

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

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2008

TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT

For the transition period from _____ to _____

Commission File number 000-30262



VISUALANT, INCORPORATED

(Exact name of registrant as specified in charter)

Nevada

(State or other jurisdiction of incorporation or organization)

91-1948357

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

500 Union Street, Suite 406, Seattle, Washington USA

(Address of principal executive offices)

98101

(Zip Code)

206-903-1351

(Registrant's telephone number, including area code)

N/A

(Former name, address, and fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of common stock, \$.001 par value, issued and outstanding as of February 23, 2009: 27,742,901 shares

Transitional Small Business Disclosure Format (check one):

Yes No

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The accompanying balance sheets of Visualant, Incorporated (development stage company) at December 31, 2008 and September 30, 2008, the statements of operations for the three months ended December 31, 2008 and 2007, the statements of cash flows for the three months ended December 31, 2008 and 2007 and for the period from October 8, 1998 (date of incorporation) to December 31, 2008, have been prepared by the Company's management, in conformity with principles generally accepted in the United States of America. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature.

Operating results for the three month period ended December 31, 2008 are not necessarily indicative of the results that can be expected for the year ending September 30, 2009.

VISUALANT, INCORPORATED
(Development Stage Company)

BALANCE SHEETS
December 31, 2008 and September 30, 2008

	<u>December 31, 2008</u>	<u>September 30, 2008</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 803	\$ 255
Prepaid Expenses	1,026	1,766
Total Current Assets	<u>1,829</u>	<u>2,021</u>
Deferred Financing Costs, net	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 1,829</u>	<u>\$ 2,021</u>
<u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u>		
CURRENT LIABILITIES		
Note payable to a related party	\$ 50,750	\$ 50,750
Accrued expenses and other liabilities	65,632	110,562
Accrued expenses and other liabilities due to related parties	571,555	504,662
Accounts payable	331,115	780,912
Accounts payable due to related parties	<u>253,151</u>	<u>264,429</u>
Total Current Liabilities	1,272,203	1,711,315
Long-term Notes Payable	-	425,340
Commitments and Contingencies	-	-
STOCKHOLDERS' DEFICIT		
Preferred stock - \$0.001 par value, 50,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock - \$0.001 par value, 200,000,000 shares authorized, 27,742,901 and 18,353,891 shares issued and outstanding, respectively	27,743	18,354
Additional paid in capital	5,905,777	4,521,760
Deficit accumulated during the development stage	<u>(7,203,894)</u>	<u>(6,674,748)</u>
Total Stockholders' Equity (Deficiency)	<u>(1,270,374)</u>	<u>(2,134,634)</u>
TOTAL LIABILITIES & EQUITY	<u>\$ 1,829</u>	<u>\$ 2,021</u>

The accompanying notes are an integral part of these financial statements

VISUALANT, INCORPORATED
(Development Stage Company)

STATEMENTS OF OPERATIONS
For the Three Months Ended December 31, 2008 and 2007 and the Period from
October 8, 1998 (Date of Inception) to December 31, 2008

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007	Period of Inception from October 8, 1998 to December 31, 2008
Revenues	\$ -	\$ -	\$ -
Expenses			
Research and development	214,105	-	1,451,522
Administrative	300,335	282,914	4,289,624
Total Operating Expense	514,440	282,914	5,741,146
Loss from Operations	(514,440)	(282,914)	(5,741,146)
Other Income (Expense)			
Settlement of debt	-	-	43,400
Interest expense	(14,706)	(24,646)	(351,821)
Loss of deposit	-	-	(1,154,327)
Net Loss	\$ (529,146)	\$ (307,560)	\$ (7,203,894)
Net Loss Applicable to Common Stockholders Basic and diluted	\$ (0.02)	\$ (0.02)	
Weighted Average Shares used in computing basic and diluted net loss per share	26,439,503	17,183,239	

The accompanying notes are an integral part of these financial statements

VISUALANT, INCORPORATED
(Development Stage Company)

STATEMENTS OF CASH FLOWS
For the Three Months Ended December 31, 2008 and 2007 and the Period from
October 8, 1998 (Date of Inception) to December 31, 2008

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007	October 8, 1998 to December 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$ (529,146)	\$ (307,560)	\$ (7,203,894)
Reconciliation of net loss to net cash used in operating activities:			
Depreciation, amortization and tangible and intangible asset impairments	-	-	19,808
Issuance of capital stock for expenses	876,007	118,000	1,174,463
Stock based compensation	35,304	38,120	477,457
Stock Options Issued in exchange for services	-	-	236,988
Amortization of Deferred Financing	-	8,000	96,000
Loss of deposit	-	-	1,154,327
Capital contributions - expenses	-	-	10,950
Increase (decrease) in cash resulting from changes in assets and liabilities:			
Prepaid expenses	740	(18,602)	(1,026)
Accounts payable and accrued expenses	(382,357)	162,179	2,703,383
Net Cash Used in Operating Activities	<u>548</u>	<u>137</u>	<u>(1,331,544)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	-	-	(12,308)
Purchase of investment - deposit	-	-	(1,154,327)
Net Cash Used in Investing Activities	<u>-</u>	<u>-</u>	<u>(1,166,635)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of common stock	-	-	2,022,892
Proceeds from issuance of convertible debt	-	-	425,340
Proceeds from issuance of notes payable	-	-	300,951
Repayment of notes payable	-	-	(250,201)
Net Cash Provided by Financing Activities	<u>-</u>	<u>-</u>	<u>2,498,982</u>
Net Change in Cash	548	137	803
Cash at Beginning of Period	255	91	-
Cash at End of Period	<u>\$ 803</u>	<u>\$ 228</u>	<u>\$ 803</u>
Supplemental disclosure of cash flow information			
Cash paid during the period for interest	-	35,139	141,413
Issuance of common stock to retire debt	482,095	-	-

The accompanying notes are an integral part of these financial statements

VISUALANT, INCORPORATED
(Development Stage Company)

NOTES TO FINANCIAL STATEMENTS
December 31, 2008

1. ORGANIZATION

Visualant, Inc. was incorporated under the laws of the State of Nevada on October 8, 1998 under the name of "Cigar King Corporation" with authorized common stock of 200,000,000 shares at \$0.001 par value. On September 13, 2002 the name was changed to "Starberrys Corporation" as part of a change in the authorized capital stock whereby 50,000,000 shares of preferred stock with a par value of \$0.001 were authorized. On August 18, 2004 the name of the Company was changed to "Visualant, Incorporated". There are no preferred shares issued and the terms have not been determined.

The Company is in the development stage and has not commenced operations.

2. GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. We have incurred net losses of approximately \$529,000 and \$308,000 for the three months ended December 31, 2008 and 2007, respectively. Our current liabilities exceeded our current assets by approximately \$1.3 million as of December 31, 2008. Our net cash used in operating activities approximated \$548 for the three months ended December 31, 2008.

As of December 31, 2008, the Company had minimal cash. The Company is considered illiquid as this cash is not considered sufficient to fund the recurring operating and associated financing costs. The Company needs to raise additional funding to continue its operations. However, there can be no assurance that financing or additional funding will be available to the Company on favorable terms or at all. If the Company raises additional capital through the sale of equity or convertible debt securities, the issuance of such securities may result in dilution to existing stockholders.

We anticipate that we will generate significant losses from operations for the foreseeable future. As of December 31, 2008, our accumulated deficit was \$7.2 million. We have limited capital resources, and operations to date have been funded with the proceeds from private equity and debt financings. These conditions raise substantial doubt about our ability to continue as a going concern. The audit report prepared by our independent registered public accounting firm relating to our consolidated financial statements for the year ended September 30, 2008 includes an explanatory paragraph expressing the substantial doubt about our ability to continue as a going concern.

Continuation of the company as a going concern is dependant upon obtaining additional working capital. The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

VISUALANT, INCORPORATED
(Development Stage Company)

NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations — a Replacement of FASB Statement No. 141* (“SFAS No. 141(R)”). The statement is to be applied prospectively for fiscal years beginning on or after December 15, 2008. The statement also applies to the treatment of taxes from prior business combinations. The statement requires more assets acquired and liabilities assumed in future business combinations to be measured at fair value as of the acquisition date. In addition, expenses incurred for all acquisition-related costs are to be expensed and liabilities related to contingent consideration are to be re-measured to fair value each subsequent reporting period. We will adopt SFAS No. 141(R) at the beginning of our 2010 fiscal year, or October 1, 2009. We do not expect this statement will have a significant impact on our consolidated financial position or results of operations when adopted.

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements — an amendment of ARB No. 51* (“SFAS No. 160”). The statement changes how non-controlling interests in subsidiaries are measured to initially be measured at fair value and classified as a separate component of equity. SFAS No. 160 establishes a single method of accounting for changes in a parent’s ownership interest in a subsidiary that do not result in deconsolidation. No gains or losses will be recognized on partial disposals of a subsidiary where control is retained. In addition, in partial acquisitions, where control is obtained, the acquiring company will recognize and measure at fair value all of the assets and liabilities, including goodwill, as if the entire target company had been acquired. The statement is to be applied prospectively for fiscal years beginning on or after December 15, 2008. We will adopt this statement on October 1, 2009, which is the beginning of our 2010 fiscal year. Currently we do not have any subsidiaries, and therefore we do not anticipate any significant impact on our financial position or results of operations when adopted.

4. ADOPTION OF ACCOUNTING STANDARDS

Adoption of SFAS No. 157, Fair Value Measurements

We adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (“SFAS No. 157”), on October 1, 2008 for financial assets and liabilities. We elected to defer adoption of SFAS No. 157 for our non-financial assets and liabilities until October 1, 2009 as permitted by FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*.

As of December 31, 2008, there are no financial assets or liabilities requiring additional fair value disclosure.

SFAS No. 157 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (or exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. SFAS No. 157 establishes a fair value hierarchy based on three levels of inputs that may be used to measure fair value. The input levels are:

- Level 1: Quoted (observable) market prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than Level 1 that are observable, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability.

5. DEVELOPMENT OF TECHNOLOGIES OWNED BY THE COMPANY

The Company is in the business of researching, developing, acquiring, and commercializing products and services related to illumination and detection of electromagnetic energy, typically in the visible and near-visible portions of the electromagnetic spectrum, using specialized illumination and sensing systems and spatial analysis software modeling which allow for pattern recognition. This technology involves specialized and proprietary information and trade secrets, which the Company considers to be among its most sensitive, confidential, and proprietary information.

VISUALANT, INCORPORATED
(Development Stage Company)

NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2008

6. NOTES PAYABLE

In October 2008, the Long Term Note Payable and accrued interest outstanding with Coventry Capital LLC was converted into 3,213,967 shares of common stock at \$0.15 per share. The amount converted of \$482,095 was comprised of the entire principal balance of \$425,340 and accrued interest of \$56,755.

In February 2007, the Company entered into a demand note with CEO and President, Bradley E. Sparks totaling \$50,000 plus loan fees of \$750. As of December 31, 2008, the outstanding note payable totaled \$50,750 consisting of the note payable to Sparks. Interest expense accrues on the note at a rate of 18% per annum. Accrued interest on the notes payable is recorded in the balance sheet in accrued expenses and other liabilities.

Any delays in repayment of the principal and accrued interest on the note payable upon demand result in a penalty interest rate of 30% per annum. The interest due to Sparks became in arrears on February 16, 2008 and has not been paid as of the date of this filing. Sparks has not demanded repayment of the note as of the date of this filing.

7. LINE OF CREDIT

In October 2008, the Convertible Line of Credit Agreement with Coventry Capital LLC was terminated and the total \$482,095 outstanding Long Term Note Payable with Coventry was converted into 3,213,967 shares of common stock at \$0.15 per share. The amount converted was comprised of the principal balance of \$425,340 and accrued interest of \$56,755.

8. COMMON CAPITAL STOCK

During the quarter ended December 31, 2008, the company issued 6,039,010 shares of common stock in satisfaction of \$906,823 of outstanding indebtedness, including the debt due to Coventry Capital, 950,000 shares of common stock as grants to directors, 550,000 shares of common stock as grants to consultants, and 1,850,000 shares in resolution of certain outstanding matters with the RatLab LLC.

9. STOCK OPTIONS

Description of Stock Option Plan

In 2005, our Board of Directors adopted a combined incentive and nonqualified stock option plan for our employees and consultants ("2005 Stock Option Plan"). On October 9, 2006 the Board of Directors authorized an increase in shares available for grant from 2 million to 4 million, subject to stockholder approval.

Determining Fair Value Under SFAS No. 123R

Effective October 1, 2006, we began recording compensation expense associated with stock options and other equity-based compensation in accordance with SFAS No. 123 (revised 2004), "Share-Based Payment". We adopted FAS 123(R) using the modified prospective method. Share-based compensation recognized in fiscal 2007 as a result of the adoption of SFAS No. 123R use the Black-Scholes-Merton option valuation model for estimating fair value of stock options granted under our plan. We amortize the fair value of stock options on a ratable basis over the requisite service periods, which are generally the vesting periods. The expected life of awards granted represents the period of time that they are expected to be outstanding. We estimate the volatility of our common stock based on the historical volatility of our own common stock over the most recent period corresponding with the estimated expected life of the award. We base the risk-free interest rate used in the Black-Scholes-Merton option valuation model on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term equal to the expected life of the award. We have not paid any cash dividends on our common stock and do not anticipate paying any cash dividends in the foreseeable future. Consequently, we use an expected dividend yield of zero in the Black-Scholes-Merton option valuation model. In accordance with SFAS No. 123R, we adjust share-based compensation for changes to the estimate of expected equity award forfeitures based on actual forfeiture experience. The effect of adjusting the forfeiture rate for all expense amortization after October 1, 2006 is recognized in the period the forfeiture estimate is changed.

VISUALANT, INCORPORATED
(Development Stage Company)

NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2008

9. STOCK OPTIONS - *continued*

Stock Option Activity

A summary of activity relating to our stock option plan is as follows:

	<u>Options</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Term</u>
Outstanding as of September 30, 2008	1,485,000		
Granted	-		
Exercised	-		
Expired	-		
Forfeited	-		
Outstanding as of December 31, 2008	<u>1,485,000</u>	<u>\$ 0.55</u>	<u>3.02</u>

No options have been granted during the three months ended December 31, 2008.

10. SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

See Note 6 for discussion of notes payable issued to the Company's CEO and President during the quarter ended March 31, 2007. Other than the note payable, related interest and payroll related accruals, all amounts are recorded in the related parties accounts payable balance. As of the filing date, the directors and officers of the Company beneficially own an aggregate 4,581,875 shares of common stock or 16.5% of the Company.

Mr. Sparks is owed \$513,333 of accrued salary plus \$41,178 which has been accrued to pay applicable payroll taxes, FUTA, etc. Additionally, interest of \$17,044 is owed Mr. Sparks for the note payable described in Note 6 to these Notes to Financial Statements. Mr. Sparks is also owed \$38,793 for cash amounts advanced by him to Visualant to fund operating expenses since his employment.

Mr. Erickson is owed \$121,177 for cash amounts advanced by him to Visualant to fund operating expenses. During the first quarter ending December 31, 2008, Mr. Erickson advanced \$17,357 to the Company. Additionally, the Company owes Juliz I Limited Partnership (a limited partnership of which Mr. Erickson exercises control) \$12,000 for cash amounts advanced to fund operating expenses during the first quarter ending December 31, 2008.

Dr. Kawahata is owed \$90,000 by the Visualant Japanese operations for services rendered to the Company.

11. CANCELLATION OF AGREEMENT TO PURCHASE SHARES OF SCI

On April 9, 2003 the Company signed a Purchase Agreement with Malaremastarnas Riksforening, the owner of all the shares of Skandinaviska Farginstitut AB (the Scandinavian Colour Institute or "SCI") which owns the color notation system Natural Color Systems ("NCS"), containing the terms of an acquisition by the Company or its assigns for a price of SEK 35,000,000 of all shares of SCI. Pursuant to the terms of the agreements the Company made payments of \$1,154,327 into an escrow account as part payment toward the purchase price. The Company subsequently failed to make further payments on the contracts and by mutual agreement the contracts were cancelled and the moneys paid were expensed.

12. SUBSEQUENT EVENTS

None

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

The Company is a development stage company engaged in the business of commercializing products and services based upon our spectral signature technology as reflected in our recently filed patent applications. These patent applications pertain to the use of controlled illumination with specific bands of electromagnetic radiation, detection of returned electromagnetic radiation and data management in an innovative manner enabling our devices to establish a unique spectral signature for both individual and classes of items. The unique spectral signature data can potentially be used in a variety of applications in areas such as brand protection, forgery detection, homeland security, medical diagnostics, quality control, fluids monitoring, metal stress analysis, and many others. As of December 31, 2008, the Company has six utility patent applications with the U.S. Patent Office.

The Company purchases its research and development services from outside third party sources. On March 15, 2006, the Company entered into a research and development contract with RATLab LLC, a privately-owned research laboratory in Seattle, Washington. Under the contract, RATLab performs research and development using the Company's existing intellectual property, as well as newly developed research and technologies in order to assist the Company with the commercialization of its core spectral signature technologies. During the three and twelve-month periods ended September 30, 2008, the Company made no payments for research and development fees to RATLab LLC. RATLab LLC is a research laboratory formed primarily by Dr. Thomas Furness, founder and former director of the Human Interface Technology Lab (HIT Lab) at the University of Washington, and one of the leading researchers in the world in the area of human interface technology. RATLab LLC also employs other leading scientists and research associates in the areas of computer science, imaging technology, and light sensing technology, who are part of the team conducting research on behalf of the Company.

The Company's research and development activities under its Research and Development Contract with RATLab LLC, however, were suspended on July 12, 2007 due to lack of funds. During the three month period ended December 31, 2008, the Company made no payments for research and development fees to RATLab LLC. Developmental activities, however, will resume with the RATLab under the terms of the new licensing agreement with the RatLab, which are set forth below.

On August 20, 2008, the Company entered into a letter of intent with the RatLab LLC. The purpose of the agreement contemplated by the letter of the intent was to achieve resolution of the relationship between the RatLab LLC and the Company and provide a means for a mutually beneficial on-going relationship. On October 23, 2008, the Company and the RatLab LLC entered into definitive agreements which provide for a non-commercial non-exclusive license of the Company's technology to the RatLab LLC for the purpose of continuing research and development with a license back to the Company for enhancements that are developed. Further, an exclusive license was entered into between the Company and the RatLab LLC for four fields of use: medical, agricultural, environmental and jewelry. This exclusive license provides for certain performance milestones, a market-rate royalty to the Company and an equity participation in an entity to be formed by the RatLab LLC to commercialize the Company's technology in the enumerated fields of use.

The Company intends to position its technology as both a revolutionary as well as a practical solution for security and fraud prevention applications and markets. The Company's current focus is to secure customers for its spectral signature technology and to capitalize upon the potential business opportunities in the areas of national security, document forgery/fraud, brand protection, label fraud and product tampering. However, the broad scope of the applications covered by the Company's patent applications may result in new opportunities surfacing from customers desiring prototypes designed to satisfy their specific technology needs. As of December 31, 2008, the Company had no customers.

The Company has developed prototypes which capture the spectral signatures of items and manage the data gathered. These prototypes are being shown to potential customers and funding sources to demonstrate the potential and capabilities of our devices. It is envisioned that once the Company has secured a customer or customers, it will collaborate with the customer to develop devices and specific applications of the Company's technology that are designed to address the customer's unique concerns. The Company will then hire new personnel sufficient to fulfill its development obligations under any contract entered into. In lieu of such hiring, the Company may contract with certain research organizations to perform development activities on behalf of the Company.

Through the formation and development of its Japanese division, the Company plans to facilitate the development of business relationships with Japanese license partners and to help build strong relationships between Visualant and the Japanese marketplace. The Company sees the expansion of Visualant into the Japanese market place as a key strategic move which will allow it to closely align with manufacturers and systems suppliers who can integrate the Visualant technology into their product offerings.

On April 17, 2008 the Company announced the formation of a majority owned Japanese subsidiary, Visualant Kabushiki Kaisha ("KK") headquartered in Tokyo, Japan. The Chairman of Visualant KK is Dr. Masahiro Kawahata, who also serves as a member of the Board of Directors for Visualant, Inc. For 100,000 shares of its common stock, Visualant, Inc. plans to purchase 66% of an existing entity of which Dr. Kawahata and Ron Erickson previously owned, and of which they will continue to own, 17% each. As of December 31, 2008, the purchase of the existing entity shares has not closed and the 100,000 Visualant shares have been issued, but still remain in the custody of the Company. They are not counted in the total Company shareholders count. The closing is expected to occur within the first half of calendar year 2009.

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

This Report on Form 10-Q contains certain forward-looking statements that are based on current expectations. When used in this discussion, the words "believe", "anticipates", "expects" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those projected, and should not be regarded as a representation by the Company or any other person that the objectives or plans of the Company will be achieved. The Company may encounter competitive, technological, financial and business challenges making it more difficult than expected to continue to develop and market its products; the market may not accept the Company's future products; the Company may not be able to retain existing key management personnel; and there may be other material adverse changes in the Company's operations or business. Assumptions relating to budgeting, marketing, and other management decisions are subjective in many respects and thus susceptible to interpretations and periodic revisions based on actual experience and business developments, the impact of which may cause the Company to alter its marketing or other budgets, which may in turn affect the Company's financial position and results of operations. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are also urged to carefully review and consider the other risk factors relating to the Company and the various disclosures made by the Company that attempt to advise interested parties of factors which affect the Company's business, in the Company's Annual Report on Form 10-KSB for the year ended September 30, 2008 as well as in the Company's periodic reports on Forms 10-Q and 8-K filed with the Securities and Exchange Commission (the "SEC"). The Company's financial statements are stated in United States Dollars and are prepared in accordance with United States Generally Accepted Accounting Principles.

Liquidity and Capital Resources

The Company has no revenue to date from its operations, and its ability to implement its plans for the future will depend on the future availability of financing. Such financing will be required to enable the Company to further develop its spectral signature technology and continue its operations. The Company intends to raise further funds through private placements of the Company's common stock and through short term borrowing. The financing activities of the Company are current and ongoing, and it will expand and accelerate its development program as the timing and amount of financing allow. However, there can be no assurance that the Company will be successful in obtaining additional capital for such technology development from the sale of its capital stock, or in otherwise raising substantial capital.

The Company's cost to continue operations as they are now conducted is approximately \$42,000 per month, and the Company does not have sufficient funds to cover existing operations. The Company needs to raise additional funds in order to continue its existing operations, to resume its research and development activities, and to finance its plans to expand its operations for the next year. The Company intends to raise the required funds by obtaining share capital from outside sources. During the quarter, operating funds were advanced to the Company by its Chairman, Ronald P. Erickson and salaries were deferred. If the Company is successful in raising additional funds, the Company's research and development efforts will continue and expand, and overdue accounts payable will be satisfied.

During the first quarter 2009, the Company converted \$482,095 of its outstanding indebtedness and accrued interest owed to Coventry Capital into 3,213,967 shares of the Company's common stock. Also occurring in the first quarter of 2009, in satisfaction of outstanding matters with the RatLab LLC, a total of 1,850,000 shares of the Company's common stock was issued, subject to certain restrictions, to current and former RatLab LLC employees and consultants, in settlement of outstanding matters with the RatLab LLC.

During first quarter of 2009 and excluding the conversion of amounts owed to Coventry Capital, the Company converted \$424,727.68 of its outstanding indebtedness into 2,825,043 shares of the Company's common stock.

On October 8, 2008 the board of directors granted Ron Erickson 500,000 shares of common stock, Lynn Felsing 300,000 shares of common stock, Dr. Masahiro Kawahata 300,000 shares of common stock, and Jon Pepper, Marco Hegyi, and Yoshitami Arai 50,000 shares of common stock. The shares of common stock were issued for past services performed and board grants.

Off-Balance Sheet Arrangements

The Company currently has no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, revenues or expenses, results of operations, liquidity or capital resources.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's controls and procedures (as defined in the Securities Act of 1934 Rule 13a-15(e) or Rule 15d-15(e)) as of the end of the period covered by this report, have concluded that the Company's disclosure controls and procedures are effective to give reasonable assurance that the information required to be disclosed in reports that the Company files under the Exchange Act is recorded, processed, summarized and reported as and when required.

(b) Changes in Internal Control Over Financial Reporting

There were no significant changes in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures subsequent to the Evaluation Date, nor any significant deficiencies or material weaknesses in such disclosure controls and procedures requiring corrective actions.

PART II. OTHER INFORMATION

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

During the first quarter 2009, the Company converted \$482,095 of its outstanding indebtedness and accrued interest owed to Coventry Capital into 3,213,967 shares of the Company's common stock. Also occurring in the first quarter of 2009, in satisfaction of outstanding matters with the RatLab LLC, a total of 1,850,000 shares of the Company's common stock was issued, subject to certain restrictions, to current and former RatLab LLC employees and consultants, in settlement of outstanding matters with the RatLab LLC. Dr. Thomas Furness and Dr. Brian Schowengerdt were awarded an additional 500,000 shares each which vest upon their completion of performance metrics as outlined in the license dated October 23, 2008.

During first quarter of 2009 and excluding the conversion of amounts owed to Coventry Capital, the Company converted \$424,727.68 of its outstanding indebtedness into 2,825,043 shares of the Company's common stock.

On October 8, 2008 the board of directors granted Ron Erickson 500,000 shares of common stock, Lynn Felsing 300,000 shares of common stock, Dr. Masahiro Kawahata 300,000 shares of common stock, and Jon Pepper, Marco Hegyi, and Yoshitami Arai 50,000 shares each of common stock. The shares of common stock were issued for past services performed and board grants. The board of directors also granted 250,000 shares valued at \$33,750 to Thelon Capital to provide future financial advisory services to the Company designed to help raise working capital. The public market stock price on October 8, 2008 was \$0.135 per share.

The 9,389,010 shares issued during the first quarter of 2009 were unregistered and fall under the purview of Rule 144 of the Securities Exchange Act of 1934, as amended.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

The exhibits required to be filed herewith by Item 601 of Regulation S-K, as described in the following index of exhibits, are attached hereto unless otherwise indicated as being incorporated by reference, as follows:

(a) Exhibits

- 3.1 Amended and Restated Articles of Incorporation, filed as an exhibit to the Company's annual report on Form 10-KSB filed on February 9, 2006, and incorporated herein by reference.
- 3.2 Bylaws incorporated herein by reference to the Company's Registration Statement on Form 10-SB filed on March 11, 1999.
- 4.1 2005 Combined Incentive and Non-Qualified Stock Option Plan of the Company, filed as an exhibit to the Company's Registration Statement on Form SB-2 filed on August 1, 2005, File no. 333-127100, and incorporated herein by reference.
- 10.1 Intellectual Property Agreement dated June 16, 2004 between the Company and Kenneth Turpin, filed as an exhibit to the Company's Registration Statement on Form SB-2 filed on August 1, 2005, File No. 333-127100, and incorporated herein by reference.
- 10.2 Letter Agreement dated November 10, 2006 between the Company and Bradley E. Sparks, Chief Executive Officer, President and a member of the Board of Directors.
- 10.3 Letter Agreement dated October 23, 2008 between the Company and RATLAB, LLC, and affiliates.
- 31.1 Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.1 Certificate Pursuant to 18 U.S.C. Section 1350 signed by the Chief Executive Officer
- 32.2 Certificate Pursuant to 18 U.S.C. Section 1350 signed by the Chief Financial Officer

SIGNATURES

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

VISUALANT, INCORPORATED

(Registrant)

Date: February 23, 2009

By: /s/ Bradley E. Sparks
Bradley E. Sparks
Chief Executive Officer, President, and Director

Date: February 23, 2009

By: /s/ Bradley E. Sparks
Bradley E. Sparks
Chief Financial Officer, and Secretary Treasurer



Visualant Incorporated
500 Union Street, Suite 406
Seattle, Washington 98101

November 10, 2006

Mr. Bradley E. Sparks
5320 West Mercer Way
Mercer Island, WA 98040

Dear Mr. Sparks:

On behalf of Visualant Incorporated (the "Company"), I am pleased to offer you the position of Chief Executive Officer, President, and a member of the Board of Directors of the Company commencing as of the Start Date indicated at the end of this offer. Your employment is subject to the following terms:

1. **Compensation.**

a. **Base Salary.** In this exempt position, you will earn a salary of Twenty Thousand Dollars (\$20,000) per month, which is equivalent to \$240,000.00 on an annualized basis (the "Base Salary"). Payment of your Base Salary hereunder shall be made in accordance with the relevant Company policies in effect from time to time, including normal payroll practices, and shall be subject to all applicable employment and withholding taxes. The Company will review your Base Salary on a yearly basis.

b. **Incentive Compensation.** You will be eligible to earn an annual incentive bonus in accordance with the bonus policy adopted by the Company for its senior executives.

2. **Employee Benefits.** The Company will provide you with the opportunity to participate in the standard benefits plans as may be available to other senior executives of the Company from time to time, subject to any eligibility requirements imposed by such plans. You will be subject to the Company's standard vacation policy for its executive officers.

3. **Equity Award.**

a. **Stock Options.** In connection with and upon the commencement of your employment, the Board of Directors has approved a grant of stock options (the "Options") to you to purchase One Million (1,000,000) shares of the Company's common stock under the Company's Combined Incentive and Non-Qualified Stock Option Plan (the "Stock Option Plan") at an exercise price of \$0.75 per share. The Options will have a term of five (5) years and will vest over a period of forty-two (42) months in accordance with the following vesting schedule: 25% of the shares covered by the Options will vest on the 6-month anniversary of the Start Date of your employment (which shall also be the option grant date), and an additional 25% will vest on each of the three successive 12-month periods following the 6-month anniversary date in accordance with the Stock Option Plan. Vesting will, of course, depend on your continued employment with the Company. The Options will be a combination of incentive and non-qualified stock options (in each calendar year the first 133,333 vested options will be incentive stock options and the remainder of the vested options will be non-qualified/non-statutory stock options), and will be subject to the terms and conditions of the Stock Option Agreement to be entered into between you and the Company in the form attached hereto.

b. **Acceleration Benefit.** If the Company is subject to the consummation of any merger or consolidation of the Company with or into another corporation, or to the consummation of any sale, lease, exchange or other transfer in one transaction or a series of related transactions of all or substantially all of the Company's assets or securities to a majority-owned subsidiary corporation (together, defined as a "Corporate Transaction"), and if your employment is terminated without Cause (as defined in Section 9.b. below, provided, however, that "Cause" shall include any breach of this letter agreement), and other than as a result of your death or disability, or you voluntarily terminate your employment for Good Reason (defined in Section 9.c. below, provided, however, that "Good Reason" shall include any breach of this letter agreement by the Company), then you will receive the benefits set forth in sections 9.a.i, 9.a.ii, 9.a.iii and 9.d., below, provided, however, that you execute the Company's standard form of release of all claims agreement.

4. **Employment Conditions.**

a. **Confidentiality Agreement; Policies.** Employment with the Company is contingent upon: (a) the execution and delivery to the Company's Chairman, of the Company's Confidential Information Invention Assignment, Non-Solicitation and Arbitration Agreement, and (b) your acknowledgment of and agreement with the Company's corporate policies, codes and procedures as in effect at the time of your hire.

b. **Right to Work.** For purposes of federal immigration laws, you will be required to provide to the Company documentary evidence of your identity and eligibility for employment in the United States upon request.

c. **Verification of Information.** This offer of employment also is contingent upon the successful verification of the information you provided to the Company during your application process, as well as a general background check performed by the Company to confirm your suitability for employment. By accepting this offer of employment, you warrant that all information provided by you is true and correct to the best of your knowledge, and you expressly release the Company from any claim or cause of action arising out of the Company's verification of such information.

5. **No Conflicting Obligations.** You understand and agree that by accepting this offer of employment, you represent to the Company that your performance will not breach any other agreement to which you are a party and that you have not, and will not during the term of your employment with the Company, enter into any oral or written agreement in conflict with any of the provisions of this letter or the Company's policies. You are not to bring with you to the Company, or use or disclose to any person associated with the Company, any confidential or proprietary information belonging to any former employer or other person or entity with respect to which you owe an obligation of confidentiality under any agreement or otherwise. The Company does not need and will not use such information, and we will assist you in any way possible to preserve and protect the confidentiality of proprietary information belonging to third parties. Also, we expect you to abide by any obligations to refrain from soliciting any person employed by or otherwise associated with any former employer and suggest that you refrain from having any contact with such persons until such time as any non-solicitation obligation expires.

6. **General Obligations.** As an employee, you will be expected to adhere to the Company's standards of professionalism, loyalty, integrity, honesty, reliability and respect for all. In addition, you shall acknowledge, agree to, and comply with all of the Company's corporate policies, codes and procedures as in effect at the time of your hire and as modified or introduced from time to time. The Company does not permit, and will not tolerate, the unlawful discrimination or harassment of any employees, consultants, or related third parties on the basis of sex, race, color, religion, age, national origin or ancestry, marital status, veteran status, mental or physical disability or medical condition, sexual orientation, pregnancy, childbirth or related medical condition, or any other status protected by applicable law.

7. **At-Will Employment.** Your employment with the Company will be on an "at will" basis, meaning that either you or the Company may terminate your employment at any time for any reason or no reason, without further obligation or liability except as provided herein and in the Stock Option Plan and Confidentiality Agreement. The Company also reserves the right to modify or amend the terms of your employment at any time for any reason. This policy of at-will employment is the entire agreement as to the duration of your employment and may only be modified in an express written agreement signed by the Chairman of the Board of Directors.

8. **Outside Activities.** During the time you are employed by the Company, you agree that you will not engage in any other employment, consulting or other business activity without the prior written consent of the Company, it being understood that: (a) you may undertake civic, charitable and other similar duties as long as, in the opinion of the Company's Board of Directors, they do not interfere with the performance of your duties hereunder; and (b) you may serve on the board of directors of two other public or private companies as long as doing so, in the opinion of the Company's Board of Directors, does not give rise to a conflict of interest with the Company. While you render services to the Company, you also will not assist any person or entity (i) in competing with the Company, (ii) in preparing to compete with the Company, or (iii) in soliciting or hiring any employees or consultants of the Company.

9. Termination and Severance Benefits.

a. General Terms. Without in any way limiting the Company's policy of at-will employment, if your employment is terminated by the Company without Cause (as defined in Section 9.b. below), and other than as a result of your death or disability, or you voluntarily terminate your employment for Good Reason (as defined in Section 9.c. below), the Company will offer certain severance benefits to you as set forth in Sections 9.a.(i) and 9.a.(ii). As a condition to your receipt of such benefits, you are required to comply with your continuing obligations (including the return of any Company property), resign from all positions you hold with the Company, and execute the Company's standard form of release agreement releasing any claims you may have against the Company.

(i) **Cash Payments.** The Company will provide you with severance equal to 100% of your then-current annualized Base Salary paid out on a pro rata basis in accordance with the Company's regular payroll schedule over the year following the effective date of your termination; provided, however, that in the case of your termination for Good Reason under Section 9.c.(v), such payment will be made in a lump sum on or as soon as practicable after the effective date of termination.

(ii) **Accelerated Options.** The vesting of the Option will accelerate as to the number of shares that would otherwise have vested and been exercisable as of the date that is twelve (12) months from the date of termination; provided, however, that in the event of acceleration as the result of a Corporate Transaction, the Options will vest immediately before the consummation of the Corporate Transaction.

(iii) **Continued Benefits.** As further consideration, you will continue to receive all benefits specified in Section 2 of this letter agreement to the maximum extent allowed by the Company's benefit plans, for a period not to exceed twelve (12) months following the effective date of your termination. If you elect continued group medical insurance coverage pursuant to COBRA, the Company will reimburse you for the applicable premiums (less any premium contributions payable by employees at the time) for you and your eligible dependents for the first twelve (12) months of such coverage, up to a maximum of ten thousand dollars (\$10,000) in the aggregate.

b. Definition of Cause. The Company may terminate your employment and this agreement at any time for "Cause" immediately upon written notice to you. As used herein, the term "Cause" shall mean that you have: (i) been convicted of a felony involving moral turpitude, controlled substances, securities law violations, antitrust laws, tax or financial reporting, or physical violence or a single act of fraud, or embezzlement; or (ii) violated any material written Company policy or rules of the Company, unless cured by you within thirty (30) days following written notice to you of such violation; or (iii) repeatedly failed to perform your duties as CEO and President of the Company, or refused to follow the reasonable written directions given by the Company's Chairman or the Board from time to time, or breached any covenant or obligation under this agreement or other agreement with the Company, unless cured by you within thirty (30) days following written notice to you of such breach or failure; or (iv) engaged in any illegal conduct which adversely affects the reputation of the Company. Notwithstanding anything to the contrary, "Cause" shall not mean any act or omission believed by you in good faith to have been in, or not opposed to, the best interest of the Company (without intent to personally gain, directly or indirectly, a profit or advantage to which you were not legally entitled).

c. **Good Reason.** You may end your employment and terminate this agreement at any time, with or without “Good Reason” (as defined herein), subject to giving thirty (30) days written notice of said resignation or termination to the Board of Directors or the Chairman of the Company. For purposes of this Agreement, “Good Reason” shall mean any of the following:

- (i) A material breach of this agreement by the Company which is not cured within thirty (30) days after receipt of written notice of such breach from you to the Company, identifying the specific breach;
- (ii) A change in your status, title, position or responsibilities (including reporting responsibilities) that, in your reasonable judgment, represents a substantial reduction in the status, title, position or responsibilities as in effect immediately prior thereto; the assignment to you of any duties or responsibilities that, in your reasonable judgment, are inconsistent with such status, title, position or responsibilities or any removal of you from or failure to reappoint or reelect you to any of such positions, except in connection with the termination of your employment for Cause, for Disability or as a result of your death, or by you other than for Good Reason;
- (iii) Any requirement that you relocate, without your consent, your principal residence from the Seattle, Washington, metropolitan area;
- (iv) The relocation, without your consent, of your primary place of work to a location which is more than thirty-five (35) highway miles from your designated location on your Start Date;
- (v) The failure of the Company to obtain a satisfactory agreement from any successor company to assume and perform the Company’s obligations under this agreement;
- (vi) A reduction in your annual base salary, or
- (vii) Any purported termination of your employment or service for Cause by the Company that does not comply with the terms of the Agreement.

d. **Excise Tax Liability.** In the event that it is determined that any payment, distribution or benefit of any type to or for the benefit of you made by the Company, by any of its affiliates, by any person who acquires ownership or effective control of ownership of a substantial portion of the Company’s assets (within the meaning of section 280G of the Internal Revenue Code of 1986, as amended (the “IRC”) and the regulations thereunder) or by any affiliate of such person, whether paid or payable or distributed or distributable or otherwise made available pursuant to the terms of an employment agreement or otherwise, including the accelerated vesting of stock options or other equity-based awards (the “Total Payments”), would be subject to the excise tax imposed by section 4999 of the IRC or any interest or penalties with respect to such excise tax (such excise tax, together with any such interest or penalties, are collectively referred to as the “Excise Tax”), then you shall be entitled to receive an additional payment (an “Excise Tax Restoration Payment”) in an amount that shall fund the payment by you of any Excise Tax on the Total Payments as well as all income taxes imposed on the Excise Tax Restoration Payment, any Excise Tax imposed on the Excise Tax Restoration Payment and any interest or penalties imposed with respect to taxes on the Excise Tax Restoration or any Excise Tax. The Excise Tax Restoration Payment shall be calculated applying the then highest marginal tax rates.

10. Termination for Cause. Upon termination of your employment by the Company for Cause (as defined in Section 9 above), the Company shall be under no further obligation to you, except to pay all accrued but unpaid Base Salary and accrued vacation time to you up to the effective date of your termination of employment.

11. Surrender of Records and Property. Upon termination of your employment with the Company for any reason, you shall promptly deliver to the Company all records, manuals, books, blank forms, documents, letters, memoranda, notes, notebooks, reports, data, tables, calculations or copies thereof, which are the property of the Company and which relate in any way to the business, products, practices or techniques of the Company, and all other property, trade secrets and confidential information of the Company, including, but not limited to, all documents which in whole or in part contain any trade secrets or confidential information of the Company, which in any of these cases are in your possession or under your control.

We are delighted to be able to extend you this offer and look forward to working with you. To indicate your acceptance of the Company's offer, please sign this letter in the space provided below and return it to me. The Company requests that you begin work in this new position on November 10, 2006 (your "Start Date"). This letter, together with the Confidentiality Agreement, sets forth the terms of your employment with the Company and supersedes any prior representations or agreements, whether written or oral. This letter will be governed by the laws of the State of Washington. This letter may not be modified or amended except by a written agreement, signed by the Chairman of the Board of Directors.

Very truly yours,
Visualant Incorporated

/s/ Ronald P. Erickson

Ronald P. Erickson, Chairman

ACCEPTED AND AGREED TO:

/s/ Bradley E. Sparks

Bradley E. Sparks



Via Electronic Mail

October 23, 2008

Dr. Tom Furness
RATLab, LLC
5607 40th Ave NE
Seattle, WA 98115

RE: Letter Agreement

Dear Tom:

The purpose of this Letter ("Letter") is to set forth the agreement between Visualant, Inc. and assigns ("VSUL") and RATLAB, LLC, and affiliates ("RATLAB"), with respect to a resolution of outstanding matters between the parties, proposed future collaboration between the parties and licensing and equity participation agreements whereby assigns will exploit the VSUL technology in certain enumerated fields of use, and VSUL are sometimes collectively referred to as "parties" and individually as a "party."

1. SUMMARY OF TERMS. The following paragraphs constitute a description of the parties' agreements with respect to the transactions. Except as described herein, this Letter is binding on the parties and the provisions described below shall be enforceable against the parties either in the manner set forth in the individual agreements referenced herein and attached hereto or as described below.

1.1 VSUL has provided a non-exclusive non-commercial license referenced in Exhibit A and made a part of this agreement by this reference.

1.2 VSUL has provided an exclusive, world-wide, commercial license to the referenced in Exhibit B and made a part of this agreement by this reference.

1.3 RATLAB shall provide to VSUL a license on independently developed and RATLAB owned IP referenced in Exhibit C and made a part of this agreement by this reference.

1.4 In addition to the royalties payable to VSUL under the license described in Section 1.2, if at any time the RATLAB elects to create an affiliate to exploit the VSUL IP under the Section 1.2 license, the RATLAB will provide VSUL 10% of the initial equity of such affiliate in consideration for the granting of the initial equity of such affiliate in consideration for the granting of Section 1.2 license to RATLAB. The VSUL interest in such RATLAB affiliate shall benefit from the same preemptive rights and other protections, if any, enjoyed by the other founders and will be subject to the same dilution risk from additional investment, stock option grants, etc. as the other founders face.

1.5 Upon request, VSUL may grant one or more non-exclusive or exclusive commercial licenses to the VSULIP to the RATLAB in designated fields of use outside of the Exclusive Fields. The scope and terms of such additional licenses will be negotiated in good faith at the time of grant and will reflect the royalty rates for the Exclusive Fields, with equitable adjustments to reflect differences in scope, duration, industry, and other nuances inherent in the license. The license agreement memorializing this intent is attached hereto as Exhibit D to this Letter and incorporated herein by this reference.

1.6 VSUL shall issue the RATLAB and RATLAB personnel VSUL common stock in the amounts and for the benefit of the individuals as set forth in Exhibit E to this the Letter and incorporated herein by this reference. The common stock in the "vested column" for all individuals shall immediately vest. The additional common stock for Messrs Furness and Schowengerdt shall vest upon according to the schedule set forth in Exhibit F to the Letter and incorporated herein by this reference.

1.7 Upon receipt of debt or equity financing from any source in an amount of at least \$100,000, VSUL shall pay the RATLAB the amount of \$65,000 in cash for previously unpaid invoices, which amount shall bear simple interest at the annual rate of eighteen percent (18%) from June 1, 2007 until paid. Upon payment the RATLAB shall deliver the two demonstration units remaining to be delivered.

1.8 VSUL shall pay the RATLAB for work on an on-going basis on rates and pursuant to terms which are to be negotiated.

2. DEFINITIVE AGREEMENTS. This agreement and the agreements attached hereto are the definitive agreements covering the transactions between the parties.

3. MEDIATION. The parties hereto agree that any disputes arising out of the interpretation of this Letter and/or the agreements attached hereto shall be adjudicated by JAMS in Seattle, WA applying the laws of the State of Washington. The prevailing party in any such matter determined by JAMS shall be paid their costs and attorneys fees.

4. CONFIDENTIALITY. Any press releases or public announcements of activities relating to this Letter and its attached agreements shall be approved by both parties hereto.

5. DISCLAIMER OF LIABILITIES. Except to the extent otherwise provided in this Letter and the agreements attached hereto each party shall be solely responsible for its own expenses, legal fees and consulting fees related to the negotiations described in this Letter.

6. **BINDING NATURE OF THIS LETTER.** This Letter as a whole, is intended to constitute, and shall constitute a legal and binding obligation, contract or agreement between the parties, and is intended to be relied upon by any party as constituting such.

7. **ENTIRE AGREEMENT.** This Letter and the other agreements attached hereto constitutes the entire agreement, and supersedes any and all prior agreements (including, without limitation, the Confidential Letter of Intent, dated August 13, 2008) between the parties with regard to the transactions described in this Letter. No amendment of any provision of this Letter of the other agreements attached hereto will be valid unless set forth in a written instrument signed by both parties. In the event of any conflict between this Letter and any of the other agreements attached hereto, the terms of the applicable agreement will govern.

8. **COUNTERPARTS.** This Agreement may be executed in two or more counterparts, each of which when so executed shall be deemed an original, but all of which taken together shall constitute one and the same document.

Sincerely,

/s/ Ron Erickson

Visualant, Inc.
By: Ron Erickson Its: Chairman

ACCEPTED AND AGREED as of
23, OCT 2008

RATLAB, LLC

/s/ Tom Furness

Dr. Tom Furness, Manager

Exhibit A

Exclusive Fields License Terms and Performance Criteria

- Scope: World-wide, exclusive, irrevocable, assignable, sublicensable license to commercialize and exploit the VSUL IP in the environmental, agricultural, gemology and jewelry fields of use. Without limiting the generality of the foregoing, the license will include the rights to: (a) use, develop, make, have made and distribute the VSUL IP world-wide for applications related to the Exclusive Fields; (b) use, develop, make, have made and distribute improvements or enhancements owned by the RATLAB world-wide for applications related to the Exclusive Fields; (c) exercise any other rights under the VSUL IP in the Exclusive Fields (including, without limitation, the right to take any action against any past, present or future infringement, misappropriation or a violation of the VSUL IP in the Exclusive Fields; and (d) sublicense any of the rights granted under the license for purposes of developing, manufacturing or distributing products related to the Exclusive Fields.
- Term: With respect to any patents included in the VSUL IP--The shorter of (i) 10 years from date of grant or (ii) the remaining term of the patent. With respect to patented VSUL IP-10 years.
- Royalty: 5% of gross revenue received from actual sales of products incorporating one or more patents included in the VSUL IP. This royalty obligation will cease upon expiration of the subject patent(s).

Exclusivity Conditions:

For the Exclusive Field license to remain exclusive the RATLAB shall have completed the following within the specified time:

- Create an affiliate for the purpose of commercializing the VSUL IP in the Exclusive Fields within six months of the grant of the license.
- Obtain funding of the affiliate so that it is operational on a stand alone basis within twenty-four months of the grant of the license. (Stand alone is defined as being able to support its own officers and staff, and conduct research either on its own or in conjunction with the RATLAB.
- Develop a demonstration unit of the technology within an Exclusive Field within three years of the grant of the license.
- Deliver the first royalty check to VSUL within five years of the grant of the license.

In the event that any of the aforementioned performance benchmarks are not achieved, the Exclusive Field license shall become non-exclusive for the duration of its term.

Exhibit B

Name	SHARES VESTED	SHARES TO VEST (per Schedule C)
Furness, Thomas	700,000	500,000
Schowengerdt, Brian	700,000	500,000
Walker, Nicholas	80,000	
Melville, Ross	100,000	
Burstein, Bob	80,000	
Burnette, John	80,000	
Chinthammit, Winyu	20,000	
Schroder, Konrad	80,000	
Jones, Alden	10,000	
TOTAL	1,850,000	1,000,000

Exhibit C

VSUL Common Stock Vesting Schedule for each of Furness and Schowengerdt

150,000 shall vest upon the completion of the demonstration to JFE and/or another Japanese company associated with Visualant KK. In the case that this milestone cannot be met with a Japanese Company, alternatively a demonstration to any international company associated with VSUL or Visualant KK.

150,000 shall vest upon the closing of a financing for the RATLAB affiliate that is developing commercial applications within the Exclusive Fields.

200,000 shall vest upon the first commercial sale of a product developed pursuant to the Exclusive Fields license.

CERTIFICATION PURSUANT TO SECTION 302 (A) OF THE SARBANES-OXLEY ACT OF 2002

I, Bradley E. Sparks, President and Chief Executive Officer of Visualant, Incorporated, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended December 31, 2008 of Visualant, Incorporated, the registrant;
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 quarterly report;
3. Based on my knowledge, the financial statements, and other than financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we 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 any of its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal controls over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal controls over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee (if any) of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: February 23, 2009

/s/ Bradley E. Sparks

Bradley E. Sparks
Chief Executive Officer, President and Director

CERTIFICATION PURSUANT TO SECTION 302 (A) OF THE SARBANES-OXLEY ACT OF 2002

I, Bradley E. Sparks, Chief Financial Officer of Visualant, Incorporated, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended December 31, 2008 of Visualant, Incorporated, the registrant;
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 quarterly report;
3. Based on my knowledge, the financial statements, and other than financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we 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 any of its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal controls over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal controls over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee (if any) of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: February 23, 2009

/s/ Bradley E. Sparks

Bradley E. Sparks
Chief Financial Officer and Secretary Treasurer

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

In connection with the Quarterly Report of Visualant, Incorporated on Form 10-Q for the period ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bradley E. Sparks, Chief Executive Officer, President and Director 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, to the best of my knowledge and belief:

- (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.

/s/ Bradley E. Sparks

Bradley E. Sparks
Chief Executive Officer, President and Director

Date: February 23, 2009

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

In connection with the Quarterly Report of Visualant, Incorporated on Form 10-Q for the period ended December 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bradley E. Sparks, Chief Financial Officer and Secretary Treasurer 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, to the best of my knowledge and belief:

- (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.

/s/ Bradley E. Sparks

Bradley E. Sparks
Chief Financial Officer and Secretary-Treasurer

Date: February 23, 2009
