from those projected in the forward-looking statements. You should carefully review the risks described in this Annual Report and in other documents we file from time to time with the Securities and Exchange Commission. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Annual Report. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.

Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, there are a number of risks and uncertainties that could cause actual results to differ materially from such forward-looking statements.

Factors that might cause or contribute to such differences include, but are not limited to, those discussed below and in the sections "Business," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Factors that may cause actual results, our performance or achievements, or industry results, to differ materially from those contemplated by such forward-looking statements include without limitation:

1. Our ability to successfully engage in the software development and marketing business;
2. The intensity of competition in the industry in which we operate;
3. Our ability to raise additional capital on acceptable terms, if at all;
4. The ability of markets for IT infrastructure, data center monitoring, management and optimization software, data center energy cost efficiency solutions and green data centers to not continue to grow;
5. Our ability to competitively price our products;
6. Our ability to provide the same level of return on investment for our clients;
7. Our ability to protect our intellectual property rights;
8. The enforcement of tax liens against us could have a material adverse effect on our financial prospects.;
9. Our ability to maintain proper and effective internal controls;
10. General economic conditions that affect our industry or the global environment in which we operate; and
11. Our ability to successfully attract and retain management and other key employees.

These forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may differ materially from those that we expected. The forward-looking statements contained in this Annual Report are largely based on our expectations, which reflect many estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors. Although we believe such estimates and assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors and it is impossible for us to anticipate all factors that could affect our actual results. In addition, management's assumptions about future events may prove to be inaccurate. Management cautions all readers that the forward-looking statements contained in this Annual Report are not guarantees of future performance, and we cannot assure any reader that such statements will be realized or the forward looking events and circumstances will occur. Actual results may differ materially from those anticipated or implied in the forward-looking statements due to the factors listed in the "Risk Factors" section and elsewhere in this Annual Report. All forward-looking statements are based upon information available to us on the date of this Annual Report. We undertake no obligation to update or revise any forward-looking statements as a result of new information, future events or otherwise, except as otherwise required by law. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

All references in this Annual Report to the "Company," "Rackwise," "we," "us" or "our" are to Rackwise, Inc., a Nevada corporation, and, unless otherwise differentiated, our subsidiary, Visual Network Design, Inc., a Delaware corporation.

PART I

ITEM 1. BUSINESS

Organizational History

We were incorporated under the name MIB Digital, Inc., in the State of Florida on September 23, 2009, to develop and operate an advertising and subscription supported content management platform. On August 24, 2010, pursuant to an agreement and plan of merger with our special purpose wholly-owned subsidiary Cahaba Pharmaceuticals, Inc., a Nevada corporation, we merged with and into Cahaba Pharmaceuticals, Inc., with Cahaba Pharmaceuticals, Inc. as the surviving corporation. The purpose of the merger was to re-domicile from Florida to Nevada, to change our name and to effect a recapitalization. Cahaba Pharmaceuticals, Inc. was incorporated on August 20, 2010, for the sole purpose of effecting the merger, with an authorized capital stock of 300,000,000 shares of common stock, par value $0.0001 per share, and 10,000,000 shares of "blank check" preferred stock, par value $0.0001 per share.

On July 8, 2011, in anticipation of a business combination with Visual Network Design, Inc., a Delaware corporation ("VNDI"), we entered into an agreement and plan of merger pursuant to which we merged with our newly formed, wholly owned subsidiary, Visual Network Design, Inc., a Nevada corporation. Upon the consummation of the merger, the separate existence of Visual Network Design, Inc. ceased and our shareholders became shareholders of the surviving company named "Visual Network Design, Inc." On September 21, 2011, VNDI Acquisition Corp., our wholly owned Delaware subsidiary, merged with and into VNDI, with VNDI as the surviving corporation (the "Merger"). In connection with the Merger, each share of VNDI common stock was cancelled and converted into the right to receive approximately 1.27 shares of our common stock and approximately 1.27 warrants, each to purchase one-half share of our common stock at an exercise price of $0.625 per whole share, subject to weighted-average anti-dilution protection. As a result of the Merger, we acquired the business of VNDI, and continued the existing business operations of VNDI as a software development, sales and marketing company within the markets of IT infrastructure, data center monitoring, management and optimization, data center cost efficiency and green data centers.

On September 29, 2011, we entered into an agreement and plan of merger pursuant to which we merged with our newly formed, wholly owned subsidiary, Rackwise, Inc., a Nevada corporation. The sole purpose of the merger was to change our name. Upon the consummation of the merger, the separate existence of Rackwise, Inc. ceased and our shareholders became shareholders of the surviving company named "Rackwise, Inc."

Our fiscal year end is December 31.

Business Overview

Through our wholly-owned subsidiary, VNDI, 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 executive offices are currently located in Folsom, California, and we have a software development and data center in the Research Triangle Park in Raleigh, North Carolina.

Our flagship Data Center Infrastructure Management (DCIM) software product, Rackwise®, is used by over 100 companies worldwide to track, manage, plan, optimize and provide cost analysis of IT infrastructure. Our product is a multi-layered software that provides a suite of solutions to managing the multiple dimensions of a company's IT infrastructure, including power consumption, power efficiency, carbon footprint, green grid and density requirements. Our product provides the functionality for optimizing a data center by locating servers with low CPU utilization, recognizing top power/space/heat consumption devices, and correlating those devices to the applications and business services they support. This improved reporting allows a company to plan data center expansions and reductions and equipment usage more energy efficiently and cost effectively.

As reflected in our financial statements for the years ended December 31, 2012 and 2011, we have generated significant losses, which raise 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, 2012 and 2011 on the accompanying financial statements stating that we have not achieved a sufficient level of revenues to support our business and have suffered recurring losses from operations. These factors raise substantial doubt about our ability to continue as a going concern.

Our ability to continue as a going concern is dependent upon our generating cash flow sufficient to fund operations and reducing operating expenses. While our expectation is that our business strategy will begin to increase revenues and generate cash from operations, we may not be successful in implementing our business strategy. If we cannot continue as a going concern, our stockholders may lose their entire investment in our securities.

Business Developments

As part of the execution of our business strategy, we have taken the following steps:

- We have commenced the development and execution of a Professional Services organization to offer new services to our existing and prospective clients. The new service offerings will consist of more extensive training for our existing and new products, analysis and recommendation on how to optimize the management of the client's data center. We have appointed an Executive VP to supervise the organization as well as hiring a Managing Principal Consultant.

- We have appointed a VP Strategic Partners to assist our sales program who is in the process of developing multiple strategic relationships for us. These partners will be involved in reselling and supporting Rackwise products worldwide and will allow us to rapidly expand market share of our produce, while minimizing the need to hire additional sales headcount. Our partners will be trained to demo our products, provide training to customers, and act as a first line of support.

- To further our marketing and sales efforts, we have significantly revamped our website (www.rackwise.com). We have contracted two new professional relations firms to help us update and disseminate current information about us as well as publishing on our website, including information about new contracts for the sales of our products.

- We have Rackwise DCIM X, the latest version of our product, which incorporates the Intel DCM product offering. This new release will allow our customers to effectively manage their datacenter assets at a macro level, as well as real time power and thermal monitoring and management for individual servers, group of servers, racks and IT equipment such as PDUs in the data centers.

Capital Needs

Our business strategy requires capturing additional market share and growing sales to achieve profitability. We expect that with the infusion of additional capital and development of our partnership ecosystem, we will be able to increase sales and professional services and expand the breadth of our product offerings through the following actions:

- 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 perform some of the services we are being asked to perform post sales cycles.

- 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.

As further discussed below under "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources," due to our limited operating 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 current working capital deficiency, operations and continued development of our products. As a result, we expect revenue expansion will lag spending, which will initially exacerbate our operating deficit and use of cash in operations. Based on our current amount of cash, forecasted sales and anticipated spending, we believe that the cash we have available will fund our operations until May 2013. Our ability to achieve or maintain profitability is subject to economic and competitive uncertainties that are largely outside of our control, including those associated with emerging enterprises. If we are unable to obtain such additional financing on a timely basis and, notwithstanding any request we may make, our debt holders do not agree to convert their notes into equity or extend the maturity dates of their notes, we may have to delay note and vendor payments and/or initiate cost reductions, which would have a material adverse effect on our business, financial condition and results of operations, and ultimately we could be forced to discontinue our operations and liquidate.

DCIM Software Product

A modern data center has two major software components: (1) the software relating to the "physical" components and devices and (2) the "logical" software components and applications relating to operating systems and security. Our business was formed out of a belief that there was a demand within the data center infrastructure management industry for products that addressed the management of the physical aspects of a data center and the information generated from the software applications associated with each of the numerous devices within the data center, providing reports with meaningful information to allow for better control and management of the data center. We believe our product offerings fill this gap.

Our DCIM software product, Rackwise® DCIM X, is designed as a multi-layered approach to data center infrastructure management. Each layer addresses the specific needs of the various jobs associated with operating a data center. Our solution provides visibility into critical and core data center operations and the underlying physical infrastructure and their associated resource costs. It allows companies to optimize their use of resources such as power, cooling, space, servers, networks, cables, etc.

The Rackwise® software enables centralized monitoring, management and intelligent capacity planning of critical systems within a company's IT infrastructure and data center. Our product provides visual renderings of data center assets (computers, network devices, power units, air conditioners, etc.), intelligent capacity planning and advanced analytics reporting, showing the most efficient use of power, cooling and physical space throughout the data center. Our core DCIM product provides a basic set of modules that lets a customer visualize the data center's physical infrastructure from their computer screen and monitor real-time power and thermal data at the server CPU level. It also offers a number of fully integrated modules to support the other steps of a data center process cycle, including the ability to automatically keep track of IT assets, control data center processes, report on progress and trending, and forecasting. Our product helps manage and model the Move, Add, Change (MAC) initiatives across a data center estate. For planning purposes it will predict capacity resources needed well into the future which will maximize data center ROI (Return on Investment), achieve greater levels of data center efficiency and reduce energy costs.

Our product has been developed over a period of five years, with at least two version releases each year in the last three years, and is currently on its fourth major release. It was developed to be compatible with the Microsoft platform, written primarily in C# (an industry standard programming language) and incorporating various Microsoft software products such as Visio, Excel, Word and SQL Server. Being compatible with the Microsoft platform offers our product a significant advantage, allowing for more ease of use and learnability by our customers compared to products by our competitors that are not compatible with the Microsoft platform. It also provides for the interoperability between our product and other products widely used by most data centers around the world.

We have three different pricing models for our Rackwise® software product. We offer Rackwise® as a subscription (an annual lease) and as a license purchase (one time purchase with a yearly maintenance contract). This pricing flexibility allows us to better accommodate the IT budgeting needs of our customers. Pricing is based upon the number of concurrent users who will have access to the product. The third pricing model is "Rackwise on Demand" and is offered as a Software as a Service ("SaaS") (commonly referred to as "on-demand software" or "cloud"). Pricing for this model is on an annual subscription basis and is based on a flat fee per computer equipment rack.

Market

We believe the market for our product is substantial. According to a July 2010 Pike Research Report titled the "Data Center Revenue World Markets in 2010" (the "2010 Pike Report"), there are approximately 1.25 million corporate data centers in the Unites States. The report also suggested that the European and Far Eastern markets combined are equal to the U.S. domestic market. Further, we believe that our market is considered to be a "greenfield," meaning that no competing software is currently installed in the IT infrastructures of potential clients. This is a significant benefit because the lack of installed software eliminates the fear by many companies of an expensive and time consuming migration and the potential downtime and additional training.

The 2010 Pike Report also indicated that the market for the "monitoring and management software" segment of the data center industry will continue to grow from its present size of approximately $3 billion to over $7 billion by the year 2015. This demonstrates that the market for data center monitoring, management and optimization software is growing and will continue growing, led by the United States and then quickly followed the rest of the world.

Opportunity

We believe that understanding and controlling the physical aspects of the data center while providing capacity planning and modeling has never been more important than it is in today's technology and data-driven world. According to various market research and analyst firms specializing in information technology, including International Data Corporation (IDC), Gartner, Inc. and The Green Grid, millions of dollars are presently being invested in new companies that promise to build new "green" and clean computer centers. There is also growing pressure from environmentalists and, increasingly, the general public for governments to offer green incentives, such as financial subsidies for the creation and maintenance of ecologically responsible technologies.

Further, the U.S. Department of Energy states "with a 10 percent improvement of overall energy efficiency in data centers by 2011, approximately 10 billion kilowatt-hours would be saved, equivalent to electricity consumed by 1 million U.S. households annually. This energy cutback would reduce carbon dioxide emissions by 6.5 million tons per year – equal to the removal of nearly 1.3 million cars from the road annually."

Corporate data centers continue to evolve in dramatic fashion. Formerly, data centers were the necessary expense to house all the computer power being used by a company. Over a short period of time, the "computer center" or "data center" of the corporation has turned into a critical part of the most valuable asset of a corporation, its reputation. The communications center of the corporation, which is the interface between all of its divisions, its partners, its customers, its employees and the actual "image" of the corporation, is housed in "the data center".

The strategic situation of the data center/communication center is even more vulnerable and risky in today's world because of the rate of change of the functionality of the data center and the change in scope of the constituency it serves. Rising energy costs, space limitations, virtualization, consolidations, migrations, risk avoidance and impending government legislation are motivating IT managers to seek for comprehensive solutions for optimizing data center power, cooling and space. In a report from Gartner, Inc., "DCIM: Going Beyond IT," released on March 29, 2010, the analyst firm defines the importance of the new DCIM market and states that "DCIM tools and processes will become mainstream in data centers, growing from 1% penetration in 2010 to 60% in 2014." The report goes on to say that operations and infrastructure managers must manage the entire data center infrastructure, and that "energy savings from well-managed data centers can easily reduce operating expenses by as much as 20%."

We believe our proprietary technology provides an effective tool for data center operators to quickly estimate the energy efficiency of their data centers, compare the results against other data centers, and determine if any energy efficiency improvements need to be made. It provides a presentation quality dashboard for communicating the "green" status of a data center using The Green Grid's metrics of Power Usage Effectiveness (PUE) and Data Center Infrastructure Efficiency (DCE). Clients are able to view top resource consumers by type: servers, network, storage equipment, etc. Additionally, the data center carbon footprint is calculated and displayed.

Competition

The markets for IT infrastructure, data center monitoring, management and optimization, data center cost efficiency and green data centers are highly fragmented, competitive and rapidly changing. We believe our Company presently has two main competitors: Aperture and NLYTE. The Aperture software is a proprietary system requiring a significant amount of professional services to load, deploy, install, train and redeploy, as evidenced by the fact that 40%-50% of its revenues are from professional services as compared to less than 20% of our revenues. The NLYTE software is similar to the Aperture software in that significant professional services are needed to simply deploy the product. Professional services are "required" to install the Aperture and NLYTE software products and actually deploy them into production. By comparison, the professional services offered by us are "added value" and are offered at the request of customers whose data centers may be understaffed. Another significant differentiator of our product compared to our competitors' is its ability to interface with many other existing applications that are already installed and running in our customers' data centers. This allows our customers to maintain their existing investments and concurrently enjoy the added value of our offerings. We believe these factors combine to give our products a major competitive advantage.

Marketing and Sales

Our marketing efforts in the past have been to generate sales leads primarily through the use of Google marketing and trade show attendance. To a lesser extent we use our website featuring "white papers," videos, webinars, and customer testimonials. We intend to place increased efforts on featuring our relationships with strategic services partners, both domestically and internationally.

The historical sales cycle for our product is very short, typically between 50 and 120 days, when compared to other enterprise software products as a consequence of the significant demand in the marketplace to reduce costs and green data centers. The sales cycle may increase in the future because of our revised business strategy as described below. Our customers can normally expect a payback of the cost of the software within three to four months. Such payback results from reduced operating costs that result from using the data center reporting tools provided by our software to plan more efficient operations. Currently, the majority of our sales are conducted remotely, over the phone and by the web, making the sales process very efficient and thereby reducing the associated costs. During the last two years, we have developed a very close relationship with our clients, which allow us to develop software that is more readily accepted in the marketplace at a very affordable price. We have raised our average sales price during the last two years. The growth in average sales price can be attributed partly to client size and in part by the added functionality of our product offerings.

Our current clients represent significant future revenue from the sale of additional licenses, new product releases and upgrades to their present installations as well as on-going maintenance fees. In many instances clients have started to reach out to us seeking assistance with professional services in order to quickly bring their data centers under control and operate more efficiently. We view this as a major commercial opportunity moving forward.

Strategy

We expect that with the development of Value Added Partners, we will be able to further increase sales and professional services and expand the breadth of our product offerings. Our strategic initiatives are as follows:

- Take advantage of a compelling opportunity for organic growth within our existing customer base, particularly within our current Fortune 1000 users. Our largest customers have installed a limited number of our product to address a portion of their data center infrastructure management problems, resulting in revenue that is a fraction of the potential we believe is realizable. Our management team intends to maximize the revenue potential of each existing customer by marketing our product to address all the dimensions of such customer's IT infrastructure and data center.

- Continue to be heterogeneous and agnostic to the technology environments of all customers. This will allow us to interface with our customers' very diverse technologies and applications, thereby leveraging customer investments. We continue to add to and build our database of components that are used in the data center, focusing on our clients' diverse needs in support of our agnostic approach.

- "Optimize" our customers' data center assets, now and in the future, increasing their return on investment.

- Add strong interfaces to our existing product suite, which would make us a differentiator in the market. We have an initial prioritized list of interfaces that we believe will enhance our ability to become the "best of breed." Many of the interfaces have already been developed and the process will be ongoing.

- Establish industry partners and strategic services partners to perform some of the services we are being asked to perform post sales cycles.

- Expand our products to capitalize on the complex trend of globalization and virtualization of data centers.

- Expand our products across the customers' enterprise technology topography. We are in the process of developing Product Requirement Definitions (PRDs) that will allow us to start on the design of the architecture to support this initiative.

Intellectual Property

Our software and most of the underlying technology is proprietary. We rely on a combination of confidentiality agreements and procedures and trademark and trade secret laws to protect our intellectual property rights. We have no issued patents. Our means of protecting our proprietary rights, however, may not be adequate. Despite our efforts, we may be unable to prevent or deter infringement or other unauthorized use of our intellectual property. Time-consuming and expensive litigation may be necessary in the future to enforce these intellectual property rights.

In addition, although we do not believe we are infringing on the rights of others, we cannot assure you that our intellectual property does not infringe the intellectual property rights of others, or will not in the future. If we become liable to third parties for infringing upon their intellectual property rights, we could be required to pay substantial damage awards and be forced to develop non-infringing technology, obtain licenses or cease delivery of the applications that contain the infringing technology.

Customers

We market our products primarily to companies in the U.S. In 2011, we had no customer that represented more than 10% of our total revenues. In 2012, one U.S. based customer represented more than 21% of our total revenues.

Employees

As of December 31, 2012, we had 27 full-time employees. 12 of our employees were located in our Raleigh, North Carolina office. We have never experienced a work stoppage and believe our relationship with our employees is good.

Reports to Security Holders

We file annual, quarterly, current and special reports and other information with the Securities and Exchange Commission (the "SEC"). You may read and obtain copy of any reports, statement or other information that we file with the SEC at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at (202) 551-8090 for further information on the public reference room. These SEC filings are also available to the public from commercial document retrieval services and at the Internet site maintained by the SEC at http://www.sec.gov.

In addition, our filings can be viewed on the "Corporate Filings" section of our Internet site at www.rackwise.com.

ITEM 1A. RISK FACTORS

You should carefully consider the risks described below as well as other information provided to you in this Annual Report, including information in the section of this Annual Report entitled "Information Regarding Forward Looking Statements." The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe are immaterial may also impair our business operations. If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected, and you may lose all or part of your investment.

RISKS RELATED TO OUR BUSINESS AND FINANCIAL CONDITION

We have a history of losses and we may not achieve or maintain profitability.

We have a history of losses and have not yet achieved profitability. We had net losses of $9,593,685 and $8,880,725 for the fiscal years ended December 31, 2012 and 2011, respectively. As of December 31, 2012, our cumulative loss from inception was $43,480,105. We expect operating expenses to increase in the future due to the expected development activities and marketing expenses incurred to further develop and promote our products and to increase brand awareness in the data center infrastructure management software marketplace, as well as a result of increased operations costs, sales costs and general and administrative costs associated with implementing our business plan. With the gross proceeds from the private placement offerings of our securities completed through April 16, 2013 and based on our forecasted sales, we will require additional capital to sustain our operations. As a result, we expect that the cash we have available will fund our operations until May 2013. Such expectation is based on assumptions that are subject to economic and competitive uncertainties that are largely outside of our control, including those associated with emerging enterprises. There can be no assurances that we will achieve or maintain profitability. Accordingly, we will require additional cash to sustain our business operations. If we are unable to raise additional capital in the next 30 days, we may be forced to liquidate our assets, curtail or lease our operations and/or seek reorganization under the U.S. Bankruptcy Code.

We have a going concern opinion from our auditors, indicating the possibility that we may not be able to continue to operate.

As reflected in our financial statements for the years ended December 31, 2012 and 2011, we have generated significant losses, which raise 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, 2012 and 2011 on the accompanying financial statements describing conditions that raised substantial doubt about our ability to continue as a going concern. Our financial statements contain additional note disclosures describing the circumstances that lead to this disclosure by our independent registered public accounting firm.

In addition, VNDI has unpaid payroll taxes relating to the third and fourth quarters of 2010, the first quarter of 2011 and the third and fourth quarters of 2012 in the aggregate amount of $1,099,807. VNDI also continues to incur unpaid payroll tax liabilities for the first quarter of 2013 of approximately $231,000. The IRS has placed federal tax liens that aggregate to approximately $771,000 against us in connection with the unpaid payroll taxes relating to the third quarter of 2010, fourth quarter of 2010, the first quarter of 2011 and the third quarter of 2012. If we are unable to negotiate a payment plan or a reduction in the amount of any tax obligation, the IRS or state authorities, as applicable, could enforce their liens by levying against our bank accounts, accounts receivables and other assets. A levy against or foreclosure on our assets could have a material adverse effect on our financial prospects.

Our ability to continue as a going concern is dependent upon our generating cash flow sufficient to fund operations and reducing operating expenses. Our business strategy may not be successful in addressing these issues. If we cannot continue as a going concern, our stockholders may lose their entire investment in us.

We have limited sales and compete in rapidly evolving markets, which makes our future operating results difficult to predict.

Although VNDI was incorporated in January 2003, it has limited sales in an industry characterized by rapid technological innovation, changing customer needs, evolving industry standards and frequent introductions of new products and services. These factors make it difficult to predict our operating results, which may impair our ability to manage our business and our investors' ability to assess our prospects.

Our financial results will suffer if the markets for IT infrastructure, data center monitoring, management and optimization software, data center energy cost efficiency solutions and green data centers do not continue to grow.

Our software product is designed to address the growing markets for (i) IT infrastructure, (ii) data center monitoring, management and optimization, (iii) data center energy cost efficiency and (iv) green data centers. These markets are still emerging. A reduction in the demand for these IT infrastructure solutions and products could be caused by, among other things, lack of customer acceptance, weakening economic conditions, competing technologies and services or decreases in corporate spending. Our future financial results would suffer if the market for our data center monitoring, management and optimization solutions or products do not continue to grow.

If we are unable to manage our anticipated growth effectively, our revenues and profits could be adversely affected.

We anticipate that a significant expansion of our operations and addition of new personnel is required in all areas of our operations in order to implement our business plan. Our future operating results depend to a large extent on our ability to manage this expansion and growth successfully. For us to continue to manage our growth, we must put in place legal and accounting systems and implement human resource management and other tools. We have taken preliminary steps to put this structure in place. However, there is no assurance that we will be able to successfully manage this anticipated rapid growth. A failure to manage our growth effectively could materially and adversely affect our ability to market and sell our solutions and products.

The rates we charge for our products may decline over time, which would reduce our revenues and adversely affect our profitability.

As our business model continues to gain acceptance and attracts the attention of competitors, we may experience pressure to decrease the fees for our products, which could affect our revenues and gross margin. If we are unable to sell our products at acceptable prices, or if we fail to offer additional products with sufficient profit margins, our revenue growth will slow and our business and financial results will suffer.

Our future success depends on the continued services of Messrs. Guy A. Archbold and Doug MacRae.

Our future success depends on the continued services of our Chief Executive Officer, President and Chairman of the Board of Directors, Guy A. Archbold, and our Executive Vice President Development, Doug MacRae. We have entered into an employment agreement with each of Messrs. Archbold and MacRae; however, each may resign at any time in his sole discretion. The loss of services of any of these individuals could impair our ability to complete the national and global rollout of our products and services properly and could have a material adverse effect on our business, financial condition and results of operations. We do not currently maintain key man life insurance with respect to Messrs. Archbold and MacRae.

We may be subject to intense competition and may not be able to compete successfully against larger and more established business.

Several established companies are currently offering or looking to offer solutions and products, including products relating to the development of green data centers, that compete with our data center monitoring, management and optimization software products. There can be no assurance that competitors with substantially greater financial, technical, managerial, marketing and other resources and experience than us will not compete more effectively than us.

The technology of computer equipment will continue to become more intelligent and more efficient in the future, which will impact our ability to provide the same level of return on investment for clients. A decrease in the client's return on investment could have an adverse effect on our revenues.

One of the driving demands for our products and services is the ability of such products and services to demonstrate a large return on investment for customers purchasing such products and services. As more efficient computer servers and devices become available, the amount of savings a customer will achieve by using our products and services will start to diminish, which could hinder our ability to continue to increase the rates we charge for our products and services.

Our ability to compete successfully will depend, in part, on our ability to protect our intellectual property rights. Litigation required to enforce these rights can be costly, and there is no assurance that courts will enforce our intellectual property rights.

Our software and most of the underlying technology is proprietary. We protect our proprietary rights through a combination of confidentiality agreements and procedures and through trademark and trade secret laws. Policing unauthorized use of intellectual property, however, is difficult, especially in foreign countries. Litigation may be necessary in the future to enforce our intellectual property rights, to protect trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Litigation could result in substantial costs and diversion of resources and could harm our business, operating results and financial condition regardless of the outcome of the litigation. In addition, there can be no assurance that the courts will enforce the contractual arrangements that we have entered into to protect our intellectual property rights. Our operating results could be harmed by the failure to protect such intellectual property.

The enforcement of tax liens against us could have a material adverse effect on our financial prospects.

VNDI has unpaid payroll taxes relating to the third and fourth quarters of 2010, the first quarter of 2011 and the third and fourth quarters of 2012 in the aggregate amount of $1,099,807. The IRS has placed federal tax liens that aggregate to approximately $771,000 against us in connection with the unpaid payroll taxes relating to the third quarter of 2010, fourth quarter of 2010, the first quarter of 2011 and the third quarter of 2012. If we are unable to negotiate a payment plan or a reduction in the amount of any tax obligation, the IRS or state authorities, as applicable, could enforce their liens by levying against our bank accounts, accounts receivables and other assets. A levy against or foreclosure on our assets could have a material adverse effect on our financial prospects.

We will need additional financing. Any limitation on our ability to obtain such additional financing would have a material adverse effect on expanding our business.

The proceeds from the recently completed private placement offerings of our securities are not sufficient to fully implement our business plan and we will require additional capital in order to execute our business plan and reach the planned amount of revenues, or if we accelerate the growth of the business to achieve additional market share. The raising of additional capital could result in dilution to our stockholders. In addition, there is no assurance that we will be able to obtain additional capital if we need it, or that if available, it will be available to us on favorable or reasonable terms. Any limitation on our ability to obtain additional capital as and when needed could have a material adverse effect on our business, financial condition and results of operations. If we are unable to raise additional capital in the next 30 days, we may be forced to liquidate our assets, curtail or lease our operations and/or seek reorganization under the U.S. Bankruptcy Code.

Because our September 21, 2011 merger was a reverse merger, we may not be able to attract the attention of major brokerage firms, which may limit the liquidity of our common stock and may make it more difficult for us to raise additional capital in the future.

Additional risks may exist because our September 21, 2011 merger was a "reverse merger." Certain SEC rules are more restrictive when applied to reverse merger companies, such as the ability of stockholders to resell their shares of common stock pursuant to Rule 144. In addition, securities analysts of major brokerage firms may not provide coverage of our common stock because there may be little incentive for brokerage firms to recommend the purchase of our common stock. As a result, our common stock may have limited liquidity and investors may have difficulty selling it. In addition, we cannot assure you that brokerage firms will want to conduct any secondary offerings on our behalf if we seek to raise additional capital in the future. Our inability to raise additional capital may have a material adverse effect on our business.

We may be subject to information technology system failures or disruptions that could harm our operations, financial condition, or reputation.

We rely on information technology systems to operate and manage our business and to process, maintain, and safeguard information, including information belonging to our customers, partners, and personnel. These systems may be subject to failures or disruptions as a result of, among other things, natural disasters, accidents, power disruptions, telecommunications failures, new system implementations, acts of terrorism or war, physical security breaches, computer viruses, or other cyber security attacks. While we are continually working to maintain secure and reliable systems, our security, redundancy, and business continuity efforts may be ineffective or inadequate. We must continuously improve our design and coordination of security controls. Despite our efforts, it is possible that our security controls and other procedures that we follow may not prevent systems failures or disruptions. Such system failures or disruptions could subject us to production downtimes, delays in our ability to process orders, delays in our ability to provide products and services to customers, delays or errors in financial reporting, compromise or loss of sensitive or confidential information or intellectual property, destruction or corruption of data, financial losses from remedial actions, liabilities to customers or other third parties, or damage to our reputation. Any of the foregoing could harm our competitive position, result in a loss of customer confidence, and materially and adversely affect our results of operations or financial condition.

Our business could be materially adversely affected if we do not or are unable to protect our intellectual property or if our services are found to infringe upon or misappropriate the intellectual property of others.

Our success depends in part upon certain methodologies and tools we use in designing, developing and implementing applications systems in providing our services. We rely upon a combination of nondisclosure and other contractual arrangements and intellectual property laws to protect confidential information and intellectual property rights of ours and our third parties from whom we license intellectual property. In addition, we limit distribution of proprietary information. The steps we take in this regard may not be adequate to deter misappropriation of proprietary information and we may not be able to detect unauthorized use of, protect or enforce our intellectual property rights. At the same time, our competitors may independently develop similar technology or duplicate our products or services. Any significant misappropriation, infringement or devaluation of such rights could have a material adverse effect upon our business, results of operations, financial condition and cash flows.

Litigation may be required to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Any such litigation could be time consuming and costly. Although we believe that our services do not infringe or misappropriate on the intellectual property rights of others and that we have all rights necessary to utilize the intellectual property employed in our business, defense against these claims, even if not meritorious, could be expensive and divert our attention and resources from operating our company. A successful claim of intellectual property infringement against us could require us to pay a substantial damage award, develop non-infringing technology, obtain a license or cease selling the products or services that contain the infringing technology. Such events could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We have claims and lawsuits against us that may result in adverse outcomes.

We are subject to a variety of claims and lawsuits. Adverse outcomes in some or all of these claims may result in significant monetary damages or injunctive relief that could adversely affect our ability to conduct our business. Although management currently believes resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on our financial statements, the litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. A material adverse impact on our financial statements also could occur for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

RISKS RELATED TO OUR SECURITIES

We do not expect to pay dividends on our common stock.

We have no plans to pay dividends on our common stock for the foreseeable future. We intend to retain future earning to fund operations and future capital requirements. Because we do not plan to pay dividends on our common stock, our stock may be less attractive to some investors, which could adversely affect our stock price.

If we fail to maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, our ability to operate our business and investors' views of us.

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that will need to be evaluated frequently. Section 404 of the Sarbanes-Oxley Act requires public companies to conduct an annual review and evaluation of their internal controls. Our failure to maintain the effectiveness of our internal controls in accordance with the requirements of the Sarbanes-Oxley Act could have a material adverse effect on our business. We could lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on the price of our common stock. In addition, if our efforts to comply with new or changed laws, regulations, and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

An active trading market for our common stock may not develop or be sustained, and you may not be able to resell your common stock.

Our common stock is thinly traded. We cannot assure you that an active market for our common stock will develop in the foreseeable future or, if developed, that it will be sustained. As a result you may not be able to resell your common stock.

Our common stock is considered a "penny stock," which is likely to limit its liquidity and make it more difficult for us to raise additional capital in the future.

The market price of our common stock is, and will likely remain for the foreseeable future, less than $5.00 per share, and therefore will be a "penny stock" according to SEC rules, unless our common stock is listed on a national securities exchange. The OTCQB is not a national securities exchange. Designation as a "penny stock" requires any broker or dealer selling these securities to disclose certain information concerning the transaction, obtain a written agreement from the purchaser and determine that the purchaser is reasonably suitable to purchase the securities. These rules may restrict the ability of brokers or dealers to sell our common stock and may affect the ability of current holders of our common stock to sell their shares. Such rules may also deter broker-dealers from recommending or selling the common stock, which may further limit its liquidity. This may also make it more difficult for us to raise additional capital in the future.

Our common stock is controlled by a group of affiliated stockholders.

A group of affiliated stockholders, Black Diamond Financial Group LLC, Black Diamond Holdings LLC, Rackwise Funding LLC and MFPI Partners LLC, beneficially own 47.8% of our common stock. (See "Certain Relationships and Related Transactions" for a description of related transactions involving these stockholders.) Such concentrated control of the Company may adversely affect the price of our common stock. Investors who acquire common stock may have no effective voice in the management of the Company. Sales by this group of stockholders, along with any other market transactions, could affect the market price of the common stock. However, in connection with the Merger, each of the officers, directors, key employees and holders of 10% or more of our common stock after giving effect to the Merger agreed to "lock-up" and not sell or otherwise transfer or hypothecate any of their shares of our common stock for a term of 18 months from the closing of the Merger except in certain limited circumstances. We also agreed not to register under the Securities Act the resale of the shares of our common stock received by those officers, directors, key employees and 10% holders in the Merger for a period of two years following the closing of the Merger.

The price of our common stock may become volatile, which could lead to losses by investors and costly securities litigation.

The future trading price of our common stock may become highly volatile and could fluctuate in response to factors such as:

- actual or anticipated variations in our operating results;
- announcements of developments by us, our strategic partners or our competitors;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- adoption of new accounting standards affecting our industry;
- additions or departures of key personnel;
- sales of our common stock or other securities in the open market; and
- other events or factors, many of which are beyond our control.

As a former shell company, resales of shares of our restricted common stock in reliance on Rule 144 of the Securities Act are subject to the requirements of Rule 144(i).

Rule 144 under the Securities Act, which generally permits the resale, subject to various terms and conditions, of restricted securities after they have been held for six months will not immediately apply to our common stock because we were at one time designated as a "shell company" under SEC regulations. Pursuant to Rule 144(i), securities issued by a current or former shell company that otherwise meet the holding period and other requirements of Rule 144 nevertheless cannot be sold in reliance on Rule 144 until one year after the date on which the issuer filed current "Form 10 information" (as defined in Rule 144(i)) with the SEC reflecting that it ceased being a shell company, and provided that at the time of a proposed sale pursuant to Rule 144, the issuer has satisfied certain reporting requirements under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The filing of the Company's Current Report on Form 8-K dated September 21, 2011 started the running of such one-year period. Because, as a former shell company, the reporting requirements of Rule 144(i) will apply regardless of holding period, restrictive legends on certificates for shares of our common stock cannot be removed except in connection with an actual sale that is subject to an effective registration statement under, or an applicable exemption from the registration requirements of, the Securities Act.

You may experience dilution of your ownership interests because of the future issuance of additional shares of our common stock.

In the future, we may issue our authorized but previously unissued equity securities, resulting in the dilution of the ownership interests of our present stockholders. We are currently authorized to issue an aggregate of 310,000,000 shares of capital stock consisting of 300,000,000 shares of common stock and 10,000,000 shares of preferred stock with preferences and rights to be determined by our Board of Directors. As of April 12, 2013, there were 117,732,201 shares of our common stock and no shares of our preferred stock outstanding. As of that date, there were 70,506,391 shares of our common stock issuable upon exercise of outstanding warrants. The exercise prices and number of shares of our common stock issuable on exercise of such warrants may be adjusted in certain circumstances including stock splits, stock dividends and future issuances of our equity securities without consideration or for consideration per share less than certain specified prices. In addition, our Board of Directors has authorized the grant of options to employees to purchase an aggregate of 13,500,000 shares of our common stock under our 2011 Equity Incentive Plan. As of April 12, 2013, ten-year options under our 2011 Equity Incentive Plan to purchase an aggregate of 9,595,000 shares of our common stock were outstanding. Further, as of April 12, 2013, ten-year options outside our 2011 Equity Incentive Plan to purchase an aggregate of 13,413,334 shares of our common stock were outstanding.

Any future issuance of our equity or equity-backed securities may dilute then-current stockholders' ownership percentages and could also result in a decrease in the fair market value of our equity securities, because our assets would be owned by a larger pool of outstanding equity. As described above, we may need to raise additional capital through public or private offerings of our common or preferred stock or other securities that are convertible into or exercisable for our common or preferred stock. We may also issue such securities in connection with hiring or retaining employees and consultants, as payment to providers of goods and services, in connection with future acquisitions or for other business purposes. Our Board of Directors may at any time authorize the issuance of additional common or preferred stock without common stockholder approval, subject only to the total number of authorized common and preferred shares set forth in our articles of incorporation. The terms of equity securities issued by us in future transactions may be more favorable to new investors, and may include dividend and/or liquidation preferences, superior voting rights and the issuance of warrants or other derivative securities, which may have a further dilutive effect. Also, the future issuance of any such additional shares of common or preferred stock or other securities may create downward pressure on the trading price of the common stock. There can be no assurance that any such future issuances will not be at a price (or exercise prices) below the price at which shares of the common stock are then traded.

We may obtain additional capital through the issuance of preferred stock, which may limit your rights as a holder of our common stock.

Without any stockholder vote or action, our Board of Directors may designate and approve for issuance shares of our preferred stock. The terms of any preferred stock may include priority claims to assets and dividends and special voting rights which could limit the rights of the holders of our common stock. The designation and issuance of preferred stock favorable to current management or stockholders could make any possible takeover of us or the removal of our management more difficult.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We have a lease for our principal executive office space in Folsom, California, consisting of 3,465 square feet for a period of five years at monthly base rents commencing at $6,757 and escalating to $7,833, with a right of first refusal of expanding into an adjacent 1,600 square foot space.

We have a five year lease for our software development and data center in Raleigh, North Carolina, entered into on February 3, 2012 for approximately 5,772 square feet of office space. Base monthly rent is approximately $7,922 in year one, $8,884 in year two, $9,846 in year three, $10,808 in year four and $11,072 in year five.

Additionally, we have a lease for approximately 4,180 square feet of office space in Las Vegas, Nevada. The lease expires on February 28, 2015, with current basic rent of $14,310 plus our pro rata share of the building's operating expenses. On February 16, 2012, we entered into a sublease agreement for the Las Vegas office. The sublease expires on February 28, 2015 with basic rent of $8,983 per month during months three (3) through twelve (12) of the term, $9,401 per month during month's thirteen (13) through twenty-four (24) of the term and $9,818 per month during months twenty-five (25) through thirty-seven (37) of the term.

We do not own any real estate.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm business. We are currently not aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on business, financial condition or operating results.

On October 9, 2012, we received a letter for settlement purposes only regarding enforcement of United States Patent Number 7765286. The letter claims that our software product DCIM v3.5 infringes on the claims of the aforementioned patent held by Nlyte Software Limited and Nlyte Software Americas Limited (collectively "Nlyte"), a company that sells data center infrastructure management products. The letter references a standard license agreement that is "being offered at a substantial discount relative to the value of the patent. The payment terms include an upfront payment to cover past product sales and an ongoing royalty for future product sales." We have conducted an internal technical review of the patent claims by its EVP of Development. Based on those findings, we have elected not to sign the license agreement pending full legal review by patent counsel.

On October 26, 2012, we were named as defendant in a complaint filed in the County of Westchester, Supreme Court of the State of New York by Porter, Levay & Rose, Inc., index number 68540/2012. The complaint alleges the Plaintiff rendered work, labor and services to the Company on, about, or between October 18, 2012, and is seeking $103,198, together with interest running from October 18, 2012. We dispute the amount owed based on the services rendered and have retained a New York based counsel to represent us in the matter.

On January 22, 2013, we were named as defendant in a complaint filed in the Superior Court of California, County of Sacramento, case number 34-2013-00138819 by Babich & Associates, Inc., a Texas Corporation. The complaint alleges that we were invoiced for services relating to professional staffing services for 2 potential employees that we subsequently hired, and is seeking $48,000 plus earned interest at the rate of 10% per annum from May 3, 2012. We have retained counsel in the matter to investigate the claims and recommend a course of action.

On January 25, 2013, we and our CEO were named defendants in a complaint filed in the Superior Court of California, County of Sacramento, case number 34-2013-00138978 by Daniel Lucas, our former employee. The complaint alleges that we entered into an employment agreement with Mr. Lucas for the purposes of providing services as our Regional Sales Manager, that we and our CEO breached the agreement by refusing to compensate Mr. Lucas for his services, and as a result, Mr. Lucas is seeking lost compensation and benefits in the amount of $77,429, compensatory damages, attorneys' fees, interest, and any other relief as the court deems just and proper. We dispute these claims and have hired counsel to represent us in the matter.

On January 25, 2013, we and our CEO were named defendants in a complaint filed in the Superior Court of California, County of Sacramento case number 34-2013-00138979 by Timothy Barone, our former employee who was terminated for cause. The complaint alleges that we entered into an employment agreement with the Plaintiff for the purposes of providing services as our Senior Vice President, Global Accounts and Partners, that we and our CEO breached the agreement by refusing to compensate Mr. Barone for his services, and as a result, Mr. Barone is seeking lost compensation and benefits in the amount of $194,596, additional tax liability of $150,000, compensatory damages, exemplary and/or punitive damages in an amount to be determined, attorneys' fees, interest, and any other relief as the court deems just and proper. We dispute of these claims and have hired counsel to represent us in the matter.

On February 20, 2013, we were named as a defendant in a complaint filed in the Superior Court, Wake County, State of North Carolina, case number I3CV002442 by Accentuate Staffing Inc. The complaint alleges that we were invoiced for services relating to professional staffing services as defined in a certain contract executed on December 20, 2011, and is seeking $59,824 plus interest and costs as allowed by law. We have retained counsel in the matter to investigate the claims and recommend a course of action.

On February 25, 2013, we, our CEO and our CFO were named defendants in a complaint filed in the Superior Court, Commonwealth of Massachusetts, civil case number 13-0641 by David E. Fahey, a former employee of the company. The complaint alleges that Mr. Fahey was not paid commissions that were due and owing and the Company failed to reimburse the Plaintiff for his business expenses, resulting in a breach of contract, and is seeking $33,695 in commissions, $4,300 in out of pocket expenses, and treble damages, attorney's fees, costs, and interest.

On March 7, 2013, we were named as a defendant in a complaint yet to be filed in District Court, First Judicial District, Carver County, State of Minnesota. The complaint alleges that we have not paid commissions totaling $11,900 to Dan Skrove, a former employee, who resigned in 2012. We are currently working with counsel in Minnesota to resolve the matter.

On March 11, 2013, we were named as a defendant in a complaint filed in the Superior Court, Wake County, State of North Carolina, case number 13CV003506 by TSG and Associates, LLC d/b/a The Select Group Raleigh, LLC. The complaint alleges that we were invoiced for services relating to professional staffing services as described by a Direct Hire Agreement dated June 13, 2011, and is seeking $41,000, plus attorney's fees of $6,150. We have retained counsel in the matter to investigate the claims and recommend a course of action.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Since July 14, 2010, our common stock has been listed for quotation on OTCQB, originally under the symbol "MBDG." Our symbol changed to "CAHA" on September 15, 2010 in connection with our name change to "Cahaba Pharmaceuticals, Inc.," to "VNDI" on July 21, 2011 in connection with our name change to "Visual Network Design, Inc." and to "RACK" on October 27, 2011 in connection with our name change to "Rackwise, Inc."

The trading of our common stock began on September 22, 2011. The following table sets forth the high and low closing bid prices for our common stock for the fiscal quarters indicated as reported on OTCQB. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. Our common stock is thinly traded and, thus, pricing of our common stock on OTCBQ does not necessarily represent its fair market value.

Quarters Ended:	High	Low
December 31, 2012	$ 0.20	$ 0.14
September 30, 2012	$ 0.28	$ 0.14
June 30, 2012	$ 1.41	$ 0.20
March 31, 2012	$ 1.15	$ 0.53
December 31, 2011	$ 1.21	$ 0.25
September 30, 2011 (from September 22, 2011)	$ 0.47	$ 0.25

As of April 12, 2013, there were 117,732,201 shares of our common stock issued and outstanding, 70,506,391 shares issuable upon exercise of outstanding warrants and 23,008,334 shares issuable upon exercise of outstanding options. On that date, there were 160 holders of record of shares of our common stock.

Dividends

We have never declared any cash dividends with respect to our common stock. Future payment of dividends is within the discretion of our Board of Directors and will depend on our earnings, capital requirements, financial condition and other relevant factors. Other than provisions of the Nevada Revised Statutes requiring post-dividend solvency according to certain measures, there are no material restrictions limiting, or that are likely to limit, our ability to pay dividends on our common stock. Nonetheless, we presently intend to retain future earnings, if any, for use in our business and have no present intention to pay cash dividends on our common stock.

Recent Sales of Unregistered Securities

In September 2012, we commenced a private placement offering consisting of a maximum of 25,000,000 units (subject to an additional 5,000,000 units for over-allotments) at a price of $0.15 per unit("PPO Unit") (the "Third Private Offering"). Each PPO unit consisted of (i) one share of our common stock and (ii) a warrant representing the right to purchase one share of our common stock, exercisable for a period of five years, at an exercise price of $0.30 per share. The exercise price and number of shares of our common stock issuable on exercise of the warrants may be adjusted in certain circumstances including stock splits, stock dividends and future issuances of our equity securities without consideration or for consideration per share less than $0.30 (as specified in the warrant agreement).

a. On October 4, 2012, we completed the second closing of the Third Private Offering, in which we sold an aggregate of 2,016,666 PPO units for gross proceeds of $302,500 and a noteholder elected to convert a $75,000 12% note, a $100,000 8% note and accrued and unpaid interest into an aggregate of 1,571,136 units. As of December 31, 2012, 426,905 shares of common stock due to the noteholder were unissued.

b. On October 12, 2012, we completed the third closing of the Third Private Offering, in which we sold an aggregate of 1,233,333 PPO Units for gross proceeds of $185,000.

c. On October 26, 2012, we completed the fourth closing of the Third Private Offering, in which we sold an aggregate of 425,000 PPO Units for gross proceeds of $63,750.

d. On November 9, 2012, we completed the fifth closing of the Third Private Offering, in which we sold an aggregate of 833,333 PPO Units for gross proceeds of $125,000.

e. On November 29, 2012, we completed the sixth closing of the Third Private Offering, in which we sold an aggregate of 740,667 PPO Units for gross proceeds of $111,100.

f. On December 12, 2012, we completed the seventh closing of the Third Private Offering, in which we sold an aggregate of 926,666 PPO Units for gross proceeds of $139,000.

In aggregate, we issued 7,746,801 PPO Units in the Third Private Offering, or in connection therewith, during the three months ended December 31, 2012, including 6,175,665 PPO Units for new gross proceeds of $926,350.

The Third Private Offering was conducted pursuant to the exemption from the registration requirements of the Securities Act provided by Rule 506 of Regulation D and by Regulation S promulgated under the Securities Act, and Section 4(2) of the Securities Act. The PPO Units were offered and sold only to "accredited investors," as that term is defined by Rule 501 of Regulation D, and/or to persons who were neither resident in, nor citizens of, the United States.

Pursuant to a public relations and financial communication services agreement entered into on August 30, 2012 and amended on November 5, 2012, we agreed to issue 75,000 shares of common stock per month, for an aggregate of 375,000 shares. As of December 31, 2012, 225,000 shares were earned and unissued. Pursuant to earlier arrangements with the same service provider, an additional 50,000 shares were earned and unissued as of December 31, 2012. The issuances of the shares were deemed to be exempt from registration in reliance upon Section 4(2) of the Securities Act and Regulation D promulgated thereunder, as transactions by an issuer not involving a public offering.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Securities Authorized for Issuance under Equity Compensation Plans

See ITEM 12 — Securities Authorized for Issuance Under Equity Compensation Plans.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and the accompanying notes included elsewhere in this Annual Report. 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. See "Note Regarding Forward-Looking Statements." Our actual results could differ materially from those anticipated in the forward-looking statements as a result of certain factors discussed in "Risk Factors" and elsewhere in this 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 (DCIM) 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.

Our ability to execute our business plans is dependent upon our generating cash flow sufficient to fund our operations. Our business strategy may not be successful in addressing these issues. If we cannot execute our business plan, our stockholders may loss their entire investment in us.

As reflected in our financial statements for the years ended December 31, 2012 and 2011, 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 these years 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 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 though 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

Financings

From September to December 2012, we had seven closings of a private placement offering that commenced on September 1, 2012, pursuant to which an aggregate of 6,942,332 PPO Units were sold at a price of $0.15 per PPO Unit for gross proceeds of $1,041,350. Each PPO Unit consisted of (i) one share of our common stock and (ii) a warrant representing the right to purchase one share of our common stock, exercisable for a period of five years, at an exercise price of $0.30 per share (the "PPO Warrants"). We used the net proceeds from the closings of the private placement offering for general working capital. As a result of the foregoing arrangement, in connection with the seven closings, the placement agent (1) was paid aggregate cash commissions of $104,135 and (2) received five-year redeemable warrants to purchase shares of common stock (the "Broker Warrants") to purchase 694,233 shares of common stock.

Subsequent to December 31, 2012, we completed two closings of a private placement offering pursuant to which we sold 1,000,000 PPO Units for gross proceeds of $150,000, at a purchase price of $0.15 per PPO Unit. We used the net proceeds from the closings of the PPO for general working capital. In connection with the two closings, the placement agent (1) was paid aggregate cash commissions of $15,000 and (2) received Broker Warrants to purchase 100,000 shares of common stock.

In addition, in January 2013, we agreed to permit the holders of our 8% convertible promissory notes, which were originally issued in June through August 2012, to convert their notes (in the aggregate principal amount of $800,000 (and accrued and unpaid interest thereon) into units at a conversion price of $0.0975 per unit. As a result of such conversion, we issued to the holders of such notes 8,546,480 shares of our common stock and 8,546,480 PPO Warrants. In addition, as part of such conversion, we agreed to fix the exercise price of 800,000 warrants issued in connection with the purchase of 8% convertible promissory notes at $0.225 per share. As a result of the note conversions, the Company issued three-year placement agent warrants to purchase an aggregate of 318,808 shares of common stock at an exercise price of $0.225 per share.

On April 12, 2013, we borrowed $112,500 via a short-term interest free loan from an affiliate. The loan is intended to convert into the securities to be sold by us in a subsequent offering.

Revenues

Revenues are generated from the licensing, subscription and maintenance of our enterprise software product and to a lesser extent 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, 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 costs

Transaction expenses represent the costs associated with professional services utilized to support the planning and implementation of non-capital raising transactions.

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.

Results of Operations

Year ended December 31, 2012 Compared to the Year ended December 31, 2011

Overview

We reported net losses of $9,593,685 and $8,880,725 for the years ended December 31, 2012 and 2011, respectively. The increase in net loss of $712,960 is primarily due to a $1,419,698 net increase in operating expenses. The increase in operating expenses include a $2,702,759 increase in sales and marketing expense associated with additional headcount necessary to expand our direct sales efforts and a $1,350,050 increase in research and development expense to develop and release our latest versions of Rackwise DCIM. The increased operating expenses were partially offset by a $874,114 increase in gross profit due to increased revenues, a $1,264,688 decrease in transaction expenses associated with the reverse merger in 2011 and a $1,368,423 decrease in general and administrative expenses. Other expenses increased by $167,376 primarily due to a charge for loss on extinguishment resulting from conversion of bridge financing notes into equity.

Revenues

Our revenues for the year ended December 31, 2012 were $3,253,436 as compared to revenues of $2,020,048, for the year ended December 31, 2011. Revenues increased by $1,233,388 or 61%. Licensing revenues were $ 1,709,868 as compared to $587,059 in the prior year, an increase of 191%, Licensing revenues increased due to the expanded sales force. Maintenance revenues were $1,112,136 as compared to $1,037,859 in the prior year, an increase of $74,227, or 7%, due to maintenance renewals from the prior year along with new maintenance revenues from new license sales. Subscription revenues were $250,062 as compared to $339,690, a decrease of $89,628, or (26%), due to a shift from subscription sales to licensing sales. Professional service revenues were $181,370 as compared to $55,440 in the prior year, an increase of $125,930 or 227%. The increase in professional service revenues was due to increased demand as a result of new software license installations and new customer training.

Direct cost of revenues

The direct cost of revenues during the years ended December 31, 2012 and 2011 was $575,956 and $216,682, respectively, representing an increase of $359,274 or 166%. The increase in direct cost of revenues resulted from increased license and professional services revenue. In addition, we realized royalty expenses of $176,890 across the third and fourth quarter of 2012 due to the licensing of Intel DCM software. The direct cost of revenues as a percentage of revenues was approximately 18% and 11% for the periods ended December 31, 2012 and December 31, 2011, respectively. Direct cost of revenues increased as a percentage of revenues in 2012 due to the royalty expense associated with Intel DCM technology that was embedded in Rackwise DCIM software beginning in the third quarter of 2012. It is impractical for the Company to break out direct cost of revenues by the types of revenues cited in the revenue discussion above.

Sales and marketing expenses

Sales and marketing expenses increased by $2,702,759, or 140%, in 2012 to $4,639,283 from $1,936,524 in 2011. The increase in sales and marketing expenses was due to increased headcount (resulting in increased cash and stock based compensation expense) in support of our strategic plan to ramp sales during 2012 through the deployment of a regional based, inside sales team.

Research and development expenses

Research and development expenses increased by $1,350,050, or 128%, in 2012 to $2,407,818 from $1,057,768 in 2011. The increase was due primarily to increases in employee related costs of $669,737, stock compensation expense of $442,374, outside services of $77,120, and a charge related to the purchase of shapes for $69,927 (schematic of the computer systems which are referred to as “Shapes” for our database library).

Transaction expense

Transaction expenses decreased to $0 in 2012 from $1,264,688 in 2011, as the reverse merger transaction was completed in 2011. 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 were $4,285,233 in 2012 as compared to $5,653,656 in 2011, a decrease of $1,368,423 or (24%). This decrease resulted primarily from a reduction of $1,526,970 in stock based compensation expense primarily related to the 2011 vesting of our Chief Executive Officer’s options in connection with the November 2011 execution of the Intel agreements and a decrease of $130,969 in outside services expenses, partially offset by a $316,228 increase in factoring fees.

Interest, net

Interest expense was $97,118 for 2012 as compared to $333,726 for 2011, representing a decrease of $236,608, or (71)%. The decrease was primarily attributable to the decrease in outstanding notes payable from 2011 to 2012 (principal balance outstanding prior to the conversion of notes payable in connection with the reverse merger on September 21, 2011 was approximately $5,800,000, as compared to the principal balance outstanding of approximately $1,500,000 on December 31, 2012).

Amortization of debt discount

During 2012, we recorded an expense of $604,605 for amortization of debt discount as compared to $632,380 in 2011, representing a decrease of $27,775, or (4)%. The decrease was primarily due to the timing of the recognition of debt discount expense.

Amortization of deferred financing costs

During 2012, we recorded an expense of $49,662 for amortization of deferred financing costs as compared to $347,632 in 2011, a decrease of $297,970, or (86)%. The decrease was due to the timing of the recognition of the debt offering costs, which, in 2011, were primarily a result of the 2011 issuance of the bridge notes.

Gain on change in fair value of derivative liabilities

During 2012, we did not record a gain on change in far value of derivative liabilities. We determined that the embedded conversion options associated with the 2012 Notes were equity instruments and should not be bifurcated and accounted for as a derivative. See Note 6 - Notes Payable of the accompanying financial statements for additional details. During 2011, we recorded a gain from the change in fair value of our derivative liabilities of $542,283. The fair value of derivative liabilities derived from the binomial lattice options pricing model fluctuates based on changes in the underlying assumptions. See Note 7 - Derivative Liabilities of the accompanying financial statements for additional details.

Liquidity and Capital Resources

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

	December 31,	
	2012	**2011**
Cash	$ 16,799	$ 613,443
Working Capital Deficiency	$ (7,223,933)	$ (3,944,873)
Notes Payable (Gross - Current)	$ 1,508,945	$ 50,000

Prior to the September 21, 2011 merger (see “Recent Developments” below), we relied primarily on debt financing from our directors and principal stockholders and their affiliates to fund our operations.

During the year ended December 31, 2012, we had three additional closings of the Second Private Offering pursuant to which an aggregate of 4,356,669 Second Units were sold, resulting in $1,447,114 of aggregate net proceeds ($1,633,750 of gross proceeds less $186,636 of issuance costs). In connection with the closings, 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.

In April and May 2012, we 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 our common stock and one 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 $0.80 to $1.00 per share. The warrants were exercisable on a cashless basis and contain weighted average anti-dilution price protection (see Note 6 – Notes Payable in the accompanying financial statements for more details).

In June, July and August 2012, we completed and closed on $1,050,000 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 (see Note 6 – Notes Payable in the accompanying financial statements for more details).

During the year ended December 31, 2012, we had seven closings of a private offering that commenced on September 1, 2012 (the “PPO”), pursuant to which an aggregate of 6,942,332 PPO Units were sold at a price of $0.15 per PPO Unit, resulting in $878,051 of aggregate net proceeds ($1,041,350 of gross proceeds less $163,299 of issuance costs). Each PPO Unit consists of one share of common stock and a PPO Warrant, such that an investors were entitled to an aggregate of 6,942,332 shares of common stock and PPO Warrants to purchase 6,942,332 shares of our common stock.

In January 2013, we completed two additional closings of the PPO pursuant to which we sold 1,000,000 PPO Units for gross proceeds of $150,000, at a purchase price of $0.15 per PPO Unit. We used the net proceeds from the closings of the PPO for general working capital. In connection with the two closings, the placement agent (1) was paid aggregate cash commissions of $15,000 and (2) received Broker Warrants to purchase 100,000 shares of common stock. (see Note 13 – Subsequent Events for details of closings subsequent to December 31, 2012)

On April 12, 2013, we borrowed $112,500 via a short-term interest free loan from an affiliate. The loan is intended to convert into the securities to be sold by us in a subsequent offering.

The proceeds from these financing activities were used to fund recurring legal and accounting expenses as a result of being a public company, our existing operating deficits while we invest in our sales, R&D and support functions, which we believe will enable us to broaden our product line(s) and enhance our marketing efforts to increase revenues and general working capital needs of the business. We do not currently anticipate any material capital expenditures.

Availability of Additional Funds

As a result of the above developments, which raised additional cash and, importantly, resulted in the conversion of most of our indebtedness into equity, our working capital situation improved. Although we do not currently anticipate any material capital expenditures, we will need to raise additional capital to meet our liquidity needs for operating expenses and product development in order to execute our business plan. If we are unable to obtain adequate funds on reasonable terms, we may be required to significantly curtail or discontinue operations.

Years Ended December 31, 2012 and 2011

Operating Activities

Net cash used in operating activities for the years ended December 31, 2012 and 2011, amounted to $4,779,046 and $4,200,583 respectively. During the year ended December 31, 2012, the net cash used in operating activities was primarily attributable to the net loss of $9,593,685, adjusted for $2,851,097 of net non-cash expenses, partially offset by a $1,190,259 increase in accounts payable and a $731,611 increase in accrued expenses. During the year ended December 31, 2011, the net cash used in operating activities was primarily attributable to the net loss of $8,880,725, adjusted for $3,162,363 of net non-cash expenses, a $377,825 decrease in deferred revenues due to a decrease in revenue, a $75,326 decrease in accounts payable, partially offset by a $832,049 increase in accounts receivable, a $327,054 increase in accrued interest and a $850,529 increase in accrued expenses.

Investing Activities

Net cash used in investing activities for the years ended December 31, 2012 and 2011 amounted to $378,788 and $201,724, respectively. The net cash used in investing activities for the year ended December 31, 2012 was primarily related to the purchase of property and equipment totaling $291,348 and the acquisition of intangible assets (schematic of the computer systems which are referred to as “Shapes” for our database library) totaling $96,341. The net cash used in investing activities for the year ended December 31, 2011 related to the purchase of property and equipment totaling $99,197 and the acquisition of intangible assets totaling $102,527.

Financing Activities

Net cash provided by financing activities for the years ended December 31, 2012 and 2011 amounted to $4,561,190 and $4,968,384, respectively. For the year ended December 31, 2012, the net cash provided by financing activities resulted primarily from new borrowings of $1,630,000 and issuance of stock and warrants for net proceeds of $2,325,164, and a $712,208 increase in amounts owed to our factor as a result of the increase in accounts receivable pledged to the factor. For the year ended December 31, 2011, the net cash provided by financing activities resulted primarily from new borrowings of $2,337,980 and issuance of stock and warrants for net proceeds of $3,750,315, partially offset by $347,632 of deferred financing costs and a $767,645 decrease in amounts owed to our factor as a result of a decline in accounts receivable pledged to the factor.

Liquidity, Going Concern and Management’s Plans

The accompanying financial statements have been prepared assuming that we will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. As discussed in Note 2 to the accompanying financial statements, we have not achieved a sufficient level of revenues to support our business and have suffered substantial recurring losses from operations since our inception, which conditions raise substantial doubt that we will be able to continue operations as a going concern. The accompanying financial statements do not include any adjustments that might be necessary if we were unable to continue as a going concern.

In addition, we have unpaid payroll taxes relating to the third and fourth quarters of 2010, the first quarter of 2011 and the third and fourth quarters of 2012 in the aggregate amount of $1,099,807. The IRS has placed federal tax liens that aggregate to approximately $771,000 against us in connection with the unpaid payroll taxes relating to the third quarter of 2010, fourth quarter of 2010, the first quarter of 2011 and the third quarter of 2012. If we are unable to negotiate a payment plan or a reduction in the amount of any tax obligation, the IRS or state authorities, as applicable, could enforce their liens by levying against our bank accounts, accounts receivables and other assets. A levy against or foreclosure on our assets could have a material adverse effect on our financial prospects.

With the proceeds from our financing activities, plus based on forecasted sales, we believe that we have enough cash on hand to sustain our operations until May 2013. If the Company is unable to obtain additional financing on a timely basis and, notwithstanding any request the Company may make, the Company’s debt holders do not agree to convert their notes into equity or extend the maturity dates of their notes, the Company may have to delay note and vendor payments and/or initiate cost reductions, which would have a material adverse effect on the Company’s business, financial condition and results of operations, and ultimately the Company could be forced to discontinue its operations, liquidate and/or seek reorganization under the U.S. bankruptcy code. As a result, our auditors have issued a going concern opinion in conjunction with their audit of our December 31, 2012 consolidated financial statements.

Off-Balance Sheet Arrangements

None.

Contractual Obligations

Not applicable.

Critical Accounting Policies and Estimates

Use of Estimates

The preparation of financial statements in conformity with the generally accepted accounting principles in the United States of America ("U.S. GAAP") requires us 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 financial statements and the accompanying notes. Actual results could differ from those estimates. Our significant estimates and assumptions relate to stock-based compensation, the useful lives of fixed assets and intangibles, valuation allowance for income taxes, bad debts and factoring fees, and fair value of derivative liabilities and warrants.

Derivative Financial Instruments

We do not use derivative instruments to hedge exposures to cash flow, market or foreign currency risks. We evaluate all of our 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, we use the binomial lattice option 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. Derivative liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the instrument could be required within 12 months of the balance sheet date.

Capitalized Software Development Costs

We capitalize software development costs in accordance with Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") topic 985, "Software". Capitalization of software development costs begins upon the determination of technological feasibility. The determination of technological feasibility and the ongoing assessment of the recoverability of these costs requires considerable judgment by us with respect to certain external factors, including anticipated future gross product revenues, estimated economic life and changes in hardware and software technology. Historically, software development costs incurred subsequent to the establishment of technological feasibility have not been material.

Intangible Assets

All of our intangible assets consist of shapes acquired from a graphics designer for our database library that are schematics of specific computer equipment. These shapes are utilized in our software with multiple customers in order to enable them to visualize and differentiate the specific computer equipment in their overall network. For example, our software's graphical user interface displays a unique shape for each make and model of a 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. Our 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 our (a) subscription-based licenses, and (b) maintenance arrangements, when sold separately, revenues are recognized ratably over the service period. We defer 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. Our subscription license agreements do not (a) provide for a right of return, (b) contain acceptance clauses or (c) contain refund provisions.

We provide professional services to our customers. Such services, which include training, installation, and implementation, are recognized when the services are performed. We also provide 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 our 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 six 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. We determined that VSOE exists for both the delivered and undelivered elements of our multiple-element arrangements. We limit our 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.

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 our accompanying statements of operations.

Recent Accounting Pronouncements

There are no recent accounting pronouncements that would be expected to have a material impact on our financial position or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to smaller reporting companies.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements are included beginning immediately following the signature page to this report. See Item 15 for a list of the consolidated financial statements included herein.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

During the quarter ended December 31, 2012, we performed an evaluation under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, of the effectiveness of our disclosure controls and procedures, as defined in Rules 13(a)-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, our management concluded that, as of December 31, 2012, our disclosure controls and procedures were not effective to provide reasonable assurance that material information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; (ii) provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Management assessed the effectiveness of our internal control over financial reporting and concluded that, as of December 31, 2012, our internal control over financial reporting was not effective due to the existence of material weaknesses in our internal controls.

A material weakness is a control deficiency, or a combination of control deficiencies, that results in a more than remote likelihood that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis. Our management, in consultation with our independent registered public accounting firm, concluded that a material weakness existed in the following areas as of December 31, 2012:

(1) During 2012, our management, in conjunction with an independent expert, conducted a controls risk assessment covering entity level controls, all financial transaction processes, and key financial reporting processes of the Company. The results of the risk assessment identified and prioritized focus areas for further audits and possible areas of remediation. However, due to insufficient financial resources, the Company was not able to fund efforts to audit the key areas identified and to perform process improvements to existing controls to ensure that we have effective internal control over financial reporting.

(2) During the audit of our consolidated financial statements as of and for the years ended December 31, 2012, our independent registered public accounting firm suggested adjusting journal entries that were made by us in connection with the preparation of our audited consolidated financial statements. The SEC has stated that the delivery of adjusting journal entries by an independent registered public accounting firm creates a presumption that a material weakness in internal controls exists.

While the Company has identified certain areas of potential material weaknesses in its system of internal control over financial reporting, it believes that it has taken reasonable steps to ascertain that the financial information contained in this report is in accordance with generally accepted accounting principles. Our management has determined that current resources would be appropriately applied elsewhere and when resources permit, it will address and remediate potential material weaknesses through implementing various controls or changes to controls. At such time as we have additional financial resources available to us, we intend to enhance our controls and procedures. We will not be able to assess whether the steps we intend to take will fully remedy the material weakness in our internal control over financial reporting until we have fully implemented them and sufficient time passes in order to evaluate their effectiveness.

Changes in Internal Controls

There was no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures or our internal controls 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. Our control systems are designed to provide such reasonable assurance of achieving their objectives. 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.

ITEM 9B. OTHER INFORMATION

In November and December 2012, we completed three closings of a private placement offering pursuant to which we sold 2,500,667 units of securities (“PPO Unit”) for gross proceeds of $375,100, 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”), which purchase price was subsequently fixed at $0.15 per Unit, 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 offering for general working capital. The three closings resulted in warrants to purchase 2,500,666 shares of our common stock having their exercise price reduced from $0.30 per share to $0.15 per share. The PPO Warrants are subject to weighted average anti-dilution protection and possess piggy-back registration rights. The PPO 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. The placement agent for the offering earned a cash commission of 10% or 5% of the funds raised from investors in the 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 “Broker Warrants”) equal to 10% or 5% of the PPO Units sold to investors in the offering that were directly attributable or referred to the placement agent, respectively. The Broker Warrants are identical to the PPO 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 $0.15 per share of common stock. As a result of the foregoing arrangement, in connection with the three closings, the placement agent (1) was paid aggregate cash commissions of $37,510 and (2) was issued Broker Warrants to purchase 250,067 shares of common stock.

In January 2013, we completed two closings of a private placement offering pursuant to which we sold 1,000,000 PPO Units for gross proceeds of $150,000, at a purchase price of $0.15 per PPO Unit, with each PPO Unit consisting of (a) one share of common stock and (b) a PPO Warrant. We used the net proceeds from the closings of the PPO for general working capital. The two closings resulted in warrants to purchase 1,000,000 shares of our common stock having their exercise price reduced from $0.30 per share to $0.15 per share. In connection with the two closings, the placement agent (1) was paid aggregate cash commissions of $15,000 and (2) was issued Broker Warrants to purchase 100,000 shares of common stock.

In addition, in January 2013, we agreed to permit the holders of our 8% convertible promissory notes, which were originally issued in June through August 2012, to convert their notes (in the aggregate principal amount of $800,000 (and accrued and unpaid interest thereon) into units at a conversion price of $0.0975 per unit. As a result of such conversion, we issued to the holders of such notes 8,546,480 shares of our common stock and 8,546,480 PPO Warrants. In addition, as part of such conversion, we agreed to fix the exercise price of 800,000 warrants issued in connection with the purchase of 8% convertible promissory notes at $0.225 per share.

On April 12, 2013, we borrowed $112,500 via a short-term interest free loan from an affiliate. The loan is intended to convert into the securities to be sold by us in a subsequent offering.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Executive Officers and Directors

Below are the names and certain information regarding our current executive officers and directors:

Name	Age	Title	Date First Appointed a Director
Guy A. Archbold	61	Chief Executive Officer, President and Chairman of the Board of Directors	September 30, 2011
Jeff Winzeler	53	Chief Financial Officer	—
Edward Feighan	65	Director	September 21, 2011
Michael Feinberg	68	Director	January 6, 2012
J. Sherman Henderson III	70	Director	September 21, 2011
John Kyees	66	Director	July 18, 2012
William Andrew	59	Director	July 18, 2012

Directors are elected to serve until the next annual meeting of stockholders and until their successors are elected and qualified. Our executive officers are appointed by the Board of Directors and serve at its pleasure.

Certain biographical information for each of our executive officers and directors is set forth below.

Guy A. Archbold was appointed as a director and our Chief Executive Officer and President on September 30, 2011 and became the Chairman of our Board of Directors on January 6, 2012. Mr. Archbold has more than 30 years of senior management and entrepreneurial experience in Finance, Investment Banking, Merchant Banking, Venture Capital, Portfolio Management and Alternative Green Energy, which makes him well-positioned for his role as a director. From June 2009 through September 2011, Mr. Archbold worked for Black Diamond Financial Group, LLC, a manager of limited partnerships involved in venture capital investments, as a Director and Portfolio Advisor. From March 2001 through August 2008, he was President, Chief Executive Officer and Chairman for Chapeau, Inc. dba BluePoint Energy, an energy management company which provided state-of-the-art, technology based, environmentally responsible (green), demand response and combined heat and power solutions to commercial and industrial users across the majority of the public and private industry sectors including hospitality, retail, healthcare, manufacturing and government. Chapeau, Inc. filed a voluntary petition for reorganization under Chapter 11 in the U.S. Bankruptcy Court of the District of Nevada on October 31, 2008.

Key Attributes, Experience and Skills: Mr. Archbold's nearly 30 years of senior management and entrepreneurial experience in finance, investment banking, merchant banking, venture capital, portfolio management and alternative green energy, combined with his knowledge of the data center infrastructure management industry and his capital markets experience provides our Board of Directors with significant management insight, valuable experience in business development and capital formation and will assist us in growing our customer base and management team through our current business phase.

Jeff Winzeler was appointed our Chief Financial Officer on January 23, 2012. Mr. Winzeler has more than 23 years of financial, operational and executive management experience with publicly traded technology companies. He worked for Intel Corporation during the 17-year period ended January 2005 where he managed financial operations across Intel's international manufacturing network including Israel, Ireland, China, Malaysia and the Philippines. He also served as the controller for Intel's $2 billion Intel FLASH memory operation. More recently, Mr. Winzeler was the Chief Financial Officer and Chief Operating Officer of International Display Works (January 2005 – January 2007) and the Chief Financial Officer of Solar Power Incorporated (January 2007 – December 2011). Mr. Winzeler received a B.S. Degree in Finance from the University of Idaho.

Edward F. Feighan was appointed to our Board of Directors on September 21, 2011. He is currently chief operating officer of Evergreen National Indemnity Corporation and Continental Heritage Indemnity Corporation, specialty property and casualty insurance companies. Additionally, he serves as a member of the Board of Directors of both Evergreen and Continental, as well as of the parent holding company, ProAlliance Holdings Corporation. Mr. Feighan has held those positions since 2009. From April 2004 through August 2008, Mr. Feighan was chairman, president and chief executive officer of ProCentury Corporation, a Nasdaq listed, Columbus, Ohio based holding company for Century Insurance Group, which is a specialty property/casualty insurance group which underwrites general liability, commercial property, and commercial multi-peril insurance for small and mid-sized businesses throughout the United States. Mr. Feighan has been an investor and board member of ProCentury and ProAlliance since 2000, and has been involved with the insurance subsidiaries in various capacities, including serving as a board member, since 1993. From 1998 through 2000, he served as the Managing Partner of Alliance Financial, Ltd., an Ohio-based boutique merchant banking firm specializing in mergers and acquisitions in the financial services sector. From November 1996 to December 1997, Mr. Feighan served as the founding president, chief executive officer and director of Century Business Services, Inc., a Nasdaq listed company. Beginning in 1972, Feighan held elected offices for 20 consecutive years. He served as an Ohio State Representative for six years, a Cuyahoga County Commissioner for four years and a Member of the United States House of Representatives for 10 years. Mr. Feighan earned a law degree from Cleveland State University in 1978 after completing his undergraduate studies at Borromeo Catholic Seminary, Cleveland, Ohio, and Loyola University, New Orleans, Louisiana. Mr. Feighan brings experience in management, financial services and public services, as well as his experience serving on the boards of other public companies, to our Board of Directors.

Key Attributes, Experience and Skills: In addition to the professional background and experience, senior- and executive-level policy-making positions and intangible attributes, Mr. Feighan, through his experience in management, financial services and public services, as well as his experience serving on the boards of other public companies, provides our Board with an executive and leadership perspective on the management and operations of a public company.

Michael Feinberg was appointed to our Board of Directors on January 6, 2012. Mr. Feinberg has 46 years of experience as a property developer, owner and investor. He has owned and/or developed residential and office buildings in the greater metropolitan New York and South Florida areas. During at least the past five years, Mr. Feinberg has been the owner and designed the golf course at The Club at Emerald Hills in Hollywood, Florida. He was also one of the earlier financiers of Ultimate Software, a leading provider of end-to-end strategic human resources, payroll and talent management solutions and is an investor in the funds managed by Black Diamond Financial Group LLC, a manager of limited partnerships involved in venture capital investments. Mr. Feinberg's experience as an entrepreneur and in venture capital investments makes him a valuable addition to our Board of Directors.

Key Attributes, Experience and Skills: Mr. Feinberg's 46 years of experience as a property developer, owner and investor, combined with his experience as an entrepreneur and in venture capital investment, including his relationship with Black Diamond Financing Group, LLC, one of our major shareholder, provides our Board of Directors with significant management insight in capital formation.

J. Sherman Henderson III was appointed to our Board of Directors on September 21, 2011. Mr. Henderson has more than 38 years of business experience, including roles spanning company ownership, sales, marketing and management, which provides him with valuable expertise to assist the Company. He began his career in the telecom industry in 1986, when he oversaw Charter Network, a long-distance carrier serving the Midwestern United States. Mr. Henderson founded Lightyear Network Solutions, which began operations as UniDial, an established provider of data, voice and wireless telecommunication services to approximately 60,000 business and residential customers throughout North America, in 1993 in Louisville, Kentucky and served as its chief executive officer from its founding until May 2011. He currently serves as its chairman emeritus. He also serves as a director of Beacon Enterprise Solutions Group Inc. and is a member of that company's compensation committee. Mr. Henderson served six terms as chairman of COMPTEL, the leading association representing competitive communications service providers and their supplier partners. Mr. Henderson earned a Bachelor's degree in Business Administration from Florida State University.

Key Attributes, Experience and Skills: Mr. Henderson's 38 years of business experience, including roles spanning company ownership, sales, marketing and management, provides him with valuable expertise to assist the Company.

John Kyees was appointed to our Board of Directors on July 18, 2012. Mr. Kyees retired from active business practice in 2010 but continues to serve on the board of directors of 5 public companies (Casual Male Retail Group, Vera Bradley, Teavana, Hot Topic and Rackwise). Prior to retirement, he was Chief Financial Officer for several companies including Urban Outfitters, bebe Stores, Skinmarket, HC Holdings, Ashley Stewart, Limited's Express, Chas. A. Stevens (division of Hartmarx), J.L. Hudson Co. (division of Dayton Hudson which became Target), The Model A and Model T Motor Car Reproduction Co., and Ford Motor Co.

Key Attributes, Experience and Skills: Mr. Kyee's experience as board member of five other public companies, and his career experience as CFO of several companies, provides our Board of Directors with significant public company experience and provides valuable financial expertise to our Audit Committee.

William Andrew was appointed to our Board of Directors on July 18, 2012. Mr. Andrew is a private investor and is a co-founder and life member of the Andrew Family Foundation, a co-founder and president of the AFC Public Foundation, President of Andrew Trust Company, CEO of Werdna Corporation which is a family wealth management organization, co-founder and chair emeritus of the Board of Trustees of the Summit School of Ahwatukee, a general partner of the private equity firm Inlign Capital Partners, a Limited Partner of and current member of the Executive Committee of the Arizona Diamondbacks, an ex-officio member of the Board of Directors of Valley Youth Theatre, a Director of the Arizona Community Foundation and a Trustee of Xavier College Preparatory. He has served in board or management committee roles for many companies including Knights Apparel, Inlign Wealth Management, Applied Photonics, Whisper Creek Log Homes and Sound Surgical Technologies. Dr. Andrew earned his M.S. and Ph.D. degrees in electrical engineering from Arizona State University in 1990 and 1996, respectively. His research interests included imaging radar systems and computational electromagnetics.

Key Attributes, Experience and Skills: Mr. Andrew's experience as an owner and investor, combined with his experience as an entrepreneur and in venture capital investment, provides our Board of Directors with significant management insight in capital formation.

Industry Advisory Board

We have recruited a number of experienced and highly regarded professionals to be members of the Rackwise, Inc. Industry Advisory Board. The purpose of the Industry Advisory Board is to provide an informal "think tank" and "sounding board" to assist Company management. Our Industry Advisory Board members meet as a group from time to time to address specific issues that are presented to them. Further, Industry Advisory Board members are available for limited individual telephone consultation with management on an "as needed" basis.

Stephen O'Donnell. Effective January 27, 2012, we appointed Stephen O'Donnell to be the founding member and Chairman of the Rackwise, Inc. Industry Advisory Board. Mr. O'Donnell is a globally recognized authority on data centers and information technology ("IT") operations and an acknowledged expert in green IT and sustainability. Mr. O'Donnell has over 30 years international senior management experience within large multinational organizations. He has served as CEO at MEEZA, a Qatar Foundation Joint Venture and leading provider of IT and related solutions services in Qatar. He has also served as Managing Director at Enterprise Strategy Group, a leading, integrated, full-service IT analyst and business strategy firm. Mr. O'Donnell was Global Head of Data Centers at UK-based BT (formerly British Telecom), one of the world's largest communications services company. He has held senior positions at other technology and financial services-based global enterprises, including First Data Corporation, Cable & Wireless, Lehman Brothers and Deutsche Bank. Mr. O'Donnell has served on the Advisory Board at Fusion-io and is currently Chairman of the Advisory Board at Violin Memory, both US-based companies pioneering enabling technologies for advancements in data center operations. The arrangement with Mr. O'Donnell provides for a term of thirty-six (36) months and the grant of options to purchase 300,000 shares of our common stock at an exercise price of $0.345 per share, vesting ratably at the end of each of the first 12 quarterly periods from the effective date of his appointment to the Advisory Board.

Steve Biondi. Mr. Biondi was appointed to join Mr. O'Donnell on the Advisory Board in March 2012. Mr. Biondi brings to the Advisory Board more than 30 years of senior management experience in the technology industry with a reputation for leading sales and product development teams in multinational organizations. Mr. Biondi was recently appointed and currently serves as President of North America Operations at Micro Focus, a provider of enterprise application modernization, testing and management solutions. Prior to joining Micro Focus, Mr. Biondi served as Vice President, OEM Sales for North and South America at VMware, a global leader in virtualization and cloud infrastructure solutions enabling businesses to optimize information technology (IT) resources in the Cloud Era. Previous to VMware, Mr. Biondi held a range of leadership and executive roles in General Business and the Software Group during his career of more than 20 years at International Business Machines Corporation, including Worldwide Director of Software Sales for Small and Mid-Size Customers. In joining the Advisory Board, Mr. Biondi was granted options to purchase 250,000 shares of our common stock at an exercise price of $0.345 per share, vesting ratably at the end of each of the first 12 quarterly periods from the effective date of his appointment to the Advisory Board.

Richard Scannell. Mr. Scannell was appointed to the Advisory Board as of May 1, 2012. Mr. Scannell brings to the Advisory Board more than 20 years of senior management experience in the technology sector with a reputation for successfully executing innovative sales, marketing and operational support strategies in multinational enterprises. He is co-founder of GlassHouse Technologies, a leading global provider of data center infrastructure consulting and managed services, and currently serves as the company's Senior Vice President of Corporate Strategy and Sales responsible for GlassHouse's global market strategy and North American Sales. Prior to GlassHouse, Mr. Scannell served as Chief Operating Officer of UpSource, Inc., a start-up company providing outsourced customer relationship management services. Previous to UpSource, Mr. Scannell held a range of leadership and management roles principally within the information technologies business groups during his career of more than 12 years at Fortune 500 US-based Motorola, Inc., including heading the information technology group supporting Motorola business units responsible for a $10 billion market segment. In joining the Advisory Board, Mr. Scannell was granted, subject to approval by our Board of Directors, options to purchase 250,000 shares of our common stock at an exercise price equal to the fair market value of our common stock at the date of grant, vesting ratably at the end of each of the first 12 quarterly periods from the effective date of his appointment to the Advisory Board.

Harkeeret Singh. Mr. Singh was appointed to the Advisory Board as of May 1, 2012. Mr. Singh brings to the Advisory Board an extensive background and industry reputation as one of the primary enablers advocating greener and more sustainable information technology infrastructure strategies. He is currently Global Head of Energy and Sustainable IT at Thomson Reuters, the world's leading source of intelligent information for businesses and professionals. In this role, Mr. Singh is responsible for energy efficiency and sustainability across technology operations, including Data Centers, Servers, Storage, Network and Desktop. In addition, Mr. Singh has performed substantial research of data centers and information technology environments in both Europe and the United States in particular pursuit of advancing energy responsible principles and working across traditional boundaries to achieve holistic efficiency. Prior to joining Thomson Reuters, Mr. Singh served in a variety of roles, including Head of Data Center Strategy, at UK-based BT (formerly British Telecom), one of the world's largest communications services companies. In joining the Advisory Board, Mr. Singh was granted, subject to approval by our Board of Directors, options to purchase 250,000 shares of our common stock at an exercise price equal to the fair market value of our common stock at the date of grant, vesting ratably at the end of each of the first 12 quarterly periods from the effective date of his appointment to the Advisory Board.

Board Committees

We are not currently subject to listing requirements of any national securities exchange or inter-dealer quotation system which requires us to have committees or charters. Our Board of Directors, however, has determined to establish three committees: an Audit Committee; a Compensation Committee; and a Nominating and Corporate Governance Committee. Each committee operates under a charter approved by our Board of Directors. To request a copy each committee's charter, please make written request to our President c/o Rackwise, Inc., 2365 Iron Point Road, Suite 190, Folsom, CA 95630. The membership, principal duties and responsibilities of each committee are set forth below.

The membership of the committees is set forth below:

Name	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
Guy A. Archbold			Chair
Edward F. Feighan		●	●
Michael Feinberg	●	●	
J. Sherman Henderson III	●	Chair	
John Kyees	●		
William Andrew			●

Our Board has not designated the chairman of the Audit Committee and has not determined whether any of the Audit Committee members is an "audit committee financial expert" as defined in applicable SEC rules.

Audit Committee

The committee's charter provides that the principal duties and responsibilities of the Audit Committee include:

- reviewing and discussing certain regulatory filings, including our audited financial statements and quarterly financial statements, with management and our independent auditors;
- reviewing earnings press releases and earnings guidance provided to analysts;
- appointing, evaluating, overseeing and replacing, if necessary, our independent registered public accounting firm;
- reviewing the design, implementation, adequacy and effectiveness of our internal controls and our critical accounting policies;
- reviewing our compliance with applicable laws, rules and regulations, and reviewing cases of employee misconduct or fraud; and
- reporting regularly to our Board of Directors with respect to issues relating to the quality or integrity of our financial statements, our compliance with legal or regulatory requirements and the performance and independence of our independent auditors.

All audit and non-audit services, other than de minimus non-audit services, provided to us by our independent registered public accounting firm must be approved in advance by our audit committee.

Compensation Committee

The committee's charter provides that the principal duties and responsibilities of the Compensation Committee include:

- reviewing and approving annual goals and objectives of our CEO and other executive officers, evaluating the performance of our CEO and other executive officers in light of those goals and objectives, determining or assisting to determine our CEO's and other executive officers' compensation level and making all other determinations with respect to the compensation of our CEO and other executive officers;
- recommending to our Board of Directors the compensation of our CEO and other executive officers and, to the extent such authority is delegated to it by our Board of Directors, approving the compensation payable to these executive officers;
- considering with respect to the compensation of the Company's executive officers: (a) annual base salary; (b) any bonus or other short-term incentive program; (c) any long-term incentive compensation (including cash-based and equity-based awards); and (d) any employment agreements and similar arrangements or transactions;

- reviewing and making recommendations to our Board of Directors regarding incentive compensation and equity-based plans that are subject to approval by our Board of Directors;
- reviewing and making recommendations to our Board of Directors regarding compensation, if any, of the Board of Directors and its committees; and
- preparing a report of the committee for inclusion in our annual report or proxy statement with respect to our annual meeting of stockholders.

Nominating and Corporate Governance Committee

The committee's charter provides that the principal duties and responsibilities of the Nominating and Corporate Governance Committee include:

- evaluating and selecting or recommending for selection candidates for election to our Board of Directors;
- evaluating the functions, duties and composition of committees of our Board of Directors and making recommendations to our Board of Directors with respect thereto;
- formulating procedures for security holders to send communications to our Board of Directors;
- developing and recommending to our Board of Directors a set of corporate governance policies or procedures;
- establishing and maintaining an informal continuing education program for our directors with respect to our strategic plans, significant financial, accounting and risk management matters, compliance programs, corporate governance policies or procedures, principal officers and internal and independent auditor; and
- developing a plan for the succession of our CEO and discussing with our CEO a succession plan for our key senior officers.

The Nominating and Corporate Governance Committee of the Board of Directors is responsible for reviewing with the entire Board from time to time the appropriate skills and characteristics required of Board members in the context of the current make-up of the Board of directors. The Board of Directors believes that directors should bring to the Company a variety of perspectives and skills that are derived from high quality business and professional experience and that are aligned with the Company's strategic objectives. The composition of the Board of Directors should at all times adhere to the standards of independence promulgated by applicable Nasdaq and SEC rules. We also require that our directors be able to attend all board and applicable committee meetings. In this respect, directors are expected to advise the Chairman of the Board of Directors and the Chairman of the Nominating and Corporate Governance Committee in advance of accepting any other public company directorship or assignment to the audit committee of the board of any other public company.

The Nominating and Corporate Governance Committee identifies nominees by first evaluating the current members of the Board of Directors willing to continue in service. Current members of the Board with skills and experience that are relevant to the Company's business and who are willing to continue in service are considered for re-nomination, balancing the value of continuity of service by existing members of the Board with that of obtaining a new perspective. If any member of the Board does not wish to continue in service or if the Nominating and Corporate Governance Committee or the Board decides not to re-nominate a member for re-election, the Committee will identify the desired skills and experience of a new nominee in light of the criteria above. Current members of the Committee and Board may be consulted for suggestions as to individuals meeting the criteria above. Research may also be performed to identify qualified individuals.

Shareholder Communications

Currently, we do not have a policy with regard to the consideration of any director candidates recommended by security holders. To date, no security holders have made any such recommendations.

Code of Conduct

We have adopted a written code of business conduct and ethics that applies to our directors, officers, employees and certain other persons, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. We believe that the code of conduct is reasonably designed to deter wrongdoing and promote honest and ethical conduct; provide full, fair, accurate, timely and understandable disclosure in public reports; comply with applicable laws; ensure prompt internal reporting of code violations; and provide accountability for adherence to the code. To request a copy of the code of conduct, please make written request to our President c/o Rackwise, Inc., 2365 Iron Point Road, Suite 190, Folsom, CA 95630.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Exchange Act requires our directors, officers and persons who own more than 10% of a registered class of our equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Directors, officers and greater than 10% stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based solely upon our review of the copies of such forms that we received with respect to the fiscal year ended December 31, 2012, we believe that each person who at any time during the fiscal year was a director, officer or beneficial owner of more than 10% of our Common Stock, other than Gordon V. Smith, satisfied their Section 16(a) filing requirements, although certain reports were filed on a late basis.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth information concerning the total compensation paid or accrued by us during the fiscal years ended December 31, 2012 and 2011 to (i) all individuals that served as our principal executive officer or acted in a similar capacity for us at any time during the fiscal year ended December 31, 2012; (ii) our two most highly compensated executive officers other than the principal executive officer who were serving as executive officers at the end of the fiscal year ended December 31, 2012; and (iii) up to two additional individuals who received annual compensation during the fiscal year ended December 31, 2012 in excess of $100,000 and who were not serving as executive officers of at the end of the fiscal year ended December 31, 2012.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non- Equity Incentive Plan Compensation	Non Qualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Guy A. Archbold	2012	$ 250,000	$ -	$ -	$ 55,775 (2)	$ -	$ -	$ -	$ 222,975
CEO, President and Executive Chairman of the Board (1)	2011	$ 70,000	$ -	$ -	$1,526,970 (3)	$ -	$ -	$ 192,500(4)	$1,789,470
Jeff Winzeler	2012	$ 165,000	$ -	$ 34,500(5)	$ 338,100(6)	$ -	$ -	$ -	$ 537,600
CFO, Secretary and	2011	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(1) Guy A. Archbold was appointed as our Chief Executive Officer and President on September 30, 2011 and became our Chairman of the Board of Directors on January 6, 2012.

(2) Represents the grant date value of Mr. Archbold's January 9, 2012 option grant received for his services as a director of the Company, computed in accordance with FASB ASC Topic 718.

(3) Represents the estimated fair value of the vesting of Mr. Archbold's options granted in connection with the November 2011 execution of the Intel agreements, computed in accordance with FASB ASC Topic 718.

(4) Consists of fees paid pursuant to the Management Consulting Agreement, dated April 1, 2011, between VNDI and Mr. Archbold. The agreement terminated on September 30, 2011 upon Mr. Archbold's appointment as an executive officer of the Company.

(5) Represents the grant date value of Mr. Winzeler's January 23, 2012 restricted stock grant, computed in accordance with FASB ASC Topic 718.

(6) Represents the (a) $225,400 grant date value of Mr. Winzeler's January 23, 2012 option grant, computed in accordance with FASB ASC Topic 718 and the (b) $112,700 grant date value of Mr. Winzeler's February 15, 2012 option grant, computed in accordance with FASB ASC Topic 718.

(7) Jeff Winzeler was appointed as our Chief Financial Officer on January 23, 2012, and was subsequently appointed as our Secretary and Treasurer on November 30, 2012.

Employment Agreements

We have entered into an employment agreement with Guy A. Archbold as of September 30, 2011, whereby he agreed to serve as our Chief Executive Officer, President and Chairman of the Board of Directors. The agreement is for an initial period of three years and provides for an annual base salary of $250,000. Mr. Archbold is eligible to earn a bonus upon meeting specified performance standards, to be established by the Company. On January 9, 2012, we granted Mr. Archbold non-statutory stock options to purchase 6,900,000 shares of common stock pursuant to his employment agreement but outside of our 2011 Equity Incentive Plan, which are vested and are exercisable at a price of $0.345 per share. In addition, on January 9, 2012, we granted Mr. Archbold options to purchase 250,000 shares of common stock outside of our 2011 Equity Incentive Plan for services as our Chairman of the Board of Directors, which vested on July 18, 2012 and are exercisable at a price of $0.345 per share. All vested options survive the termination of the agreement and/or the termination of employment. Mr. Archbold's employment may only be terminated for "just cause" (as defined in the agreement).

Effective January 23, 2012, we entered into an employment agreement with Jeff Winzeler to serve as our Chief Financial Officer. In connection with his appointment, Mr. Winzeler received (i) an annual base salary of $175,000; (ii) eligibility for bonus compensation; (iii) options to purchase 1,000,000 shares of common stock under our 2011 Equity Incentive Plan, vesting over a period of three years and exercisable at a price of $0.345 per share; and (iv) 100,000 shares of our restricted common stock. On January 23, 2012, we granted Mr. Winzeler options to purchase 1,000,000 shares of common stock under our 2011 Equity Incentive Plan, vesting over a period of three years and exercisable at a price of $0.345 per share. In the event that Mr. Winzeler 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.

Outstanding Equity Awards at Fiscal Year Ended December 31, 2012

	Option awards					Stock awards			
Name	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable	Equity incentive plan awards: Number of securities underlying unexercised unearned options (#)	Option exercise price ($)	Option expiration date	Number of shares or units of stock that have not vested (#)	Market value of shares of units of stock that have not vested ($)	Equity incentive plan awards: Number of unearned shares, units or other rights that have not vested (#)	Equity incentive plan awards: Market or payout value of unearned shares, units or other rights that have not vested ($)
Guy A. Archbold, CEO, President and Executive Chairman of the Board	6,900,000	—	—	$ 0.345	1/9/22	—	—	—	—
	250,000	—	—	$ 0.345	1/9/22	—	—	—	—
Jeff Winzeler CFO, Secretary and Treasurer	—	1,000,000(a)	—	$ 0.345	1/23/22	—	—	—	—
	—	500,000(b)	—	$ 0.345	2/15/22	—	—	—	—

(a) Shares vest as follows: 333,334 on January 23, 2013, 333,334 on January 23, 2014 and 333,333 on January 23, 2015.

(b) Shares vest as follows: 166,667 on February 15, 2013, 166,667 on February 15, 2014 and 166,666 on February 15, 2015.

Director Compensation

The following table summarizes compensation earned by our non-employee directors during the year ended December 31, 2012:

Name	Year	Fees Earned or Paid in Cash	Stock Awards	Option Awards (1)	Non-Equity Incentive Plan Compensation	Non-Qualified Deferred Compensation Earnings	All Other Compensation	Total
Edward F. Feighan	2012	$ -	$ -	$ 70,475(5)	$ -	$ -	$ -	$ 70,475
Michael Feinberg (2)	2012	$ -	$ -	$ 71,100(5)	$ -	$ -	$ -	$ 71,100
J. Sherman Henderson III	2012	$ -	$ -	$ 70,475(5)	$ -	$ -	$ -	$ 70,475
William V. Andrew (3)	2012	$ -	$ -	$ 30,200(5)	$ -	$ -	$ -	$ 30,200
John Kyees (3)	2012	$ -	$ -	$ 30,200(5)	$ -	$ -	$ -	$ 30,200
Ken Spiegeland (4)	2012	$ -	$ -	$ 55,775(6)	$ -	$ -	$ -	$ 55,775
Emmett DeMoss (7)	2012	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(1) The amounts reported in this column represent the grant date fair value of the stock and option awards granted during the year ended December 31, 2012, calculated in accordance with FASB ASC Topic 718.

(2) Appointed as a director in January 2012.

(3) Appointed as a director in July 2012.

(3) Appointed as a director in July 2012.

(4) Resigned as a director in July 2012.

(5) Options to purchase 500,000 shares of common stock were outstanding at December 31, 2012.

(6) Options to purchase 250,000 shares of common stock were outstanding at December 31, 2012.

(7) Resigned as a director in January 2012.

On January 9, 2012, our Board of Directors granted each of our then five directors options to purchase 250,000 shares of our common stock at an exercise price of $0.345 per share, vesting in three equal installments (or 83,333 shares) on each of September 21, 2012, 2013 and 2014.

Effective July 18, 2012 we accelerated the vesting on the January 9, 2012 options previously issued to the members of our board of directors, the result being that such options vested immediately. In addition, we authorized an aggregate of 1,750,000 new non-plan, non-statutory options to members of our board of directors including 250,000 options to each incumbent member, excluding Guy A. Archbold who waived his right to receive such additional options, and 500,000 options to each of our two new members, John Kyees and William Andrew. The options issued to the incumbent members vest on the first anniversary of their respective engagements as directors. 250,000 of the options issued to each of the new board members vested on issuance and the remaining 250,000 options issued to such members vest on the first anniversary of their respective appointments. All of the newly issued director options have an exercise price equal to the fair market value of our common stock on the date of grant and have a ten year term subject to earlier forfeiture.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information with respect to the beneficial ownership of our common stock known by us as of April 12, 2013 by:

- each person or entity known by us to be the beneficial owner of more than 5% of our common stock;
- each of our directors;
- each of our named executive officers as defined in Item 402(m)(2) of Regulation S-K; and
- all of our directors and executive officers as a group.

Except as otherwise indicated, the persons listed below have sole voting and investment power with respect to all shares of our common stock owned by them, except to the extent such power may be shared with a spouse. Information given with respect to beneficial owners who are not officers or directors of ours is to the best of our knowledge, based on information available to us. The shares indicated as beneficially owned may include shares held in street name or the name of a nominee, and beneficial ownership may have been disposed of and/or acquired without our knowledge.

Name and Address of Beneficial Owner[1]	Title of Class	Amount and Nature of Beneficial Ownership[2]	Percentage of Class[3]
Guy A. Archbold	Common Stock	7,150,000[4]	5.7%
Jeff Winzeler	Common Stock	600,001[5]	*
Edward Feighan	Common Stock	2,616,666[6]	2.2%
Michael Feinberg	Common Stock	950,000[7]	*
Sherman Henderson	Common Stock	500,000[8]	*
John Kyees	Common Stock	1,360,500[9]	1.2%
William Andrew	Common Stock	1,083,168[10]	*
All directors and executive officers as a group (7 persons)		14,260,335[11]	11.0%
Black Diamond Financial Group LLC 1610 Wynkoop Street, Suite 400 Denver, CO 80202	Common Stock	67,381,345[12]	47.8%
Gordon V. Smith 8716 Crider Brook Way Potomac, MD 20854	Common Stock	9,895,098[13]	8.1%
Navesink Investment Fund, L.P. 46 Bellevue Avenue Rumson, NJ 07760	Common Stock	8,749,602[14]	7.3%

* Less than 1%.

(1) Except as otherwise indicated, the address of each beneficial owner is c/o Rackwise, Inc., 2365 Iron Point Road, Suite 190, Folsom, CA 95630.

(2) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable or convertible, or exercisable or convertible within 60 days of April 12, 2013 are deemed outstanding for computing the percentage of the person holding such option or warrant but are not deemed outstanding for computing the percentage of any other person.

(3) Percentage based upon 117,757,201 shares of our common stock outstanding as of April 12, 2013.

(4) Consists of (i) 690,000 options which vested on September 30, 2011 in connection with Mr. Archbold's appointment as our CEO and President, (ii) 6,210,000 options which vested on November 29, 2011 and (iii) 250,000 director options which vested on July 18, 2012. All of such options have an exercise price of $0.345 per share.

(5) Includes 333,334 and 166,667 options which vested on January 23, 2013 and February 15, 2013, respectively. In addition, Mr. Winzeler owns 666,666 and 333,333 options which will vest annually at a rate of 50% beginning on January 23, 2014 and February 15, 2014, respectively, if Winzeler remains employed by us on such vesting date. All of such options have an exercise price of $0.345 per share.

(6) Includes (a) (i) 33,333 5-year warrants with an exercise price of $1.00 acquired on January 6, 2012, (ii) 500,000 7-year warrants exercisable on or before April 17, 2019 at an exercise price of $1.00, (iii) 166,667 5-year warrants with an exercise price of $0.30 acquired on October 4, 2012 and (iv) 333,333 5-year warrants with an exercise price of $0.30 acquired on January 13, 2013, and (b) (i) 250,000 options with an exercise price of $0.345 per share which vested on July 18, 2012 and (ii) 250,000 options with an exercise price of $0.348 per share which vested on September 21, 2012.

(7) Includes (i) 150,000 5-year warrants with an exercise price of $0.625 acquired on December 5, 2011, (ii) 250,000 options with an exercise price of $0.345 per share which vested on July 18, 2012 and (iii) 250,000 options with an exercise price of $0.348 per share which vested on January 6, 2013.

(8) Consists of (i) 250,000 options with an exercise price of $0.345 per share which vested on July 18, 2012 and (ii) 250,000 options with an exercise price of $0.348 per share which vested on September 21, 2012.

(9) Includes (i) 203,500 5-year warrants with an exercise price of $0.625 acquired on September 21, 2011, (ii) 100,000 5-year warrants with an exercise price of $1.00 acquired on January 13, 2012 and (iii) 250,000 options which vested on July 18, 2012. Excludes 250,000 options which will vest on July 18, 2013. All of such options have an exercise price of $0.348 per share.

(10) Includes (a) (i) 102,723 5-year warrants with an exercise price of $0.625 acquired on September 21, 2011, and (ii) 100,000 5-year warrants with an exercise price of $1.00 acquired on December 16, 2012, and (b) (i) 250,000 options which vested on July 18, 2012. Excludes (a)(i) convertible promissory note in the principal amount of $100,000 due October 17, 2012 which is convertible at the sole option of the holder into units of our securities (shares and warrants of our Company) at a conversion price of $0.20, and (ii) convertible promissory note in the principal amount of $51,972.61 due October 17, 2012 which is convertible at the sole option of the holder into units of our securities (shares and warrants of our Company) at a conversion price of $0.20, and (b) 250,000 options which will vest on July 18, 2013. All of such options have an exercise price of $0.348 per share.

(11) Includes shares issued to our executive officers and directors which are subject to certain vesting requirements and may vest within 60 days of April 12, 2013 and excludes other shares issued to our executive officers and directors which are subject to certain longer vesting requirements.

(12) Includes (a) 3,298,309 shares of our common stock and 1,695,334 shares of our common stock issuable upon exercise of warrants currently exercisable or exercisable within 60 days of April 12, 2013 owned by Black Diamond Financial Group LLC ("BDFG"), (b) 23,486,243 shares of our common stock and 12,345,391 shares of our common stock issuable upon exercise of warrants currently exercisable or exercisable within 60 days of April 12, 2013 owned by Black Diamond Holdings LLC ("BDH"), (c) 17,057,589 shares of our common stock and 8,977,679 shares of our common stock issuable upon exercise of warrants currently exercisable or exercisable within 60 days of April 12, 2013 owned by Rackwise Funding LLC ("Rackwise Funding"), and (d) 341,241 shares of our common stock and 179,586 shares of our common stock issuable upon exercise of warrants currently exercisable or exercisable within 60 days of April 12, 2013 owned by MFPI Partners LLC ("MFPI"). BDFG is the manager of BDH and Rackwise Funding. Patrick Imeson is the manager of BDFG and MFPI and, to our knowledge, has sole voting and investment power with respect to the securities owned by BDFG, BDH, Rackwise Funding and MFPI. Mr. Imeson may be deemed to beneficially own the securities held by BDFG, BDH, Rackwise Funding and MFPI.

(13) Includes 3,689,682 shares of our common stock issuable upon exercise of warrants currently exercisable or exercisable within 60 days of April 12, 2013.

(14) Consists of (a) 1,106,766 shares of our common stock owned by AMG II, LLC ("AMG"), (b) 133,334 shares of our common stock and 33,334 shares of our common stock issuable upon exercise of warrants currently exercisable or exercisable within 60 days of April 12, 2013 owned by Navesink Capital Advisors, LLC ("NCA"), and (c) 4,984,112 shares of our common stock and 2,492,056 shares of our common stock issuable upon exercise of warrants currently exercisable or exercisable within 60 days of April 12, 2013 owned by Navesink Investment Fund, L.P. ("NIF"). Excludes 4,000,000 shares of our common stock issuable upon exercise of outstanding warrants owned by NCA, the exercise of which warrants is subject to a customary 9.99% "blocker." Navesink Partners, LLC is the general partner of NIF. Alan Goddard is the managing member of AMG, NCA and Navesink Partners, LLC and, to our knowledge, has sole voting and investment power with respect to the securities owned by AMG, NCA and NIF. Mr. Goddard may be deemed to beneficially own the securities held by AMG, NCA and NIF.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2012, with respect to the shares of common stock that may be issued under our existing equity compensation plans:

	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)
Equity compensation plans approved by security holders	11,261,667	$ 0.343	2,238,333
Equity compensation plans not approved by security holders	13,413,334	$ 0.346	-
Total	24,675,001	$ 0.344	2,238,333

2011 Equity Incentive Plan

Our Board of Directors and stockholders owning a majority of our outstanding shares adopted the 2011 Equity Incentive Plan (the "2011 Plan") on September 20, 2011, a total of 13,500,000 shares of our common stock are reserved for issuance under the 2011 Plan. If an incentive award granted under the 2011 Plan expires, terminates, is unexercised or is forfeited, or if any shares are surrendered to us in connection with an incentive award, the shares subject to such award and the surrendered shares will become available for further awards under the 2011 Plan.

Shares issued under the 2011 Plan through the settlement, assumption or substitution of outstanding awards or obligations to grant future awards as a condition of acquiring another entity are not expected to reduce the maximum number of shares available under the 2011 Plan. In addition, the number of shares of common stock subject to the 2011 Plan and the number of shares and terms of any incentive award are expected to be adjusted in the event of any stock dividend, spin-off, split-up, stock split, reverse stock split, recapitalization, reclassification, merger, consolidation, liquidation, business combination or exchange of shares or similar transaction.

Administration

It is expected that the compensation committee of the Board, or the Board in the absence of such a committee, will administer the 2011 Plan. Subject to the terms of the 2011 Plan, the compensation committee would have complete authority and discretion to determine the terms of awards under the 2011 Plan.

Eligible Recipients

Any officer or other employee of the Company or its affiliates, or an individual that the Company or an affiliate has engaged to become an officer or employee, or a consultant or advisor who provides services to the Company or its affiliates, including a non-employee director of the Board, is eligible to receive awards under the 2011 Plan.

Grants

The 2011 Plan authorizes the grant to eligible recipients of nonqualified stock options, incentive stock options, restricted stock awards, restricted stock units, performance grants intended to comply with Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code") and stock appreciation rights, as described below:

- Options granted under the 2011 Plan entitle the grantee, upon exercise, to purchase a specified number of shares from us at a specified exercise price per share. The exercise price for shares of common stock covered by an option cannot be less than the fair market value of the common stock on the date of grant unless agreed to otherwise at the time of the grant. Such awards may include vesting requirements.

- Restricted stock awards and restricted stock units may be awarded on terms and conditions established by the compensation committee, which may include performance conditions for restricted stock awards and the lapse of restrictions on the achievement of one or more performance goals for restricted stock units.

- The compensation committee may make performance grants, each of which will contain performance goals for the award, including the performance criteria, the target and maximum amounts payable, and other terms and conditions.

- Stock awards are permissible. The compensation committee will establish the number of shares of common stock to be awarded and the terms applicable to each award, including performance restrictions.

- Stock appreciation rights or SARs, entitle the participant to receive a distribution in an amount not to exceed the number of shares of common stock subject to the portion of the SAR exercised multiplied by the difference between the market price of a share of common stock on the date of exercise of the SAR and the market price of a share of common stock on the date of grant of the SAR.

Duration, Amendment, and Termination

The Board may amend, suspend or terminate the 2011 Plan without stockholder approval or ratification at any time or from time to time. No change may be made that increases the total number of shares of common stock reserved for issuance pursuant to incentive awards or reduces the minimum exercise price for options or exchange of options for other incentive awards, unless such change is authorized by our stockholders within one year. Unless sooner terminated, the 2011 Plan terminates ten years after it is adopted.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Notes Payable

On April 20, 2012, we closed on a ninety day 12% convertible promissory note (a "12% Note") with $125,000 of proceeds from a director. The 12% Note was scheduled to mature ninety days after issuance and was convertible, at the option of the holder, into our 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. On July 19, 2012, this 12% Note was extended an additional ninety days. As of December 31, 2012, this note was in default and there was $10,479 of accrued interest.

On August 15, 2012, the same director purchased half of an existing $100,000 12% Note, plus the right to $1,973 of accrued interest, for $51,973 of proceeds from a director. We exchanged the existing 12% Note for a new 12% Note with a face value of $51,973 and a maturity date of October 17, 2012. As of December 31, 2012, this note was in default and there was $2,358 of accrued interest.

Short-Term Loan

On April 12, 2013, we borrowed $112,500 via a short-term interest free loan from an affiliate. The loan is intended to convert into the securities to be sold by us in a subsequent offering.

Stock Options

See discussion above under Item 11. Executive Compensation.

Employment Agreements

See discussion above under Item 11. Executive Compensation — Employment Agreements.

PPO Units

Edward Feighan, a director, purchased an aggregate of 500,000 of PPO Units in the Third Private Offering at a price of $0.15 per Unit, or an aggregate gross selling price of $75,000. Each PPO Unit consisted of (i) one share of our common stock and (ii) a warrant representing the right to purchase one share of our common stock, exercisable for a period of five years, at an exercise price of $0.30 per share.

Director Independence

Our Board has determined that each of Messrs. Feighan, Henderson, Kyees and Andrew is independent within the meaning of applicable listing rules of The New York Stock Exchange, as amended from time to time and the rules promulgated by the SEC.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Audit Fees

The aggregate fees billed to us by Marcum LLP, our principal accountant for professional services rendered during the fiscal years ended December 31, 2012 and 2011 are set forth in the table below:

	Fiscal Years Ended December 31,	
Fee Category	**2012**	**2011**
Audit fees (1)	$ 154,250	$ 177,167
Audit-related fees (2)	62,922	159,242
Tax fees (3)	—	—
All other fees (4)	—	—
Total fees	$ 217,172	$ 336,409

(1) Audit fees consist of fees incurred for professional services rendered for the audit of consolidated financial statements, for reviews of our interim consolidated financial statements included in our Quarterly Reports on Form 10-Q and for services that are normally provided in connection with statutory or regulatory filings or engagements.

(2) Audit-related fees consist of fees billed for professional services that are reasonably related to the performance of the audit or review of our consolidated financial statements, but are not reported under “Audit fees.”

(3) Tax fees consist of fees billed for professional services relating to tax compliance, tax planning, and tax advice.

(4) All other fees consist of fees billed for all other services.

Audit Committee’s Pre-Approval Practice

Prior to our engagement of our independent auditor, such engagement was approved by our Board of Directors. The services provided under this engagement may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. Pursuant our requirements, the independent auditors and management are required to report to our board of directors at least quarterly regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. Our Board of Directors may also pre-approve particular services on a case-by-case basis. All audit-related fees, tax fees and other fees incurred by us for the year ended December 31, 2012, were approved by our Board of Directors.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Financial Statements

See Index to Financial Statements immediately following the signature page of this Annual Report.

Financial Statement Schedules

All financial statement schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

Exhibits

In reviewing the agreements included as exhibits to this Annual Report, 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 Annual Report 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:

Exhibit No.	Description
2.1	Agreement and Plan of Merger and Reorganization dated as of September 21, 2011 by and among Registrant, VNDI Acquisition Corp. and Visual Network Design, Inc. (a Delaware corporation) (1)
2.2	Certificate of Merger dated as of September 21, 2011 for the merger of VNDI Acquisition Corp. into Visual Network Design, Inc. (a Delaware corporation) (1)
3.1	Certificate of Incorporation of MIB Digital, Inc. (2)
3.2	Certificate of Incorporation of Cahaba Pharmaceuticals, Inc. (3)
3.3	Certificate of Merger of MIB Digital, Inc., with and into Cahaba Pharmaceuticals, Inc. (3)
3.4	Articles of Merger as filed with the Nevada Secretary of State on July 8, 2011 (4)
3.5	Agreement and Plan of Merger dated July 8, 2011 by and between Cahaba Pharmaceuticals, Inc. and Visual Network Design, Inc. (4)
3.6	Articles of Merger as filed with the Secretary of State of the State of Nevada on September 29, 2011 (5)
3.7	Agreement and Plan of Merger, dated September 29, 2011, by and between Visual Network Design, Inc. and Rackwise, Inc. (5)
3.8	By-Laws of the Registrant (1)
4.1	Form of Investor Warrant issued the investors in the November 2011 Private Placement Offering (1)

Exhibit No.	Description
4.2	Form of Merger Warrant (1)
4.3	Form of Broker Warrant issued the investors in the November 2011 Private Placement Offering (1)
4.4	Form of Investor Warrant issued the investors in the January 2012 Private Placement Offering (7)
4.5	Form of Broker Warrant issued the investors in the January 2012 Private Placement Offering (7)
4.6	Form of 12% Senior Convertible Promissory Note (8)
4.7	Form of Warrant underlying 12% Senior Convertible Promissory Note (9)
4.8	Form of 8% Convertible Promissory Note (10)
4.9	Form of Warrant issued in connection with the issuance of the 8% Convertible Promissory Notes (11)
4.10	Form of Investor Warrant issued to the investors in the Third Private Offering*
10.1	Split-Off Agreement, dated as of September 21, 2011, by and among the Registrant, VNDI Split Corp., and Scott Hughes (1)
10.2	General Release Agreement, dated as of September 21, 2011, by and among the Registrant, VNDI Split Corp. and Scott Hughes (1)
10.3	Form of Subscription Agreement between Registrant and the investors in the November 2011 Private Placement Offering, including Addendum to Subscription Agreement (1)
10.4	Subscription Escrow Agreement dated July 18, 2011, by and among the Registrant, Gottbetter Capital Markets, LLC, and CSC Trust Company of Delaware, as amended on August 4, 2011 and September 12, 2011 (1)
10.5	Placement Agency Agreement dated as of August 3, 2011 by and between the Registrant and Gottbetter Capital Markets, LLC, as amended on September 12, 2011 (1)
10.6	Form of Registration Rights Agreement by and between Registrant and the investors in the November 2011 Private Placement Offering (1)
10.7	Assignment and Assumption Agreement dated September 21, 2011 between the Registrant and Visual Network Design, Inc., a Delaware corporation (1)
10.8	Escrow Agreement dated September 21, 2011 among the Registrant, Robert B. Ney, as indemnification representative, and Gottbetter & Partners, LLP, as escrow agent (1)
10.9	2011 Equity Incentive Plan (1)
10.10	Form of Lock-Up Agreement (1)
10.11	Exchange Agent Agreement dated September 21, 2011 by and between the Registrant and Broadridge Corporate Issuer Solutions, Inc. (1)
10.12	Finder’s Fee Agreement dated September 20, 2011 by and between the Registrant and INVX Peru S.A.C. (1)
10.13	Employment Agreement dated as of September 30, 2011 by and between the Registrant and Guy A. Archbold (7)
10.14	Consulting Agreement dated October 1, 2011 by and between the Registrant and Gottbetter Capital Markets, LLC (6)
10.15	Consulting Services Agreement dated November 25, 2011 by and between the Registrant and Paradigm Capital Holdings LLC (7)
10.16	Consulting Services Agreement dated November 25, 2011 by and between the Registrant and Navesink Capital Advisors, LLC (7)
10.17	Form of Subscription Agreement between the Registrant and the investors in the January 2012 Private Placement Offering (7)
10.19	Form of Registration Rights Agreement between the Registrant and the investors in the January 2012 Private Placement Offering (7)
10.20	Subscription Escrow Agreement dated December 1, 2011, by and among the Registrant, Gottbetter Capital Markets, LLC, and CSC Trust Company of Delaware, as amended on December 29, 2011 and January 9, 2012 (7)
10.21	Placement Agency Agreement dated as of December 1, 2011 by and between the Registrant and Gottbetter Capital Markets, LLC, as amended on December 15, 2011 and January 9, 2012 (7)

Exhibit No.	Description
10.22	Form of Securities Purchase Agreement by and among the Company and the investors set forth on the signature pages affixed thereto with respect to the purchase of (i) 8% Convertible Promissory Note and (ii) Warrant issued in connection with the issuance of the 8% Convertible Promissory Notes (12)
10.23	Amended and Restated Subscription Escrow Agreement, dated as of June 22, 2012, by and among the Registrant, Gottbetter Capital Markets, LLC, and CSC Trust Company of Delaware (13)
10.24	Placement Agency Agreement, dated as of June 22, 2012, by and between Gottbetter Capital Markets, LLC and the Registrant (14)
10.25	Subscription Escrow Agreement dated September 1, 2012, as amended, by and among the Registrant, Gottbetter Capital Markets, LLC, and CSC Trust Company of Delaware (Third Private Offering)*
10.26	Form of Subscription Agreement by and among the Registrant, Gottbetter Capital Markets, LLC, and CSC Trust Company of Delaware (Third Private Offering)*
10.27	Placement Agency Agreement, dated as of September 1, 2012, as amended, by and between Gottbetter Capital Markets, LLC and the Registrant (Third Private Offering)*
14.1	Code of Ethics (7)
21.1	List of Subsidiaries (1)
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certifications of 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	Certifications 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 Taxonomy Extension Schema Document**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document**

* Filed/Furnished herewith.

** 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 if and to the extent that Company specifically incorporates it by reference.

(1) Filed with the Securities and Exchange Commission on September 27, 2011 as an exhibit, numbered as indicated above, to the Registrant’s Current Report on Form 8-K dated September 21, 2011, which exhibit is incorporated herein by reference.

(2) Filed with the Securities and Exchange Commission on November 18, 2009 as an exhibit, numbered as indicated above, to the Registrant’s Registration Statement on Form S-1 (File Number 333-163172), which exhibit is incorporated herein by reference.

(3) Filed with the Securities and Exchange Commission on August 30, 2010 as an exhibit, numbered as indicated above, to the Registrant’s Current Report on Form 8-K dated August 24, 2011, which exhibit is incorporated herein by reference.

(4) Filed with the Securities and Exchange Commission on July 13, 2011 as an exhibit, numbered as indicated above, to the Registrant’s Current Report on Form 8-K dated July 8, 2011, which exhibit is incorporated herein by reference.

(5) Filed with the Securities and Exchange Commission on October 5, 2011 as an exhibit, numbered as indicated above, to the Registrant’s Current Report on Form 8-K dated September 29, 2011, which exhibit is incorporated herein by reference.

(6) Filed with the Securities and Exchange Commission on November 14, 2011 as an exhibit, numbered as indicated above, to the Registrant’s Form 10-Q for the quarterly period ended September 30, 2011, which exhibit is incorporated herein by reference.

(7) Filed with the Securities and Exchange Commission on January 17, 2012 as an exhibit, numbered as indicated above, to the Registrant’s Registration Statement on Form S-1 (File No 333-179020), which exhibit is incorporated herein by reference.

(8) Filed as Exhibit 4.1 to the Registrant’s Current Report on Form 8-K dated April 26, 2012, which exhibit is incorporated herein by reference.

(9) Filed as Exhibit 4.2 to the Registrant’s Current Report on Form 8-K dated April 26, 2012, which exhibit is incorporated herein by reference.

(10)Filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated July 6, 2012, which exhibit is incorporated herein by reference.

(11)Filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated July 6, 2012, which exhibit is incorporated herein by reference.

(12) Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated July 6, 2012, which exhibit is incorporated herein by reference.

(13) Filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated July 6, 2012, which exhibit is incorporated herein by reference.

(14) Filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated July 6, 2012, which exhibit is incorporated herein by reference

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RACKWISE, INC.

Dated: April 16, 2013	By:	*/s/ Guy A. Archbold*
	Name:	Guy A. Archbold
	Title:	Chief Executive Officer
Dated: April 16, 2013	By:	*/s/ Jeff Winzeler*
	Name:	Jeff Winzeler
	Title:	Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Guy A. Archbold Guy A. Archbold	Chief Executive Officer (Principal Executive Officer) and Chairman of the Board of Directors	April 16, 2013
/s/ Jeff Winzeler Jeff Winzeler	Chief Financial Officer (Principal Financial and Accounting Officer)	April 16, 2013
/s/ Edward Feighan Edward Feighan	Director	April 16, 2013
/s/ Michael Feinberg Michael Feinberg	Director	April 16, 2013
 Sherman Henderson	Director	April 16, 2013
/s/ John Kyees John Kyees	Director	April 16, 2013
 William Andrew	Director	April 16, 2013

Rackwise, Inc. and Subsidiary
Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of the Board of Directors and Shareholders of
Rackwise, Inc.

We have audited the accompanying consolidated balance sheets of Rackwise, Inc. and Subsidiary, (the "Company") as of December 31, 2012 and 2011 and the related consolidated statements of operations, changes in stockholders' deficiency and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Rackwise, Inc. and Subsidiary, as of December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, at December 31, 2012, the Company has not achieved a sufficient level of revenues to support its business and has suffered recurring losses from operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding those matters also are described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Marcum LLP

Marcum LLP
New York, NY
April 16, 2013

Rackwise, Inc. and Subsidiary
Consolidated Balance Sheets

	December 31, 2012	December 31, 2011
Assets		
Current Assets:		
Cash	$ 16,799	$ 613,443
Accounts receivable, net of allowance for factoring fees of $165,991 and $3,582 respectively	381,900	212,950
Deferred financing costs, net	68,344	-
Prepaid expenses and other current assets	54,245	73,564
Total Current Assets	521,288	899,957
Property and equipment, net	303,825	130,072
Intangible assets, net	127,063	162,452
Deposits and other assets	55,847	22,132
Total Assets	$ 1,008,023	$ 1,214,613
Liabilities and Stockholders' Deficiency		
Current Liabilities:		
Accounts payable	$ 2,211,568	$ 1,072,716
Accounts payable - related parties	54,497	3,090
Due to factor	891,353	179,145
Accrued expenses	2,171,905	1,444,109
Accrued issuable equity	57,750	1,560,030
Accrued interest	58,520	-
Accrued interest - related parties	22,988	7,648
Notes payable	1,281,973	-
Notes payable - related parties	226,972	50,000
Current portion of deferred rent	99,609	2,759
Deferred revenues	668,086	525,333
Total Current Liabilities	7,745,221	4,844,830
Deferred rent, non-current portion	83,305	21,650
Total Liabilities	7,828,526	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 - 107,333,816 and 94,863,803 shares, respectively	10,733	9,487
Additional paid-in capital	36,648,869	30,225,066
Accumulated deficit	(43,480,105)	(33,886,420)
Total Stockholders' Deficiency	(6,820,503)	(3,651,867)
Total Liabilities and Stockholders' Deficiency	$ 1,008,023	$ 1,214,613

See Notes to these Consolidated Financial Statements

Rackwise, Inc. and Subsidiary
Consolidated Statements of Operations

	For The Years Ended December 31,	
	2012	**2011**
Revenues	$ 3,253,436	$ 2,020,048
Direct cost of revenues	575,956	216,682
Gross Profit	2,677,480	1,803,366
Operating Expenses		
Sales and marketing	4,639,283	1,936,524
Research and development	2,407,818	1,057,768
Transaction expenses	-	1,264,688
General and administrative	4,285,233	5,653,656
Total Operating Expenses	11,332,334	9,912,636
Loss From Operations	(8,654,854)	(8,109,270)
Other Income (Expense)		
Interest	(97,118)	(333,726)
Amortization of debt discount	(604,605)	(632,380)
Amortization of deferred financing costs	(49,662)	(347,632)
Induced note conversion	(76,736)	
Gain on change in fair value of derivative liabilities	-	542,283
Loss on extinguishment	(113,925)	-
Other income, net	3,215	-
Total Other Expense	(938,831)	(771,455)
Net Loss	$ (9,593,685)	$ (8,880,725)
Net Loss Per Common Share - Basic and Diluted	$ (0.10)	$ (0.17)
Weighted Average Number of Common Shares Outstanding - Basic and Diluted	97,765,439	52,737,927

See Notes to these Consolidated Financial Statements

Rackwise, Inc. and Subsidiary
Consolidated Statements of Changes in Stockholders' Deficiency
For The Years Ended December 31, 2012 and 2011

	Common Stock		Additional Paid-In	Note Receivable -	Accumulated	
	Shares	Amount	Capital	Stockholder	Deficit	Total
Balance - December 31, 2010	38,846,743	$ 3,885	$ 18,117,348	$ (187,717)	$ (25,005,695)	$ (7,072,179)
Conversion of notes and accrued interest into shares of common stock	28,901,267	2,890	6,436,200	-	-	6,439,090
Exercise of warrants	1,609,747	161	2,884	-	-	3,045
Issuance of common stock and warrants - private placement, net	14,866,028	1,487	3,748,828	-	-	3,750,315
Reclassification of derivative liability to equity	-	-	1,133,186	-	-	1,133,186
Outstanding common stock of Rackwise, Inc. at the time of the exchange	10,000,018	1,000	(1,000)	-	-	-
Forgiveness of note receivable - stockholder	-	-	-	187,717	-	187,717
Warrants issued in connection with convertible notes	-	-	4,750	-	-	4,750
Stock-based compensation	640,000	64	782,870	-	-	782,934
Net loss	-	-	-	-	(8,880,725)	(8,880,725)
Balance - December 31, 2011	94,863,803	$ 9,487	$ 30,225,066	$ -	$ (33,886,420)	$ (3,651,867)
Issuance of common stock and warrants - private placement, net	11,299,000	1,130	2,324,034	-	-	2,325,164
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	-	-	1,570,547	-	-	1,570,547
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 warrant modification	-	-	113,925	-	-	113,925
Conversion of notes and accrued interest into common stock and warrants	1,144,231	114	176,564	-	-	176,678
Inducement expenses for conversion of notes payable	-	-	76,736	-	-	76,736
Net loss	-	-	-	-	(9,593,685)	(9,593,685)
Balance - December 31, 2012	107,333,816	$ 10,733	$ 36,648,869	$ -	$ (43,480,105)	$ (6,820,503)

See Notes to these Consolidated Financial Statements

Rackwise, Inc. and Subsidiary
Consolidated Statements of Cash Flows

	For The Years Ended December 31,	
	2012	**2011**
Cash Flows From Operating Activities		
Net loss	$ (9,593,685)	$ (8,880,725)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	243,488	191,549
Gain on sale of property and equipment	(3,064)	-
Provision for bad debt expense	1,443	-
Forgiveness of note receivable - stockholder	-	187,717
Stock-based compensation [2]	1,662,797	2,342,964
Cancellation of shares pursuant to settlement agreement	(57,000)	-
Loss on extinguishment	113,925	-
Induced note conversion expense	76,736	-
Change in fair value of derivative liabilities	-	(542,283)
Amortization of debt discount	604,605	632,380
Amortization of deferred financing costs	49,662	347,632
Deferred rent	158,505	2,404
Changes in operating assets and liabilities:		
Accounts receivable, net	(170,393)	832,049
Prepaid expenses and other current assets	19,319	(34,511)
Deposits and other assets	(33,715)	(4,191)
Accounts payable	1,138,852	203,821
Accounts payable – related parties	51,407	(279,147)
Accrued expenses	731,611	850,529
Accrued interest	66,396	-
Accrued interest – related parties	17,312	327,054
Deferred revenues	142,753	(377,825)
Total Adjustments	4,814,639	4,680,142
Net Cash Used in Operating Activities	(4,779,046)	(4,200,583)
Cash Flows From Investing Activities		
Acquisition of property and equipment	(291,348)	(99,197)
Proceeds from sale of property and equipment	8,901	-
Acquisition of intangible assets	(96,341)	(102,527)
Net Cash Used in Investing Activities	(378,788)	(201,724)
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]	2,325,164	3,750,315
Proceeds of warrant exercise	19,864	3,045
Deferred financing costs	(122,231)	(347,632)
Due to factor, net	712,208	(767,645)
Payment of capital lease obligations	(3,815)	(7,679)
Net Cash Provided by Financing Activities	4,561,190	4,968,384
Net (Decrease)/Increase In Cash	(596,644)	566,077
Cash - Beginning	613,443	47,366
Cash - Ending	$ 16,799	$ 613,443

[1] Gross proceeds of $2,675,100 and $4,205,574, less issuance costs of $349,936 and $455,259 for the years ended December 31, 2012 and 2011, respectively.

[2] Includes accrued issuable equity of $57,750 and $1,560,030 for the years ended December 31, 2012 and 2011, respectively.

See Notes to these Consolidated Financial Statements

Rackwise, Inc. and Subsidiary
Consolidated Statements of Cash Flows - Continued

	For The Years Ended December 31,	
	2012	**2011**
Supplemental Disclosures of Cash Flow Information:		
Non-cash financing activities:		
Equity issued (issuable)	$ 1,560,030	$ (1,560,030)
Equity issuable	$ (57,750)	$ -
Conversion of notes payable into equity	$ 176,678	$ 6,439,090
Cancellation of shares	$ (57,000)	$ -
Reclassification of derivative liabilities into equity	$ -	$ 1,133,186
Warrants and beneficial conversion features issued in connection with convertible notes	$ 604,605	$ 4,750

See Notes to these Consolidated Financial Statements

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 1 - Organization and Operations

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 Datacenter 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 ("VNDI") (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.

Reverse Merger

On September 21, 2011, the predecessor to Rackwise, Inc. and its wholly-owned subsidiary executed a reverse merger agreement (the "Merger Agreement") with an operating company (Visual Network Design, Inc. d/b/a Rackwise was incorporated in Delaware on January 8, 2003). Pursuant to the Merger Agreement and following the first closing of the First Private Offering (see Note 9 - Equity - Private Offerings - First Private Offering), the stockholders of the operating company received an aggregate of 72.7% of the common stock of the Company as a result of converting each share of common stock of the operating company for (1) approximately 1.27 shares of common stock in the Company (the "Merger Shares"); and (2) approximately 1.27 warrants, each to purchase one-half share of common stock in the Company (the "Merger Warrants"). At the time of the exchange, the operating company had 10,000,018 shares of common stock outstanding.

An indemnification representative for the operating company's stockholders executed an Escrow Agreement, whereby it was agreed that 5% of the Merger Shares (3,000,000 shares) due to the operating company's stockholders would be held in escrow for a two year period. In addition, a Lock-Up Agreement requires that officers, directors, key employees and holders of 10% or more of the Company's common stock (1) not sell or otherwise transfer their shares for a period of eighteen months; and (2) not register their shares for a period of two years.

The Merger Warrants are exercisable for a period of five years at an exercise price of $0.625 per full share of common stock and are identical to the Investor Warrants (see Note 9 - Equity - Private Offerings - First Private Offering) in all material respects except that (i) the resale of the common stock underlying them is not covered by a registration statement; (ii) the Company may redeem the Merger Warrants only if they are eligible to be exercised on a cashless basis; and (iii) they are only exercisable on a cashless basis in connection with a redemption of the Merger Warrants and only commencing one year after the September 27, 2011 filing of the Current Report on Form 8-K with the SEC regarding the reverse merger.

For financial reporting purposes, the reverse merger represented a capital transaction of the operating company rather than a business combination, because the sellers of the operating company controlled the combined company immediately following the completion of the transaction. The operating company was deemed to be the accounting acquirer in the transaction and, consequently, the transaction was treated as a recapitalization of the operating company. Accordingly, the assets and liabilities and the historical operations that are reflected in the financial statements are those of the operating company and were recorded at the historical cost basis of the operating company. The public holding company had no assets, liabilities or results of operations as of the date of the acquisition. The number of shares issued and outstanding, additional paid-in capital and all references to share quantities of the Company in these notes have been retroactively adjusted to reflect the equivalent number of shares issued by the Company in the reverse merger, while the operating company's historical equity is being carried forward. All costs attributable to the reverse merger were expensed as transaction costs.

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 2 – Significant Accounting Policies

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.

During the years ended December 31, 2012 and 2011, the Company raised net proceeds of approximately $3,955,000 (gross proceeds of approximately $4,305,000 less approximately $349,000 of issuance costs) and $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 years ended December 31, 2012 and 2011, the Company recorded net losses of approximately $9,594,000 and $8,881,000, respectively, while revenues increased to approximately $3,253,000 from approximately $2,020,000. During the years ended December 31, 2012 and 2011, the Company used cash in operating activities of approximately $4,779,000 and $4,201,000, respectively. As of December 31, 2012, the Company has limited cash of approximately $17,000, a working capital deficiency of approximately $7,224,000, an accumulated deficit of approximately $43,480,000 and owes approximately $1,100,000 for payroll tax liabilities, penalties and interest which has yet to be remitted to the taxing authorities. The Company also continues to incur unpaid payroll tax liabilities for the first quarter of 2013 of approximately $231,000. The IRS has placed federal tax liens that aggregate to approximately $771,000 against the Company in connection with the unpaid payroll taxes through the third quarter of 2012.

Subsequent to December 31, 2012, the Company (a) sold additional common stock and warrants for $150,000 of aggregate gross proceeds in the continuation of the Third Private Offering; (b) certain note holders elected to convert five 8% Notes with an aggregate principal amount of $800,000, plus $33,282 of aggregate accrued and unpaid interest, into equity; and (c) borrowed $112,500 via a short-term interest free loan from an affiliate (the loan is intended to convert into the securities to be sold by us in a subsequent offering; see Note 13 - Subsequent Events). The capital raised in the private placement offerings will be utilized to fund existing operating deficits while the Company continues to develop product line(s) and enhance marketing efforts to increase revenues and eventually generate operating surpluses. The Company believes it will be successful in these efforts; however, there can be no assurance the Company will meet its revenues forecasts or, if 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 financial statements do not include any adjustments that might be necessary if the Company were unable to continue as a going concern. The Company expects that the cash it has available will fund its operations only until May 2013. If the Company is unable to obtain additional financing on a timely basis and, notwithstanding any request the Company may make, the Company's debt holders do not agree to convert their notes into equity or extend the maturity dates of their notes, the Company may have to delay note and vendor payments and/or initiate cost reductions, which would have a material adverse effect on the Company's business, financial condition and results of operations, and ultimately the Company could be forced to discontinue its operations, liquidate and/or seek reorganization under the U.S. bankruptcy code.

Principles of Consolidation

The balance sheets, results of operations and cash flows of the Company and its wholly-owned subsidiary have been included in its consolidated financial statements. All intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States ("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.

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 2 – Significant Accounting Policies - Continued

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of 90 days or less at the of acquisition to be cash equivalent. There are no cash equivalent as of December 31, 2012 and 2011.

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 years ended December 31, 2012 and 2011, the Company's losses from bad debts were not material. The losses ultimately incurred could differ materially in the near term from the amounts estimated in determining the allowance.

In addition, the Company 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. Due to the current tax liens, the Company is currently in default of this factoring arrangement. As such, the factor could demand full repayment of the outstanding balance.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash, accounts 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.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the applicable assets. Computer, computer software and office equipment are depreciated over estimated useful lives of 3 years and furniture and fixtures are depreciated over estimated useful lives of 5 years. Expenditures for maintenance and repairs that do not improve or extend the expected lives of the assets are expensed to operations, while expenditures for major upgrades to existing items are capitalized. Upon retirement or other disposition of these assets, the costs and related accumulated depreciation and amortization of these assets are removed from the accounts and the resulting gains or losses are reflected in the consolidated statements of operations.

Accounting for Impairment of Long-Lived Assets

The Company evaluates the recoverability of its long-lived assets in accordance with Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") Topic 360, which requires recognition of impairment of long-lived assets in the event an indication of impairment exists and the net book value of such assets exceeds the expected future undiscounted net cash flows attributable to such assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value less the cost to sell. As of December 31, 2012, management does not believe there has been any impairment of long-lived assets.

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 2 – Significant Accounting Policies – Continued

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. Derivative liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the instrument could be required within 12 months of the balance sheet date.

Concentration of Credit Risk and Customers

Financial instruments that potentially expose the Company to concentration of credit risk consist primarily of cash and accounts receivable. The Company's cash is 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.

Revenues derived from customers in the United Kingdom denominated in U.S. dollars were approximately $68,000 and $68,000 during the years ended December 31, 2012 and 2011, respectively. Revenues derived from customers in Austria denominated in U.S. dollars were approximately $0 and $27,000 during the years ended December 31, 2012 and 2011, respectively. Revenues derived from customers in Australia denominated in U.S. dollars were approximately $53,000 and $39,000 during the years ended December 31, 2012 and 2011, respectively. Revenues derived from customers in Canada denominated in U.S. dollars were approximately $67,000 and $10,000 during the years ended December 31, 2012 and 2011, respectively. Revenues derived from customers in Germany denominated in U.S. dollars were approximately $90,000 and $0 during the years ended December 31, 2012 and 2011 respectively.

All remaining revenues were derived from customers in the United States of America. All of the Company’s long-lived assets are located in the United States of America. One customer represented 21% of revenue during the year ended December 31, 2012 and no customers exceeded 10% of revenues during the year ended December 31, 2011.

Deferred Financing Costs

The Company has recorded deferred financing costs as a result of fees incurred by the Company in conjunction with its debt financing activities. These costs are amortized using the straight-line method over the shorter of (a) the term of the related debt or (b) the expected conversion date of the debt into equity instruments, which approximates the effective interest method. At December 31, 2012, accumulated amortization was approximately $50,000. The Company expects to record amortization of deferred financing costs of approximately $68,000 in 2013.

Capitalized Software Development Costs

The Company capitalizes software development costs in accordance with FASB issued ASC Topic 985 “Software”. Capitalization of software development costs begins upon the determination of technological feasibility. The determination of technological feasibility and the ongoing assessment of the recoverability of these costs requires considerable judgment by management with respect to certain external factors, including anticipated future gross product revenues, estimated economic life and changes in hardware and software technology. Historically, software development costs incurred subsequent to the establishment of technological feasibility have not been material.

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, (c) contain refund provisions, or (d) contain cancellation provisions.

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 2 – Significant Accounting Policies - Continued

Revenue Recognition – Continued

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, (c) contain refund provisions, or (d) contain cancellation 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 its 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 six 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.

The Company manages the business as a single segment, but it has revenues from multiple sources. Management does not segregate the direct cost of revenue by the revenue source.

	For The Years Ended December 31,	
	2012	**2011**
Licensing	$ 1,709,868	$ 587,059
Subscription	250,062	339,690
Maintenance	1,112,136	1,037,859
Professional services	181,370	55,440
Total revenues	$ 3,253,436	$ 2,020,048

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, having a finite life are valued at cost and 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.

Research and Development Costs

Research and development costs are charged to operations as incurred and consist primarily of salaries, consulting services and other direct expenses.

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 2 – Significant Accounting Policies - Continued

Advertising Costs

The Company expenses advertising costs to operations as incurred. For the years ended December 31, 2012 and 2011, such costs were not material.

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.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period enacted. A valuation allowance is provided when it is more likely than not that a portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and the reversal of deferred tax liabilities during the period in which related temporary differences become deductible.

The Company evaluated the provisions of ASC 740 related to the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. ASC 740 prescribes a comprehensive model for how a company should recognize, present and disclose uncertain tax positions that the Company has taken or expects to take in its tax return. The benefit of tax positions taken or expected to be taken in the Company's income tax returns are recognized in the financial statements if such positions are more likely than not of being sustained upon examination by taxing authorities. Differences between tax positions taken or expected to be taken in a tax return and the benefit recognized and measured pursuant to the interpretation are referred to as "unrecognized benefits". A liability is recognized (or amount of net operating loss carryover or amount of tax refundable is reduced) for an unrecognized tax benefit because it represents an enterprise's potential future obligation to the taxing authority for a tax position that was not recognized as a result of applying the provisions of ASC 740. Interest costs and related penalties related to unrecognized tax benefits are required to be calculated, if applicable. The Company's policy is to classify assessment, if any, for tax related interest as interest expense and penalties as general and administrative expenses. No interest and penalties were recorded during the years ended December 31, 2012 and 2011, respectively. As of December 31, 2012 and December 31, 2011, no liability for unrecognized tax benefits was required to be reported. The Company files tax returns in U.S. federal, state and local jurisdictions, including California, and has tax returns subject to examination by tax authorities beginning in the year ended December 31, 2009. The Company does not expect any significant changes in its unrecognized tax benefits in the next year.

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 and vesting dates until the service period is complete. The fair value amount is then recognized over the period services are required to be provided in exchange for the award, usually the vesting period. Since the shares underlying the Company's equity are not currently registered, the fair value of the Company's restricted equity instruments was estimated based on historical observations of cash prices paid for the Company's restricted common stock.

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.

Reclassifications

Certain prior period amounts have been reclassified for comparative purposes to conform to the fiscal 2012 presentation. These reclassifications have no impact on previously reported net loss.

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 2 – 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 year ended December 31, 2012 (1) includes the weighted average impact of 951,905 shares of common stock issuable as of December 31, 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 year ended December 31, 2011 (1) includes the weighted average underlying shares exercisable with respect to the 1,609,747 warrants exercisable at prices of $0.01 per share or less prior to the reverse merger; and (2) excludes the weighted average impact of the 3,000,000 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 December 31, 2012, outstanding stock options and warrants to purchase 24,675,001 and 60,541,103 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 December 31, 2011, outstanding stock warrants to purchase 48,362,014 shares of common stock were excluded from the calculation of diluted net loss per common share because their impact would have been anti-dilutive.

Recent Accounting Pronouncements

There are no recent accounting pronouncements that would be expected to have a material impact on the Company's financial position or results of operations.

Subsequent Events

Subsequent events have been evaluated through the date of this filing.

Note 3 - Property and Equipment

Property and equipment consists of the following at December 31, 2012 and 2011:

	December 31,	
	2012	**2011**
Computer and office equipment	$ 490,103	$ 314,483
Furniture and fixtures	114,871	12,835
Computer software	60,439	60,439
	665,413	387,757
Less: Accumulated depreciation	361,588	257,685
Property and equipment, net	$ 303,825	$ 130,072

The depreciation expense recorded was $111,758 and $53,348 for the years ended December 31, 2012 and 2011, respectively. During the year ended December 31, 2012, the Company sold property and equipment with $13,692 of original cost and $7,855 accumulated depreciation for cash proceeds of $8,901 and recognized a gain of $3,064.

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 4- Intangible Assets

Intangible assets consisted of the following at December 31, 2012 and 2011:

	December 31,	
	2012	**2011**
Computer equipment schematics	$ 1,838,095	$ 1,741,754
Less: Accumulated amortization	1,711,032	1,579,302
Intangible assets, net	$ 127,063	$ 162,452

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, having a finite life are valued at cost and 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.

The amortization expense for the years ended December 31, 2012 and 2011 was $131,730 and $138,201, respectively. As of December 31, 2012, the average remaining amortization period was 15 months. Future amortization expense of intangible assets is expected to be approximately $82,000 for 2013, $42,000 for 2014 and $3,000 for 2015. No amortization expense is expected to be recognized after 2015 related to intangible assets existing as of December 31, 2012.

Note 5 - Accrued Expenses

Accrued expenses consist of the following:

	December 31,	
	2012	**2011**
Accrued commissions	$ 508,654	$ 164,123
Accrued payroll	270,551	328,942
Accrued payroll taxes (1)	1,099,887	537,289
Accrued vacation	219,206	150,207
Accrued professional fees and other	73,607	263,548
Total accrued expenses	$ 2,171,905	$ 1,444,109

(1) Includes accrual for interest and penalties.

Accrued expenses include liabilities for unpaid payroll taxes along with an estimate of related interest and penalties. Through December 31, 2012, the Internal Revenue Service ("IRS") has placed Federal tax liens aggregating approximately $771,000 against the Company in connection with these unpaid payroll taxes.

Note 6 - Notes Payable

Notes Converted Prior to Reverse Merger

During the year 2011, in conjunction with the reverse merger, an aggregate of $6,439,090 of notes and related accrued interest were converted into an aggregate 28,901,267 shares of common stock and five year warrants to purchase 14,450,633 shares of common stock at an exercise price of $0.625 per share. The converted notes included (a) $3,375,753 of face value of related party notes that bore interest at 12% (plus $623,899 of associated accrued interest), including $63,000 of face value that was issued during 2011 (see Note 9 - Equity - Conversion of Non-Bridge Notes for additional details); (b) $100,000 of face value of a note that bore interest at 10%; and (c) $2,275,000 of face value of Convertible Bridge Notes that bore interest at 10% (plus $64,438 of associated accrued interest), all of which was issued to third parties during 2011 (see Note 9- Equity – Private Offerings – First Private Offering for additional details).

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 6 - Notes Payable – Continued

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 December 31, 2012 and 2011. Accrued interest related to the note was $10,151 and $7,648 at December 31, 2012 and 2011, respectively, which is included in Accrued Interest –Related Parties in the accompanying consolidated balance sheets.

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.

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 $580,000 related to the 12% Notes for the year ended December 31, 2012.

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 re-priced 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 re-priced 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%).

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 were amortized over the new ninety day life of the Amended 12% Notes, such that the Company recorded debt discount amortization of $24,605 related to the Amended 12% Notes for the year ended December 31, 2012.

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 6 - Notes Payable – Continued

12% Notes – Amended Terms – Continued

On October 4, 2012, a note holder elected to convert a $75,000 Amended 12% Note plus $4,192 of accrued and unpaid interest into 527,945 shares of common stock and a five-year warrant to purchase 527,945 shares of common stock at an exercise price of $0.30 per share, pursuant to an inducement offer from the Company. The Company recorded $19,798 of induced note conversion expense which represents the incremental value of the securities received pursuant to the inducement offer. The carrying value of the notes and accrued interest were credited to equity at conversion. As of December 31, 2012, 152,945 shares of common stock were unissued. Subsequent to December 31, 2012 and prior to filing, the Company issued 152,945 shares of common stock.

Accrued interest was $12,837 and $24,688 related to the $176,973 of Amended 12% Notes held by a related party (a director) and the $331,973 of other Amended 12% Notes outstanding at December 31, 2012, respectively.

As of December 31, 2012, $508,946 face value of 12% Notes remained outstanding and were in default. Pursuant to the terms of the 12% Notes, noteholders are entitled to all legal remedies in order to pursue collection and the Company is obligated to bear all reasonable costs of collection. To date, no 12% Note holders have pursued collection.

8% Notes

In June, July and August 2012, the Company completed and closed on the issuance of $1,050,000 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 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.

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.

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 6 - Notes Payable – Continued

8% Notes – Continued

On October 4, 2012, a note holder elected to convert a $100,000 8% Note plus $1,711 of accrued and unpaid interest into 1,043,191 shares of common stock and a five-year warrant to purchase 1,043,191 shares of common stock at an exercise price of $0.30 per share, pursuant to an inducement offer from the Company. The Company recorded $56,938 of induced note conversion expense which represents the incremental value of the securities received pursuant to the inducement offer. The carrying value of the notes and accrued interest, plus $4,225 of unamortized debt offering costs were credited to equity at conversion. As a result of the note conversion, a Bridge Warrant to purchase 100,000 shares of common stock had its exercise price adjusted to $0.225 and its term was extended to January 14, 2016. As of December 31, 2012, 273,960 shares of common stock were unissued. Subsequent to December 31, 2012 and prior to filing, the Company issued 273,960 shares of common stock.

Accrued interest related to the 8% Notes was $33,832 at December 31, 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 $49,662 were amortized during the year ended December 31, 2012.

Note 7 - 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 has determined that embedded conversion options of various notes payable which do not have fixed settlement provisions and accordingly are not indexed to its own stock, are deemed to be derivative liabilities. The embedded conversion options of the various notes issued by the Company do not have fixed settlement provisions as the conversion and exercise prices are 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 notes payable were not deemed to be derivative liabilities because they have a fixed settlement provision. The fair values of these derivative liabilities are re-measured at the end of every reporting period with the change in value reported in the statement of operations.

The fair values of the embedded conversion options, which are associated with notes payable issued to related parties, were deemed to be derivative liabilities and measured using the binomial lattice options pricing model with the following assumptions:

	For The Year Ended December 31, 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, an aggregate of $6,439,090 of notes and related accrued interest were converted into an aggregate 28,901,267 shares of common stock and five year warrants to purchase 14,450,633 shares of common stock at an exercise price of $0.625 per share. The converted notes included (a) $3,375,753 of face value of related party notes that bore interest at 12% (plus $623,899 of associated accrued interest), including $63,000 of face value that was issued during 2011; (b) $100,000 of face value of a note that bore interest at 10%; and (c) $2,275,000 of face value of Convertible Bridge Notes that bore interest at 10% (plus $64,438 of associated accrued interest), all of which was issued to third parties during 2011. At September 21, 2011, the derivative liability associated with the embedded conversion options of notes issued to related parties was revalued at $1,133,186. On September 21, 2011, the derivative liability balance of $1,133,186 was reclassified to equity. The gain on change in fair value of derivative liabilities, included in other income in the accompanying statements of operations was approximately $542,000 for the year ended December 31, 2011. See Note 8 – Fair Value Measures for additional details related to the derivative liabilities.

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 8 - Fair Value Measures

The FASB's accounting standard for fair value measurements establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company's own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of December 31, 2012 and December 31, 2011, respectively:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Derivative liabilities:				
December 31, 2012	$ -	$ -	$ -	$ -
December 31, 2011	$ -	$ -	$ -	$ -

The derivative liabilities are measured at fair value using the binomial lattice options pricing model and are classified within Level 3 of the valuation hierarchy. There were no changes in the valuation techniques during the years ended December 31, 2012 and 2011 (see Note 7 – Derivative Liabilities - Related Parties).

The following table sets forth a summary of the changes in the fair value of the Company's Level 3 financial liabilities that are measured at fair value on a recurring basis:

	For The Years Ended December 31,	
	2012	2011
Fair value, beginning of period	$ -	$ 1,645,852
Derivative liabilities recorded during the period	-	29,617
Reclassification of derivative liability to equity	-	(1,133,186)
Net unrealized (gain) loss on derivative financial instruments	-	(542,283)
Fair value, end of period	$ -	$ -

Note 9 – Equity

Authorized Capital

Effective with the Reverse Merger on September 21, 2011 (see Note 1 – Organization and Operations), the Company's authorized capital became as follows:

The Company is authorized to issue up to 300,000,000 shares of common stock, which has a par value of $0.0001 per share. The holders of the Company's common stock are entitled to one vote per share. The holders of common stock are entitled to one vote per share on all matters submitted to a vote of the stockholders, including the election of directors. Generally, all matters to be voted on by stockholders must be approved by a majority (or, in the case of election of directors, by a plurality) of the votes entitled to be cast by all shares of common stock that are present in person or represented by proxy. Except as otherwise provided by law, amendments to the articles of incorporation generally must be approved by a majority of the votes entitled to be cast by the holders of all outstanding shares of common stock. The amended and restated articles of incorporation do not provide for cumulative voting in the election of directors. The common stock holders will be entitled to such cash dividends as may be declared from time to time by the Board from funds available. Upon liquidation, dissolution or winding up of the Company, the common stock holders will be entitled to receive pro rata all assets available for distribution to such holders, subject to the rights of holders of preferred stock, if any. The Company is authorized to issue 10,000,000 shares of blank check preferred stock, which has a par value of $0.0001 per share.

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 9 – Equity – Continued

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, the Company accrued the equity issuance liability of $15,960 as of December 31, 2011. During the year ended December 31, 2012, the remaining 70,000 shares were issued and the fair value of the shares of $15,960 was credited to equity.

On October 1, 2011, the Company entered into a six-month consulting agreement for general business consulting services and advice including, but not limited to, services and advice related to (i) corporate planning and strategies; and (ii) general financial matters. The Company paid $110,000 and issued immediately-vested, five-year warrants to purchase 400,000 shares of common stock at an exercise price of $0.25 per share under the consulting agreement. The exercise price and number of shares of common stock issuable on exercise of these warrants may be adjusted in certain circumstances including stock splits, stock dividends, and future issuances of the Company's equity securities without consideration or for consideration per share less than $0.25 (as specified in the warrant agreement). For the year ended December 31, 2011, the Company recorded the full grant date value of the warrants of $38,640 as stock-based compensation, included in general and administrative expenses in the accompanying statements of operations. The assumptions used in the Black-Scholes option pricing model were as follows: risk-free rate of 0.34%; expected volatility of 75.0%; expected term of 2.5 years; expected dividend yield of 0%.

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 year ended December 31, 2012, the Company reversed $57,000 of stock-based compensation expense upon cancellation of the returned shares.

On November 25, 2011, the Company entered into two two-year consulting agreements for business development and corporate finance services and advice. Upon execution of the consulting agreements, the Company paid an aggregate of $250,000 and issued immediately-vested, five-year warrants to purchase an aggregate of 6,000,000 shares of common stock at an exercise price of $0.66 per share, which are fully earned upon payment and issuance. The exercise price and number of shares of common stock issuable on exercise of these warrants may be adjusted in certain circumstances including stock splits, stock dividends, and future issuances of the Company's equity securities without consideration or for consideration per share less than $0.375 (as specified in the warrant agreement). During the year ended December 31, 2011, the Company recorded the full grant date value of the warrants of $372,600 as stock-based compensation, included in general and administrative expenses in the accompanying statements of operations. The assumptions used in the Black-Scholes option pricing model were as follows: risk-free rate of 0.54%; expected volatility of 75.0%; expected term of 3.5 years; expected dividend yield of 0%.

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, the Company accrued the equity issuance liability of $17,100 as of December 31, 2011. During the year ended December 31, 2012, the remaining 75,000 shares were issued and the fair value of the shares 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.

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 9 – Equity – Continued

Consulting Agreements – Continued

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 December 31, 2012. See Note 12 – Commitments and Contingencies, for additional details associated with a dispute with this vendor. In connection with the unissued shares, the Company accrued the equity issuance liability at the fair market value of $33,000 at December 31, 2012 with a corresponding charge to stock-based compensation expense. At December 31, 2012, $60,000 of unpaid fees were included in accounts payable.

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.

On August 30, 2012, as amended on November 5, 2012, the Company entered into a five-month agreement for public relations and financial communication services. In consideration of services to be rendered, the Company agreed to pay a minimum of $10,000 in cash per month in advance, for an aggregate of $50,000, and to issue 75,000 shares of vested Company common stock per month, for an aggregate of 375,000 shares. As of December 31, 2012, 225,000 earned shares were unissued. In connection with the unissued shares, the Company accrued the equity issuance liability of $24,750 at December 31, 2012 with a corresponding charge to stock-based compensation expense. Subsequent to December 31, 2012 and prior to filing, the Company issued 425,000 shares of common stock in connection with the consultant agreement, which included 50,000 shares pursuant to the original agreement and 375,000 shares pursuant to the amended agreement.

Conversion of Non-Bridge Notes

On September 21, 2011, immediately prior to, and conditioned upon the effectiveness of the reverse merger, $3,475,753 face value of the outstanding non-bridge convertible notes, plus aggregate accrued interest of $623,899, converted into shares of the operating company's common stock, which were ultimately exchanged for an aggregate of 19,543,515 shares of the Company's common stock, plus immediately-vested, five-year Merger Warrants to purchase 9,771,757 shares of common stock at an exercise price of $0.625 per share, pursuant to the terms of the Merger Agreement. The note holders waived their rights to two-year warrants in the operating company in favor of the Merger Warrants. See Note 1 - Organization and Operations – Reverse Merger.

Private Offerings

First Private Offering

In July 2011, the public company commenced a private offering (the "First Private Offering") pursuant to which, on September 21, 2011, the Company had an initial closing on the sale of investor units ("Units"), at a price of $0.25 per Unit. The initial closing on the sale of Units included the conversion of $2,275,000 of principal, plus $64,438 of accrued interest, from the Convertible Bridge Notes previously received by the Company between April 2011 and August 2011. Inclusive of the conversion of the Convertible Bridge Notes, between September 2011 and November 2011, the First Private Offering raised an aggregate of $4,739,300 net proceeds ($5,077,812 gross proceeds reduced by $338,512 of offering costs). Each Unit consisted of one share of common stock (deemed to represent $0.022 of the per Unit cost) and a warrant to purchase one-half share of the Company's common stock (deemed to represent $0.228 of the per Unit cost) (the "Investor Warrants"), such that 20,311,252 shares of common stock and Investor Warrants to purchase 10,155,627 shares of the Company's common stock were issued.

The Investor Warrants are exercisable for a period of five years at an exercise price of $0.625 per full share of common stock. The Investor Warrants may be called for redemption by the Company at any time upon not less than 30 or more than 60 days prior written notice, provided that, at the time of delivery of such notice, (i) there is a registration statement covering the resale of the shares underlying the warrants; (ii) the average closing bid price for the Company's common stock for each of the 20 consecutive trading days prior to the date of the notice of redemption is at least $1.25, as proportionally adjusted to reflect any stock splits, stock dividends, combinations of shares or like events; and (iii) the average trading volume for the Company's common stock is at least 50,000 shares per day during the 20 consecutive trading days prior to the date of the notice of redemption and that during such 20-day period there is no more than one trading day in which there is no trading in the Company's common stock.

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 9 – Equity – Continued

Private Offerings – Continued

First Private Offering – Continued

The Investor Warrants, at the option of the holder, may be exercised by cash payment of the exercise price to the Company. Alternatively, the Investor Warrants may be exercised on a cashless basis commencing one year after the September 27, 2011 filing of the Current Report on Form 8-K with the SEC regarding the reverse merger if no registration statement registering the shares underlying the investor warrants is then in effect. The exercise price and number of shares of common stock issuable on exercise of the investor warrants may be adjusted in certain circumstances including stock splits, stock dividends, and future issuances of the Company's equity securities without consideration or for consideration per share less than $0.25 (as specified in the warrant agreement).

The placement agent for the First Private Offering received a cash commission of 10% of the funds raised from investors in the offering that were directly attributable to the placement agent. In addition, the placement agent received five-year warrants to purchase shares of the Company's common stock equal to 10% of the Units sold to investors in the First Private Offering (the "Broker Warrants"). As a result of the foregoing arrangement, the placement agent (1) was paid cash commissions of $150,500; (2) was reimbursed for certain out-of-pocket expenses; and (3) was issued five-year Broker Warrants to purchase 602,000 shares of the Company's common stock. In addition, the placement agent acted as a finder in connection with the Convertible Bridge Note financing. In such capacity, it earned a fee of $2,500 related to the issuance of a $25,000 Convertible Bridge Note, plus a warrant, which was converted upon the initial closing of the First Private Offering into a warrant to purchase up to 10,000 shares of the public company common stock.

The Broker Warrants are identical to the 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 $0.25 per share of common stock.

On September 21, 2011, the Company executed a registration rights agreement, whereby the Company committed to file a registration statement covering the resale of the common stock underlying the Units sold or to be sold in the First Private Offering and the common stock that is issuable upon exercise of the Investor Warrants (but not the common stock that is issuable upon exercise of the Broker Warrants or Merger Warrants) within 75 days of the final closing of the First Private Offering, and to use commercially reasonable efforts to cause the registration statement to become effective no later than 150 days after it is filed. The Company will be liable for monetary penalties at the monthly rate of 1% (to a maximum of 10%) of each holder's investment in the First Private Offering until the failure to meet the above deadlines are cured. Notwithstanding the foregoing, no payments shall be owed with respect to that portion of a holder's registrable securities (1) which may be sold by such holder under Rule 144 or pursuant to another exemption from registration; or (2) which the Company is unable to register due to limits imposed by Rule 415 under the Securities Act (which shares would then be eligible for "piggyback" registration rights with respect to any registration statement filed by the Company within two years following the effectiveness of the original registration statement). On January 17, 2012, the Company filed a registration statement on Form S-1 which was declared effective on June 11, 2012 and included the First Private Offering registrable securities.

Second Private Offering

In December 2011, the public company commenced a second private offering (the "Second Private Offering") pursuant to which, during December 2011, the Company had one closing on the sale of 3,912,534 investor units ("Second Units"), at a price of $0.375 per Second Unit. The Company raised $1,350,453 net proceeds as part of the first closing ($1,467,200 gross proceeds reduced by $116,747 of offering costs). Each Second Unit consists of one share of common stock (deemed to represent $0.345 of the per Second Unit cost) and a warrant to purchase one-quarter share of common stock (deemed to represent $0.030 of the per Second Unit cost) (the "Second Investor Warrants"), such that an aggregate of 3,912,534 shares of common stock and Second Investor Warrants to purchase 978,134 shares of common stock were issued.

During the year ended December 31, 2012, the Company had three additional closings of the Second Private Offering pursuant to which an aggregate of 4,356,668 Second Units were sold, resulting in $1,447,113 of aggregate net proceeds ($1,633,750 of gross proceeds less $186,637 of issuance costs). In connection with the closings, an aggregate of 4,356,668 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.

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 9 – Equity – Continued

Private Offerings – Continued

Second Private Offering – Continued

The Second Investor Warrants are exercisable for a period of five years at an exercise price of $1.00 per full share of common stock. The Second Investor Warrants may be called for redemption by the Company at any time upon not less than 30 or more than 60 days prior written notice, provided that, at the time of delivery of such notice, (i) there is a registration statement covering the resale of the shares underlying the warrants; (ii) the average closing bid price for the Company's common stock for each of the 20 consecutive trading days prior to the date of the notice of redemption is at least $2.00, as proportionally adjusted to reflect any stock splits, stock dividends, combinations of shares or like events; and (iii) the average trading volume for the Company's common stock is at least 100,000 shares per day during the 20 consecutive trading days prior to the date of the notice of redemption and that during such 20-day period there is no more than one trading day in which there is no trading in the Company's common stock.

The Second Investor Warrants, at the option of the holder, may be exercised by cash payment of the exercise price to the Company. Alternatively, the Second Investor Warrants may be exercised on a cashless basis commencing one year after the date of the final closing of the Second Private Offering if no registration statement registering the shares underlying the investor warrants is then in effect. The exercise price and number of shares of common stock issuable on exercise of the investor warrants may be adjusted in certain circumstances including stock splits, stock dividends, and future issuances of the Company's equity securities without consideration or for consideration per share less than $0.375 (as specified in the warrant agreement).

The placement agent for the Second Private Offering receives a cash commission of 10% or 5% of the funds raised from investors in the Second Private Offering that were directly attributable or referred to the placement agent, respectively. In addition, the placement agent receives 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 first closing in 2011, the placement agent (1) was paid aggregate cash commissions of $15,470; and (2) was issued Second Broker Warrants to purchase 216,253 shares of common stock. 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.

In connection with the Second Private Offering, the Company executed a registration rights agreement, whereby the Company committed to file a registration statement covering the resale of the common stock underlying the Second Units sold or to be sold in the Second Private Offering and the common stock that is issuable upon exercise of the Second Investor Warrants (but not the common stock that is issuable upon exercise of the Second Broker Warrants) within 75 days of the final closing of the Second Private Offering, and to use commercially reasonable efforts to cause the registration statement to become effective no later than 150 days after it is filed. The Company will be liable for monetary penalties at the monthly rate of 1% (to a maximum of 10%) of each holder's investment in the Second Private Offering until the failure to meet the above deadlines are cured or upon the occurrence of certain other specified events. Notwithstanding the foregoing, no payments shall be owed with respect to that portion of a holder's registrable securities (1) which may be sold by such holder under Rule 144 or pursuant to another exemption from registration; or (2) which the Company is unable to register due to limits imposed by Rule 415 under the Securities Act (which shares would then be eligible for "piggyback" registration rights with respect to any registration statement filed by the Company following the effectiveness of the original registration statement). On January 17, 2012, the Company filed a registration statement on Form S-1 which was declared effective on June 11, 2012 and included the Second Private Offering registrable securities.

Third Private Offering

During the year ended December 31, 2012, the Company had seven closings of a private offering that commenced on September 1, 2012 (the "Third Private Offering"), pursuant to which an aggregate of 6,942,332 investor units ("Third Units") were sold at a price of $0.15 per Third Unit, resulting in $878,051 of aggregate net proceeds ($1,041,350 of gross proceeds less $163,299 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 an investors were entitled to an aggregate of 6,942,332 shares of common stock and Third Investor Warrants to purchase 6,942,332 shares of common stock (see Note 13 – Subsequent Events for details of closings subsequent to December 31, 2012).

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 9 – Equity – Continued

Private Offerings – Continued

Third Private Offering – Continued

Pursuant to the Third Private Offering, Third Units were originally 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"). On December 12, 2012, the Company agreed to retroactively reduce the offering price to $0.15 per unit. 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 amended placement agency agreement extended the offering until February 1, 2013.

The 2012 closings of the Third Private Offering resulted in warrants to purchase 2,518,760 shares of common stock having their exercise price reduced to $0.30 per share, including warrants to purchase 1,493,959, 774,801 and 250,000 shares whose original exercise price was $0.625 per share, $1.00 per share and the twenty day VWAP, respectively. Because the warrants were deemed to be equity instruments, the associated value was credited to equity.

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 up to 10% of the funds raised from investors in the Third Private Offering that were directly attributable to or referred by the placement agent. 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 that were directly attributable to or referred by the placement agent. As a result of the foregoing arrangement, in connection with the closings during the year ended December 31, 2012, the placement agent (1) was paid aggregate cash commissions of $104,135; and (2) was issued Third Broker Warrants to purchase 694,233 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 $0.15 per share of common stock.

In addition to the above closings, on October 4, 2012, a noteholder elected to convert a $75,000 Amended 12% Note, a $100,000 8% Note and accrued and unpaid interest into an aggregate of 1,571,136 shares of common stock and five-year warrants to purchase an aggregate of 1,571,136 shares of common stock at an exercise price of $0.30 per share, in connection with the Third Private Offering. As a result of the note conversion, a Bridge Warrant to purchase 100,000 shares of common stock had its exercise price adjusted to $0.225 and its term was extended to January 14, 2016. See Note 6 – Notes Payable for additional details. As of December 31, 2012, 426,905 shares of common stock were unissued.

Stock Warrants

Note Holder Warrants

On June 15, 2011, 6,997,205 warrants that were scheduled to expire were extended for two years. The value of the modified warrants was deemed to be immaterial after applying the binomial lattice options pricing model using the following assumptions: risk-free rate of 0.81% to 1.40%; expected volatility of 75%; expected term of 0.21 years; dividend yield of 0%.

During the year ended December 31, 2011, the Company issued warrants to purchase 50,654 shares of the Company's common stock at an exercise price of $0.252 per share for a term of five years to two note holders in connection with the issuance of convertible notes payable aggregating $63,000 in principal amount. Using the binomial lattice options pricing model, the Company determined that the relative fair value of the warrants was $4,750. The fair value was recorded as a debt discount and amortized over the term of the notes. The assumptions used in the binomial lattice options pricing model were as follows: risk-free rate of 1.77%; expected volatility of 70.0%; expected term of 4.2 years; expected dividend yield of 0%.

On September 21, 2011, immediately prior to, and conditioned upon the effectiveness of the reverse merger, warrants to purchase 1,609,747 shares of the Company's common stock were exercised for total proceeds of $3,045 and all of the remaining warrants to purchase 11,889,751 shares of the Company's common stock were cancelled.

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 9 – Equity – Continued

Stock Warrants – Continued

Note Holder Warrants – Continued

On October 4, 2012, a note holder converted a $100,000 8% Note in connection with the Third Private Offering. Pursuant to the terms of the warrant to purchase 100,000 shares of common stock that were issued in conjunction with the Note, the warrant was re-priced to $0.225 per share and the term was reset to three years from the date of conversion. The Company recorded induced note conversion expense of approximately $77,000, representing the incremental value of the modified warrant, which was included in other income (expense) in the consolidated statements of operations.

Merger Warrants

On September 21, 2011, in connection with the reverse merger, Merger Warrants to purchase an aggregate of 30,000,000 shares of the Company's common stock were issued to the operating company's existing investors. See Note 1 – Organization and Operations - Reverse Merger for additional details.

Investor and Broker Warrants

In 2011, in connection with the First Private Offering and Second Private Offering, Investor Warrants, Second Investor Warrants, Broker Warrants and Second Broker Warrants to purchase an aggregate of 10,155,627, 978,134, 612,000 and 216,253 shares of the Company's common stock, respectively, were issued. In 2012, in connection with the Second Private Offering and the Third Private Offering, Second Investor Warrants, Third Investor Warrants, Second Broker Warrants and Third Broker Warrants to purchase an aggregate of 1,089,169, 6,942,332, 364,000 and 694,233 shares of the Company's common stock, respectively, were issued. See Note 9 – Equity – Private Offerings for additional details.

Consultant Warrants

During the years ended December 31, 2012 and 2011, the Company issued warrants to purchase an aggregate of 500,000 and 6,400,000 shares of common stock to consultants, respectfully. See Note 9 – Equity – Consulting Agreements for additional details.

Warrant Summary

A summary of the stock warrant activity during the years ended December 31, 2012 and 2011 is presented below:

	Number of Warrants	Weighted Average Exercise Price		Weighted Average Remaining Life In Years	Intrinsic Value
Balance, December 31, 2010	13,448,844	$ 0.273			
Issued	48,412,668	0.628			
Exercised	(1,609,747)	0.002			
Cancelled	(11,889,751)	0.310			
Balance, December 31, 2011	48,362,014	$ 0.628			
Issued	12,210,871	0.393	[1]		
Exercised	(31,782)	0.625			
Cancelled	-	-			
Balance, December 31, 2012	60,541,103	$ 0.566	[2]	4.13	$ -
Exercisable, December 31, 2012	60,541,103	$ 0.566	[2]	4.13	$ -

[1] - Investor warrants to purchase 1,050,000 shares of common stock had a variable exercise price at issuance equal to the exercise date 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 December 31, 2012. These warrants are excluded from the weighted average exercise price.

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 9 – Equity – Continued

Stock Warrants – Continued

Warrant Summary – Continued

The following table presents information related to stock warrants at December 31, 2012:

Warrants Outstanding		Warrants Exercisable	
Exercise Price	Outstanding Number of Warrants	Weighted Average Remaining Life In Years	Exercisable Number of Warrants
$ 0.150	694,234	4.82	694,234
0.225	100,000	3.04	100,000
0.250	1,012,000	3.79	1,012,000
0.300	10,782,228	4.60	10,782,228
0.375	580,253	4.00	580,253
0.625	38,629,887	3.74	38,629,887
0.660	6,000,000	5.90	6,000,000
1.000	1,792,501	4.64	1,792,501
Variable	950,000	2.55	950,000
	60,541,103	4.13	60,541,103

The warrants outstanding in the tables above do not include (1) warrants issuable to investors upon future conversion of their convertible notes; and (2) warrants issuable to the 8% bridge unit placement agent upon the investors' future conversion of their convertible notes. See Note 6 – Notes Payable for additional details.

As of December 31, 2012, the warrants to purchase an aggregate of 950,000 shares of common stock with a variable exercise price were exercisable at approximately $0.16 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 closings of the Third Private Offering did not have a material effect on the exercise prices or quantities of the outstanding warrants as of December 31, 2012.

Stock Options

The Company's board of directors adopted a Stock Incentive Plan (the "Original Plan") under which the Company may issue options to purchase the Company's common stock to employees, directors and consultants. The Company had reserved 7,973,884 shares of common stock for issuance under the Original Plan. Prior to the reverse merger, options to purchase 824,406 shares of the Company's common stock were forfeited. All of the remaining outstanding options to purchase 13,575,986 shares of the Company's common stock were cancelled immediately prior to, and conditioned upon the effectiveness of the reverse merger (see Note 1 - Organization and Operations - Reverse Merger).

The board of directors and stockholders owning a majority of the Company's outstanding shares adopted the 2011 Equity Incentive Plan (the "2011 Plan") on September 20, 2011. A total of 13,500,000 shares of the Company's common stock are reserved for issuance under the 2011 Plan. The 2011 Plan authorizes grants to eligible recipients of nonqualified stock options, incentive stock options, restricted stock awards, restricted stock units, performance grants intended to comply with Section 162(m) of the Internal Revenue Code of 1986, as amended, and stock appreciation rights. Under the 2011 Plan, (1) awards may be granted to employees, consultants, officers and directors; (2) the maximum term of any award shall be ten years from the date of grant; (3) the exercise price of any award shall not be less than the fair value on the date of grant; and (4) awards will typically result in the issuance of new common shares.

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 9 – Equity – Continued

Stock Options – Continued

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 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 (see below); (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. See Note 12 – Commitments and Contingencies – Employment Agreements – New CEO for additional details.

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 an 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 an incremental stock compensation expense of $172,666.

Between August 13, 2012 and October 1, 2012, the Company granted to its employees ten-year options to purchase an aggregate of 175,000 shares of common stock at exercise prices ranging from $0.18 to $0.22 per share which were granted under the Company's 2011 Plan. The options vest ratably over three years on the grant date anniversaries. The aggregate grant date value of approximately $13,000 will be recognized proportionate to the vesting terms.

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

	For The Years Ended December 31,	
	2012	**2011**
Risk free interest rate	0.14 - 1.11%	1.02%
Expected term (years)	0.5 - 6.0	5.73
Expected volatility	75 - 79%	75%
Expected dividends	0%	0%

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 9 – Equity – Continued

Stock Options – Continued

The risk-free interest rate was based on rates of treasury securities with the same expected term as the options. Since the Company's stock has not been publicly traded for a long period of time, the Company is utilizing an expected volatility figure based on a review of the historical volatilities, over a period of time, equivalent to the expected life of the instrument being valued, of similarly positioned public companies within its industry. The Company utilizes the "simplified" method to develop an estimate of the expected term of "plain vanilla" employee option grants. The expected dividend yield was based upon the fact that the Company has not historically paid dividends, and does not expect to pay dividends in the future.

The weighted average estimated fair value of the stock options granted during the year ended December 31, 2012 was $0.19 per share. No stock options were granted during the year ended December 31, 2011. The Company used forfeiture assumptions of 10% to 20% per annum..

The Company recorded stock-based compensation expense associated with options of approximately $1,372,000 and $1,753,000 during the years ended December 31, 2012 and 2011, respectively. These amounts have been included in operating expenses in the accompanying consolidated statements of operations. As of December 31, 2012, there was approximately $1,335,000 of unrecognized stock-based compensation expense that will be amortized over a weighted average period of 1.8 years.

A summary of the option activity during the years ended December 31, 2012 and 2011 is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Life In Years	Intrinsic Value
Outstanding, December 31, 2010	14,400,392	$ 0.220		
Granted	-	-		
Exercised	-	-		
Forfeited	(824,406)	0.390		
Cancelled	(13,575,986)	0.210		
Outstanding, December 31, 2011	-	$ -		
Granted	27,433,334	0.345		
Exercised	-	-		
Forfeited	(2,758,333)	0.345		
Outstanding, December 31, 2012	24,675,001	$ 0.344	9.0	$ -
Exercisable, December 31, 2012	13,770,845	$ 0.345	8.9	$ -

The following table presents information related to stock options at December 31, 2012:

Options Outstanding		Options Exercisable	
Exercise Price	Outstanding Number of Options	Weighted Average Remaining Life In Years	Exercisable Number of Options
$ 0.180	50,000	-	-
0.200	50,000	-	-
0.220	75,000	-	-
0.345	20,616,667	9.0	12,354,175
0.348	3,883,334	7.4	1,416,670
	24,675,001	8.9	13,770,845

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 10 - Income Taxes

The income tax provision (benefit) consists of the following:

	For The Years Ended December 31,	
	2012	**2011**
Federal		
Current	$ -	$ -
Deferred	(400,730)	(1,655,911)
State and local		
Current	-	-
Deferred	(70,717)	(292,220)
	(471,447)	(1,948,131)
Change in valuation allowance	471,447	1,948,131
Income tax provision (benefit)	$ -	$ -

For the periods ended December 31, 2012 and December 31, 2011, the expected tax expense (benefit) based on the statutory rate is reconciled with the actual tax expense (benefit) as follows:

	For The Years Ended December 31,	
	2012	**2011**
US federal statutory rate	(34.0%)	(34.0%)
State tax rate, net of federal benefit	(6.0%)	(6.0%)
Permanent differences		
- Fines and penalties	0.2%	0.4%
- Stock based compensation	2.9%	3.4%
- Merger expenses	0.0%	5.7%
- Reclassification of derivative liability to equity	0.0%	5.1%
- Other	2.7%	3.5%
Impact of annual NOL limitation	29.3%	0.0%
Change in valuation allowance	4.9%	21.9%
Income tax provision (benefit)	0.0%	0.0%

As of December 31, 2012 and December 31, 2011, the Company's deferred tax assets consisted of the effects of temporary differences attributable to the following:

	December 31,	
	2012	**2011**
Net operating loss	$ 6,644,224	$ 6,828,982
Stock based compensation	1,151,317	788,508
Fixed assets	7,943	5,482
Intangible assets	72,478	82,830
Deferred rent	73,166	-
Accrued compensation	288,204	60,083
Total deferred tax assets	8,237,332	7,765,885
Valuation allowance	(8,237,332)	(7,765,885)
Net deferred tax assets (liabilities)	-	-

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 10 - Income Taxes – Continued

For the years ended December 31, 2012 and December 31, 2011, the Company had approximately $31,285,000 and $24,064,000 of gross federal and state net operating loss carryovers ("NOLs") which begin to expire in 2023. These net operating loss carryovers are subject to annual limitations under Section 382 of the Internal Revenue Code when there is a greater than 50% ownership change, as determined under the regulations. Based on our analysis, there was a change of control on or about December 2012 and June 2009, and we have determined that due to the annual limitations under Section 382, approximately $14,675,000 of net operating losses will expire unused. Therefore, we have reduced the related deferred tax asset for net operating loss carryovers by approximately $5,870,000 as of December 31, 2012. The Company's NOLs incurred from the first ownership change in June 2009 through the date of ownership change in December 2012 are subject to an annual limitation of approximately $456,000 and the Company's NOLs through the date of ownership change in June 2009 are subject to an annual limitation of approximately $441,000.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the future generation of taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and taxing strategies in making this assessment. Based on this assessment, management has established a full valuation allowance against all of the net deferred tax assets for each period, since it is more likely than not that all of the deferred tax assets will not be realized. The increase in the valuation allowance for the years ended December 31, 2012 and 2011 was $471,447 and $1,948,131, respectively.

Note 11 - Related Party Transactions

On July 29, 2011, the Company forgave a note receivable of $187,717 from a stockholder of the Company.

Effective September 30, 2011, the Company's Board of Directors appointed a new President and Chief Executive Officer (the "New CEO"). Prior to his appointment, the Company paid the New CEO $192,500 during the nine months ended September 30, 2011, pursuant to an April 1, 2011 Management Consulting Agreement between the New CEO and the Company. Under the Management Consulting Agreement, the New CEO provided general management and business consulting services and advice to the Company, including but not limited to, services and advice related to (i) general business development; (ii) the reverse merger; (iii) due diligence processes and capital structuring; and (iv) corporate planning and strategies. The Management Consulting Agreement was terminated upon the September 30, 2011 appointment of the New CEO.

During the year ended December 31, 2011, the Company entered into a $60,000 note with a Company stockholder. The Company is obligated to pay financing fees to an affiliated stockholder equal to 10% of the proceeds from note issuances to this Company stockholder. During the year ended December 31, 2011, the Company issued $3,000 of notes to the affiliated stockholder and accrued another $3,000 fee to satisfy the financing fee obligation. On September 21, 2011, all outstanding balances of the debt and the related accrued interest were converted into units at the time of the reverse merger, with each unit consisting of one share of common stock, plus a warrant to purchase half a share of common stock.

The Company was obligated to pay management fees to a stockholder of $10,000 per month for general business consulting, which represented $90,000 for the year ended December 31, 2011. This agreement was terminated in September 2011. There was no balance due as of December 31, 2011.

The Company held a note receivable from a stockholder for $187,717 that earned interest at 3.25% per annum. On July 29, 2011, the Company's board of directors approved that, immediately prior to, and conditioned upon the effectiveness of the reverse merger, the note receivable of $187,717 from a stockholder of the Company was written-off after being forgiven by the Company and charged to general and administrative expenses in the consolidated statements of operations along with a special bonus of approximately $143,000 to cover taxes associated with income to the stockholder from the forgiveness of the note.

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 $160,000 for the year ended December 31, 2012.

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 12 - Commitments and Contingencies

Litigation

On October 9, 2012, the Company has received a letter for settlement purposes only regarding enforcement of United States Patent Number 7765286. The letter claims that the Company's software product DCIM v3.5 infringes on the claims of the aforementioned patent held by Nlyte Software Limited and Nlyte Software Americas Limited (collectively "Nlyte"), a company that sells data center infrastructure management products. The letter references a standard license agreement that is "being offered at a substantial discount relative to the value of the patent. The payment terms include an upfront payment to cover past product sales and an ongoing royalty for future product sales." The Company has conducted an internal technical review of the patent claims by its EVP of Development. Based on those findings, the Company has elected not to sign the license agreement pending full legal review by patent counsel.

On October 26, 2012, the Company was named as defendant in a complaint filed in the County of Westchester, Supreme Court of the State of New York by Porter, Levay & Rose, Inc., index number 68540/2012. The complaint alleges the Plaintiff rendered work, labor and services to the Company on, about, or between October 18, 2012, and is seeking $103,198, together with interest running from October 18, 2012. The Company disputes the amount owed based on the services rendered and has retained a New York based counsel to represent it in the matter.

On January 22, 2013, the Company was named as defendant in a complaint filed in the Superior Court of California, County of Sacramento, case number 34-2013-00138819 by Babich & Associates, Inc., a Texas Corporation. The complaint alleges that the Company was invoiced for services relating to professional staffing services for 2 potential employees that the Company subsequently hired, and is seeking $48,000 plus earned interest at the rate of 10% per annum from May 3, 2012. The Company has retained counsel in the matter to investigate the claims and recommend a course of action.

On January 25, 2013, the Company and its CEO were named defendants in a complaint filed in the Superior Court of California, County of Sacramento, case number 34-2013-00138978 by Daniel Lucas, a former employee. The complaint alleges that the Company entered into an employment agreement with Mr. Lucas for the purposes of providing services as the Company's Regional Sales Manager, that the Company and its CEO breached the agreement by refusing to compensate Mr. Lucas for his services, and as a result, Mr. Lucas is seeking lost compensation and benefits in the amount of $77,429, compensatory damages, attorneys' fees, interest, and any other relief as the court deems just and proper. The Company disputes these claims and has hired counsel to represent it in the matter.

On January 25, 2013, the Company and its CEO were named defendants in a complaint filed in the Superior Court of California, County of Sacramento case number 34-2013-00138979 by Timothy Barone, a former employee who was terminated for cause. The complaint alleges that the Company entered into an employment agreement with the Plaintiff for the purposes of providing services as the Company's Senior Vice President, Global Accounts and Partners, that the Company and its CEO breached the agreement by refusing to compensate Mr. Barone for his services, and as a result, Mr. Barone is seeking lost compensation and benefits in the amount of $194,596, additional tax liability of $150,000, compensatory damages, exemplary and/or punitive damages in an amount to be determined, attorneys' fees, interest, and any other relief as the court deems just and proper. The Company disputes these claims and has hired counsel to represent it in the matter.

On February 20, 2013, the Company was named as a defendant in a complaint filed in the Superior Court, Wake County, State of North Carolina, case number I3CV002442 by Accentuate Staffing Inc. The complaint alleges that the Company was invoiced for services relating to professional staffing services as defined in a certain contract executed on December 20, 2011, and is seeking $59,824 plus interest and costs as allowed by law. The Company has retained counsel in the matter to investigate the claims and recommend a course of action.

On February 25, 2013, the Company, its CEO and its CFO were named defendants in a complaint filed in the Superior Court, Commonwealth of Massachusetts, civil case number 13-0641 by David E. Fahey, a former employee of the company. The complaint alleges that Mr. Fahey was not paid commissions that were due and owing and the Company failed to reimburse the Plaintiff for his business expenses, resulting in a breach of contract, and is seeking $33,695 in commissions, $4,300 in out of pocket expenses, and treble damages, attorney's fees, costs, and interest.

On March 7, 2013, the Company was named as a defendant in a complaint yet to be filed in District Court, First Judicial District, Carver County, State of Minnesota. The complaint alleges that the Company has not paid commissions totaling $11,900 to Dan Skrove, a former employee who resigned in 2012. The Company is currently working with counsel in Minnesota to resolve the matter.

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 12 - Commitments and Contingencies – Continued

Litigation – Continued

On March 11, 2013, the Company was named as a defendant in a complaint filed in the Superior Court, Wake County, State of North Carolina, case number 13CV003506 by TSG and Associates, LLC d/b/a The Select Group Raleigh, LLC. The complaint alleges that the Company was invoiced for services relating to professional staffing services as described by a Direct Hire Agreement dated June 13, 2011, and is seeking $41,000, plus attorney's fees of $6,150. The Company has retained counsel in the matter to investigate the claims and recommend a course of action.

The Company records legal costs associated with loss contingencies as incurred.

Employment Agreements

New CEO

Effective on his hire date of September 30, 2011, as executed on January 9, 2012, the Company entered into a three-year employment agreement with its New CEO. The agreement provides for (a) a salary of $250,000 annually; (b) a bonus opportunity for meeting specified performance standards, to be set within 90 days of the execution of the agreement; and (c) ten-year, non-statutory stock options, not issued pursuant to the 2011 Plan, to purchase 6,900,000 shares of common stock at an exercise price of $0.345 per share, the fair value of the restricted stock on the January 6, 2012 grant date. Vesting is 10% upon issuance, with the other 90% vesting ratably on a quarterly basis over the three-year term of the employment agreement, plus vested options survive termination of the employment relationship. Any unvested options are subject to accelerated vesting as follow (i) 75% of the granted options not fully vested shall fully vest upon two consecutive quarters of EBITDA profitability; and (ii) up to 100% of the granted stock options may be vested upon the execution of a strategic alliance with a major customer or entity, to be determined solely at the discretion of the Company's board of directors. 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 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.

New CFO

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 value on January 23, 2012 of $34,500, 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 a ten-year 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 years ended December 31, 2012 and 2011, rent expense was $283,757 and $281,668, respectively, and was recorded on a straight line basis 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.

In February 2012, the Company executed a 37-month sub-lease for the remaining term 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, which brought the deferred rent liability up to the aggregate differential between the lease expense and sublease income over the life of the leases.

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 12 - Commitments and Contingencies – Continued

Operating Leases – Continued

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 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 December 31, 2012 required under the operating leases are as follows:

Years Ending December 31:		
2013	$	360,394
2014		379,695
2015		225,426
2016		90,593
2017		46,313
Total	$	1,102,421

Note 13 - Subsequent Events

The Company evaluates events that have occurred after the balance sheet date but before the financial statements are issued. Based upon the evaluation, the Company did not identify any recognized or non-recognized subsequent events that would have required further adjustment or disclosure in the consolidated financial statements.

Third Private Offering

Subsequent to December 31, 2012, the Company had two additional closings of the Third Private Offering (see Note 9 - Equity – Private Offerings – Third Private Offering), pursuant to which an aggregate of 1,000,000 Third Units were sold at a price of $0.15 per Third Unit, resulting in $150,000 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 placement agent was paid cash commissions of $15,000 and was issued five-year Third Broker Warrants to purchase 100,000 shares of the Company's common stock at an exercise price of $0.15 per share. The closings resulted in warrants to purchase 201,167 shares of common stock having their exercise price reduced to $0.30 per share, including warrants to purchase 101,167 and 100,000 shares whose original exercise price was $0.625 per share and $1.00 per share, respectively.

Consulting Agreements

On January 7, 2013, the Company entered into a twelve-month agreement for investor relations services. In consideration of the services to be rendered, the Company agreed to issue $75,000 of freely-tradable common stock for the initial 45-day test campaign. An investor contributed the freely tradable common stock that was issued to the consultant to satisfy the Company's obligation related to the test campaign. Upon receiving the results of the test campaign, a 180-day budget and activity calendar will be approved by the Company to roll-out the campaign to larger audience, which will be paid by cash.

Note Conversions

Subsequent to December 31, 2012, three note holders elected to convert five 8% Notes with an aggregate principal amount of $800,000, plus $33,282 of aggregate accrued and unpaid interest, into an aggregate of 8,546,480 shares of common stock and five-year warrants to purchase an aggregate of 8,546,480 shares of common stock at an exercise price of $0.30 per share. As a result of the note conversions, Bridge Warrants to purchase an aggregate of 800,000 shares of common stock had their exercise price adjusted to $0.225 and their term was extended to January 14, 2016. As a result of the note conversions, the Company issued three-year placement agent warrants to purchase an aggregate of 318,808 shares of common stock at an exercise price of $0.225 per share.

Rackwise, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 13 - Subsequent Events – Continued

Short-Term Loan

On April 12, 2013, the Company borrowed $112,500 via a short-term interest free loan from an affiliate. The loan is intended to convert into the securities to be sold by the Company in a subsequent offering.

Exhibit 4.10

Warrant Certificate No. ___

NEITHER THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES ISSUABLE UPON THE EXERCISE OF THIS WARRANT HAVE BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS, AND NEITHER SUCH SECURITIES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, ASSIGNED OR OTHERWISE TRANSFERRED UNLESS (1) A REGISTRATION STATEMENT WITH RESPECT THERETO IS EFFECTIVE UNDER THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS, OR (2) AN EXEMPTION FROM SUCH REGISTRATION EXISTS AND THE COMPANY RECEIVES AN OPINION OF COUNSEL TO THE HOLDER OF SUCH SECURITIES, WHICH COUNSEL AND OPINION ARE SATISFACTORY TO THE COMPANY, THAT SUCH SECURITIES MAY BE OFFERED, SOLD, PLEDGED, ASSIGNED OR TRANSFERRED IN THE MANNER CONTEMPLATED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR APPLICABLE STATE SECURITIES LAWS.

Effective Date: _____ ___, 2013 Void After: _____ ___, 2018

RACKWISE, INC.

WARRANTS TO PURCHASE COMMON STOCK

Rackwise, Inc., a Nevada corporation (the "Company"), for value received on _____ ___, 2013 (the "Effective Date"), hereby issues to [ ] (the "Holder" or "Warrant Holder") [ ] Warrants (collectively, the "Warrant") to purchase an aggregate of [ ] full shares, (each such share as from time to time adjusted as hereinafter provided being a "Warrant Share" and all such shares being the "Warrant Shares") of the Company's Common Stock (as defined below), at the Exercise Price (as defined below), as adjusted from time to time as provided herein, on or before _____ ___, 2018 (the "Expiration Date"), all subject to the following terms and conditions. This Warrant is one of a series of warrants of like tenor that have been issued in connection with the Company's private offering (the "Offering"), solely to accredited investors and/or non-U.S. investors, of units in accordance with, and subject to, the terms and conditions described in the Subscription Agreement of the Company dated _____ ___, 2013, as the same may be amended and supplemented from time to time (the "Subscription Agreement").

As used in this Warrant, (i) "Business Day" means any day other than Saturday, Sunday or any other day on which commercial banks in the City of New York, New York, are authorized or required by law or executive order to close; (ii) "Common Stock" means the common stock of the Company, par value $0.0001 per share, including any securities issued or issuable with respect thereto or into which or for which such shares may be exchanged for, or converted into, pursuant to any stock dividend, stock split, stock combination, recapitalization, reclassification, reorganization or other similar event; (iii) "Exercise Price" means $0.30 per full share of Common Stock, subject to adjustment as provided herein; (iv) "Trading Day" means any day on which the Common Stock is traded (or available for trading) on its principal trading market; (v) "Affiliate" means any person that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, a person, as such terms are used and construed in Rule 144 promulgated under the U.S. Securities Act of 1933, as amended (the "Securities Act") and (vi) "Warrantholders" means the holders of Warrants issued pursuant to the Subscription Agreement.

1. DURATION AND EXERCISE OF WARRANTS

(a) Exercise Period. The Holder may exercise this Warrant in whole or in part on any Business Day on or before 5:00 P.M., Eastern Time, on the Expiration Date, at which time this Warrant shall become void and of no value.

(b) Exercise Procedures.

(i) While this Warrant remains outstanding and exercisable in accordance with Section 1(a), in addition to the manner set forth in Section 1(b)(ii) below, the Holder may exercise this Warrant in whole or in part at any time and from time to time by:

(A) delivery to the Company of a duly executed copy of the Notice of Exercise attached as Exhibit A;

(B) surrender of this Warrant to the Secretary of the Company at its principal offices or at such other office or agency as the Company may specify in writing to the Holder; and

(C) payment of the then-applicable Exercise Price per full share multiplied by the number of Warrant Shares being purchased upon exercise of the Warrant (such amount, the "Aggregate Exercise Price") made in the form of cash, or by certified check, bank draft or money order payable in lawful money of the United States of America.

(ii) In addition to the provisions of Section 1(b)(i) above, if any time after the first anniversary of the Effective Date, a registration statement covering the resale of the Warrant Shares by the Holder is not effective with the U.S. Securities and Exchange Commission (the "SEC"), the Holder may, in its sole discretion, exercise all or any part of the Warrant in a "cashless" or "net-issue" exercise (a "Cashless Exercise") by delivering to the Company (1) the Notice of Exercise and (2) the original Warrant, pursuant to which the Holder shall surrender the right to receive upon exercise of this Warrant, a number of Warrant Shares having a value (as determined below) equal to the Aggregate Exercise Price, in which case, the number of Warrant Shares to be issued to the Holder upon such exercise shall be calculated using the following formula:

$$X = \frac{Y * (A - B)}{A}$$

with: X = the number of Warrant Shares to be issued to the Holder

Y = the number of Warrant Shares with respect to which the Warrant is being exercised

A = the fair value per share of Common Stock on the date of exercise of this Warrant

B = the then-current Exercise Price of the Warrant

Solely for the purposes of this paragraph, "fair value" per share of Common Stock shall mean the average Closing Price (as defined below) per share of Common Stock for the twenty (20) trading days immediately preceding the date on which the Notice of Exercise is deemed to have been sent to the Company. "Closing Price" means, for any date, the price determined by the first of the following clauses that applies: (a) if the Common Stock is then listed or quoted on the New York Stock Exchange, the American Stock Exchange, the NASDAQ Global Select Market, the NASDAQ Global Market or the NASDAQ Capital Market or any other national securities exchange, the closing price per share of the Common Stock for such date (or the nearest preceding date) on the primary eligible market or exchange on which the Common Stock is then listed or quoted; (b) if prices for the Common Stock are then quoted on the OTC Bulletin Board, the closing bid price per share of the Common Stock for such date (or the nearest preceding date) so quoted; or (c) if prices for the Common Stock are then reported in the "Pink Sheets" published by the National Quotation Bureau Incorporated (or a similar organization or agency succeeding to its functions of reporting prices), the most recent closing bid price per share of the Common Stock so reported. If the Common Stock is not publicly traded as set forth above, the "fair value" per share of Common Stock shall be reasonably and in good faith determined by the Board of Directors of the Company as of the date which the Notice of Exercise is deemed to have been sent to the Company.

For purposes of Rule 144 promulgated under the Securities Act, it is intended, understood and acknowledged that the Warrant Shares issued in a cashless exercise transaction shall be deemed to have been acquired by the Holder, and the holding period for such shares shall be deemed to have commenced, on the date this Warrant was originally issued.

(iii) Upon the exercise of this Warrant in compliance with the provisions of this Section 1(b), the Company shall promptly issue and cause to be delivered to the Holder a certificate for the Warrant Shares purchased by the Holder. Each exercise of this Warrant shall be effective immediately prior to the close of business on the date (the "Date of Exercise") that the conditions set forth in Section 1(b) have been satisfied, as the case may be. On the first Business Day following the date on which the Company has received each of the properly completed Notice of Exercise and the Aggregate Exercise Price in cleared funds (the "Exercise Delivery Documents"), the Company shall transmit an acknowledgment of receipt of the Exercise Delivery Documents to the Company's transfer agent (the "Transfer Agent"). On or before the fifth Business Day following the date on which the Company has received all of the Exercise Delivery Documents (the "Share Delivery Date"), the Company shall use its best efforts to cause its transfer agent to issue and dispatch by certified or registered mail or overnight courier (at the Holder's cost) to the address as specified in the Notice of Exercise, a certificate, registered in the Company's share register in the name of the Holder or its designee, for the number of shares of Common Stock to which the Holder is entitled pursuant to such exercise.

(c) Partial Exercise. This Warrant shall be exercisable, either in its entirety or, from time to time, for part only of the number of Warrant Shares referenced by this Warrant. If this Warrant is submitted in connection with any exercise pursuant to Section 1 and the number of Warrant Shares represented by this Warrant submitted for exercise is greater than the actual number of Warrant Shares being acquired upon such an exercise, then the Company shall as soon as practicable and in no event later than seven (7) Business Days after any exercise and at its own expense, issue a new Warrant of like tenor representing the right to purchase the number of Warrant Shares purchasable immediately prior to such exercise under this Warrant, less the number of Warrant Shares with respect to which this Warrant is exercised.

(d) Disputes. In the case of a dispute as to the determination of the Exercise Price or the arithmetic calculation of the Warrant Shares, the Company shall promptly issue to the Holder the number of Warrant Shares that are not disputed and resolve such dispute in accordance with Section 16.

2. ISSUANCE OF WARRANT SHARES

(a) The Company covenants that all Warrant Shares will, upon issuance in accordance with the terms of this Warrant, be (i) duly authorized, fully paid and non-assessable, and (ii) free from all liens, charges and security interests, with the exception of claims arising through the acts or omissions of any Holder and except as arising from applicable Federal and state securities laws.

(b) The Company shall register this Warrant upon records to be maintained by the Company for that purpose in the name of the record holder of such Warrant from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner thereof for the purpose of any exercise thereof, any distribution to the Holder thereof and for all other purposes.

(c) The Company will not, by amendment of its certificate of incorporation, by-laws or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in the taking of all action necessary or appropriate in order to protect the rights of the Holder to exercise this Warrant, or against impairment of such rights.

3. ADJUSTMENTS OF EXERCISE PRICE, NUMBER AND TYPE OF WARRANT SHARES

(a) The Exercise Price and the number of shares purchasable upon the exercise of this Warrant shall be subject to adjustment from time to time upon the occurrence of certain events described in this Section 3; provided, that notwithstanding the provisions of this Section 3, the Company shall not be required to make any adjustment if and to the extent that such adjustment would require the Company to issue a number of shares of Common Stock in excess of its authorized but unissued shares of Common Stock, less all amounts of Common Stock that have been reserved for issue upon the conversion of all outstanding securities convertible into shares of Common Stock and the exercise of all outstanding options, warrants and other rights exercisable for shares of Common Stock. If the Company does not have the requisite number of authorized but unissued shares of Common Stock to make any adjustment, the Company shall use its commercially best efforts to obtain the necessary stockholder consent to increase the authorized number of shares of Common Stock to make such an adjustment pursuant to this Section 3.

(i) Subdivision or Combination of Stock. In case the Company shall at any time subdivide (whether by way of stock dividend, stock split or otherwise) its outstanding shares of Common Stock into a greater number of shares, the Exercise Price in effect immediately prior to such subdivision shall be proportionately reduced and the number of Warrant Shares shall be proportionately increased, and conversely, in case the outstanding shares of Common Stock of the Company shall be combined (whether by way of stock combination, reverse stock split or otherwise) into a smaller number of shares, the Exercise Price in effect immediately prior to such combination shall be proportionately increased and the number of Warrant Shares shall be proportionately decreased. The Exercise Price and the Warrant Shares, as so adjusted, shall be readjusted in the same manner upon the happening of any successive event or events described in this Section 3(a)(i).

(ii) Reorganization, Reclassification, Consolidation, Merger or Sale.

(A) If any recapitalization, reclassification or reorganization of the capital stock of the Company, or any consolidation or merger of the Company with another corporation, or the sale of all or substantially all of its assets or other transaction shall be effected in such a way that there is no "Change of Control" of the Company (as hereafter defined) and holders of Common Stock shall be entitled to receive stock, securities, or other assets or property in exchange for their Common Stock (an "Organic Change"), then, as a condition of such Organic Change, lawful and adequate provisions shall be made by the Company whereby the Holder hereof shall thereafter have the right to purchase and receive (in lieu of the shares of the Common Stock of the Company immediately theretofore purchasable and receivable upon the exercise of the rights represented by this Warrant) such shares of stock, securities or other assets or property as may be issued or payable with respect to or in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such stock immediately theretofore purchasable and receivable assuming the full exercise of the rights represented by this Warrant. In the event of any Organic Change, appropriate provision shall be made by the Company with respect to the rights and interests of the Holder of this Warrant to the end that the provisions hereof (including, without limitation, registration rights) shall thereafter be applicable, in relation to any shares of stock or securities thereafter deliverable upon the exercise hereof. The Company will not effect any such Organic Change unless, prior to the consummation thereof, the successor corporation (if other than the Company) resulting from such Organic Change purchasing such assets shall assume by written instrument reasonably satisfactory in form and substance to the then holders of a majority of the Warrants issued in the Offering executed and mailed or delivered to the registered Holder hereof at the last address of such Holder appearing on the books of the Company, the obligation to deliver to such Holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, such Holder may be entitled to purchase.

(B) If any recapitalization, reclassification or reorganization of the capital stock of the Company, or any consolidation or merger of the Company with another corporation, or the sale of all or substantially all of its assets or other transaction shall be effected in such a way that there is a "Change of Control" of the Company (as hereafter defined) and holders of Common Stock shall be entitled to receive stock, securities, or other assets or property in exchange for their Common Stock (a "Control Change"), then, the Holder shall be required to accept the net value of the Warrant (the fair market value less the exercise price) in exchange for the cancellation of the Warrant. Such consideration shall be paid to the Holder at the same time as the consideration from the Control Change is paid to the holders of the Company's Common Stock. As a condition of such Control Change, the Company shall be required to comply with subsection (C) below. "Change of Control" shall mean (i) the acquisition by any person or group (as that term is defined in the Act and the rules promulgated thereunder) in a single transaction or a series of transactions of 30% or more in voting power of the Common Stock of the Company; (ii) a sale of substantially all of the assets of the Company to an entity that is not a subsidiary or the Company; (iii) a merger, consolidation or reorganization involving the Company, following which the current stockholders of the Company as of the date hereof (the "Current Stockholders") will not have voting power with respect to at least 50% of the voting securities entitled to vote generally in the election of directors of the surviving entity; or (iv) the consummation of a sale by the Current Stockholders to a third party (the "Acquiring Party") of some or all of the shares of Common Stock held by the Current Stockholders, which sale results in the Current Stockholders having voting power with respect to less than 50% of the voting securities entitled to vote in the election of directors of the Company.

(C) If there is an Organic Change or a Control Change, then the Company shall cause to be mailed to the Holder at its last address as it shall appear on the books and records of the Company, at least 10 calendar days before the effective date of the Organic Change or the Control Change, a notice stating the date on which such Organic Change or Control Change is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares for securities, cash, or other property delivered upon such Organic Change or Control Change; provided, that the failure to mail such notice or any defect therein or in the mailing thereof shall not affect the validity of the corporate action required to be specified in such notice. The Holder is entitled to exercise this Warrant during the 10-day period commencing on the date of such notice to the effective date of the event triggering such notice. In any event, the successor corporation (if other than the Company) resulting from an Organic Change (but not from a Control Change) shall be deemed to assume such obligation to deliver to such Holder such shares of stock, securities or assets even in the absence of a written instrument assuming such obligation to the extent such assumption occurs by operation of law.

(b) Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment pursuant to this Section 3, the Company at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to each Holder of this Warrant a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The certificate shall also set forth the number of shares and the amount, if any, of other property which at the time would be received upon the exercise of the Warrant.

(c) Certain Events. If any event occurs as to which the other provisions of this Section 3 are not strictly applicable but the lack of any adjustment would not fairly protect the purchase rights of the Holder under this Warrant in accordance with the basic intent and principles of such provisions, or if strictly applicable would not fairly protect the purchase rights of the Holder under this Warrant in accordance with the basic intent and principles of such provisions, then the Company's Board of Directors will, in good faith, make an appropriate adjustment to protect the rights of the Holder; provided, that no such adjustment pursuant to this Section 3(c) will increase the Exercise Price or decrease the number of Warrant Shares except as otherwise determined pursuant to this Section 3.

(d) Adjustment of Exercise Price Upon Issuance of Additional Shares of Common Stock. In the event the Company shall at any time prior to the Expiration Date issue Additional Shares of Common Stock, as defined below, without consideration or for a consideration per share less than the Exercise Price (as such amount may be adjusted just prior to such issue pursuant to this Section 3), then the Exercise Price shall be reduced, concurrently with such issue, to a price (calculated to the nearest cent) determined by multiplying such Exercise Price by a fraction, (A) the numerator of which shall be (1) the number of shares of Common Stock outstanding immediately prior to such issue plus (2) the number of shares of Common Stock which the aggregate consideration received or to be received by the Company for the total number of Additional Shares of Common Stock so issued would purchase at such Exercise Price; and (B) the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to such issue plus the number of such Additional Shares of Common Stock so issued; provided that, (i) for the purpose of this Section 3(d), all shares of Common Stock issuable upon conversion or exchange of convertible securities outstanding immediately prior to such issue shall be deemed to be outstanding, and (ii) the number of shares of Common Stock deemed issuable upon conversion or exchange of such outstanding convertible securities shall be determined without giving effect to any adjustments to the conversion or exchange price or conversion or exchange rate of such convertible securities resulting from the issuance of Additional Shares of Common Stock that is the subject of this calculation. For purposes of this Warrant, "Additional Shares of Common Stock" shall mean all shares of Common Stock issued by the Company after the Effective Date (including without limitation any shares of Common Stock issuable upon conversion or exchange of any convertible securities or upon exercise of any option or warrant, on an as-converted basis), other than: (i) shares of Common Stock issued or issuable upon conversion or exchange of any convertible securities or exercise of any options or warrants outstanding on the Effective Date; (ii) shares of Common Stock issued or issuable by reason of a dividend, stock split, split-up or other distribution on shares of Common Stock that is covered by Sections 3(a) above; (iii) shares of Common Stock (or options with respect thereto) issued or issuable to employees or directors of, or consultants to, the Company or any of its subsidiaries pursuant to a plan, agreement or arrangement approved by the Board of Directors of the Company including, but not limited to, the Company's 2011 Equity Incentive Plan described in the Company's SEC Filings; (iv) any securities issued or issuable by the Company pursuant to the Subscription Agreement; (v) securities issued pursuant to acquisitions or strategic transactions approved by a majority of disinterested directors of the Company, provided that any such issuance shall only be to a person which is, itself or through its subsidiaries, an operating company in a business synergistic with the business of the Company and in which the Company receives benefits in addition to the investment of funds, but shall not include a transaction in which the Company is issuing securities primarily for the purpose of raising capital or to an entity whose primary business is investing in securities; and (vi) securities issued to financial institutions, institutional investors or lessors in connection with credit arrangements, equipment financings or similar transactions approved by a majority of disinterested directors of the Company. The provisions of this Section 3(d) shall not operate to increase the Exercise Price.

Upon each adjustment of the Exercise Price pursuant to the provisions of this Section 3(d), the number of Warrant Shares issuable upon exercise of this Warrant shall be adjusted by multiplying a number equal to the Exercise Price in effect immediately prior to such adjustment by the number of Warrant Shares issuable upon exercise of this Warrant immediately prior to such adjustment and dividing the product so obtained by the adjusted Exercise Price.

(e) Notwithstanding the provisions of this Section 3, the Company shall not be required to make any adjustment if and to the extent that such adjustment would require the Company to issue a number of Warrant Shares in excess of its authorized but unissued shares of Common Stock, less all amounts of Common Stock that have been reserved for issue upon the conversion of all outstanding securities convertible into shares of Common Stock and the exercise of all outstanding options, warrants and other rights exercisable for shares of Common Stock. If the Company does not have the requisite number of authorized but unissued shares of Common Stock to make any adjustment, the Company shall use its commercially best efforts to obtain the necessary stockholder consent to increase the authorized number of shares of Common Stock to make such an adjustment pursuant to this Section 3.

4. REDEMPTION OF WARRANTS

(a) General. Prior to the Expiration Date, the Company shall have the option, subject to the conditions set forth herein, to redeem all of the Warrants then outstanding upon not less than thirty (30) days' prior written notice to the Warrant Holders at any time provided that, at the time of delivery of such notice (i) the average closing bid price of the Company's Common Stock for any five (5) Trading Days during any ten (10) consecutive Trading Days prior to the date of the notice of redemption is at least $1.00, as proportionately adjusted to reflect any stock splits, stock dividends, combination of shares or like events; and (ii) the average trading volume for the Company's Common Stock is at least 20,000 shares per day during the twenty (20) consecutive Trading Days prior to the date of the notice of redemption and that during such twenty (20) Trading Day period, there is not more than one (1) Trading Day where there is no trading in the Company's Common Stock.

(b) Notice. Notice of redemption will be effective upon mailing in accordance with this Section and such date may be referred to below as the "Notice Date." Notice of redemption shall be mailed by first class mail, postage prepaid, by the Company not less than thirty (30) days prior to the date fixed for redemption to the Holders of the Warrants to be redeemed at their last addresses as they shall appear on the registration books. Any notice mailed in the manner herein provided shall be conclusively presumed to have been duly given whether or not the Holder received such notice.

(c) Redemption Date and Redemption Price. The notice of redemption shall state the date set for redemption, which date shall be not less than thirty (30) days from the Notice Date (the "Redemption Date"). The Company shall not mail the notice of redemption unless all funds necessary to pay for redemption of the Warrants to be redeemed shall have first been set aside by the Company for the benefit of the Warrant Holders so as to be and continue to be available therefor. The redemption price to be paid to the Warrant Holders will be $0.00001 for each share of Common Stock of the Company to which the Warrant Holder would then be entitled upon exercise of the Warrant being redeemed, as adjusted from time to time as provided herein (the "Redemption Price").

(d) Exercise. Following the Notice Date, the Warrant Holders may exercise their Warrants in accordance with Section 1 of this Warrant between the Notice Date and 5:00 p.m. Eastern Time on the Redemption Date and such exercise shall be timely if the form of election to purchase duly executed and the Warrant Exercise Price for the shares of Common Stock to be purchased, in cleared funds, are actually received by the Company at its principal offices prior to 5:00 p.m. Eastern Time on the Redemption Date.

(e) Mailing. If any Warrant Holder does not wish to exercise any Warrant being redeemed, he should mail such Warrant to the Company at its principal offices after receiving the notice of redemption. On and after 5:00 p.m. Eastern Time on the Redemption Date, notwithstanding that any Warrant subject to redemption shall not have been surrendered for redemption, the obligation evidenced by all Warrants not surrendered for redemption or effectively exercised shall be deemed no longer outstanding, and all rights with respect thereto shall forthwith cease and terminate, except only the right of the holder of each Warrant subject to redemption to receive the Redemption Price for each share of Common Stock to which he would be entitled if he exercised the Warrant upon receiving notice of redemption of the Warrant subject to redemption held by him.

5. TRANSFERS AND EXCHANGES OF WARRANT AND WARRANT SHARES

(a) Registration of Transfers and Exchanges. Subject to Section 5(c) of this Warrant, upon the Holder's surrender of this Warrant, with a duly executed copy of the Form of Assignment attached hereto as Exhibit B, to the Secretary of the Company at its principal offices or at such other office or agency as the Company may specify in writing to the Holder, the Company shall register the transfer of all or any portion of this Warrant. Upon such registration of transfer, the Company shall issue a new Warrant, in substantially the form of this Warrant, evidencing the acquisition rights transferred to the transferee and a new Warrant, in similar form, evidencing the remaining acquisition rights not transferred, to the Holder requesting the transfer.

(b) Warrant Exchangeable for Different Denominations. The Holder may exchange this Warrant for a new Warrant or Warrants, in substantially the form of this Warrant, evidencing in the aggregate the right to purchase the number of Warrant Shares which may then be purchased hereunder, each of such new Warrants to be dated the date of such exchange and to represent the right to purchase such number of Warrant Shares as shall be designated by the Holder. The Holder shall surrender this Warrant with duly executed instructions regarding such re-certification of this Warrant to the Secretary of the Company at its principal offices or at such other office or agency as the Company may specify in writing to the Holder.

(c) Restrictions on Transfers. This Warrant may not be transferred at any time without (i) registration under the Securities Act or (ii) an exemption from such registration and a written opinion of legal counsel addressed to the Company that the proposed transfer of the Warrant may be effected without registration under the Securities Act, which opinion will be in form and from counsel reasonably satisfactory to the Company.

6. MUTILATED OR MISSING WARRANT CERTIFICATE

If this Warrant is mutilated, lost, stolen or destroyed, upon request by the Holder, the Company will, at its expense, issue, in exchange for and upon cancellation of the mutilated Warrant, or in substitution for the lost, stolen or destroyed Warrant, a new Warrant, in substantially the form of this Warrant, representing the right to acquire the equivalent number of Warrant Shares; provided, that, as a prerequisite to the issuance of a substitute Warrant, the Company may require satisfactory evidence of loss, theft or destruction as well as an indemnity from the Holder of a lost, stolen or destroyed Warrant.

7. PAYMENT OF TAXES

The Company will pay all transfer and stock issuance taxes attributable to the preparation, issuance and delivery of this Warrant and the Warrant Shares (and replacement Warrants) including, without limitation, all documentary and stamp taxes; provided, however, that the Company shall not be required to pay any tax in respect of the transfer of this Warrant, or the issuance or delivery of certificates for Warrant Shares or other securities in respect of the Warrant Shares to any person or entity other than to the Holder.

8. FRACTIONAL WARRANT SHARES

No fractional Warrant Shares shall be issued upon exercise of this Warrant. The Company, in lieu of issuing any fractional Warrant Share, shall round down the aggregate number of Warrant Shares issuable to a Holder to the nearest whole share.

9. NO STOCK RIGHTS AND LEGEND

No holder of this Warrant, as such, shall be entitled to vote or be deemed the holder of any other securities of the Company that may at any time be issuable on the exercise hereof, nor shall anything contained herein be construed to confer upon the holder of this Warrant, as such, the rights of a stockholder of the Company or the right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or give or withhold consent to any corporate action or to receive notice of meetings or other actions affecting stockholders (except as provided herein), or to receive dividends or subscription rights or otherwise (except as provide herein).

Each certificate for Warrant Shares initially issued upon the exercise of this Warrant, and each certificate for Warrant Shares issued to any subsequent transferee of any such certificate, shall be stamped or otherwise imprinted with a legend in substantially the following form:

> "THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS, AND NEITHER SUCH SECURITIES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, PLEDGED, ASSIGNED OR OTHERWISE TRANSFERRED UNLESS (1) A REGISTRATION STATEMENT WITH RESPECT THERETO IS EFFECTIVE UNDER THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS, OR (2) AN EXEMPTION FROM SUCH REGISTRATION EXISTS AND THE COMPANY RECEIVES AN OPINION OF COUNSEL TO THE HOLDER OF SUCH SECURITIES, WHICH COUNSEL AND OPINION ARE REASONABLY SATISFACTORY TO THE COMPANY, THAT SUCH SECURITIES MAY BE OFFERED, SOLD, PLEDGED, ASSIGNED OR TRANSFERRED IN THE MANNER CONTEMPLATED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR APPLICABLE STATE SECURITIES LAWS."

10. REGISTRATION RIGHTS

The Holder shall be entitled to piggyback registration rights with respect to the Warrant Shares to the extent provided in Section 18 of the Subscription Agreement.

11. NOTICES

All notices, consents, waivers, and other communications under this Warrant must be in writing and will be deemed given to a party when (a) delivered to the appropriate address by hand or by nationally recognized overnight courier service (costs prepaid); (b) sent by facsimile or e-mail with confirmation of transmission by the transmitting equipment; (c) received or rejected by the addressee, if sent by certified mail, return receipt requested, if to the registered Holder hereof; or (d) seven days after the placement of the notice into the mails (first class postage prepaid), to the Holder at the address, facsimile number, or e-mail address furnished by the registered Holder to the Company in accordance with the Subscription Agreement by and between the Company and the Holder, or if to the Company, to it at 2365 Iron Point Road, Suite 190, Folsom, CA 95630, Attention: Chief Executive Officer (or to such other address, facsimile number, or e-mail address as the Holder or the Company as a party may designate by notice the other party) with a copy to Gottbetter & Partners, LLP, 488 Madison Avenue, 12th Floor, New York, NY 10022, Attention: Adam S. Gottbetter, Esq.

12. SEVERABILITY

If a court of competent jurisdiction holds any provision of this Warrant invalid or unenforceable, the other provisions of this Warrant will remain in full force and effect. Any provision of this Warrant held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

13. BINDING EFFECT

This Warrant shall be binding upon and inure to the sole and exclusive benefit of the Company, its successors and assigns, and the registered Holder or Holders from time to time of this Warrant and the Warrant Shares.

14. SURVIVAL OF RIGHTS AND DUTIES

This Warrant shall terminate and be of no further force and effect on the earlier of 5:00 p.m. Eastern Time, on the Expiration Date or the date on which this Warrant has been exercised in full.

15. GOVERNING LAW

This Warrant will be governed by and construed under the laws of the State of New York without regard to conflicts of laws principles that would require the application of any other law.

16. DISPUTE RESOLUTION

In the case of a dispute as to the determination of the Exercise Price or the arithmetic calculation of the Warrant Shares, the Company shall submit the disputed determinations or arithmetic calculations via facsimile within two Business Days of receipt of the Notice of Exercise giving rise to such dispute, as the case may be, to the Holder. If the Holder and the Company are unable to agree upon such determination or calculation of the Exercise Price or the Warrant Shares within three Business Days of such disputed determination or arithmetic calculation being submitted to the Holder, then the Company shall, within two Business Days, submit via facsimile (a) the disputed determination of the Exercise Price to an independent, reputable investment bank selected by the Company and approved by the Holder or (b) the disputed arithmetic calculation of the Warrant Shares to the Company's independent, outside accountant. The Company shall cause at its expense the investment bank or the accountant, as the case may be, to perform the determinations or calculations and notify the Company and the Holder of the results no later than ten (10) Business Days from the time it receives the disputed determinations or calculations. Such investment bank's or accountant's determination or calculation, as the case may be, shall be binding upon all parties absent demonstrable error.

17. NOTICES OF RECORD DATE

Upon (a) any establishment by the Company of a record date of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, or right or option to acquire securities of the Company, or any other right, or (b) any capital reorganization, reclassification, recapitalization, merger or consolidation of the Company with or into any other corporation, any transfer of all or substantially all the assets of the Company, or any voluntary or involuntary dissolution, liquidation or winding up of the Company, or the sale, in a single transaction, of a majority of the Company's voting stock (whether newly issued, or from treasury, or previously issued and then outstanding, or any combination thereof), the Company shall mail to the Holder at least ten (10) Business Days, or such longer period as may be required by law, prior to the record date specified therein, a notice specifying (i) the date established as the record date for the purpose of such dividend, distribution, option or right and a description of such dividend, option or right, (ii) the date on which any such reorganization, reclassification, transfer, consolidation, merger, dissolution, liquidation or winding up, or sale is expected to become effective and (iii) the date, if any, fixed as to when the holders of record of Common Stock shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reorganization, reclassification, transfer, consolation, merger, dissolution, liquidation or winding up.

18. RESERVATION OF SHARES

Subject to Section 3(e) of this Warrant, the Company shall reserve and keep available out of its authorized but unissued shares of Common Stock for issuance upon the exercise of this Warrant, free from pre-emptive rights, such number of shares of Common Stock for which this Warrant shall from time to time be exercisable. The Company will take all such reasonable action as may be necessary to assure that such Warrant Shares may be issued as provided herein without violation of any applicable law or regulation. Subject to Section 3(e) of this Warrant, without limiting the generality of the foregoing, the Company covenants that it will use commercially reasonable efforts to take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares upon the exercise of this Warrant and use commercially reasonable efforts to obtain all such authorizations, exemptions or consents, including but not limited to consents from the Company's stockholders or Board of Directors or any public regulatory body, as may be necessary to enable the Company to perform its obligations under this Warrant.

19. NO THIRD PARTY RIGHTS

This Warrant is not intended, and will not be construed, to create any rights in any parties other than the Company and the Holder, and no person or entity may assert any rights as third-party beneficiary hereunder.

[Signature page follows]

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed as of the date first set forth above.

RACKWISE, INC.

By: _____
Name: Guy A. Archbold
Title: President and Chief Executive Officer

EXHIBIT A

NOTICE OF EXERCISE

(To be executed by the Holder of Warrant if such Holder desires to exercise Warrant)

To Rackwise, Inc.:

The undersigned hereby irrevocably elects to exercise this Warrant and to purchase thereunder, _____ full shares of Rackwise, Inc. common stock issuable upon exercise of the Warrant and delivery of (i) $_____ (in cash as provided for in the foregoing Warrant) and any applicable taxes payable by the undersigned pursuant to such Warrant; or (ii) _____ shares of Common Stock (pursuant to a Cashless Exercise in accordance with Section 1 (b)(ii) of this Warrant).

The undersigned requests that certificates for such shares be issued in the name of:

_____
(Please print name, address and social security or federal employer identification number (if applicable))

_____

_____

If the shares issuable upon this exercise of the Warrant are not all of the Warrant Shares which the Holder is entitled to acquire upon the exercise of the Warrant, the undersigned requests that a new Warrant evidencing the rights not so exercised be issued in the name of and delivered to:

_____
(Please print name, address and social security or federal employer identification number (if applicable))

_____

_____

Name of Holder (print):_____

(Signature):_____

(By:)_____

(Title:)_____

Dated:_____

EXHIBIT B

FORM OF ASSIGNMENT

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers to each assignee set forth below all of the rights of the undersigned under the Warrant (as defined in and evidenced by the attached Warrant) to acquire the number of Warrant Shares set opposite the name of such assignee below and in and to the foregoing Warrant with respect to said acquisition rights and the shares issuable upon exercise of the Warrant:

Name of Assignee	Address	Number of Shares

If the total of the Warrant Shares are not all of the Warrant Shares evidenced by the foregoing Warrant, the undersigned requests that a new Warrant evidencing the right to acquire the Warrant Shares not so assigned be issued in the name of and delivered to the undersigned.

Name of Holder (print):_____

(Signature):_____

(By:)_____

(Title:)_____

Dated:_____

Exhibit 10.25

SUBSCRIPTION ESCROW AGREEMENT

Subscription Escrow Agreement (the "Escrow Agreement") dated as of the effective date (the "Effective Date") set forth on Schedule 1 attached hereto ("Schedule 1") by and among the corporation identified on Schedule 1 (the "Issuer"), the limited liability company identified on Schedule 1 (the "Depositor") and CSC Trust Company of Delaware, as escrow agent hereunder (the "Escrow Agent").

WHEREAS, the Issuer intends to offer and sell to investors in a private placement offering (the "Offering") a maximum of 25,000,000 (the "Maximum Amount") units of its securities (the "Units"), at a purchase price of $0.15 per Unit (the "Purchase Price"); each Unit consists of (i) one share of the Issuer's common stock, par value $0.0001 per share ("Common Stock"), and (ii) a redeemable warrant representing the right to purchase one (1) share of Common Stock, exercisable for a period of five years at an exercise price of $0.30 per whole share; and in the event the Offering is oversubscribed, the Issuer may, in its discretion, sell up to 5,000,000 additional Units (the "Over-Allotment") at the same purchase price per Unit;

WHEREAS, the Offering is being made on a best efforts basis until the Maximum Amount is reached, to "accredited investors" in accordance with Rule 506 of Regulation D under the U.S. Securities Act, as amended (the "Securities Act"), and/or to "non-U.S. Persons" in accordance with Rule 903 of Regulation S under the Securities Act;

WHEREAS, Units will be offered through November 30, 2012 (the **"**Initial Offering Period**"**), which period may be extended at the discretion of the Issuer and the Depositor until February 1, 2013 (this additional period and the Initial Offering Period shall be referred to as the "Offering Period");

WHEREAS, the initial closing of the Offering (the "Initial Closing") is conditioned on the receipt of acceptable subscriptions by the Issuer and the satisfaction of other closing conditions (collectively, the "Initial Closing Conditions");

WHEREAS, after the Initial Closing, the Issuer and the Depositor may mutually agree to continue the Offering until the Maximum Amount has been reached or the end of the Offering Period, whichever is earlier, and subsequent closings (each, a "Subsequent Closing") may take place on an intermittent basis, as deemed practical by the Issuer and the Depositor, conditioned on the receipt of acceptable subscriptions (this requirement for the receipt of acceptable subscriptions, together with certain other conditions to closing, are collectively referred to as the "Subsequent Closing Conditions");

WHEREAS, the subscribers in the Offering (the "Subscribers"), in connection with their intent to purchase Units in the Offering, shall execute and deliver Subscription Agreements and certain related documents memorializing the Subscribers' agreements to purchase and the Issuer's agreement to sell the number of Units set forth therein at the Purchase Price;

WHEREAS, the parties hereto desire to provide for the safekeeping of the Escrow Deposit (as defined below) until such time as the Escrow Deposit is released by the Escrow Agent in accordance with the terms and conditions of this Agreement; and

WHEREAS, the Escrow Agent has agreed to accept, hold, and disburse the Escrow Deposit deposited with it and the earnings thereon in accordance with the terms of this Escrow Agreement.

NOW THEREFORE, in consideration of the foregoing and of the mutual covenants hereinafter set forth, the parties hereto agree as follows:

1. Appointment. The Issuer and Depositor hereby appoint the Escrow Agent as their escrow agent for the purposes set forth herein, and the Escrow Agent hereby accepts such appointment under the terms and conditions set forth herein.

2. Escrow Fund. On or before the Initial Closing, or on or before any Subsequent Closing with respect to Units sold after the Initial Closing, each Subscriber shall have delivered to the Escrow Agent the full Purchase Price for the number of Units subscribed for by such Subscriber by check sent to the Escrow Agent at its address set forth on Schedule 1 or by wire transfer of immediately available funds pursuant to the wire transfer instructions set forth on Schedule 2 hereto, to the account of the Escrow Agent referenced on Schedule 2 hereto. All funds received from the Subscribers in connection with the sale of Units in the Offering shall be deposited with the Escrow Agent (the "Escrow Deposit"). The Escrow Agent shall hold the Escrow Deposit and, subject to the terms and conditions hereof, shall invest and reinvest the Escrow Deposit and the proceeds thereof (the "Escrow Fund") as directed in Section 3.

3. Investment of Escrow Fund. During the term of this Escrow Agreement, the Escrow Fund shall be invested and reinvested by the Escrow Agent in the investment indicated on Schedule 1 or such other investments as shall be directed in writing by the Issuer and the Depositor and as shall be acceptable to the Escrow Agent. All investment orders involving U.S. Treasury obligations, commercial paper and other direct investments may be executed through broker-dealers selected by the Escrow Agent. Periodic statements will be provided to the Issuer and the Depositor reflecting transactions executed on behalf of the Escrow Fund. The Issuer and the Depositor, upon written request, will receive a statement of transaction details upon completion of any securities transaction in the Escrow Fund without any additional cost. The Escrow Agent shall have the right to liquidate any investments held in order to provide funds necessary to make required payments under this Escrow Agreement. The Escrow Agent shall have no liability for any loss sustained as a result of any investment in an investment indicated on Schedule 1 or any investment made pursuant to the instructions of the parties hereto or as a result of any liquidation of any investment prior to its maturity or for the failure of the parties to give the Escrow Agent instructions to invest or reinvest the Escrow Fund. The Escrow Agent may earn compensation in the form of short-term interest ("float") on items like uncashed distribution checks (from the date issued until the date cashed), funds that the Escrow Agent is directed not to invest, deposits awaiting investment direction or received too late to be invested overnight in previously directed investments.

4. Disposition and Termination. The Depositor and the Issuer agree to notify the Escrow Agent in writing of any subscription revocations and the Initial Closing date of the Offering. Additionally, subsequent to an Initial Closing, Depositor and the Issuer agree to notify the Escrow Agent in writing of Subsequent Closing dates, if any, and of the termination of the Offering. Upon receipt of such written notification(s), the following procedures will take place:

(i) Release of Escrow Fund upon Initial Closing. Prior to the Initial Closing, the Issuer and the Depositor shall deliver to the Escrow Agent joint written instructions executed by a duly authorized executive officer of each of the Issuer and the Depositor ("Instructions"), which Instructions shall provide the day designated as the Initial Closing date, and acknowledge and agree that as of the Initial Closing date the Initial Closing Conditions have been or will be fully satisfied and shall specify the time and payment instructions, including the address and tax identification number of each payee, of the Escrow Fund, including with respect to placement fees that may be disbursed to the Depositor or to any other placement agent or selected dealer with respect to the Offering. The Escrow Agent shall, at the time and in accordance with the payment instructions specified in the Instructions, deliver the Escrow Fund (without interest).

(ii) Release of Escrow Fund upon a Subsequent Closing. Prior to a Subsequent Closing, the Issuer and the Depositor shall deliver to the Escrow Agent Instructions, which Instructions shall provide the day designated as the Subsequent Closing date, and acknowledge and agree that as of the Subsequent Closing date the Subsequent Closing Conditions have been or will be fully satisfied and shall specify the time and payment instructions, including the address and tax identification number of each payee, of the Escrow Fund, including with respect to placement fees that may be disbursed to the Depositor or to any other placement agent or selected dealer. The Escrow Agent shall, at the time and in accordance with the payment instructions specified in the Instructions, deliver the then Escrow Fund (without interest).

(iii) Return of Escrow Fund on Termination of Offering. In the event that the Escrow Agent shall have received written notice executed by a duly authorized executive officer of each of the Issuer and the Depositor indicating that the Offering has been terminated prior to the Initial Closing and designating a termination date, the Escrow Agent shall return to each Subscriber, the Purchase Price (without interest and deduction) delivered by such Subscriber to the Escrow Agent. The Issuer and the Depositor shall provide the Escrow Agent with time and payment instructions, including the address and tax identification number of each payee, for each Subscriber whose Purchase Price the Escrow Agent is to deliver pursuant to this Section (but in no case shall the Escrow Agent deliver such Purchase Price more than thirty (30) days following receipt by the Escrow Agent of such delivery instructions).

(iv) Return of Escrow Fund on Rejection of Subscription. In the event the Issuer determines it is necessary or appropriate to reject the subscription of any Subscriber for whom the Escrow Agent has received an Escrow Deposit, the Issuer shall deliver written notice of such event to the Escrow Agent and the Depositor which notice shall include the reason for such rejection and the time and payment instructions, including the address and tax identification number of each payee, for the return to such Subscriber of the Purchase Price delivered by such Subscriber. The Escrow Agent shall deliver such funds (without interest and deduction) pursuant to such written notice.

(v) Return of Escrow Fund on Revocation of Subscription. In the event that the Escrow Agent shall have received written notice executed by a duly authorized executive officer of each of the Issuer and the Depositor indicating that any subscription has been revoked prior to the Initial Closing, pursuant to the subscription agreement between the Issuer and the relevant Subscriber, the Escrow Agent shall return to such revoking Subscriber, the Purchase Price (without interest and deduction) delivered by such Subscriber to the Escrow Agent. The Issuer and the Depositor shall provide the Escrow Agent with time and payment instructions, including the address and tax identification number of each payee, for each Subscriber whose Purchase Price the Escrow Agent is to deliver pursuant to this Section (but in no case shall the Escrow Agent deliver such Purchase Price more than thirty (30) days following receipt by the Escrow Agent of such delivery instructions).

(vi) Delivery Pursuant to Court Order. Notwithstanding any provision contained herein, upon receipt by the Escrow Agent of a final and non-appealable judgment, order, decree or award of a court of competent jurisdiction (a "Court Order"), the Escrow Agent shall deliver the Escrow Fund in accordance with the Court Order. Any Court Order shall be accompanied by an opinion of counsel for the party presenting the Court Order to the Escrow Agent (which opinion shall be satisfactory to the Escrow Agent) to the effect that the court issuing the Court Order has competent jurisdiction and that the Court Order is final and non-appealable.

Upon delivery of the Escrow Fund by the Escrow Agent (i) to the Issuer following the Initial Closing, if there are to be no Subsequent Closings, (ii) following a final Subsequent Closing, or (iii) to the Subscribers upon termination of the Offering prior to the Initial Closing, as the case may be, and in each case notice of termination of the Offering having been delivered by the Issuer and the Depositor to the Escrow Agent, this Escrow Agreement shall terminate, subject to the provisions of Section 8.

5. Escrow Agent. The Escrow Agent undertakes to perform only such duties as are expressly set forth herein and no duties shall be implied. The Escrow Agent shall have no liability under and no duty to inquire as to the provisions of any agreement other than this Escrow Agreement. The Escrow Agent may rely upon and shall not be liable for acting or refraining from acting upon any written notice, instruction or request furnished to it hereunder and believed by it to be genuine and to have been signed or presented by the proper party or parties. The Escrow Agent shall be under no duty to inquire into or investigate the validity, accuracy or content of any such document. The Escrow Agent shall have no duty to solicit any payments which may be due it or the Escrow Fund. The Escrow Agent shall not be liable for any action taken or omitted by it in good faith except to the extent that a court of competent jurisdiction determines that the Escrow Agent's gross negligence or willful misconduct was the primary cause of any loss to the Issuer or Depositor. The Escrow Agent may execute any of its powers and perform any of its duties hereunder directly or through agents or attorneys (and shall be liable only for the careful selection of any such agent or attorney) and may consult with counsel, accountants and other skilled persons to be selected and retained by it. The Escrow Agent shall not be liable for anything done, suffered or omitted in good faith by it in accordance with the advice or opinion of any such counsel, accountants or other skilled persons. In the event that the Escrow Agent shall be uncertain as to its duties or rights hereunder or shall receive instructions, claims or demands from any party hereto which, in its opinion, conflict with any of the provisions of this Escrow Agreement, it shall be entitled to refrain from taking any action and its sole obligation shall be to keep safely all property held in escrow until it shall be directed otherwise in writing by all of the other parties hereto or by a final order or judgment of a court of competent jurisdiction. Anything in this Escrow Agreement to the contrary notwithstanding, in no event shall the Escrow Agent be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Escrow Agent has been advised of the likelihood of such loss or damage and regardless of the form of action.

6. Succession. The Escrow Agent may resign and be discharged from its duties or obligations hereunder by giving 10 business days advance notice in writing of such resignation to the other parties hereto specifying a date when such resignation shall take effect. The Escrow Agent shall have the right to withhold an amount equal to any amount due and owing to the Escrow Agent, plus any costs and expenses the Escrow Agent shall reasonably believe may be incurred by the Escrow Agent in connection with the termination of the Escrow Agreement. Any corporation or association into which the Escrow Agent may be merged or converted or with which it may be consolidated shall be the Escrow Agent under this Escrow Agreement without further act.

7. Fees. The Issuer and the Depositor agree jointly and severally to (i) pay the Escrow Agent upon the Initial Closing and from time to time thereafter reasonable compensation for the services to be rendered hereunder, which unless otherwise agreed in writing shall be as described in Schedule 4 attached hereto, and (ii) pay or reimburse the Escrow Agent upon request for all expenses, disbursements and advances, including reasonable attorney's fees and expenses, incurred or made by it in connection with the preparation, execution, performance, delivery, modification and termination of this Escrow Agreement. The Escrow Agent is authorized to deduct such fees from the Escrow Fund at the time of the Initial Closing without prior authorization from the Issuer or the Depositor. In the event that the Offering is terminated prior to an Initial Closing, the Issuer and the Depositor agree to pay the Escrow Agent the Review Fee and the Acceptance Fee as described in Schedule 4 hereto.

8. Indemnity. The Issuer and the Depositor shall jointly and severally indemnify, defend and save harmless the Escrow Agent and its directors, officers, agents and employees (the "indemnitees") from all loss, liability or expense (including the reasonable fees and expenses of in house or outside counsel) arising out of or in connection with (i) the Escrow Agent's execution and performance of this Escrow Agreement, except in the case of any indemnitee to the extent that such loss, liability or expense is due to the gross negligence or willful misconduct of such indemnitee, or (ii) its following any instructions or other directions from the Issuer or the Depositor, except to the extent that its following any such instruction or direction is expressly forbidden by the terms hereof. The parties hereto acknowledge that the foregoing indemnities shall survive the resignation or removal of the Escrow Agent or the termination of this Escrow Agreement.

9. TINs. The Issuer and the Depositor each represent that its correct TIN assigned by the Internal Revenue Service or any other taxing authority is set forth in Schedule 1. All interest or other income earned under the Escrow Agreement, if any, shall be allocated and/or paid as directed in a joint written direction of the Issuer and the Depositor and reported by the recipient to the Internal Revenue Service or any other taxing authority. Notwithstanding such written directions, the Escrow Agent shall report and, if required, withhold any taxes as it determines may be required by any law or regulation in effect at the time of the distribution. In the absence of timely direction, all proceeds of the Escrow Fund shall be retained in the Escrow Fund and reinvested from time to time by the Escrow Agent as provided in Section 3. In the event that any earnings remain undistributed at the end of any calendar year, the Escrow Agent shall report to the Internal Revenue Service or such other authority such earnings as it deems appropriate or as required by any applicable law or regulation or, to the extent consistent therewith, as directed in writing by the Issuer and the Depositor. In addition, the Escrow Agent shall withhold any taxes it deems appropriate and shall remit such taxes to the appropriate authorities.

10. Notices. All communications hereunder shall be in writing and shall be deemed to be duly given and received:

(i) upon delivery if delivered personally or upon confirmed transmittal if by facsimile;

(ii) on the next Business Day (as hereinafter defined) if sent by overnight courier; or

(iii) four (4) Business Days after mailing if mailed by prepaid registered mail, return receipt requested, to the appropriate notice address set forth on Schedule 1 or at such other address as any party hereto may have furnished to the other parties in writing by registered mail, return receipt requested.

Notwithstanding the above, in the case of communications delivered to the Escrow Agent pursuant to (ii) and (iii) of this Section 10, such communications shall be deemed to have been given on the date received by the Escrow Agent. In the event that the Escrow Agent, in its sole discretion, shall determine that an emergency exists, the Escrow Agent may use such other means of communication as the Escrow Agent deems appropriate. "Business Day" shall mean any day other than a Saturday, Sunday or any other day on which the Escrow Agent located at the notice address set forth on Schedule 1 is authorized or required by law or executive order to remain closed.

11. Security Procedures. In the event funds transfer instructions are given (other than in writing at the time of execution of this Escrow Agreement), whether in writing, by telecopier or otherwise, the Escrow Agent is authorized to seek confirmation of such instructions by telephone call-back to the person or persons designated on Schedule 3 hereto, and the Escrow Agent may rely upon the confirmation of anyone purporting to be the person or persons so designated. The persons and telephone numbers for call-backs may be changed only in a writing actually received and acknowledged by the Escrow Agent. The Escrow Agent and the beneficiary's bank in any funds transfer may rely solely upon any account numbers or similar identifying numbers provided by the Issuer or the Depositor to identify (i) the beneficiary, (ii) the beneficiary's bank, or (iii) an intermediary bank. The Escrow Agent may apply any of the escrowed funds for any payment order it executes using any such identifying number, even where its use may result in a person other than the beneficiary being paid, or the transfer of funds to a bank other than the beneficiary's bank or an intermediary bank designated. The parties to this Escrow Agreement acknowledge that these security procedures are commercially reasonable.

12. Miscellaneous. The provisions of this Escrow Agreement may be waived, altered, amended or supplemented, in whole or in part, only by a writing signed by all of the parties hereto. Neither this Escrow Agreement nor any right or interest hereunder may be assigned in whole or in part by any party, except as provided in Section 6, without the prior consent of the other parties, which consent shall not be unreasonably withheld. This Escrow Agreement shall be governed by and construed under the laws of the State of Delaware. Each party hereto irrevocably waives any objection on the grounds of venue, forum non-conveniens or any similar grounds and irrevocably consents to service of process by mail or in any other manner permitted by applicable law and consents to the jurisdiction of the courts located in the State of Delaware. The parties further hereby waive any right to a trial by jury with respect to any lawsuit or judicial proceeding arising or relating to this Escrow Agreement. No party to this Escrow Agreement is liable to any other party for losses due to, or if it is unable to perform its obligations under the terms of this Escrow Agreement because of, acts of God, fire, floods, strikes, equipment or transmission failure, or other causes reasonably beyond its control. This Escrow Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. The exchange of copies of this Escrow Agreement and of signature pages by facsimile transmission or in pdf format shall constitute effective execution and delivery of this Escrow Agreement as to the parties and may be used in lieu of the original Escrow Agreement for all purposes. Signatures of the parties transmitted by facsimile or in pdf format shall be deemed to be their original signatures for all purposes.

[*Remainder of Page Intentionally Left Blank*]

IN WITNESS WHEREOF, the parties hereto have executed this Subscription Escrow Agreement as of the date set forth in Schedule 1.

CSC Trust Company of Delaware,
as Escrow Agent

By: /s/ *Alan R. Halpern*
Name: Alan R. Halpern
Title: Vice President

ISSUER:

Rackwise, Inc.

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

DEPOSITOR:

Gottbetter Capital Markets, LLC

By: /s/ *Julio Marquez*
Name: Julio Marquez
Title: President

Schedule 1

Effective Date:	**September 1, 2012**
Name of Issuer: Issuer Notice Address:	Rackwise, Inc. 2365 Iron Point Road, Suite 190 Folsom, CA 95630
Issuer TIN:	26-3439890
With a copy to:	Gottbetter & Partners, LLP 488 Madison Avenue, 12th Floor New York, NY 10022 Attn: Adam S. Gottbetter
Name of Depositor: Depositor Notice Address:	Gottbetter Capital Markets, LLC 488 Madison Avenue, 12th floor New York, NY 10022
Depositor TIN:	26-1365612
Escrow Deposit:	**$5,000,000 maximum deposit, in whole or in parts, plus any over-allotment**

Investment:

☐ Goldman Sachs Financial Square Funds Prime Obligations Fund Service Shares (the "Share Class"), an institutional money market mutual fund for which the Escrow Agent serves as shareholder servicing agent and/or custodian or subcustodian. The parties hereto: (i) acknowledge Escrow Agent's disclosure of the services CSC is providing to and the fees it receives from Goldman Sachs; (ii) consent to the Escrow Agent's receipt of these fees in return for providing shareholder services for the Share Class; and (iii) acknowledge that the Escrow Agent has provided on or before the date hereof a Goldman Sachs Financial Square Funds Prime Obligations Fund Service Shares prospectus which discloses, among other things, the various expenses of the Share Class and the fees to be received by the Escrow Agent.

☐ Such other investments as Issuer, Depositor and Escrow Agent may from time to time mutually agree upon in a writing executed and delivered by the Issuer and the Depositor and accepted by the Escrow Agent.

☒ The funds shall not be invested.

Escrow Agent notice address:

CSC Trust Company of Delaware
2711 Centerville Road
One Little Falls Centre
Wilmington, DE 19808
Attention: Alan R. Halpern
Fax No.: 302-636-8666

Escrow Agent's compensation: See Appended Schedule 4.

Exhibit 10.26

SUBSCRIPTION AGREEMENT

Ladies and Gentlemen:

1. **Subscription.** The undersigned (the "Purchaser"), intending to be legally bound, hereby irrevocably agrees to purchase from Rackwise, Inc., a Nevada corporation (the "Company"), the number of units (the "Units" or the "PPO Units") set forth on the signature page hereof at a purchase price of $0.15 per Unit (the "Purchase Price"). Each Unit consists of (i) one (1) share of the Company's common stock, par value $0.0001 per share ("Common Stock"), and (ii) a five (5) year warrant (each, an "Investor Warrant" and collectively, the "Investor Warrants") to purchase one (1) share of Common Stock at an exercise price of $0.30 per share. The form of Investor Warrant is annexed hereto as Exhibit A. The Investor Warrants will have "weighted average" anti-dilution protection subject to customary exceptions, including but not limited to, issuances under the Company's 2011 Equity Incentive Plan.

2. **Offering.** (a) This subscription is submitted to you in accordance with and subject to the terms and conditions described in this Subscription Agreement, as amended or supplemented from time to time, including all attachments, schedules and exhibits hereto, relating to the offering (the "Offering") by the Company of a maximum of twenty five million (25,000,000) Units (the "Maximum Offering Amount"). In the event the Maximum Offering Amount is sold, the Placement Agent (as defined below) and the Company shall have the right to place an additional five million (5,000,000) Units to cover over-allotments.

(b) Subject to Section 5 of this Subscription Agreement, provided that the Purchaser subscribes for the Units in the Offering for the amount equal to at least fifty percent (50%) of the subscription amount(s) such Purchaser previously invested in the aggregate in the private placements conducted by the Company since September 21, 2011 (collectively, "Prior Offerings"), the Company will reduce the exercise price of such Purchaser's unexercised warrants, if any, issued by the Company in the Prior Offerings (the "Prior Warrants") to $0.30 ("New Warrant Exercise Price"). The Purchaser understands and agrees that the Company, in its sole and absolute discretion, reserves the right to determine if the Purchaser's subscription(s) in the Prior Offerings entitles such Purchaser's Prior Warrants to have the New Warrant Exercise Price, notwithstanding the acceptance of the Purchaser's subscription by the Company under this Subscription Agreement. Subject to Section 5 of this Subscription Agreement, in the event such determination is made by the Company, no action in connection with the Prior Warrants will be required by the Purchaser and the Company will provide such Purchaser with a determination letter setting forth which Prior Warrants and the number of such warrants were deemed by the Company to have the exercise price equal to the New Warrant Exercise Price. The Purchaser acknowledges and agrees that any such determination shall be binding upon the Purchaser.

3. **Payment.** The Purchaser will send directly a check payable to, or will make a wire transfer payment to, "CSC Trust Company of Delaware, Escrow Agent for Rackwise, Inc." in the full amount of the Purchase Price of the Units being subscribed for. Wire transfer instructions are set forth under the heading "To subscribe for Units in the private offering of Rackwise, Inc." Such funds will be held for the Purchaser's benefit in escrow pursuant to the terms of the Escrow Agreement entered into by and among the Company, Escrow Agent (as defined below) and the Placement Agent (as defined below), in the form attached hereto as Exhibit B, and will be returned promptly, without interest or offset if this Subscription Agreement is not accepted by the Company or the Offering is terminated pursuant to its terms by the Company prior to the Closing (as defined in Section 4). Together with a check for, or wire transfer of, the full Purchase Price, the Purchaser is delivering a completed and executed Signature Page to this Subscription Agreement, together with the Purchaser's completed Accredited Investor Certification, Investor Profile and Anti-Money Laundering Information Form, in the form attached to this Subscription Agreement, and any other documents, agreements, supplements and additions thereto required by the Company (collectively, the "Subscription Documents").

4. **Deposit of Funds.** All payments made as provided in Section 3 hereof shall be sent directly to CSC Trust Company of Delaware (the "Escrow Agent") or by the Company and credited as soon as practicable after receipt thereof with the Escrow Agent, in a non-interest-bearing escrow account (the "Escrow Account"). The initial closing of the purchase and sale of the Units (the "Closing") shall take place as soon as practicable following the satisfaction of the conditions to the Closing set forth herein. There may be multiple Closings until such time as all the Units offered pursuant to this Subscription Agreement are sold, subject to over-allotment (the date of any such Closing is hereinafter referred to as a "Closing Date"). Subject to the satisfaction of the terms and conditions of this Subscription Agreement, on each Closing Date, (i) the Escrow Agent shall deliver to the Company in accordance with the terms of the Escrow Agreement the full Purchase Price for the Units to be issued and sold to the Purchaser(s) on such Closing Date, and (ii) the Company shall promptly thereafter deliver directly to the Purchaser (s), the shares of Common Stock comprising the purchased Units and the applicable number of Investor Warrants, duly executed on behalf of the Company. The last of such Closings will occur on or before December 30, 2012, which date may be mutually extended by the Company and the Placement Agent in writing until February 1, 2013 (the "Termination Date"). Each Closing shall occur on a Closing Date at the offices of Gottbetter & Partners, LLP, 488 Madison Avenue, 12th Floor, New York, New York 10022 (or such other place as is mutually agreed to by the Company and the Purchaser(s)).

5. **Acceptance of Subscription.** The Purchaser understands and agrees that the Company, in its sole and absolute discretion, reserves the right to accept or reject this or any other subscription for Units, in whole or in part, prior to the Closing of such Units, notwithstanding prior receipt by the Purchaser of notice of acceptance of this subscription. The Company shall have no obligation hereunder until the Company shall execute and deliver to the Purchaser an executed copy of this Subscription Agreement. If this subscription is rejected in whole or the Offering is terminated, all funds received from the Purchaser will be returned without interest or offset, and this Subscription Agreement shall thereafter be of no further force or effect. If this subscription is rejected in part, the funds for the rejected portion of this subscription will be returned without interest or offset, and this Subscription Agreement will continue in full force and effect to the extent this subscription was accepted.

6. Placement Agent. Gottbetter Capital Markets, LLC has been engaged as non-exclusive placement agent in connection with the Offering (the "Placement Agent"). The Placement Agent, a licensed broker-dealer with the Financial Industry Regulatory Authority ("FINRA"), has been engaged as the non-exclusive Placement Agent for the Offering on a best efforts basis pursuant to the terms of a placement agency agreement (the "Placement Agency Agreement), dated as of September 1, 2012, entered into between the Company and the Placement Agent. The Placement Agent together with other participating broker-dealers, including sub-agents, if any, will be paid a cash commission of up to 10% of funds raised in the Offering plus broker warrants to purchase such number of shares of Common Stock up to a maximum of 10% of the number of shares of Common Stock contained in the Units sold in the Offering, which warrants shall be identical to the Investor Warrants in all material respects, except that (i) the resale of the Common Stock underlying broker warrants will not be covered by a registration statement and (ii) the broker warrants will have an exercise price of $0.15 per share.

7. Representations and Warranties of the Purchaser. The Purchaser hereby acknowledges, represents, warrants, and agrees as follows:

(a) None of the Units, the shares of Common Stock underlying the Units, the Investor Warrants or the shares of Common Stock issuable upon exercise of the Investor Warrants (the "Investor Warrant Shares") offered pursuant to this Subscription Agreement are registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws. The Purchaser understands that the offering and sale of the Units is intended to be exempt from registration under the Securities Act, by virtue of Section 4(2) thereof and the provisions of Regulation D ("Regulation D") and/or Regulation S ("Regulation S") each as promulgated by the U.S. Securities and Exchange Commission (the "SEC") thereunder, based, in part, upon the representations, warranties and agreements of the Purchaser contained in this Subscription Agreement;

(b) Prior to the execution of this Subscription Agreement, the Purchaser and the Purchaser's attorney, accountant, purchaser representative and/or tax adviser, if any (collectively, the "Advisers"), have received this Subscription Agreement and all other documents requested by the Purchaser, have carefully reviewed them and understand the information contained therein;

(c) Neither the SEC nor any state securities commission or other regulatory authority has approved the Units, the Common Stock, the Investor Warrants or the Investor Warrant Shares, or passed upon or endorsed the merits of the offering of the Units;

(d) All documents, records, and books pertaining to the investment in the Units have been made available for inspection by such Purchaser and its Advisers, if any;

(e) The Purchaser and/or its Advisers, if any, have had a reasonable opportunity to ask questions of and receive answers from a person or persons acting on behalf of the Company concerning the offering of the Units and the business, financial condition and results of operations of the Company, and all such questions have been answered to the full satisfaction of the Purchaser and its Advisers, if any;

(f) In evaluating the suitability of an investment in the Company, the Purchaser has not relied upon any representation or information (oral or written) other than as stated herein;

(g) The Purchaser is unaware of, is in no way relying on, and did not become aware of the Offering of the Units through or as a result of, any form of general solicitation or general advertising including, without limitation, any article, notice, advertisement or other communication published in any newspaper, magazine or similar media or broadcast over television, radio or the Internet (including, without limitation, internet "blogs," bulletin boards, discussion groups and social networking sites) in connection with the Offering and sale of the Units and is not subscribing for the Units and did not become aware of the Offering of the Units through or as a result of any seminar or meeting to which the Purchaser was invited by, or any solicitation of a subscription by, a person not previously known to the Purchaser in connection with investments in securities generally;

(h) Subject to Section 6(a), the Purchaser has taken no action that would give rise to any claim by any person for brokerage commissions, finders' fees or the like relating to this Subscription Agreement or the transactions contemplated hereby (other than commissions to be paid by the Company to the Placement Agent and other participating broker-dealers, if any);

(i) The Purchaser, together with its Advisers, if any, has such knowledge and experience in financial, tax, and business matters, and, in particular, investments in securities, so as to enable it to utilize the information made available to it in connection with the Offering to evaluate the merits and risks of an investment in the Units and the Company and to make an informed investment decision with respect thereto;

(j) The Purchaser is not relying on the Company, the Placement Agent or any of their respective employees or agents with respect to the legal, tax, economic and related considerations of an investment in the Units, and the Purchaser has relied on the advice of, or has consulted with, only its own Advisers;

(k) The Purchaser is acquiring the Units solely for such Purchaser's own account for investment purposes only and not with a view to or intent of resale or distribution thereof, in whole or in part. The Purchaser has no agreement or arrangement, formal or informal, with any person to sell or transfer all or any part of the Units, the shares of Common Stock, the Investor Warrants or the Investor Warrant Shares, and the Purchaser has no plans to enter into any such agreement or arrangement;

(l) The Purchaser must bear the substantial economic risks of the investment in the Units indefinitely because none of the securities included in the Units may be sold, hypothecated or otherwise disposed of unless subsequently registered under the Securities Act and applicable state securities laws or an exemption from such registration is available (including, without limitation, under Regulation S). Legends to the following effect shall be placed on the securities included in the Units to the effect that they have not been registered under the Securities Act or applicable state securities laws:

THE SECURITIES REPRESENTED HEREBY AND THE SECURITIES ISSUABLE UPON THE EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE COMPANY THAT SUCH SECURITIES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN ACCORDANCE WITH (I) REGULATION S UNDER THE SECURITIES ACT, IF AVAILABLE, (II) ANY OTHER EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, IF AVAILABLE, OR (III) UNDER AN EFFECTIVE REGISTRATION STATEMENT, AND, IN EACH CASE, IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS. IN ADDITION, HEDGING TRANSACTIONS INVOLVING THE SECURITIES REPRESENTED HEREBY AND THE SECURITIES ISSUABLE UPON THE EXERCISE HEREOF, MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE SECURITIES ACT. RELIANCE ON AN EXEMPTION FROM REGISTRATION WILL REQUIRE THE HOLDER TO PROVIDE THE COMPANY WITH AN OPINION OF COUNSEL, WHICH COUNSEL AND OPINION MUST BE SATISFACTORY TO THE COMPANY.

Appropriate notations will be made in the Company's stock books to the effect that the securities included in the Units have not been registered under the Securities Act or applicable state securities laws. Stop transfer instructions will be placed with the transfer agent with respect to the Common Stock comprising part of the Units and the Investor Warrant Shares and on the Company's books with respect to Units and the Investor Warrants. The Company has agreed that purchasers of the Units will have, with respect to the shares of Common Stock comprising part of the Units and the Investor Warrant Shares, piggyback registration rights, the terms of which are discussed in Section 18 hereof. Notwithstanding such piggyback registration rights, there can be no assurance that there will be any market for resale of the Common Stock or the Investor Warrant Shares, nor can there be any assurance that such securities will be freely transferable at any time in the foreseeable future. In addition, the Investor Warrants issued to Purchasers purchasing Units in this Offering in an offshore transaction outside the United States in reliance on Regulation S will bear an additional restrictive legend to the following effect:

THIS WARRANT MAY NOT BE EXERCISED IN THE UNITED STATES OR BY OR ON BEHALF OF A "U.S. PERSON" OR A PERSON IN THE UNITED STATES UNLESS THE WARRANT AND THE UNDERLYING SECURITIES HAVE BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE APPLICABLE SECURITIES LEGISLATION OF ANY SUCH STATE OR ANY OTHER EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS IS AVAILABLE. "UNITED STATES" AND "U.S. PERSON" ARE AS DEFINED BY REGULATION S UNDER THE SECURITIES ACT. RELIANCE ON AN EXEMPTION FROM REGISTRATION WILL REQUIRE THE HOLDER TO PROVIDE THE COMPANY WITH AN OPINION OF COUNSEL, WHICH COUNSEL AND OPINION MUST BE SATISFACTORY TO THE COMPANY.

(m) The Purchaser has adequate means of providing for such Purchaser's current financial needs and foreseeable contingencies and has no need for liquidity of its investment in the Units for an indefinite period of time;

(n) The Purchaser is aware that an investment in the Units is high risk, involving a number of very significant risks and has carefully read and considered the matters set forth in the "Risk Factors" section of the Company's Registration Statement on Form S-1, as amended (Registration No. 333-179020) filed with the SEC on May 29, 2012 and, in particular, acknowledges that the Company has a limited operating history, has had operating losses since inception, and is engaged in a highly competitive business;

(o) The Purchaser either

i. meets the requirements of at least one of the suitability standards for an "accredited investor" as that term is defined in Rule 501(a)(3) of Regulation D and as set forth on the Accredited Investor Certification contained herein; or

ii. is not a "U.S. Person" as defined in Regulation S; and specifically the Purchaser is not (**all Purchasers who are not a U.S. Person must *INITIAL* the appropriate section of the Accredited Investor Certification to confirm their careful review and understanding of this Section 7(o)(ii)):**

A. a natural person resident in the United States of America, including its territories and possessions ("United States");

B. a partnership or corporation organized or incorporated under the laws of the United States;

C. an estate of which any executor or administrator is a U.S. Person;

D. a trust of which any trustee is a U.S. Person;

E. an agency or branch of a foreign entity located in the United States;

F. a non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a U.S. Person;

G. a discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organized, incorporated, or (if an individual) resident in the United States; and

H. a partnership or corporation: (A) organized or incorporated under the laws of any foreign jurisdiction; and (B) formed by a U.S. Person principally for the purpose of investing in securities not registered under the Securities Act, unless it is organized or incorporated, and owned, by accredited investors (as defined in Rule 501(a) under the Act) who are not natural persons, estates or trusts.

And, in addition:

I. the Purchaser was not offered the Units in the United States;

J. at the time the buy-order for the Units was originated, the Purchaser was outside the United States; and

K. the Purchaser is purchasing the Units for its own account and not on behalf of any U.S. Person (as defined in Regulation S) and a sale of the Units has not been pre-arranged with a purchaser in the United States.

(p) The Purchaser (i) if a natural person, represents that the Purchaser has reached the age of 21 and has full power and authority to execute and deliver this Subscription Agreement and all other related agreements or certificates and to carry out the provisions hereof and thereof; (ii) if a corporation, partnership, or limited liability company or partnership, or association, joint stock company, trust, unincorporated organization or other entity, represents that such entity was not formed for the specific purpose of acquiring the Units, such entity is duly organized, validly existing and in good standing under the laws of the state of its organization, the consummation of the transactions contemplated hereby is authorized by, and will not result in a violation of state law or its charter or other organizational documents, such entity has full power and authority to execute and deliver this Subscription Agreement and all other related agreements or certificates and to carry out the provisions hereof and thereof and to purchase and hold the securities constituting the Units, the execution and delivery of this Subscription Agreement has been duly authorized by all necessary action, this Subscription Agreement has been duly executed and delivered on behalf of such entity and is a legal, valid and binding obligation of such entity; or (iii) if executing this Subscription Agreement in a representative or fiduciary capacity, represents that it has full power and authority to execute and deliver this Subscription Agreement in such capacity and on behalf of the subscribing individual, ward, partnership, trust, estate, corporation, or limited liability company or partnership, or other entity for whom the Purchaser is executing this Subscription Agreement, and such individual, partnership, ward, trust, estate, corporation, or limited liability company or partnership, or other entity has full right and power to perform pursuant to this Subscription Agreement and make an investment in the Company, and represents that this Subscription Agreement constitutes a legal, valid and binding obligation of such entity. The execution and delivery of this Subscription Agreement will not violate or be in conflict with any order, judgment, injunction, agreement or controlling document to which the Purchaser is a party or by which it is bound;

(q) The Purchaser and its Advisors have been furnished with all documents and materials relating to the business, finances and operations of the Company and all such other information that the Purchaser and/or its Advisors have requested and deemed material to making an informed investment decision regarding its the Securities. The Purchaser and the Advisers, if any, have had the opportunity to obtain any additional information, to the extent the Company has such information in its possession or could acquire it without unreasonable effort or expense, necessary to verify the accuracy of the information contained herein and all documents received or reviewed in connection with the purchase of the Units and have had the opportunity to have representatives of the Company provide them with such additional information regarding the terms and conditions of this particular investment and the financial condition, results of operations, business of the Company deemed relevant by the Purchaser or the Advisers, including the annual reports, quarterly reports, current reports, registration statements and other information filed by the Company with the SEC (see www.sec.gov), and all such requested information, to the extent the Company had such information in its possession or could acquire it without unreasonable effort or expense, has been provided to the full satisfaction of the Purchaser and the Advisers;

(r) Any information which the Purchaser has heretofore furnished or is furnishing herewith to the Company or the Placement Agent is complete and accurate and may be relied upon by the Company and the Placement Agent in determining the availability of an exemption from registration under federal and state securities laws in connection with the offering of the Units. The Purchaser further represents and warrants that it will notify and supply corrective information to the Company and the Placement Agent immediately upon the occurrence of any change therein occurring prior to the Company's issuance of the securities contained in the Units;

(s) The Purchaser has significant prior investment experience, including investment in non-listed and non-registered securities. The Purchaser is knowledgeable about investment considerations in development-stage companies with limited operating histories. The Purchaser has a sufficient net worth to sustain a loss of its entire investment in the Company in the event such a loss should occur. The Purchaser's overall commitment to investments which are not readily marketable is not excessive in view of the Purchaser's net worth and financial circumstances and the purchase of the Units will not cause such commitment to become excessive. The investment is a suitable one for the Purchaser;

(t) The Purchaser is satisfied that the Purchaser has received adequate information with respect to all matters which it or the Advisers, if any, consider material to its decision to make this investment;

(u) The Purchaser acknowledges that any estimates or forward-looking statements or projections included in this Subscription Agreement were prepared by the Company in good faith but that the attainment of any such projections, estimates or forward-looking statements cannot be guaranteed by the Company and should not be relied upon;

(v) No oral or written representations have been made, or oral or written information furnished, to the Purchaser or the Advisers, if any, in connection with the Offering which are in any way inconsistent with the information contained herein;

(w) Within five (5) days after receipt of a request from the Company or the Placement Agent, the Purchaser will provide such information and deliver such documents as may reasonably be necessary to comply with any and all laws and ordinances to which the Company or the Placement Agent is subject;

(x) The Purchaser's substantive relationship with the Placement Agent or subagent through which the Purchaser is subscribing for Units predates the Placement Agent's or such subagent's contact with the Purchaser regarding an investment in the Units;

(y) THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS AND ARE BEING OFFERED AND SOLD IN RELIANCE ON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF SAID ACT AND SUCH LAWS. THE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER SAID ACT AND SUCH LAWS PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. RELIANCE ON AN EXEMPTION FROM REGISTRATION WILL REQUIRE THE HOLDER TO PROVIDE THE COMPANY WITH AN OPINION OF COUNSEL, WHICH COUNSEL AND OPINION MUST BE SATISFACTORY TO THE COMPANY. THE SECURITIES HAVE NOT BEEN RECOMMENDED, APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION OR ANY OTHER REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ACCURACY OR ADEQUACY OF THE MEMORANDUM OR THIS SUBSCRIPTION AGREEMENT. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL;

The Purchaser acknowledges that the Company was, until September 21, 2011, a "shell company" as defined in Rule 12b-2 under the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). Pursuant to Rule 144(i), securities issued by a current or former shell company (that is, the securities included in the Units) that otherwise meet the holding period and other requirements of Rule 144 nevertheless cannot be sold in reliance on Rule 144 until one year after the Company (a) is no longer a shell company; and (b) has filed current "Form 10 information" (as defined in Rule 144(i)) with the SEC reflecting that it is no longer a shell company, and provided that at the time of a proposed sale pursuant to Rule 144, the Company is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act and has filed all reports and other materials required to be filed by Section 13 or 15(d) of the Exchange Act, as applicable, during the preceding 12 months (or for such shorter period that the issuer was required to file such reports and materials), other than Current Reports on Form 8-K reports. As a result, the restrictive legends on certificates for the securities included in the Units cannot be removed except in connection with an actual sale meeting the foregoing requirements or pursuant to an effective registration statement. The Company included current "Form 10 information" reflecting that it was no longer a shell company in its Current Report on Form 8-K, as amended, which was initially filed with the SEC on September 27, 2011.

(z) In making an investment decision investors must rely on their own examination of the Company and the terms of the Offering, including the merits and risks involved. The Purchaser should be aware that it will be required to bear the financial risks of this investment for an indefinite period of time;

(aa) **(For ERISA plans only).** The fiduciary of the ERISA plan (the "Plan") represents that such fiduciary has been informed of and understands the Company's investment objectives, policies and strategies, and that the decision to invest "plan assets" (as such term is defined in ERISA) in the Company is consistent with the provisions of ERISA that require diversification of plan assets and impose other fiduciary responsibilities. The Purchaser fiduciary or Plan (a) is responsible for the decision to invest in the Company; (b) is independent of the Company or any of its affiliates; (c) is qualified to make such investment decision; and (d) in making such decision, the Purchaser fiduciary or Plan has not relied primarily on any advice or recommendation of the Company or any of its affiliates;

(bb) **The Purchaser should check the Office of Foreign Assets Control ("OFAC") website at <http://www.treas.gov/ofac> before making the following representations.** The Purchaser represents that the amounts invested by it in the Company in the Offering were not and are not directly or indirectly derived from activities that contravene federal, state or international laws and regulations, including anti-money laundering laws and regulations. Federal regulations and Executive Orders administered by OFAC prohibit, among other things, the engagement in transactions with, and the provision of services to, certain foreign countries, territories, entities and individuals. The lists of OFAC prohibited countries, territories, persons and entities can be found on the OFAC website at <http://www.treas.gov/ofac>. In addition, the programs administered by OFAC (the "OFAC Programs") prohibit dealing with individuals[1] or entities in certain countries regardless of whether such individuals or entities appear on the OFAC lists;

(cc) To the best of the Purchaser's knowledge, none of: (1) the Purchaser; (2) any person controlling or controlled by the Purchaser; (3) if the Purchaser is a privately-held entity, any person having a beneficial interest in the Purchaser; or (4) any person for whom the Purchaser is acting as agent or nominee in connection with this investment is a country, territory, individual or entity named on an OFAC list, or a person or entity prohibited under the OFAC Programs. Please be advised that the Company may not accept any amounts from a prospective investor if such prospective investor cannot make the representation set forth in the preceding paragraph. The Purchaser agrees to promptly notify the Company and the Placement Agent should the Purchaser become aware of any change in the information set forth in these representations. The Purchaser understands and acknowledges that, by law, the Company may be obligated to "freeze the account" of the Purchaser, either by prohibiting additional subscriptions from the Purchaser, declining any redemption requests and/or segregating the assets in the account in compliance with governmental regulations, and the Placement Agent may also be required to report such action and to disclose the Purchaser's identity to OFAC. The Purchaser further acknowledges that the Company may, by written notice to the Purchaser, suspend the redemption rights, if any, of the Purchaser if the Company reasonably deems it necessary to do so to comply with anti-money laundering regulations applicable to the Company and the Placement Agent or any of the Company's other service providers. These individuals include specially designated nationals, specially designated narcotics traffickers and other parties subject to OFAC sanctions and embargo programs;

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[1] These individuals include specially designated nationals, specially designated narcotics traffickers and other parties subject to OFAC sanctions and embargo programs.

(dd) To the best of the Purchaser's knowledge, none of: (1) the Purchaser; (2) any person controlling or controlled by the Purchaser; (3) if the Purchaser is a privately-held entity, any person having a beneficial interest in the Purchaser; or (4) any person for whom the Purchaser is acting as agent or nominee in connection with this investment is a senior foreign political figure[2], or any immediate family[3] member or close associate[4] of a senior foreign political figure, as such terms are defined in the footnotes below; and

(ee) If the Purchaser is affiliated with a non-U.S. banking institution (a "Foreign Bank"), or if the Purchaser receives deposits from, makes payments on behalf of, or handles other financial transactions related to a Foreign Bank, the Purchaser represents and warrants to the Company that: (1) the Foreign Bank has a fixed address, other than solely an electronic address, in a country in which the Foreign Bank is authorized to conduct banking activities; (2) the Foreign Bank maintains operating records related to its banking activities; (3) the Foreign Bank is subject to inspection by the banking authority that licensed the Foreign Bank to conduct banking activities; and (4) the Foreign Bank does not provide banking services to any other Foreign Bank that does not have a physical presence in any country and that is not a regulated affiliate.

(ff) The Purchaser acknowledges that Adam S. Gottbetter is the owner of Gottbetter Capital Group, Inc., Gottbetter & Partners, LLP ("G&P") and Gottbetter Capital Markets, LLC (collectively, the "G&P Entities"). Gottbetter Capital Group, Inc. and/or its affiliates may from time to time own shares of the Company. G&P is the corporate and securities counsel to the Company and receives legal fees in accordance with an executed retainer agreement between the Company and G&P. Gottbetter Capital Markets, LLC is the placement agent for this Offering, for which it will receive placement agent fees in accordance with the executed Placement Agency Agreement.

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[2] A "senior foreign political figure" is defined as a senior official in the executive, legislative, administrative, military or judicial branches of a foreign government (whether elected or not), a senior official of a major foreign political party, or a senior executive of a foreign government-owned corporation. In addition, a "senior foreign political figure" includes any corporation, business or other entity that has been formed by, or for the benefit of, a senior foreign political figure.

[3] "Immediate family" of a senior foreign political figure typically includes the figure's parents, siblings, spouse, children and in-laws.

[4] A "close associate" of a senior foreign political figure is a person who is widely and publicly known to maintain an unusually close relationship with the senior foreign political figure, and includes a person who is in a position to conduct substantial domestic and international financial transactions on behalf of the senior foreign political figure.

(gg) The Purchaser acknowledges that the net proceeds from the Offering will be used by the Company as general working capital.

8. Representations and Warranties of the Company. Except as previously disclosed herein or in the Company's SEC Filings (as defined below), the Company represents and warrants to each of the Purchasers that:

(a) The Company is a corporation duly organized and validly existing in good standing under the laws of the State of Nevada, and has the requisite corporate power to own its properties and to carry on its business as now being conducted. The Company is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which the nature of the business conducted by it makes such qualification necessary, except to the extent that the failure to be so qualified or be in good standing would not have a Material Adverse Effect, as defined below. Except as set forth on Schedule 8(a), the Company has no subsidiaries.

(b) (i) The Company has the requisite corporate power and authority to enter into and perform this Subscription Agreement and the Escrow Agreement and all other documents necessary or desirable to effect the transactions contemplated hereby (collectively the "Transaction Documents") to which it is a party and to issue the shares of Common Stock comprising the Units (the "Shares"), the Investor Warrants and the Warrant Shares, if any (the Shares, the Investor Warrants and the Warrant Shares are collectively referred to herein as the "Securities"), in accordance with the terms hereof and thereof, (ii) the execution and delivery of the Transaction Documents by the Company and the consummation by it of the transactions contemplated hereby and thereby, including, without limitation, the issuance of the Securities have been duly authorized by the Company's Board of Directors (the "Board of Directors") and no further consent or authorization is required by the Company, the Board of Directors or the Company's stockholders, (iii) the Transaction Documents will be duly executed and delivered by the Company, (iv) the Transaction Documents when executed will constitute the valid and binding obligations of the Company enforceable against the Company in accordance with their terms, except as such enforceability may be limited by general principles of equity or applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally, the enforcement of creditors' rights and remedies.

(c) The authorized and outstanding capital stock of the Company is described on Schedule 8(c) attached hereto. Except as set forth on Schedule 8 (c) or as contemplated by the Transaction Documents, there are no subscriptions, convertible securities, options, warrants or other rights (contingent or otherwise) currently outstanding to purchase any of the authorized but unissued capital stock of the Company. Except as set forth in Schedule 8(c) or as contemplated by the Transaction Documents, the Company has no obligation to issue shares of its capital stock, or subscriptions, convertible securities, options, warrants, or other rights (contingent or otherwise) to purchase any shares of its capital stock or to distribute to holders of any of its equity securities, any evidence of indebtedness or asset. No shares of the Company's capital stock are subject to a right of withdrawal or a right of rescission under any applicable securities law. Except as set forth in Schedule 8(c), there are no outstanding or authorized stock appreciation, phantom stock or similar rights with respect to the Company. To the knowledge of the Company, except as described in Schedule 8(c) or otherwise contemplated by this Subscription Agreement, there are no agreements to which the Company is a party or by which it is bound with respect to the voting (including without limitation voting trusts or proxies), registration under any applicable securities laws, or sale or transfer (including without limitation agreements relating to pre-emptive rights, rights of first refusal, co-sale rights or "drag-along" rights) of any securities of the Company. Except as provided in Schedule 8(c), to the knowledge of the Company, there are no agreements among other parties, to which the Company is not a party and by which it is not bound, with respect to the voting (including without limitation voting trusts or proxies) or sale or transfer (including without limitation agreements relating to rights of first refusal, co-sale rights or "drag-along" rights) of any securities of the Company.

(d) The Units, the Shares, the Investor Warrants and the Warrant Shares are duly authorized and, upon issuance in accordance with the terms hereof, shall be duly issued, fully paid and nonassessable, are free from all taxes, liens and charges with respect to the issue thereof.

(e) The execution, delivery and performance of the Transaction Documents by the Company and the consummation by the Company of the transactions contemplated hereby will not (i) result in a violation of the Articles of Incorporation of the Company (the "Articles of Incorporation"), any certificate of designations of any outstanding series of preferred stock of the Company or the By-Laws of the Company (the "By-Laws") or (ii) violate or conflict with, or result in a breach of any provision of, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture or instrument to which the Company is a party, or result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations) applicable to the Company or by which any property or asset of the Company is bound or affected except for those which could not reasonably be expected to have a material adverse effect on the assets, business, condition (financial or otherwise), results of operations or future prospects of the Company (a "Material Adverse Effect"). Except those which could not reasonably be expected to have a Material Adverse Effect, the Company is not in violation of any term of or in default under its Articles of Incorporation or By-Laws. Except those which could not reasonably be expected to have a Material Adverse Effect, the Company is not in violation of any term of or in default under any material contract, agreement, mortgage, indebtedness, indenture, instrument, judgment, decree or order or any statute, rule or regulation applicable to the Company. The business of the Company is not being conducted, and shall not be conducted in violation of any material law, ordinance, or regulation of any governmental entity, except to the extent it could reasonably be expected not to have a Material Adverse Effect. Except as specifically contemplated by this Subscription Agreement and as required under the Securities Act and any applicable state securities laws, the Company is not required to obtain any consent, authorization or order of, or make any filing or registration with, any court or governmental agency in order for it to execute, deliver or perform any of its obligations under or contemplated by this Subscription Agreement or the Escrow Agreement in accordance with the terms hereof or thereof. All consents, authorizations, orders, filings and registrations which the Company is required to obtain pursuant to the preceding sentence have been obtained or effected on or prior to the date hereof. The Company is unaware of any facts or circumstance, which might give rise to any of the foregoing.

(f) Since September 27, 2011, the Company has filed (and, except for certain Current Reports on Form 8-K), has timely filed (subject to 12b-25 filings with respect to certain periodic filings) all reports, schedules, forms, statements and other documents required to be filed by it with the SEC pursuant to the reporting requirements of the Exchange Act (all of the foregoing and all other documents filed with the SEC prior to the date hereof and all exhibits included therein and financial statements and schedules thereto and documents incorporated by reference therein, being hereinafter referred to herein as the "SEC Filings"). The SEC Filings are available to the Purchasers via the SEC's EDGAR system. As of their respective dates, the SEC Filings complied in all material respects with the requirements of the Exchange Act and the rules and regulations of the SEC promulgated thereunder, and none of the SEC Filings, at the time they were filed with the SEC, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. As of their respective dates, the audited financial statements of the Company included in the Company's SEC Filings for the fiscal years ended December 31, 2011 and December 31, 2010, and the subsequent unaudited interim financial statements included in the Company's SEC Filings (collectively, the "Financial Statements") complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto. Such financial statements were prepared in accordance with generally accepted accounting principles, consistently applied, during the periods involved (except (i) as may be otherwise indicated in such Financial Statements or the notes thereto, or (ii) in the case of unaudited interim statements, to the extent they may exclude footnotes or may be condensed or summary statements), and fairly present in all material respects the financial position of the Company as of the dates thereof and the results of its operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments). As of the date hereof, there are no outstanding or unresolved comments in comment letters received from the staff of the SEC with respect to any of the SEC Filings. No other information provided by or on behalf of the Company to the Purchaser including, without limitation, information referred to in this Subscription Agreement, contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(g) There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending against or affecting the Company, wherein an unfavorable decision, ruling or finding would (i) adversely affect the validity or enforceability of, or the authority or ability of the Company to perform its obligations under, this Subscription Agreement or any of the documents contemplated herein, or (ii) have a Material Adverse Effect.

(h) The Company acknowledges and agrees that each Purchaser is acting solely in the capacity of an arm's length purchaser with respect to this Subscription Agreement and the transactions contemplated hereby. The Company further acknowledges that each Purchaser is not acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to this Subscription Agreement and the transactions contemplated hereby and any advice given by such Purchaser or any of their respective representatives or agents in connection with this Subscription Agreement and the transactions contemplated hereby is merely incidental to such Purchaser's purchase of the Securities. The Company further represents to the Purchasers that the Company's decision to enter into this Subscription Agreement has been based solely on the independent evaluation by the Company and its representatives.

(i) Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has engaged in any form of general solicitation or general advertising (within the meaning of Regulation D) in connection with the offer or sale of any of the Securities.

(j) Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would require registration of the Securities under the Securities Act or cause this offering of the Securities to be integrated with prior offerings by the Company for purposes of the Securities Act.

(k) The Company is not involved in any labor dispute nor, to the knowledge of the Company, is any such dispute threatened. None of the Company's employees is a member of a union, and the Company believes that its relations with its one employee are good.

(l) The Company has no proprietary intellectual property. The Company has not received any notice of infringement of, or conflict with, the asserted rights of others with respect to any intellectual property that it utilizes.

(m) Environmental Laws. (i) The Company has complied with all applicable Environmental Laws (as defined below), except for violations of Environmental Laws that, individually or in the aggregate, have not had and would not reasonably be expected to have a Material Adverse Effect. There is no pending or, to the knowledge of the Company, threatened civil or criminal litigation, written notice of violation, formal administrative proceeding, or investigation, inquiry or information request, relating to any Environmental Law involving the Company, except for litigation, notices of violations, formal administrative proceedings or investigations, inquiries or information requests that, individually or in the aggregate, have not had and would not reasonably be expected to have a Material Adverse Effect. For purposes of this Subscription Agreement, "Environmental Law" means any federal, state or local law, statute, rule or regulation or the common law relating to the environment or occupational health and safety, including without limitation any statute, regulation, administrative decision or order pertaining to (A) treatment, storage, disposal, generation and transportation of industrial, toxic or hazardous materials or substances or solid or hazardous waste; (B) air, water and noise pollution; (C) groundwater and soil contamination; (D) the release or threatened release into the environment of industrial, toxic or hazardous materials or substances, or solid or hazardous waste, including without limitation emissions, discharges, injections, spills, escapes or dumping of pollutants, contaminants or chemicals; (E) the protection of wild life, marine life and wetlands, including without limitation all endangered and threatened species; (F) storage tanks, vessels, containers, abandoned or discarded barrels, and other closed receptacles; (G) health and safety of employees and other persons; and (H) manufacturing, processing, using, distributing, treating, storing, disposing, transporting or handling of materials regulated under any law as pollutants, contaminants, toxic or hazardous materials or substances or oil or petroleum products or solid or hazardous waste. As used above, the terms "release" and "environment" shall have the meaning set forth in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA").

(ii) To the knowledge of the Company there is no material environmental liability with respect to any solid or hazardous waste transporter or treatment, storage or disposal facility that has been used by the Company.

(iii) Except to the extent it could reasonably be expected not to have a Material Adverse Effect, the Company (A) has received all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct its business and (B) is in compliance with all terms and conditions of any such permit, license or approval.

(n) The Company does not own any real property. Except as set forth on Schedule 8(n), the Company has good and marketable title to all of its personal property and assets free and clear of any material restriction, mortgage, deed of trust, pledge, lien, security interest or other charge, claim or encumbrance which would have a Company Material Adverse Effect. Except as set forth on Schedule 8(n), with respect to properties and assets it leases, the Company is in material compliance with such leases and holds a valid leasehold interest free of any liens, claims or encumbrances which would have a Material Adverse Effect.

(o) The Company is not subject to any charter, corporate or other legal restriction, or any judgment, decree, order, rule or regulation which in the judgment of the Company's officers has or is expected in the future to have a Material Adverse Effect.

(p) Except as set forth in Schedule 8(p), the Company has made and filed all federal and state income and all other tax returns, reports and declarations required by any jurisdiction to which it is subject and (unless and only to the extent that the Company has set aside on its books provisions reasonably adequate for the payment of all unpaid and unreported taxes) has paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due on such returns, reports and declarations, and has set aside on its books provision reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. Except as set forth in Schedule 8(p), there are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction and the officers of the Company know of no basis for any such claim.

(q) Except as set forth in Schedule 8(q) and except for arm's length transactions pursuant to which the Company makes payments in the ordinary course of business upon terms no less favorable than the Company could obtain from third parties, none of the officers, directors, or employees of the Company is presently a party to any transaction with the Company (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any corporation, partnership, trust or other entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner.

(r) The Company is not obligated to offer the securities offered hereunder on a right of first refusal basis or otherwise to any third parties including, but not limited to, current or former stockholders of the Company, underwriters, brokers, agents or other third parties.

(s) The Company acknowledges that the Purchasers are relying on the representations and warranties made by the Company hereunder and in the Company's SEC Filings and that such representations and warranties are a material inducement to the Purchasers purchasing the Units. The Company further acknowledges that without such representations and warranties of the Company made hereunder, the Purchasers would not enter into this Subscription Agreement.

(t) The Company does not have any liability or obligation to pay any fees or commissions to any broker, finder or agent with respect to the transactions contemplated by this Subscription Agreement, except for applicable brokerage and consulting fees.

9. Indemnification. The Purchaser agrees to indemnify and hold harmless the Company, the Placement Agent, and their respective officers, directors, employees, agents, control persons and affiliates from and against all losses, liabilities, claims, damages, costs, fees and expenses whatsoever (including, but not limited to, any and all expenses incurred in investigating, preparing or defending against any litigation commenced or threatened) based upon or arising out of any actual or alleged false acknowledgment, representation or warranty, or misrepresentation or omission to state a material fact, or breach by the Purchaser of any covenant or agreement made by the Purchaser herein or in any other document delivered in connection with this Subscription Agreement.

10. Irrevocability; Binding Effect. The Purchaser hereby acknowledges and agrees that the subscription hereunder is irrevocable by the Purchaser, except as required by applicable law, and that this Subscription Agreement shall survive the death or disability of the Purchaser and shall be binding upon and inure to the benefit of the parties and their heirs, executors, administrators, successors, legal representatives, and permitted assigns. If the Purchaser is more than one person, the obligations of the Purchaser hereunder shall be joint and several and the agreements, representations, warranties, and acknowledgments herein shall be deemed to be made by and be binding upon each such person and such person's heirs, executors, administrators, successors, legal representatives, and permitted assigns.

11. Modification. This Subscription Agreement shall not be modified or waived except by an instrument in writing signed by the party against whom any such modification or waiver is sought.

12. Notices. Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be mailed by certified mail, return receipt requested, or delivered against receipt to the party to whom it is to be given (a) if to the Company, at 2365 Iron Point Road, Suite 190, Folsom, CA 95630, Attn: Guy A. Archbold, CEO, with a copy to Gottbetter & Partners, LLP, 488 Madison Avenue, 12th Floor, New York, NY 10022, Attn: Scott E. Rapfogel, Esq., or (b) if to the Purchaser, at the address set forth on the signature page hereof (or, in either case, to such other address as the party shall have furnished in writing in accordance with the provisions of this Section 12). Any notice or other communication given by certified mail shall be deemed given at the time of certification thereof, except for a notice changing a party's address which shall be deemed given at the time of receipt thereof.

13. Assignability. This Subscription Agreement and the rights, interests and obligations hereunder are not transferable or assignable by the Purchaser and the transfer or assignment of the shares of Common Stock or the Investor Warrants shall be made only in accordance with all applicable laws.

14. Applicable Law. This Subscription Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts to be wholly performed within said State.

15. Arbitration/Mediation. The parties agree to submit all controversies to arbitration in accordance with the provisions set forth below and understand that:

THE PARTIES HERETO AGREE TO SUBMIT ALL CONTROVERSIES TO THE EXCLUSIVE JURISDICTION OF FINRA ARBITRATION IN ACCORDANCE WITH THE PROVISIONS SET FORTH BELOW AND UNDERSTAND THAT (A) ARBITRATION IS FINAL AND BINDING ON THE PARTIES, (B) THE PARTIES ARE WAIVING THEIR RIGHTS TO SEEK REMEDIES IN COURT, INCLUDING THE RIGHT TO A JURY TRIAL, (C) PRE-ARBITRATION DISCOVERY IS GENERALLY MORE LIMITED AND DIFFERENT FROM COURT PROCEEDINGS, (D) THE ARBITRATOR'S AWARD IS NOT REQUIRED TO INCLUDE FACTUAL FINDINGS OR LEGAL REASONING AND ANY PARTY'S RIGHT TO APPEAL OR TO SEEK MODIFICATION OF RULES BY ARBITRATORS IS STRICTLY LIMITED, (E) THE PANEL OF FINRA ARBITRATORS WILL TYPICALLY INCLUDE A MINORITY OF ARBITRATORS WHO WERE OR ARE AFFILIATED WITH THE SECURITIES INDUSTRY, AND (F) ALL CONTROVERSIES WHICH MAY ARISE BETWEEN THE PARTIES CONCERNING THIS SUBSCRIPTION AGREEMENT SHALL BE DETERMINED BY ARBITRATION PURSUANT TO THE RULES THEN PERTAINING TO FINRA. ALL QUESTIONS CONCERNING THE CONSTRUCTION, VALIDITY, ENFORCEMENT AND INTERPRETATION OF THIS SUBSCRIPTION AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK. JUDGMENT ON ANY AWARD OF ANY SUCH ARBITRATION MAY BE ENTERED IN THE SUPREME COURT OF THE STATE OF NEW YORK OR IN ANY OTHER COURT HAVING JURISDICTION OVER THE PERSON OR PERSONS AGAINST WHOM SUCH AWARD IS RENDERED. THE PARTIES AGREE THAT THE DETERMINATION OF THE ARBITRATORS SHALL BE BINDING AND CONCLUSIVE UPON THEM. THE PREVAILING PARTY, AS DETERMINED BY SUCH ARBITRATORS, IN A LEGAL PROCEEDING SHALL BE ENTITLED TO COLLECT ANY COSTS, DISBURSEMENTS AND REASONABLE ATTORNEY'S FEES FROM THE OTHER PARTY. PRIOR TO FILING AN ARBITRATION, THE PARTIES HEREBY AGREE THAT THEY WILL ATTEMPT TO RESOLVE THEIR DIFFERENCES FIRST BY SUBMITTING THE MATTER FOR RESOLUTION TO A MEDIATOR, ACCEPTABLE TO ALL PARTIES, AND WHOSE EXPENSES WILL BE BORNE EQUALLY BY ALL PARTIES. THE MEDIATION WILL BE HELD IN THE COUNTY OF NEW YORK, STATE OF NEW YORK, ON AN EXPEDITED BASIS. IF THE PARTIES CANNOT SUCCESSFULLY RESOLVE THEIR DIFFERENCES THROUGH MEDIATION, THE MATTER WILL BE RESOLVED BY ARBITRATION. THE ARBITRATION SHALL TAKE PLACE IN THE COUNTY OF NEW YORK, THE STATE OF NEW YORK, ON AN EXPEDITED BASIS.

16. Blue Sky Qualification. The purchase of Units under this Subscription Agreement is expressly conditioned upon the exemption from qualification of the offer and sale of the Units from applicable federal and state securities laws. The Company shall not be required to qualify this transaction under the securities laws of any jurisdiction and, should qualification be necessary, the Company shall be released from any and all obligations to maintain its offer, and may rescind any sale contracted, in the jurisdiction.

17. Use of Pronouns. All pronouns and any variations thereof used herein shall be deemed to refer to the masculine, feminine, neuter, singular or plural as the identity of the person or persons referred to may require.

18. Piggyback Registration Rights. If the Company at any time proposes to register any of its securities under the Securities Act for sale to the public, whether for its own account or for the account of other security holders or both, except with respect to registration statements on Form S-4, S-8 or another form not available for registering (i) shares of Common Stock included in the Units and (ii) the Investor Warrant Shares (collectively, the "Registrable Securities") for sale to the public, provided the Registrable Securities are not otherwise registered for resale by the Purchasers pursuant to an effective registration statement, each such time it will give at least ten (10) days' prior written notice to each record holder of Registrable Securities of its intention so to do. Upon the written request of the holder, received by the Company within ten (10) days after the giving of any such notice by the Company, to register any of the Registrable Securities not previously registered, the Company will cause such Registrable Securities as to which registration shall have been so requested to be included with the securities to be covered by the registration statement proposed to be filed by the Company, all to the extent required to permit the sale or other disposition of the Registrable Securities so registered by the holder of such Registrable Securities; provided that the holder provides the Company in writing with such information regarding the holder and such holder's securities ownership as the Company may reasonably request in connection with preparing a registration statement. In the event that any registration pursuant to this Section 18 shall be, in whole or in part, an underwritten public offering of Common Stock of the Company, the number of shares of Registrable Securities to be included in such an underwriting may be reduced by the managing underwriter if and to the extent that the Company and the underwriter shall reasonably be of the opinion that such inclusion would adversely affect the marketing of the securities to be sold by the Company therein; provided, however, that the Company shall notify the holder in writing of any such reduction. Notwithstanding anything to the contrary herein, the Company may withdraw or delay or suffer a delay of any registration statement referred to in this Section 18 without thereby incurring any liability to the holders. Further, the foregoing piggyback registration rights shall not apply to any Registrable Securities that may be sold under the Securities Act without volume limitations either pursuant to Rule 144 of the Securities Act or otherwise during any ninety (90) day period.

19. Confidentiality. The Purchaser acknowledges and agrees that any information or data the Purchaser has acquired from or about the Company, not otherwise properly in the public domain, was received in confidence. The Purchaser agrees not to divulge, communicate or disclose, except as may be required by law or for the performance of this Subscription Agreement, or use to the detriment of the Company or for the benefit of any other person or persons, or misuse in any way, any confidential information of the Company, including any scientific, technical, trade or business secrets of the Company and any scientific, technical, trade or business materials that are treated by the Company as confidential or proprietary, including, but not limited to, ideas, discoveries, inventions, developments and improvements belonging to the Company and confidential information obtained by or given to the Company about or belonging to third parties.

20. Miscellaneous.

(a) This Subscription Agreement, together with the attached Exhibits constitute the entire agreement between the Purchaser and the Company with respect to the subject matter hereof and supersede all prior oral or written agreements and understandings, if any, relating to the subject matter hereof. The terms and provisions of this Subscription Agreement may be waived, or consent for the departure therefrom granted, only by a written document executed by the party entitled to the benefits of such terms or provisions.

(b) The representations and warranties of the Company and the Purchaser made in this Subscription Agreement shall survive the execution and delivery hereof and delivery of the shares of Common Stock and Investor Warrants contained in the Units.

(c) Each of the parties hereto shall pay its own fees and expenses (including the fees of any attorneys, accountants, appraisers or others engaged by such party) in connection with this Subscription Agreement and the transactions contemplated hereby whether or not the transactions contemplated hereby are consummated.

(a) This Subscription Agreement may be executed in one or more counterparts each of which may be executed by less than all of the parties and shall be deemed an original, but all of which shall together constitute one and the same instrument, enforceable against the parties actually executing such counterparts. The exchange of copies of the Subscription Agreement and of signature pages by facsimile transmission or in pdf format shall constitute effective execution and delivery of this Subscription Agreement as to the parties and may be used in lieu of the original Subscription Agreement for all purposes. Signatures of the parties transmitted by facsimile or in pdf format shall be deemed to be their original signatures for all purposes.

(b) Each provision of this Subscription Agreement shall be considered separable and, if for any reason any provision or provisions hereof are determined to be invalid or contrary to applicable law, such invalidity or illegality shall not impair the operation of or affect the remaining portions of this Subscription Agreement.

(c) Paragraph titles are for descriptive purposes only and shall not control or alter the meaning of this Subscription Agreement as set forth in the text.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

To subscribe for Units in the private offering of Rackwise, Inc.:

1. **Date and Fill** in the number of Units being purchased and Complete and Sign the Signature Page of the Subscription Agreement.

2. **Complete** and Sign the Anti-Money Laundering Information Form.

3. **Initial** the Accredited Investor Certification page attached to this letter.

4. **Complete** and Sign the Investor Profile.

5. **Fax or email** all forms and then send all signed original documents to:

   Gottbetter & Partners, LLP
   488 Madison Avenue, 12th Floor
   New York, NY 10022
   Facsimile Number: 212.400.6901
   Telephone Number: 212.400.6900
   Attention: Kathleen Rush
   Email: klr@gottbetter.com

6. **If you are paying the Purchase Price by check,** a check for the exact dollar amount of the Purchase Price for the number of Units you are offering to purchase should be made payable to the order of "CSC Trust Company of Delaware, as Escrow Agent for Rackwise, Inc." and should be sent to CSC Trust Company of Delaware, Little Falls Centre One, 2711 Centerville Road, Wilmington, DE 19808, Attention: Alan R. Halpern.

7. **If you are paying the Purchase Price by wire transfer,** you should send a wire transfer for the exact dollar amount of the Purchase Price of the number of PPO Units you are offering to purchase according to the following instructions:

Bank Name:	PNC Bank 300 Delaware Avenue Wilmington, DE 19899
ABA Routing Number:	031100089
Account Name:	CSC Trust Company of Delaware
Account Number:	5605012373
Reference:	Rackwise, Inc.; 79-1782; [*insert Purchaser's name*]
Escrow Agent Contact:	Alan R. Halpern

RACKWISE, INC.
SIGNATURE PAGE TO THE
SUBSCRIPTION AGREEMENT

Purchaser hereby elects to subscribe under the Subscription Agreement for a total of _____ ($_____) at a price of $0.15 per Unit (NOTE: to be completed by Purchaser) and executes the Subscription Agreement.

Date (NOTE: To be completed by Purchaser): _____

If the Purchaser is an INDIVIDUAL, and if purchased as JOINT TENANTS, as TENANTS IN COMMON, or as COMMUNITY PROPERTY:

Print Name(s)	Social Security Number(s)
Signature(s) of Purchaser(s)	Signature
Date	Address

If the Purchaser is a PARTNERSHIP, CORPORATION, LIMITED LIABILITY COMPANY OR TRUST:

Name of Partnership, Corporation, Limited Liability Company or Trust	Federal Taxpayer Identification Number
By: _____ Name: Title:	State of Organization
Date	Address

RACKWISE, INC.
a Nevada corporation

By: _____
Authorized Officer

ANTI MONEY LAUNDERING REQUIREMENTS

The USA PATRIOT Act

The USA PATRIOT Act is designed to detect, deter, and punish terrorists in the United States and abroad. The Act imposes new anti-money laundering requirements on brokerage firms and financial institutions. Since April 24, 2002 all brokerage firms have been required to have new, comprehensive anti-money laundering programs.

To help you understand these efforts, we want to provide you with some information about money laundering and our steps to implement the USA PATRIOT Act.

What is money laundering?

Money laundering is the process of disguising illegally obtained money so that the funds appear to come from legitimate sources or activities. Money laundering occurs in connection with a wide variety of crimes, including illegal arms sales, drug trafficking, robbery, fraud, racketeering, and terrorism.

How big is the problem and why is it important?

The use of the U.S. financial system by criminals to facilitate terrorism or other crimes could well taint our financial markets. According to the U.S. State Department, one recent estimate puts the amount of worldwide money laundering activity at $1 trillion a year.

What are we required to do to eliminate money laundering?

Under rules required by the USA PATRIOT Act, our anti-money laundering program must designate a special compliance officer, set up employee training, conduct independent audits, and establish policies and procedures to detect and report suspicious transaction and ensure compliance with such laws. As part of our required program, we may ask you to provide various identification documents or other information. Until you provide the information or documents we need, we may not be able to effect any transactions for you.

Gottbetter Capital Markets, LLC

MEMBER: FINRA, SIPC

ANTI-MONEY LAUNDERING INFORMATION FORM
The following is required in accordance with the AML provision of the USA PATRIOT ACT.
(Please fill out and return with requested documentation.)

INVESTOR NAME: _____

LEGAL ADDRESS:

_____

SSN# or TAX ID#
OF INVESTOR:

FOR INVESTORS WHO ARE INDIVIDUALS:

YEARLY INCOME: _____ **AGE:** _____

NET WORTH (excluding value of primary residence): _____

OCCUPATION: _____

ADDRESS OF EMPLOYER: _____

_____

INVESTMENT OBJECTIVE(S): _____

IDENTIFICATION & DOCUMENTATION AND SOURCE OF FUNDS:

1. Please submit a copy of non-expired identification for the authorized signatory(ies) on the investment documents, showing name, date of birth, address and signature. **The address shown on the identification document MUST match the Investor's address shown on the Investor Signature Page.**

   Current Driver's License or Valid Passport or Identity Card
   (*Circle one or more)*

2. If the Investor is a corporation, limited liability company, trust or other type of entity, please submit the following requisite documents: (i) Articles of Incorporation, By-Laws, Certificate of Formation, Operating Agreement, Trust or other similar documents for the type of entity; and (ii) Corporate Resolution or power of attorney or other similar document granting authority to signatory(ies) and designating that they are permitted to make the proposed investment.

3. Please advise where the funds were derived from to make the proposed investment:

   Investments Savings Proceeds of Sale Other _____
   (Circle one or more)

Signature: _____

Print Name: _____

Title (if applicable): _____

Date: _____

488 Madison Ave., 12th Fl., New York, NY 10022-5718
T 212.400.6990 **F** 212.400.6999

RACKWISE, INC.
ACCREDITED INVESTOR CERTIFICATION

For Individual Investors Only
(all Individual Investors must INITIAL where appropriate):

Initial _____ I have a net worth (including homes, furnishings and automobiles, but excluding for these purposes the value of my primary residence) in excess of $1 million either individually or through aggregating my individual holdings and those in which I have a joint, community property or other similar shared ownership interest with my spouse.

Initial _____ I have had an annual gross income for the past two years of at least $200,000 (or $300,000 jointly with my spouse) and expect my income (or joint income, as appropriate) to reach the same level in the current year.

Initial _____ I am a director or executive officer of Rackwise, Inc.

For Non-Individual Investors
(all Non-Individual Investors must INITIAL where appropriate):

Initial _____ The investor certifies that it is a partnership, corporation, limited liability company or business trust that is 100% owned by persons who meet at least one of the criteria for Individual Investors set forth above.

Initial _____ The investor certifies that it is a partnership, corporation, limited liability company or business trust that has total assets of at least $5 million and was not formed for the purpose of investing in the Company.

Initial _____ The investor certifies that it is an employee benefit plan whose investment decision is made by a plan fiduciary (as defined in ERISA §3(21)) that is a bank, savings and loan association, insurance company or registered investment adviser.

Initial _____ The investor certifies that it is an employee benefit plan whose total assets exceed $5,000,000 as of the date of this Agreement.

Initial _____ The undersigned certifies that it is a self-directed employee benefit plan whose investment decisions are made solely by persons who meet either of the criteria for Individual Investors.

Initial _____ The investor certifies that it is a U.S. bank, U.S. savings and loan association or other similar U.S. institution acting in its individual or fiduciary capacity.

Initial _____ The undersigned certifies that it is a broker-dealer registered pursuant to §15 of the Securities Exchange Act of 1934.

Initial _____ The investor certifies that it is an organization described in §501(c)(3) of the Internal Revenue Code with total assets exceeding $5,000,000 and not formed for the specific purpose of investing in the Company.

Initial _____ The investor certifies that it is a trust with total assets of at least $5,000,000, not formed for the specific purpose of investing in the Company, and whose purchase is directed by a person with such knowledge and experience in financial and business matters that he is capable of evaluating the merits and risks of the prospective investment.

Initial _____ The investor certifies that it is a plan established and maintained by a state or its political subdivisions, or any agency or instrumentality thereof, for the benefit of its employees, and which has total assets in excess of $5,000,000.

Initial _____ The investor certifies that it is an insurance company as defined in §2(13) of the Securities Act of 1933, as amended, or a registered investment company.

For Non-U.S. Person Investors
(all Investors who are not a U.S. Person must *INITIAL* this section):

Initial _____

The investor is not a "U.S. Person" as defined in Regulation S; and specifically the investor is not:

A. a natural person resident in the United States of America, including its territories and possessions ("United States");

B. a partnership or corporation organized or incorporated under the laws of the United States;

C. an estate of which any executor or administrator is a U.S. Person;

D. a trust of which any trustee is a U.S. Person;

E. an agency or branch of a foreign entity located in the United States;

F. a non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a U.S. Person;

G. a discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organized, incorporated, or (if an individual) resident in the United States; or

H. a partnership or corporation: (i) organized or incorporated under the laws of any foreign jurisdiction; and (ii) formed by a U.S. Person principally for the purpose of investing in securities not registered under the Securities Act, unless it is organized or incorporated, and owned, by accredited investors (as defined in Rule 501(a) under the Securities Act) who are not natural persons, estates or trusts.

And, in addition:

I. the investor was not offered the securities in the United States;

J. at the time the buy-order for the securities was originated, the investor was outside the United States; and

K. the investor is purchasing the securities for its own account and not on behalf of any U.S. Person (as defined in Regulation S) and a sale of the securities has not been pre-arranged with a purchaser in the United States.

RACKWISE, INC.
Investor Profile
(Must be completed by Investor)

Section A - Personal Investor Information

Investor Name(s): _____
Individual executing Profile or Trustee: _____
Social Security Numbers / Federal I.D. Number: _____
Date of Birth: _____ Marital Status: _____
Joint Party Date of Birth: _____ Investment Experience (Years): _____
Annual Income: _____ Liquid Net Worth: _____
Net Worth (excluding value of primary residence): _____
Tax Bracket: 15% or below 25% - 27.5% Over 27.5%

Home Street Address: _____
Home City, State & Zip Code: _____
Home Phone: _____ Home Fax: _____ Home Email: _____
Employer: _____
Employer Street Address: _____
Employer City, State & Zip Code: _____
Bus. Phone: _____ Bus. Fax: _____ Bus. Email: _____
Type of Business: _____
(PLACEMENT AGENT) Account Executive / Outside Broker/Dealer:

If you are a ***United States citizen***, please list the number and jurisdiction of issuance of any other government-issued document evidencing residence and bearing a photograph or similar safeguard (such as a driver's license or passport), and provide a photocopy of each of the documents you have listed.

If you are NOT a United States citizen, for each jurisdiction of which you are a citizen or in which you work or reside, please list (i) your passport number and country of issuance or (ii) alien identification card number AND (iii) number and country of issuance of any other government-issued document evidencing nationality or residence and bearing a photograph or similar safeguard, and provide a photocopy of each of these documents you have listed. These photocopies must be certified by a lawyer as to authenticity.

Section B – Certificate Delivery Instructions

_____ Please deliver certificate to the Employer Address listed in Section A.
_____ Please deliver certificate to the Home Address listed in Section A.
_____ Please deliver certificate to the following address: _____

Section C – Form of Payment – Check or Wire Transfer

_____ Check payable to CSC Trust Company of Delaware , as Escrow Agent for Rackwise, Inc.
_____ Wire funds from my outside account according to the "How to subscribe for Units" Page.
_____ The funds for this investment are rolled over, tax deferred from _____ within the allowed 60 day window.

Please check if you are a FINRA member or affiliate of a FINRA member firm: _____

Investor Signature Date

EXHIBIT A

Form of Investor Warrant

[See Exhibit 4.10]

EXHIBIT B

Escrow Agreement

[See Exhibit 10.25]

Exhibit 10.27

PLACEMENT AGENCY AGREEMENT

September 1, 2012

Gottbetter Capital Markets, LLC
Mr. Julio A. Marquez, President
488 Madison Avenue
12th Floor
New York, New York 10022

Re: RACKWISE, INC.

Dear Mr. Marquez:

This Placement Agency Agreement (this "Agreement") sets forth the terms upon which Gottbetter Capital Markets, LLC, a registered broker-dealer and member of the Financial Industry Regulatory Authority ("FINRA"), (hereinafter referred to as the "Placement Agent" or "Markets"), shall be engaged by Rackwise, Inc., a publicly traded Nevada corporation, (hereinafter referred to as the "Company"), to act as a non-exclusive Placement Agent in connection with the private placement (the "Offering") of the units (the "Units") of securities of the Company.

The Offering of the Units will be made by the Placement Agent and certain selected dealers, with each Unit consisting of one (1) share of the Company's common stock, par value $0.0001 per share (the "Common Stock"), and a redeemable warrant to purchase one share (1) share of Common Stock at an exercise price of $0.30 per full share for five (5) years (the "Investor Warrants"). The Offering Price per Unit will be equal to the lesser of (i) Twenty Cents ($0.20) and (ii) 5-day VWAP immediately prior to the applicable closing date. The Offering will consist of a maximum of Twenty Five Million (25,000,000) Units (the "Maximum Amount"). In the event the Offering is oversubscribed, the Company may sell up to an additional Five Million (5,000,000) Units (the "Over-allotment Option"). The Investor Warrants shall have "weighted average" anti-dilution protection, subject to customary exceptions, as per the terms set forth therein.

If the investor elects to participate in the Proposed Offering for at least 50% of the funds such investor has invested in the Company since September 21, 2011, the Company, at its sole discretion, will agree to reduce the exercise price of such investor's warrants previously issued by the Company as part of such investment to $0.30 (the "New Warrant Exercise Price").

The Placement Agent shall accept subscriptions only from (i) persons or entities who qualify as "accredited investors," as such term is defined in Rule 501 of Regulation D ("Regulation D") as promulgated by the United States Securities and Exchange Commission (the "SEC") under Section 4(2) of the Securities Act of 1933, as amended (the "Act") and (ii) persons or entities who are offered and purchase the Units in an Offshore Transaction (as such term is defined in Regulation S ("Regulation S") as promulgated by the SEC under the Act) and who are not U.S. Persons (as such term is defined in Regulation S) and are not acting for the account or benefit of a person in the United States or a U.S. Person. The Units will be offered until the earlier of the time that all Units offered in the Offering are sold or until December 30, 2012 (the "Initial Offering Period"), which date may be extended by the Company in writing (this additional period and the Initial Offering Period shall be referred to as the "Offering Period"). The date on which the Offering is terminated shall be referred to as the "Termination Date."

With respect to the Offering, the Company shall provide the Placement Agent, on terms set forth herein, the right to offer and sell all of the available Units being offered during the Offering Period (subject to prior sale of some of the Units). It is understood that no sale shall be regarded as effective unless and until accepted by the Company. The Company may, in its sole discretion, accept or reject, in whole or in part, any prospective investment in the Units or allot to any prospective subscriber less than the number of Units that such subscriber desires to purchase. Purchases of Units may be made by the Placement Agent and its officers, directors, employees and affiliates and by the officers, directors, employees and affiliates of the Company for the Offering.

The Offering will be made by the Company pursuant to the Subscription Agreement and the Exhibits attached thereto (the "Subscription Agreement"), including, but not limited to, the form of the Investor Warrants, and any documents, agreements, supplements and additions thereto (collectively, the "Subscription Documents"), which at all times will be in form and substance reasonably acceptable to the Company and the Placement Agent and their respective counsel and contain such legends and other information as the Company and the Placement Agent and their respective counsel, may, from time to time, deem necessary and desirable to be set forth therein.

1. Appointment of Placement Agent. On the basis of the written and documented representations and warranties of the Company provided herein, and subject to the terms and conditions set forth herein, the Placement Agent is appointed as a non-exclusive Placement Agent of the Company during the Offering Period to assist the Company in finding qualified subscribers for the Offering. The Placement Agent may sell Units through other broker-dealers who are FINRA members and may reallow all or a portion of the Brokers' Fees (as defined in Section 3(a) below) it receives to such other broker-dealers or pay a finders or consultant fee as allowed by applicable law. On the basis of such representations and warranties and subject to such terms and conditions, the Placement Agent hereby accepts such appointment and agrees to perform its services hereunder diligently and in good faith and in a professional and businesslike manner and in compliance with applicable law and to use its best efforts to assist the Company in (A) finding subscribers of Units who either (i) qualify as "accredited investors," as such term is defined in Rule 501 of Regulation D, or (ii) are offered and purchase the Units outside the United States in an Offshore Transaction (as such term is defined in Regulation S) and who are not U.S. Persons (as such term is defined in Regulation S) and are not acting for the account or benefit of a person in the United States or a U.S. Person and (B) completing the Offering. The Placement Agent has no obligation to purchase any of the Units. Unless sooner terminated in accordance with this Agreement, the engagement of the Placement Agent hereunder shall continue until the later of the Termination Date or the Final Closing (as defined below).

2. Representations, Warranties and Covenants.

A. Representations, Warranties and Covenants of the Company. Except as previously disclosed herein or in the Company's SEC Filings, the representations and warranties of the Company contained in this Section 2A are true and correct as of the date of execution of this Agreement by the Company and the Company covenants as follows, as applicable:

(a) The Subscription Documents have been and/or will be prepared by the Company, in conformity with all applicable laws, and in compliance with Regulation D, Regulation S and/or Section 4(2) of the Act and the requirements of all other rules and regulations (the "Regulations") of the SEC relating to offerings of the type contemplated by the Offering, and the applicable securities laws and the rules and regulations of those jurisdictions wherein the Placement Agent notifies the Company that the Units are to be offered and sold excluding any foreign jurisdictions. The Units will be offered and sold pursuant to the registration exemption provided by Regulation D, Regulation S and/or Section 4(2) of the Act as a transaction not involving a public offering and the requirements of any other applicable state securities laws and the respective rules and regulations thereunder in those United States jurisdictions in which the Placement Agent notifies the Company that the Units are being offered for sale. None of the Company, its affiliates, or any person acting on its or their behalf (other than the Placement Agent, its affiliates or any person acting on its behalf, in respect of which no representation is made) has taken nor will it take any action that conflicts with the conditions and requirements of, or that would make unavailable with respect to the Offering, the exemption(s) from registration available pursuant to Rule 506 of Regulation D, Rule 903 of Regulation S and/or Section 4(2) of the Act, or knows of any reason why any such exemption would be otherwise unavailable to it (including, without limitation, any Directed Selling Efforts (as such term is defined in Regulation S)). None of the Company, its predecessors or affiliates has been subject to any order, judgment or decree of any court of competent jurisdiction temporarily, preliminarily or permanently enjoining such person for failing to comply with Section 503 of Regulation D. The Company has not, for a period of six months prior to the commencement of the offering of Units, sold, offered for sale or solicited any offer to buy any of its securities in a manner that would cause the exemption from registration set forth in Rule 506 of Regulation D to become unavailable with respect to the offer and sale of the Units pursuant to this Agreement in the United States or to, by or for the benefit or account of, U.S. Persons, or would cause the exclusion from registration provided by Rule 903 of Regulation S to become unavailable for offers and sales of the Units pursuant to this Agreement outside the United States to non-U.S. Persons.

(b) As to the Company, the Subscription Documents, as prepared and completed by the Company, will not and do not include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading: provided, however, the foregoing does not apply to any statements or omissions made solely in reliance on and in conformity with written information furnished to the Company by the Placement Agent specifically for use in the preparation thereof. To the knowledge of the Company, none of the statements, documents, certificates or other items made, prepared or supplied by the Company with respect to the transactions contemplated hereby contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements contained therein not misleading in light of the circumstances in which they were made. There is no fact which the Company has not disclosed in the Subscription Documents or which is not disclosed in the filings that the Company has made with the SEC on or after September 27 17, 2011 to the date hereof (the "SEC Filings") and of which the Company is aware that materially adversely affects or that could reasonably be expected to have a material adverse effect on the (i) assets, liabilities, results of operations, condition (financial or otherwise), business or business prospects of the Company or (ii) ability of the Company to perform its obligations under this Agreement ("Company Material Adverse Effect"). Notwithstanding anything to the contrary herein, the Company makes no representation or warranty with respect to any estimates, projections and other forecasts and plans (including the reasonableness of the assumptions underlying such estimates, projections and other forecasts and plans) that may have been delivered to the Placement Agent or its representatives, except that such estimates, projections and other forecasts and plans have been prepared in good faith on the basis of assumptions stated therein, which assumptions were believed to be reasonable at the time of such preparation.

(c) The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Nevada and is qualified and in good standing as a foreign corporation in each jurisdiction in which the nature of the business conducted by the Company or the property owned or leased by the Company requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a Company Material Adverse Effect. The Company has all requisite corporate power and authority to conduct its business as presently conducted and as proposed to be conducted (as described in the Subscription Documents and/or the SEC Filings), has all the necessary and requisite documents and approvals from all state authorities, has all requisite corporate power and authority to enter into and perform its obligations under this Agreement, the Subscription Agreement and the other agreements contemplated hereby (this Agreement, Subscription Agreement and the other agreements contemplated hereby that the Company is required to execute and deliver are collectively referred to herein as the "Company Transaction Documents") and subject to necessary Board of Directors of the Company and Company stockholder approvals, to issue, sell and deliver the Units, the shares of Common Stock underlying the Units, and the shares of Common Stock issuable upon exercise of the Investor Warrants (the "Warrant Shares") and to make the representations in this Agreement accurate and not misleading. Prior to the First Closing, as defined herein, each of the Company Transaction Documents will have been duly authorized. This Agreement has been duly authorized, executed and delivered and constitutes (when executed by all parties hereto), and each of the other Company Transaction Documents, upon due execution and delivery, will constitute (when executed by all parties thereto), valid and binding obligations of the Company, enforceable against the Company in accordance with their respective terms (i) except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect related to laws affecting creditors' rights generally, including the effect of statutory and other laws regarding fraudulent conveyances and preferential transfers, and except that no representation is made herein regarding the enforceability of the Company's obligations to provide indemnification and contribution remedies under the securities laws and (ii) subject to the limitations imposed by general equitable principles (regardless of whether such enforceability is considered in a proceeding at law or in equity).

(d) None of the execution and delivery of or performance by the Company under this Agreement or any of the other Company Transaction Documents or the consummation of the transactions herein or therein contemplated conflicts with or violates, or will result in the creation or imposition of, any lien, charge or other encumbrance upon any of the assets of the Company under any agreement or other instrument to which the Company is a party or by which the Company or its assets may be bound, or any term of the Articles of Incorporation (the "Articles of Incorporation") or By-laws (the "By-laws") of the Company, or any license, permit, judgment, decree, order, statute, rule or regulation applicable to the Company or any of its assets, except in the case of a conflict, violation, lien, charge or other encumbrance (except with respect to the Articles of Incorporation or By-laws) which would not, or could not reasonably be expected to, have a Company Material Adverse Effect.

(e) The Company's financial statements, together with the related notes, if any, included in the Company's SEC Filings, present fairly, in all material respects, the financial position of the Company as of the dates specified and the results of operations for the periods covered thereby. Such financial statements and related notes were prepared in accordance with United States generally accepted accounting principles applied on a consistent basis throughout the periods indicated, except that the unaudited financial statements omit full notes, and except for normal year end adjustments. During the period of engagement of the Company's independent certified public accountants, there have been no disagreements between the accounting firm and the Company on any matters of accounting principles or practices, financial statement disclosure or auditing scope or procedures. The Company has made and kept books and records and accounts which are in reasonable detail and which fairly and accurately reflect the activities of the Company in all material respects, subject only to year-end adjustments. Except as set forth in such financial statements or otherwise disclosed in the Subscription Documents, the Company's senior management has no knowledge of any material liabilities of any kind, whether accrued, absolute or contingent, or otherwise, and subsequent to the date of the Subscription Documents and prior to the date of the First Closing it shall not enter into any material transactions or commitments without promptly thereafter notifying the Placement Agent in writing of any such material transaction or commitment. The other financial and statistical information with respect to the Company and any pro forma information and related notes included in the SEC Filings present fairly the information shown therein on a basis consistent with the financial statements of the Company included in the SEC Filings. Except as disclosed in the Subscription Documents, the Company does not know of any facts, circumstances or conditions which could materially adversely affect its operations, earnings or prospects that have not been fully disclosed in the financial statements appearing in the SEC Filings.

(f) Immediately prior to the First Closing, the shares of Common Stock underlying the Units and the Investor Warrants will have been duly authorized and, when issued and delivered against payment therefor as provided in the Company Transaction Documents, will be validly issued, fully paid and nonassessable. No holder of any of the shares of Common Stock underlying the Units and the Investor Warrants will be subject to personal liability solely by reason of being such a holder, and except as described in the Subscription Documents, none of the shares of Common Stock underlying the Units and the Investor Warrants will be subject to preemptive or similar rights of any stockholder or security holder of the Company or an adjustment under the antidilution or exercise rights of any holders of any outstanding shares of capital stock, options, warrants or other rights to acquire any securities of the Company. Immediately prior to the First Closing, a sufficient number of authorized but unissued shares of Common Stock will have been reserved for issuance upon the exercise of the Investor Warrants.

(g) Except as described in the Subscription Documents and/or the Company's SEC Filings, the Company has no subsidiaries and does not own any equity interest and has not made any loans or advances to or guarantees of indebtedness to any person, corporation, partnership or other entity. The conduct of business by the Company as presently and proposed to be conducted is not subject to continuing oversight, supervision, regulation or examination by any governmental official or body of the United States, or any other jurisdiction wherein the Company conducts or proposes to conduct such business, except as described in the Company's SEC Filings and except as such regulation is applicable to US public companies and commercial enterprises generally. The Company has obtained all material licenses, permits and other governmental authorizations necessary to conduct its business as presently conducted. The Company has not received any notice of any violation of, or noncompliance with, any federal, state, local or foreign laws, ordinances, regulations and orders (including, without limitation, those relating to environmental protection, occupational safety and health, securities laws, equal employment opportunity, consumer protection, credit reporting, "truth-in-lending", and warranties and trade practices) applicable to its business, the violation of, or noncompliance with, would have a Company Material Adverse Effect, and the Company knows of no facts or set of circumstances which could give rise to such a notice.

(h) Except as described in the Subscription Documents and/or the Company's SEC Filings, no default by the Company or, to the knowledge of the Company, any other party, exists in the due performance under any material agreement to which the Company is a party or to which any of its assets is subject (collectively, the "Company Agreements"). The Company Agreements, if any, disclosed in the Subscription Documents and/or the Company's SEC Filings are the only material agreements to which the Company is bound or by which its assets are subject, are accurately described in the Subscription Documents and/or the Company's SEC Filings and are in full force and effect in accordance with their respective terms, subject to any applicable bankruptcy, insolvency or other laws affecting the rights of creditors generally and to general equitable principles and the availability of specific performance.

(i) Subsequent to the respective dates as of which information is given in the Subscription Documents, the Company has operated its business in the ordinary course and, except as may otherwise be set forth in the Subscription Documents or the Company's SEC Filings, there has been no: (i) Company Material Adverse Effect; (ii) material transaction otherwise than in the ordinary course of business consistent with past practice; (iii) damage, loss or destruction, whether or not covered by insurance, with respect to any material asset or property of the Company; or (iv) agreement to permit any of the foregoing.

(j) Except as set forth in the Subscription Documents and/or the Company's SEC Filings, there are no actions, suits, claims, hearings or proceedings pending before any court or governmental authority or, to the knowledge of the Company, threatened, against the Company, or involving its assets or any of its officers or directors (in their capacity as such) which, if determined adversely to the Company or such officer or director, could reasonably be expected to have a Company Material Adverse Effect or adversely affect the transactions contemplated by this Agreement or the enforceability hereof.

(k) The Company is not: (i) in violation of its Articles of Incorporation or By-laws; (ii) in default of any contract, indenture, mortgage, deed of trust, note, loan agreement, security agreement, lease, alliance agreement, joint venture agreement or other agreement, license, permit, consent, approval or instrument to which the Company is a party or by which it is or may be bound or to which any of its assets may be subject, the default of which could reasonably be expected to have a Company Material Adverse Effect; (iii) in violation of any statute, rule or regulation applicable to the Company, the violation of which would have a Company Material Adverse Effect; or (iv) in violation of any judgment, decree or order of any court or governmental body having jurisdiction over the Company and specifically naming the Company, which violation or violations individually, or in the aggregate, could reasonably be expected to have a Company Material Adverse Effect.

(l) Except as disclosed in the Subscription Documents, Schedule 2(l) attached hereto and/or the Company's SEC Filings, as of the date of this Agreement, no current or former stockholder, director, officer or employee of the Company, nor, to the knowledge of the Company, any affiliate of any such person is presently, directly or indirectly through his/her affiliation with any other person or entity, a party to any loan from the Company or any other transaction (other than as an employee) with the Company providing for the furnishing of services by, or rental of any personal property from, or otherwise requiring cash payments to any such person.

(m) The Company is not obligated to pay, and has not obligated the Placement Agent to pay, a finder's or origination fee in connection with the Offering (other than to the Placement Agent), and hereby agrees to indemnify the Placement Agent from any such claim made by any other person as more fully set forth in Section 8 hereof. The Company has not offered for sale or solicited offers to purchase the Units except for negotiations with the designated Placement Agent (s). Except as set forth in the Subscription Documents and the Company's SEC Filings, no other person has any right to participate in any offer, sale or distribution of the Company's securities to which the Placement Agent's rights, described herein, shall apply.

(n) Until the earlier of (i) the Termination Date or (ii) the Final Closing (as hereinafter defined), the Company will not issue any press release, grant any interview, or otherwise communicate with the media in any manner whatsoever with respect to the Offering without the Placement Agent's prior written consent, which consent will not unreasonably be withheld or delayed.

(o) No representation or warranty contained in Section 2A of this Agreement contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements herein not misleading in the context of such representations and warranties. The Placement Agent shall be entitled to rely on such representations and warranties.

(p) No consent, authorization or filing of or with any court or governmental authority is required in connection with the issuance or the consummation of the transactions contemplated herein or in the other Company Transaction Documents, except for required filings with the SEC and the applicable state securities commissions relating specifically to the Offering (all of which filings will be duly made by, or on behalf of, the Company), and those which are required to be made after the First Closing (all of which will be duly made on a timely basis).

(q) The Company acknowledges that Adam S. Gottbetter is the owner of Gottbetter Capital Group, Inc., Gottbetter & Partners, LLP and Gottbetter Capital Markets, LLC. Gottbetter Capital Group owns shares of the Company. Gottbetter & Partners, LLP is counsel to the company and has represented the company in the proposed transaction for which it will receive legal fees in accordance with an executed retainer agreement. Gottbetter Capital Markets, LLC is a placement agent for the private placement offering in the proposed transaction for which it may receive placement agent fees in accordance with an executed placement agent agreement.

(r) Neither the sale of the Units by the Company nor its use of the proceeds thereof will violate the Trading with the Enemy Act, as amended, nor do any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto. Without limiting the foregoing, the Company is not (a) a person whose property or interests in property are blocked pursuant to Section 1 of Executive Order 13224 of September 23, 2001 Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism (66 Fed. Reg. 49079 (2001)) or (b) a person who engages in any dealings or transactions, or be otherwise associated, with any such person. The Company and its subsidiaries, if any, are in compliance, in all material respects, with the USA Patriot Act of 2001 (signed into law October 26, 2001).

2B. Representations, Warranties and Covenants of Placement Agent. The Placement Agent hereby represents and warrants to the Company that the following representations and warranties are true and correct as of the date of this Agreement:

(a) The Placement Agent is a limited liability company duly organized, validly existing and in good standing under the laws of the State of New York and has all requisite corporate power and authority to enter into this Agreement and to carry out and perform its obligations under the terms of this Agreement.

(b) This Agreement has been duly authorized, executed and delivered by the Placement Agent, and upon due execution and delivery by the Company, this Agreement will be a valid and binding agreement of the Placement Agent enforceable against it in accordance with its terms, except as may be limited by principles of public policy and, as to enforceability, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws relating to or affecting creditor's rights from time to time in effect and subject to general equity principles.

(c) The Placement Agent is a member of FINRA and is registered as a broker-dealer under the Exchange Act (as defined below), and under the securities acts of each state into which it is making offers or sales of the Units. None of the Placement Agent or its affiliates, or any person acting on behalf of the foregoing (other than the Company, its or their affiliates or any person acting on its or their behalf, in respect of which no representation is made) has taken nor will it take any action that conflicts with the conditions and requirements of, or that would make unavailable with respect to the Offering, the exemption(s) from registration available pursuant to Rule 506 of Regulation D, Rule 903 of Regulation S or Section 4(2) of the Act, or knows of any reason why any such exemption would be otherwise unavailable to it. The Placement Agent will conduct the Offering in compliance with all applicable securities laws.

(d) None of the Placement Agent or its affiliates, or any person acting on behalf of the foregoing, has engaged or will engage in any Directed Selling Efforts (as such term is defined in Regulation S).

(e) Any offer or solicitation of an offer to buy Units made by the Placement Agent or its affiliates, or any person acting on behalf of the foregoing, in reliance on Rule 903 of Regulation S and in reliance upon similar exemptions from registration available under applicable state securities laws, will be made outside of the United States exclusively to persons or entities that are, and will be at the time of the delivery of the Units, not a U.S. Person (as such term is defined in Regulation S) and were, and are at the time of the delivery of the Units, not acting for the account or benefit of a person in the United States or a U.S. Person.

(f) Adam S. Gottbetter is the owner of Gottbetter Capital Group, Inc., Gottbetter & Partners, LLP and Gottbetter Capital Markets, LLC. Gottbetter Capital Group owns shares of the Company. Gottbetter & Partners, LLP is counsel to the company and has represented the company in the proposed transaction for which it will receive legal fees in accordance with an executed retainer agreement. Gottbetter Capital Markets, LLC is a placement agent for the private placement offering in the proposed transaction for which it may receive placement agent fees in accordance with an executed placement agent agreement.

3. Placement Agent Compensation.

(a) In connection with the Offering, the Company will pay a cash fee (the "Agent Cash Fee") to the Placement Agent at each Closing equal to up to Ten Percent (10%) of the gross sales price of the Units purchased by those investor(s) introduced to the Company at such Closing.. Additionally, the Company will deliver to the Placement Agent redeemable warrants exercisable for a period of five (5) years from the Closing Date, to purchase a number of shares of Common Stock equaling up to Ten Percent (10%) of the number of Units sold to the investor(s) at such Closing (the "Broker Warrants), as applicable ("Agent Cash Fee" and the "Broker Warrants" are referred to collectively as "Brokers' Fees"). The Broker Warrants shall be identical to the Investor Warrants in all material respects, except that (i) the resale of the Common Stock underlying Broker Warrants will not be covered by a registration statement and (ii) the Broker Warrants will have an exercise price of $0.20 per share.

(b) The Company shall also pay to the Placement Agent a broker's fee if any person or entity contacted by the Placement Agent in connection with the Offering, which person had not been introduced to the Company prior to or during the Offering by someone other than the Placement Agent, invests in the Company at any time prior to the date that is twelve (12) months after the earlier of the Termination Date or the final Closing Date, regardless of whether such person purchased Units in the Offering. Any such broker's fee payable pursuant to this Section 3(b) will be based on the fee structure in place for broker-dealers participating in the applicable offering. In the event there are no participating broker-dealers, the broker's fee payable pursuant to this Section 3(b) will be based on a fee arrangement negotiated between Placement Agent and the Company.

(c) To the extent there is more than one Closing, payment of the proportional amount of the Brokers' Fees will be made out of the proceeds of subscriptions for the Units sold at each Closing.

4. Subscription and Closing Procedures.

(a) The Company shall cause to be delivered to the Placement Agent copies of the Subscription Documents and has consented, and hereby consents, to the use of such copies for the purposes permitted by the Act and applicable securities laws and in accordance with the terms and conditions of this Agreement, and hereby authorizes the Placement Agent and its agents and employees to use the Subscription Documents in connection with the sale of the Units until the earlier of (i) the Termination Date or (ii) the Final Closing, and no person or entity is or will be authorized to give any information or make any representations other than those contained in the Subscription Documents or to use any offering materials other than those contained in the Subscription Documents in connection with the sale of the Units, unless the Company first provides the Placement Agent with notification of such information, representations or offering materials.

(b) The Company shall make available to the Placement Agent and its representatives such information, including, but not limited to, financial information, and other information regarding the Company (the "Information"), as may be reasonably requested in making a reasonable investigation of the Company and its affairs. The Company shall provide access to the officers, directors, employees, independent accountants, legal counsel and other advisors and consultants of the Company as shall be reasonably requested by the Placement Agent. The Company recognizes and agrees that the Placement Agent (i) will use and rely primarily on the Information and generally available information from recognized public sources in performing the services contemplated by this Agreement without independently verifying the Information or such other information, (ii) does not assume responsibility for the accuracy of the Information or such other information, and (iii) will not make an appraisal of any assets or liabilities owned or controlled by the Company or its market competitors.

(c) Each prospective purchaser will be required to complete and execute the Subscription Documents, Anti-Money Laundering Form and other documents (the "Subscription Documents") which will be forwarded or delivered to the Placement Agent at the Placement Agent's offices at the address set forth in Section 12 hereof.

(d) Simultaneously with the delivery to the Placement Agent of the Subscription Documents, the subscriber's check or other good funds will be forwarded directly by the subscriber to the escrow agent and deposited into a non interest bearing escrow account (the "Escrow Account") established for such purpose (the "Escrow Agent"). All such funds for subscriptions will be held in the Escrow Account pursuant to the terms of an escrow agreement among the Company, the Placement Agent and the Escrow Agent. The Company will pay all fees related to the establishment and maintenance of the Escrow Account. Subject to the receipt of subscriptions for the amount for Closing, the Company will either accept or reject, for any or no reason, the Subscription Documents in a timely fashion and at each Closing will countersign the Subscription Documents and provide duplicate copies of such documents to the Placement Agent for distribution to the subscribers. The acceptance of any Subscription Documents will be subject to the reasonable approval of the Company. The Company will give notice to the Placement Agent of its acceptance of each subscription. The Company, or the Placement Agent on the Company's behalf, will promptly return to subscribers incomplete, improperly completed, improperly executed and rejected subscriptions and give written notice thereof to the Placement Agent upon such return.

(e) If subscriptions for a Closing have been accepted prior to the Termination Date, the funds therefor have been collected by the Escrow Agent and all of the conditions set forth elsewhere in this Agreement are fulfilled, a closing shall be held promptly with respect to Units sold (the "First Closing"). Thereafter, the remaining Units will continue to be offered and sold until the Termination Date. Additional closings ("Closings") may from time to time be conducted at times mutually agreed to between the Placement Agent and the Company with respect to additional Units sold, with the final closing ("Final Closing") to occur within 10 days after the earlier of the Termination Date and the date on which the Maximum Amount has been subscribed for. Delivery of payment for the accepted subscriptions for Units from the funds held in the Escrow Account will be made at each Closing at the Placement Agent's offices against delivery of the Units by the Company at the address set forth in Section 12 hereof (or at such other place as may be mutually agreed upon between the Company and the Placement Agent), net of amounts due to the Placement Agent and its Blue Sky counsel as of such Closing. Executed certificates for the shares of Common Stock comprising the Units and the Investor Warrants and the Brokers' Warrants will be in such authorized denominations and registered in such names as the Placement Agent may request on or before the date of each Closing ("Closing Date"). The certificates will be forwarded to the subscriber directly by the transfer agent or the Company's designated agent at each Closing. The Company will issue the certificates for the Common Stock comprising the Units and the Investor Warrants and Brokers' Warrants within twenty (20) days of the applicable Closing Date.

(f) If Subscription Documents have not been received and accepted by the Company on or before the Termination Date for any reason, the Offering will be terminated, no Units will be sold, and the Escrow Agent will, at the request of the Placement Agent, cause all monies received from subscribers for the Units to be promptly returned to such subscribers without interest, penalty, expense or deduction.

5. Further Covenants.

The Company hereby covenants and agrees that:

(a) Except upon prior written notice to the Placement Agent, the Company shall not, at any time prior to the Final Closing, knowingly take any action which would cause any of the representations and warranties made by it in this Agreement not to be complete and correct in all material respects on and as of each Closing Date with the same force and effect as if such representations and warranties had been made on and as of each such date (except to the extent any representation or warranty relates to an earlier date).

(b) If, at any time prior to the Final Closing, any event shall occur that causes a Company Material Adverse Effect which as a result it becomes necessary to amend or supplement the Subscription Documents so that the representations and warranties herein remain true and correct in all material respects, or in case it shall be necessary to amend or supplement the Subscription Documents to comply with Regulation D or any other applicable securities laws or regulations, the Company will promptly notify the Placement Agent and shall, at its sole cost, prepare and furnish to the Placement Agent copies of appropriate amendments and/or supplements in such quantities as the Placement Agent may reasonably request. The Company will not at any time before the Final Closing prepare or use any amendment or supplement to the Subscription Documents of which the Placement Agent will not previously have been advised and furnished with a copy, or which is not in compliance in all material respects with the Act and other applicable securities laws. As soon as the Company is advised thereof, the Company will advise the Placement Agent and its counsel, and confirm the advice in writing, of any order preventing or suspending the use of the Subscription Documents, or the suspension of any exemption for such qualification or registration thereof for offering in any jurisdiction, or of the institution or threatened institution of any proceedings for any of such purposes, and the Company will use their best efforts to prevent the issuance of any such order and, if issued, to obtain as soon as reasonably possible the lifting thereof.

(c) The Company shall comply with the Act, the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations thereunder, all applicable state securities laws and the rules and regulations thereunder in the states in which Placement Agent's Blue Sky counsel has advised the Placement Agent and/or the Company that the Units are qualified or registered for sale or exempt from such qualification or registration, so as to permit the continuance of the sales of the Units, and will file or cause to be filed with the SEC, and shall promptly thereafter forward or cause to be forwarded to the Placement Agent, any and all reports on Form D as are required. The Company will pay the attorney's fee and out of pocket expenses related to the filings for registrations of sale or exemption from such qualifications with any state securities commissions and any other regulatory agencies. Such fees will be paid at the time of invoicing, or at the time of Closing, if known, and if not yet invoiced, funds will remain in escrow to cover the estimated invoice.

(d) The Company shall use best efforts to qualify the Units for sale under the securities laws of such jurisdictions in the United States as may be mutually agreed to by the Company and the Placement Agent, and the Company will make or cause to be made such applications and furnish information as may be required for such purposes, provided that the Company will not be required to qualify as a foreign corporation in any jurisdiction or execute a general consent to service of process. The Company will, from time to time, prepare and file such statements and reports as are or may be required to continue such qualifications in effect for so long a period as the Placement Agent may reasonably request with respect to the Offering.

(e) The Company shall place a legend on the certificates representing the shares of Common Stock comprising the Units and the Investor Warrants and the Brokers' Warrants that the securities evidenced thereby have not been registered under the Act or applicable state securities laws, setting forth or referring to the applicable restrictions on transferability and sale of such securities under the Act and applicable state laws.

(f) The Company shall apply the net proceeds from the sale of the Units for the purposes substantially as described in the Subscription Documents. Except as set forth in the Subscription Documents, the Company shall not use any of the net proceeds of the Offering to repay indebtedness to officers (other than accrued salaries incurred in the ordinary course of business), directors or stockholders of the Company without the prior written consent of the Placement Agent.

(g) During the Offering Period, the Company shall afford each prospective purchaser of Units the opportunity to ask questions of and receive answers from an officer of the Company concerning the terms and conditions of the Offering and the opportunity to obtain such other additional information necessary to verify the accuracy of the Subscription Documents to the extent the Company possesses such information or can acquire it without unreasonable expense.

(h) Except with the prior written consent of the Placement Agent, the Company shall not, at any time prior to the earlier of the Final Closing or the Termination Date, except as contemplated by the Subscription Documents (i) engage in or commit to engage in any transaction outside the ordinary course of business as described in the Subscription Documents, (ii) issue, agree to issue or set aside for issuance any securities (debt or equity) or any rights to acquire any such securities, (iii) incur, outside the ordinary course of business, any material indebtedness, (iv) dispose of any material assets, (v) make any material acquisition or (vi) change its business or operations in any material respect.

(i) The Company shall pay all reasonable expenses incurred in connection with the preparation and printing of all necessary offering documents and instruments related to the Offering and the issuance of the shares comprising the Units and the Investor Warrants and will also pay for the Company's expenses for accounting fees, legal fees, printing costs, and other costs involved with the Offering. The Company will provide at its own expense such quantities of the Subscription Documents and other documents and instruments relating to the Offering as the Placement Agent may reasonably request. The Company will pay at its own expense in connection with the creation, authorization, issuance, transfer and delivery of the Units, including, without limitation, fees and expenses of any transfer agent or registrar; the fees and expenses of the Escrow Agent; all fees and expenses of legal, accounting and other advisers to the Company; the registration or qualification of the Units for offer and sale under the securities or Blue Sky laws of such jurisdictions, payable within five (5) days of being invoiced; and at the First Closing, or, if there is no Closing, within ten (10) days after written request therefore following the Termination Date, legal fees and expenses of the Placement Agent's counsel, which legal fees shall not exceed $15,000 plus expenses provided that such limitation shall in no way affect the obligations of the Company with respect to indemnification and contribution as set forth in Sections 8 and 9 herein.

6. Conditions of Placement Agent's Obligations.

The obligations of the Placement Agent hereunder to affect a Closing are subject to the fulfillment, at or before each Closing, of the following additional conditions:

(a) Each of the representations and warranties made by the Company (when read without regard to any qualification as to materiality or Material Adverse Effect contained therein) shall be true and correct as of the date of this Agreement and as of each Closing Date, except to the extent any such representation or warranty expressly speaks as of an earlier date, in which case such representation or warranty shall be true and correct as of such earlier date (except for representations and warranties that speak as of a specific date), except for any untrue or incorrect representation and warranty that, individually or in the aggregate, does not have a Company Material Adverse Effect.

(b) The Company shall have performed and complied in all material respects with all agreements, covenants and conditions required to be performed and complied with by this Agreement at or before the Closing.

(c) The Subscription Documents do not, and as of the date of any amendment or supplement thereto will not, include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(d) No order suspending the use of the Subscription Documents or enjoining the Offering or sale of the Units shall have been issued, and no proceedings for that purpose or a similar purpose shall have been initiated or pending, or, to the best of the Company's knowledge, be contemplated or threatened.

(e) The Placement Agent shall have received a certificate of the Chief Executive Officer of the Company, dated as of the Closing Date, certifying, as to the fulfillment of the conditions set forth in subparagraphs (a), (b), (c) and (d) above. The foregoing certificate shall only be required to be delivered on the first Closing Date, unless any information contained in the certificate has changed.

(f) The Company shall have delivered to the Placement Agent: (i) a good standing certificate dated as of a date within 10 days prior to the Closing Date from the secretary of state of its jurisdiction of incorporation and (ii) resolutions of the Company's Board of Directors approving this Agreement and the transactions and agreements contemplated by this Agreement, and the Subscription Documents, all as certified by the Chief Executive Officer of the Company.

(g) At each Closing, the Company shall pay and/or issue to the Placement Agent the Brokers' Fees earned in such Closing.

(h) All proceedings taken at or prior to the Closing in connection with the authorization, issuance and sale of the shares comprising the Units and the Investor Warrants will be reasonably satisfactory in form and substance to the Placement Agent and its counsel, and such counsel shall have been furnished with all such documents, certificates and opinions as it may reasonably request upon reasonable prior notice in connection with the transactions contemplated hereby.

7. Conditions of the Company's Obligations.

The obligations of the Company hereunder are subject to the satisfaction of each of the following conditions:

(a) The satisfaction or waiver of all conditions to closing as set forth herein.

(b) As of each Closing, each of the representations and warranties made by Placement Agent herein being true and correct as of the Closing Date for such Closing.

(c) At each Closing, the Company shall have received the proceeds from the sale of the Units that are part of such Closing less applicable Broker Fees.

7A. Mutual Condition. The obligations of the Placement Agent and the Company hereunder are subject to the execution by each investor of Subscription Documents in form and substance acceptable to the Placement Agent and the Company and deposit by such investor with the escrow agent of all funds required to be so deposited by such investor.

8. Indemnification.

(a) The Company will: (i) indemnify and hold harmless the Placement Agent, its agents and their respective officers, directors, employees, selected dealers and each person, if any, who controls the Placement Agent within the meaning of the Act and such agents (each an "Indemnitee" or a "Placement Agent Party") against, and pay or reimburse each Indemnitee for, any and all losses, claims, damages, liabilities or expenses whatsoever (or actions or proceedings or investigations in respect thereof), severally (which will, for all purposes of this Agreement, include, but not be limited to, all reasonable costs of defense and investigation and all reasonable attorneys' fees, including appeals), to which any Indemnitee may become subject (a) under the Act or otherwise, in connection with the offer and sale of the Units and (b) as a result of the breach of any representation, warranty or covenant made by the Company herein, regardless of whether such losses, claims, damages, liabilities or expenses shall result from any claim by any Indemnitee or by any third party; and (ii) reimburse each Indemnitee for any legal or other expenses reasonably incurred in connection with investigating or defending against any such loss, claim, action, proceeding or investigation; provided, however, the Company will not be liable in any such case to the extent that any such claim, damage or liability is finally judicially determined to have resulted from (A) an untrue statement or alleged untrue statement of a material fact made in the Subscription Documents, or an omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, made solely in reliance upon and in conformity with written information furnished to the Company by the Placement Agent specifically for use in the Subscription Documents or (B) any violations by the Placement Agent of the Act or state securities laws which does not result from a violation thereof by the Company or any of their respective affiliates or (C) due to the intentional or negligent misrepresentation and/or malfeasance of the Placement Agent. In addition to the foregoing agreement to indemnify and reimburse, the Company will indemnify and hold harmless each Indemnitee against any and all losses, claims, damages, liabilities or expenses whatsoever (or actions or proceedings or investigations in respect thereof), joint or several (which shall, for all purposes of this Agreement, include, but not be limited to, all reasonable costs of defense and investigation and all reasonable attorneys' fees, including appeals) to which any Indemnitee may become subject insofar as such costs, expenses, losses, claims, damages or liabilities arise out of or are based upon the claim of any person or entity that he or it is entitled to broker's or finder's fees from any Indemnitee in connection with the Offering as a result of the Company obligating itself or any Indemnitee to pay such a fee, other than fees due to the Placement Agent, its dealers, sub-agents or finders. The foregoing indemnity agreements will be in addition to any liability the Company may otherwise have.

(b) The Placement Agent will indemnify and hold harmless the Company, its subsidiaries, and their respective officers, directors, and each person, if any, who controls such entity within the meaning of the Act (collectively, the "Company Indemnitees") against, and pay or reimburse any such person for, any and all losses, claims, damages, liabilities or expenses whatsoever (or actions, proceedings or investigations in respect thereof) to which the Company or any such person may become subject under the Act or otherwise, whether such losses, claims, damages, liabilities or expenses shall result from any claim of the Company or any such person who controls the Company within the meaning of the Act or by any third party, but only to the extent that such losses, claims, damages or liabilities are based upon any violations by the Placement Agent of the Act or state securities laws which does not result from a violation thereof by the Company or any of their respective affiliates, any untrue statement or alleged untrue statement of any material fact contained in the Subscription Documents made in reliance upon and in conformity with information contained in the Subscription Documents relating to the Placement Agent, or an omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in either case, if made or omitted in reliance upon and in conformity with written information furnished to the Company by the Placement Agent, specifically for use in the preparation thereof or due to the intentional or negligent misrepresentation and / or malfeasance of the Placement Agent. The Placement Agent will reimburse the Company or any such person for any legal or other expenses reasonably incurred in connection with investigating or defending against any such loss, claim, damage, liability or action, proceeding or investigation to which such indemnity obligation applies. In addition to the foregoing agreement to indemnify and reimburse, the Placement Agent will indemnify and hold harmless each Company Indemnitee against any and all losses, claims, damages, liabilities or expenses whatsoever (or actions or proceedings or investigations in respect thereof), joint or several (which shall, for all purposes of this Agreement, include, but not be limited to, all reasonable costs of defense and investigation and all reasonable attorneys' fees, including appeals) to which any Company Indemnitee may become subject insofar as such costs, expenses, losses, claims, damages or liabilities arise out of or are based upon the claim of any person or entity that he or it is entitled to broker's or finder's fees from any Company Indemnitee in connection with the Offering as a result of the Placement Agent obligating itself or any Company Indemnitee to pay such a fee. The foregoing indemnity agreements are in addition to any liability which the Placement Agent may otherwise have.

(c) Promptly after receipt by an indemnified party under this Section 8 of notice of the commencement of any action, claim, proceeding or investigation (the "Action"), such indemnified party, if a claim in respect thereof is to be made against the indemnifying party under this Section 8, will notify the indemnifying party of the commencement thereof, but the omission to so notify the indemnifying party will not relieve it from any liability that it may have to any indemnified party under this Section 8 unless the indemnifying party has been substantially prejudiced by such omission. The indemnifying party will be entitled to participate in and, to the extent that it may wish, jointly with any other indemnifying party, to assume the defense thereof subject to the provisions herein stated, with counsel reasonably satisfactory to such indemnified party. The indemnified party will have the right to employ separate counsel in any such Action and to participate in the defense thereof, but the fees and expenses of such counsel will not be at the expense of the indemnifying party if the indemnifying party has assumed the defense of the Action with counsel reasonably satisfactory to the indemnified party, provided, however, that if the indemnified party shall be requested by the indemnifying party to participate in the defense thereof or shall have concluded in good faith and specifically notified the indemnifying party either that there may be specific defenses available to it that are different from or additional to those available to the indemnifying party or that such Action involves or could have a material adverse effect upon it with respect to matters beyond the scope of the indemnity agreements contained in this Agreement, then the counsel representing it, to the extent made necessary by such defenses, shall have the right to direct such defenses of such Action on its behalf and in such case the reasonable fees and expenses of such counsel in connection with any such participation or defenses shall be paid by the indemnifying party. No settlement of any Action against an indemnified party will be made without the consent of the indemnifying party and the indemnified party, which consent shall not be unreasonably withheld or delayed in light of all factors of importance to such party, and no indemnifying party shall be liable to indemnify any person for any settlement of any such claim effected without such indemnifying party's consent.

9. Contribution.

To provide for just and equitable contribution, if: (i) an indemnified party makes a claim for indemnification pursuant to Section 8 hereof and it is finally determined, by a judgment, order or decree not subject to further appeal that such claims for indemnification may not be enforced, even though this Agreement expressly provides for indemnification in such case; or (ii) any indemnified or indemnifying party seeks contribution under the Act, the Exchange Act, or otherwise, then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company on the one hand and the Placement Agent on the other in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities or expenses (or actions in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Placement Agent on the other shall be deemed to be in the same proportion as the total net proceeds from the Offering (before deducting expenses) received by the Company bear to the total Brokers' Fees received by the Placement Agent. The relative fault, in the case of an untrue statement, alleged untrue statement, omission or alleged omission will be determined by, among other things, whether such statement, alleged statement, omission or alleged omission relates to information supplied by the Company or by the Placement Agent, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement, alleged statement, omission or alleged omission. The Company and the Placement Agent agree that it would be unjust and inequitable if the respective obligations of the Company and the Placement Agent for contribution were determined by pro rata allocation of the aggregate losses, liabilities, claims, damages and expenses or by any other method or allocation that does not reflect the equitable considerations referred to in this Section 9. No person guilty of a fraudulent misrepresentation (within the meaning of Section 10(f) of the Act) will be entitled to contribution from any person who is not guilty of such fraudulent misrepresentation. For purposes of this Section 9, each person, if any, who controls the Placement Agent within the meaning of the Act will have the same rights to contribution as the Placement Agent, and each person, if any, who controls the Company within the meaning of the Act will have the same rights to contribution as the Company, subject in each case to the provisions of this Section 9. Anything in this Section 9 to the contrary notwithstanding, no party will be liable for contribution with respect to the settlement of any claim or action effected without its written consent. This Section 9 is intended to supersede, to the extent permitted by law, any right to contribution under the Act, the Exchange Act or otherwise available.

10. Termination.

(a) The Offering may be terminated by the Placement Agent at any time prior to the expiration of the Offering Period in the event that: (i) any of the representations, warranties or covenants of the Company contained herein or in the Subscription Documents shall prove to have been false or misleading in any material respect when actually made; (ii) the Company shall have failed to perform any of its material obligations hereunder or under any other Company Transaction Document or any other transaction document; (iii) there shall occur any event, within the control of the Company that is reasonably likely to materially and adversely affect the transactions contemplated hereunder or the ability of the Company to perform hereunder; or (iv) the Placement Agent determines that it is reasonably likely that any of the conditions to Closing to be fulfilled by the Company set forth herein will not, or cannot, be satisfied.

(b) The Offering may be terminated by the Company at any time prior to the expiration of the Offering Period (i) in the event that the Placement Agent or any subagent shall have failed to perform any of its material obligations hereunder, or (ii) on account of the Placement Agent's or any subagent's fraud, illegal or willful misconduct or gross negligence or (iii) a material breach of this Agreement by the Placement Agent or any subagent. In the event of any such termination by the Company, the Placement Agent shall not be entitled to any amounts whatsoever except (i) as may be due under any indemnity or contribution obligation provided herein or in any other Company Transaction Document, at law or otherwise and (ii) it shall retain any Brokers' Fees received for Closings that occurred prior to the Termination Date.

(c) This Offering may be terminated upon mutual agreement of the Company and the Placement Agent at any time prior to the expiration of the Offering Period.

(d) Before any termination by the Placement Agent under Section 10(a) or by the Company under Section 10(b) shall become effective, the terminating party shall give five (5) days prior written notice to the other party of its intention to terminate the Offering (the "Termination Notice"). The Termination Notice shall specify the grounds for the proposed termination. If the specified grounds for termination, or their resulting adverse effect on the transactions contemplated hereby, are curable, then the other party shall have three (3) days from the Termination Notice within which to remove such grounds or to eliminate all of their material adverse effects on the transactions contemplated hereby; otherwise, the Offering shall terminate.

(e) Upon any termination pursuant to this Section 10, the Placement Agent and the Company will instruct the Escrow Agent to cause all monies received with respect to the subscriptions for Units not accepted by the Company to be promptly returned to such subscribers without interest, penalty or deduction.

11. Survival.

(a) The obligations of the parties to pay any costs and expenses hereunder and to provide indemnification and contribution as provided herein shall survive any termination hereunder. In addition, the provisions of Sections 3, and 8 through 17 shall survive the sale of the Units or any termination of this Agreement.

(b) The respective indemnities, covenants, representations, warranties and other statements of the Company and the Placement Agent set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation made by or on behalf of, and regardless of any access to information by the Company or the Placement Agent, or any of their officers or directors or any controlling person thereof, and will survive the sale of the Units or any termination of the Offering hereunder. Notwithstanding the foregoing, if either party effects a Closing with knowledge that one or more of the other party's representations and warranties has become untrue or inaccurate in any material respect or that such other party has failed to comply or satisfy in any material respect a covenant, condition or agreement of it or them, the party so effecting the Closing shall be deemed to have waived any claim based on the breach of such inaccurate representation and warranty or the failure to have complied with the specific covenant or condition.

12. Notices.

All communications hereunder will be in writing and, except as otherwise expressly provided herein or after notice by one party to the other of a change of address, if sent to the Placement Agent, will be mailed, sent by overnight courier or telefaxed and confirmed to Gottbetter Capital Markets, LLC 488 Madison Avenue, 12th Floor, New York, New York 10022, Attention: Mr. Julio A. Marquez, President, telefax number (212) 400-6999, with a copy to: Law Offices of Barbara J. Glenns, Esq. 30 Waterside Plaza, Suite 25G, New York, New York 10010, Attn: Barbara J. Glenns, Esq., telefax number (212) 689-6578, if sent to Rackwise, Inc. will be mailed, sent by overnight courier, or certified mail, return receipt requested and confirmed to 2365 Iron Point Road, Suite 190, Folsom, CA 95630 Attn: Guy A. Archbold, President and CEO, telefax number (415) 358-4665 with a copy to: Gottbetter & Partners, LLP 488 Madison Avenue, 12th Floor, New York, NY 10022 telefax: 212-400-6901 Attn: Scott Rapfogel, Esq.

13. Governing Law, Jurisdiction.

This Agreement shall be deemed to have been made and delivered in New York City and shall be governed as to validity, interpretation, construction, effect and in all other respects by the internal laws of the State of New York without regard to principles of conflicts of law thereof.

THE PARTIES HERETO AGREE TO SUBMIT ALL CONTROVERSIES TO THE EXCLUSIVE JURISDICTION OF FINRA ARBITRATION IN ACCORDANCE WITH THE PROVISIONS SET FORTH BELOW AND UNDERSTAND THAT (A) ARBITRATION IS FINAL AND BINDING ON THE PARTIES, (B) THE PARTIES ARE WAIVING THEIR RIGHTS TO SEEK REMEDIES IN COURT, INCLUDING THE RIGHT TO A JURY TRIAL, (C) PRE-ARBITRATION DISCOVERY IS GENERALLY MORE LIMITED AND DIFFERENT FROM COURT PROCEEDINGS, (D) THE ARBITRATOR'S AWARD IS NOT REQUIRED TO INCLUDE FACTUAL FINDINGS OR LEGAL REASONING AND ANY PARTY'S RIGHT TO APPEAL OR TO SEEK MODIFICATION OF RULES BY ARBITRATORS IS STRICTLY LIMITED, (E) THE PANEL OF FINRA ARBITRATORS WILL TYPICALLY INCLUDE A MINORITY OF ARBITRATORS WHO WERE OR ARE AFFILIATED WITH THE SECURITIES INDUSTRY, AND (F) ALL CONTROVERSIES WHICH MAY ARISE BETWEEN THE PARTIES CONCERNING THIS AGREEMENT SHALL BE DETERMINED BY ARBITRATION PURSUANT TO THE RULES THEN PERTAINING TO FINRA. ALL QUESTIONS CONCERNING THE CONSTRUCTION, VALIDITY, ENFORCEMENT AND INTERPRETATION OF THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK. JUDGMENT ON ANY AWARD OF ANY SUCH ARBITRATION MAY BE ENTERED IN THE SUPREME COURT OF THE STATE OF NEW YORK OR IN ANY OTHER COURT HAVING JURISDICTION OVER THE PERSON OR PERSONS AGAINST WHOM SUCH AWARD IS RENDERED. THE PARTIES AGREE THAT THE DETERMINATION OF THE ARBITRATORS SHALL BE BINDING AND CONCLUSIVE UPON THEM. THE PREVAILING PARTY, AS DETERMINED BY SUCH ARBITRATORS, IN A LEGAL PROCEEDING SHALL BE ENTITLED TO COLLECT ANY COSTS, DISBURSEMENTS AND REASONABLE ATTORNEY'S FEES FROM THE OTHER PARTY. PRIOR TO FILING AN ARBITRATION, THE PARTIES HEREBY AGREE THAT THEY WILL ATTEMPT TO RESOLVE THEIR DIFFERENCES FIRST BY SUBMITTING THE MATTER FOR RESOLUTION TO A MEDIATOR, ACCEPTABLE TO ALL PARTIES, AND WHOSE EXPENSES WILL BE BORNE EQUALLY BY ALL PARTIES. THE MEDIATION WILL BE HELD IN THE COUNTY OF NEW YORK, STATE OF NEW YORK, ON AN EXPEDITED BASIS. IF THE PARTIES CANNOT SUCCESSFULLY RESOLVE THEIR DIFFERENCES THROUGH MEDIATION, THE MATTER WILL BE RESOLVED BY ARBITRATION. THE ARBITRATION SHALL TAKE PLACE IN THE COUNTY OF NEW YORK, THE STATE OF NEW YORK, ON AN EXPEDITED BASIS.

14. Miscellaneous.

A. No provision of this Agreement may be changed or terminated except by a writing signed by the party or parties to be charged therewith. Unless expressly so provided, no party to this Agreement will be liable for the performance of any other party's obligations hereunder. Either party hereto may waive compliance by the other with any of the terms, provisions and conditions set forth herein; provided, however, that any such waiver shall be in writing specifically setting forth those provisions waived thereby. No such waiver shall be deemed to constitute or imply waiver of any other term, provision or condition of this Agreement. Neither party may assign its rights or obligations under this Agreement to any other person or entity without the prior written consent of the other party.

B. Each party shall, without payment of any additional consideration by any other party, at any time on or after the date of any Closings, take such further action and execute such other and further documents and instruments as the other party may reasonably request in order to provide the other party with the benefits of this Agreement.

C. The Parties to this Agreement each hereby confirm that they will cooperate with each other to the extent that it may become necessary to enter into any revisions or amendments to this Agreement, in the future to conform to any federal or state regulations as long as such revisions or amendments do not materially alter the obligations or benefits of either party under this Agreement.

15. Entire Agreement; Severability.

This Agreement together with any other agreement referred to herein supersedes all prior understandings and written or oral agreements between the parties with respect to the Offering and the subject matter hereof. If any portion of this Agreement shall be held invalid or unenforceable, then so far as is reasonable and possible (i) the remainder of this Agreement shall be considered valid and enforceable and (ii) effect shall be given to the intent manifested by the portion held invalid or unenforceable.

16. Counterparts.

This Agreement may be executed in multiple counterparts, each of which may be executed by less than all of the parties and shall be deemed to be an original instrument which shall be enforceable against the parties actually executing such counterparts and all of which together shall constitute one and the same instrument. The exchange of copies of this Agreement and of signature pages by facsimile transmission or in pdf format shall constitute effective execution and delivery of this Agreement as to the parties and may be used in lieu of the original Agreement for all purposes. Signatures of the parties transmitted by facsimile or in pdf format shall be deemed to be their original signatures for all purposes.

17. Confidentiality.

(a) The Placement Agent will maintain the confidentiality of the Information and, unless and until such information shall have been made publicly available by the Company or by others without breach of a confidentiality agreement, shall disclose the Information only as authorized by the Company or as required by law or by order of a governmental authority or court of competent jurisdiction. In the event the Placement Agent is legally required to make disclosure of any of the Information, the Placement Agent will give prompt notice to the Company prior to such disclosure, to the extent the Placement Agent can practically do so.

(b) The foregoing paragraph shall not apply to information that:

(i) at the time of disclosure by the Company, is or thereafter becomes, generally available to the public or within the industries in which the Company conducts business, other than as a result of a breach by the Placement Agent of its obligations under this Agreement;

(ii) prior to or at the time of disclosure by the Company, was already in the possession of, the Placement Agent or any of its affiliates, or could have been developed by them from information then lawfully in their possession, by the application of other information or techniques in their possession, generally available to the public; at the time of disclosure by the Company thereafter, is obtained by the Placement Agent or any of its affiliates from a third party who the Placement Agent reasonably believes to be in possession of the information not in violation of any contractual, legal or fiduciary obligation to the Company with respect to that information; or is independently developed by the Placement Agent or its affiliates.

The exclusions set forth in sub-section (b) above shall not apply to pro forma financial information of the Company, which pro forma Information shall in all events be subject to sub-section (a) above.

(c) Nothing in this Agreement shall be construed to limit the ability of the Placement Agent or its affiliates to pursue, investigate, analyze, invest in, or engage in investment banking, financial advisory or any other business relationship with entities other than the Company, notwithstanding that such entities may be engaged in a business which is similar to or competitive with the business of the Company, and notwithstanding that such entities may have actual or potential operations, products, services, plans, ideas, customers or supplies similar or identical to the Company's, or may have been identified by the Company as potential merger or acquisition targets or potential candidates for some other business combination, cooperation or relationship. The Company expressly acknowledges and agrees that they do not claim any proprietary interest in the identity of any other entity in its industry or otherwise, and that the identity of any such entity is not confidential information.

[Signatures on following page]

If the foregoing is in accordance with your understanding of the agreement between the Company and the Placement Agent, kindly sign and return this Agreement, whereupon it will become a binding agreement as provided herein, between the Company and the Placement Agent in accordance with its terms.

RACKWISE, INC.

By: /s/ *Guy A. Archbold*
Name: Guy A. Archbold
Title: President and Chief Executive Officer
2365 Iron Point Road
Suite 190
Folsom, CA 95630

Accepted and agreed to this
1st day of September 2012:

GOTTBETTER CAPITAL MARKETS, LLC

By: /s/ *Julio A. Marquez*
Name: Julio A. Marquez
Title: President

AMENDMENT NO. 1 TO
PLACEMENT AGENCY AGREEMENT

This Amendment No. 1 to the Placement Agency Agreement (this "Amendment") is entered into as of the 30th day of December 2012, by and between Rackwise, Inc., a Nevada corporation (the "Company"), and Gottbetter Capital Markets, LLC ("Markets"), and amends that certain Placement Agency Agreement, dated as of September 1, 2012 (as amended, the "PAA"). Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to such terms in the PAA.

1. The parties to the PAA hereby amend and restate in its entirety the second paragraph of the PAA to read as follows:

> The Offering of the Units will be made by the Placement Agent and certain selected dealers, with each Unit consisting of one (1) share of the Company's common stock, par value $0.0001 per share (the "Common Stock"), and a redeemable warrant to purchase one share (1) share of Common Stock at an exercise price of $0.30 per full share for five (5) years (the "Investor Warrants"). The Offering Price per Unit will be Fifteen Cents ($0.15). The Offering will consist of a maximum of Twenty Five Million (25,000,000) Units (the "Maximum Amount"). In the event the Offering is oversubscribed, the Company may sell up to an additional Five Million (5,000,000) Units (the "Over-allotment Option"). The Investor Warrants shall have "weighted average" anti-dilution protection, subject to customary exceptions, as per the terms set forth therein.

2. The parties to the PAA hereby amend and restate in its entirety the fourth paragraph of the PAA to read as follows:

> The Placement Agent shall accept subscriptions only from (i) persons or entities who qualify as "accredited investors," as such term is defined in Rule 501 of Regulation D ("Regulation D") as promulgated by the United States Securities and Exchange Commission (the "SEC") under Section 4(2) of the Securities Act of 1933, as amended (the "Act") and (ii) persons or entities who are offered and purchase the Units in an Offshore Transaction (as such term is defined in Regulation S ("Regulation S") as promulgated by the SEC under the Act) and who are not U.S. Persons (as such term is defined in Regulation S) and are not acting for the account or benefit of a person in the United States or a U.S. Person. The Units will be offered until the earlier of the time that all Units offered in the Offering are sold or until December 30, 2012 (the "Initial Offering Period"), which date may be mutually extended by the Company and the Placement Agent in writing until February 1, 2013 (this additional period and the Initial Offering Period shall be referred to as the "Offering Period"). The date on which the Offering is terminated shall be referred to as the "Termination Date."

3. The parties to the PAA hereby amend and restate in its entirety Paragraph 3(a) Placement Agent Compensation of the PAA to read as follows:

> 3. Placement Agent Compensation
>
> (a) In connection with the Offering, the Company will pay a cash fee (the "Agent Cash Fee") to the Placement Agent at each Closing equal to up to Ten Percent (10%) of the gross sales price of the Units purchased by those investor(s) introduced to the Company at such Closing. Additionally, the Company will deliver to the Placement Agent redeemable warrants exercisable for a period of five (5) years from the Closing Date, to purchase a number of shares of Common Stock equaling up to Ten Percent (10%) of the number of Units sold to the investor(s) at such Closing (the "Broker Warrants), as applicable ("Agent Cash Fee" and the "Broker Warrants" are referred to collectively as "Brokers' Fees"). The Broker Warrants shall be identical to the Investor Warrants in all material respects, except that (i) the resale of the Common Stock underlying Broker Warrants will not be covered by a registration statement and (ii) the Broker Warrants will have an exercise price of $0.15 per share.

4. This Amendment is hereby made part of and incorporated into the PAA, with all the terms and conditions of the PAA remaining in full force and effect, except to the extent modified hereby.

5. This Amendment may be executed in multiple counterparts, each of which may be executed by less than all of the parties and shall be deemed to be an original instrument which shall be enforceable against the parties actually executing such counterparts and all of which together shall constitute one and the same instrument. The exchange of copies of this Amendment and of signature pages by facsimile transmission or in pdf format shall constitute effective execution and delivery of this Amendment as to the parties and may be used in lieu of the original Amendment for all purposes. Signatures of the parties transmitted by facsimile or in pdf format shall be deemed to be their original signatures for all purposes.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned have executed, or caused to be executed on their behalf by an agent thereunto duly authorized, this Amendment No. 1 to Placement Agency Agreement as of the date first above written.

RACKWISE, INC.

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

GOTTBETTER CAPITAL MARKETS, LLC

By: /s/ *Julio A. Marquez*
Name: Julio A. Marquez
Title: President

EXHIBIT 31.1

CERTIFICATIONS

I, Guy A. Archbold, certify that:

1. I have reviewed this Annual Report on Form 10-K of Rackwise, Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying 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)) for the registrant and have;

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the most recent fiscal quarter (the registrant's fourth fiscal quarter) covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying 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 registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 16, 2013

/s/ Guy A. Archbold
Guy A. Archbold
Principal Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Jeff Winzeler, certify that:

1. I have reviewed this Annual Report on Form 10-K of Rackwise, Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying 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)) for the registrant and have;

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the most recent fiscal quarter (the registrant's fourth fiscal quarter) covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying 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 registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 16, 2013

/s/ Jeff Winzeler
Jeff Winzeler
Principal Financial Officer

EXHIBIT 32.1

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 Annual Report of Rackwise, Inc. (the "Company") on Form 10-K for the year ended December 31, 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.

/s/ Guy A. Archbold
Name: Guy A. Archbold
Title: Chief Executive Officer
Date: April 16, 2013

EXHIBIT 32.2

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 Annual Report of Rackwise, Inc. (the "Company") on Form 10-K for the year ended December 31, 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.

/s/ Jeff Winzeler
Name: Jeff Winzeler
Title: Chief Financial Officer
Date: April 16, 2013