

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

FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

For the fiscal year ended September 30, 2009

TRANSACTION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transaction period from \_\_\_\_\_ to \_\_\_\_\_

Commission File number 0-25541



**VISUALANT, INCORPORATED**

(Exact name of registrant as specified in its charter)

**Nevada**

**91-1948357**

(State or other jurisdiction of incorporation  
or organization)

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

**500 Union Street, Suite 406  
Seattle, Washington**

**98101**

(Address of principal executive offices)

(Zip Code)

Issuer's telephone number, including area code

206-903-1351

Securities registered pursuant to Section 12 (b) of the Exchange Act:

**Common**

**OTCBB**

(Title of each class)

(Name of each exchange on which registered)

Securities registered pursuant to Section 12 (g) of the Exchange Act:

**None**

(Title of Class)

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 Section 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 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 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 in response to Item 405 of Regulation S-K (§229.405) 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.  Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  
(Do not check if a 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 March 31, 2009 (the last business day of our most recently completed second fiscal quarter), based upon the last reported trade on that date, the aggregate market value of the voting and non-voting common equity held by non-affiliates (for this purpose, all outstanding and issued common stock minus stock held by the officers, directors and known holders of 10% or more of the Company's common stock) was \$2,077,306.

State the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

As of January 12, 2010, the Company had 29,262,707 shares of common stock issued.

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## PART I

### ITEM 1. DESCRIPTION OF BUSINESS

#### Overview

Visualant, Incorporated, a Nevada corporation (the "Company"), was incorporated on October 8, 1998. The Company has no subsidiaries or affiliated companies. The Company's executive offices are located in Seattle, Washington. In its first few years the Company pursued various business opportunities that it no longer is involved with.

The Company is a development stage company engaged in the business of commercializing products and services based upon our spectral signature technology as described below and reflected in our patent applications filed in 2007. 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 September 30, 2009, the Company has six utility patent applications with the U.S. Patent Office.

#### History and Organization

In 2004, eVision, a Vancouver, Canada based research organization, began development of its color technology providing 3D spectral-based pattern file creation and matching under contract with the Company. As a result of this work, the Company owns technology that makes it possible to create color pattern files from any digital photograph or scan, without having to reprint, recreate, recall or modify existing digital source of documents. Those pattern files can then be matched against existing databases to detect and identify crime, forgery, counterfeiting and other frauds. It is the intent of the Company to develop this technology to provide a new, accurate and fast detection tool for critical applications such as national security, forgery/fraud prevention, brand protection, and product tampering. As of the time of this filing, no commercial products have been developed using this technology and no significant progress has been made in such development.

In 2006, the Company entered into a research and development contract with RATLab LLC, a privately-owned research laboratory in Seattle, Washington. RATLab is an acronym for "Rockin' and Thinking Laboratory." Under the contract, RATLab performed 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 described above. 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 ongoing research and development activities under its Research and Development Contract with RATLab LLC, were suspended on July 12, 2007 due to an absence of financing. During the year ended September 30, 2008, the Company made no payments for research and development fees to RATLab LLC. Developmental activities, however, resumed under the terms of a 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 any entity to be formed by the RATLab LLC to commercialize the Company's technology in the enumerated fields of use.

On March 20, 2009, the RATLab LLC formed NovaBeam LLC for the purpose of continuing development of and commercializing the Visualant technology in the field of medical diagnostics. As a consequence of the aforementioned agreement between Visualant and the RATLab, Visualant obtained a ten percent (10%) equity interest in NovaBeam in addition to a market rate royalty for any revenues to be derived from sales of NovaBeam's commercialization of the Visualant technology. Visualant paid \$50 for this equity interest in July 2009.

The Company has no revenue to date from its operations, and its ability to affect its plans for the future will depend on the availability of financing. Such financing will be required to enable the Company to develop its technology. The Company anticipates obtaining such funds from its officers and directors, financial institutions or by way of the sale of its capital stock through private offerings. However, there can be no assurance that the Company will be successful in obtaining additional capital from the sale of its capital stock, or in otherwise raising substantial capital.

## ITEM 1. DESCRIPTION OF BUSINESS - *continued*

### History and Organization - *continued*

During the fiscal year ended September 30, 2009, the Company filed with the SEC various documents such as Forms 10-KSB, 10-QSB and 8-K. The Company does not intend to distribute an annual report to its shareholders for the fiscal year ended September 30, 2009.

The shareholders may read and copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C., 20549. The shareholders may obtain information on the operations of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site that contains reports, proxy and information statements, and other information which the Company has filed electronically with the SEC, by accessing the website using the following address: <http://www.sec.gov>. The Company is prepared to distribute, upon request from shareholders, any of the material previously filed with the SEC. The Company also has a website at [www.visualant.net](http://www.visualant.net) from which additional information about the Company can be obtained. There is a link on the website to a Twitter account maintained by the Company at [www.twitter.com/visualant](http://www.twitter.com/visualant).

### Plan of Operation

The Company positions its technology as both a transformative 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 September 30, 2009, the Company had no customers. In addition, the Company has worked to develop market channels to enable it to gain proximity to potential customers.

The Company has developed working prototypes which capture the spectral signatures of items and manage the data gathered. These prototypes are being shown to potential customers, partners 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 and applications. 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.

By working with the Japanese members of its Board of Directors, Dr. Masahiro Kawahata and Yoshitami Arai, the Company plans to facilitate the development of business relationships with Japanese persons and entities 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. In Fiscal year 2008 it was anticipated that this strategy would be implemented by the Company establishing a subsidiary in Japan. The Company decided not to take that approach and is, instead, looking at various possible business relationships.

As disclosed in the Company's Form 8-K filed with the SEC on November 23, 2009, the Company has entered into a letter of intent with regard to the possible acquisition of TransTech Systems, Inc. Due diligence is continuing. If the Company proceeds with this acquisition, it is anticipated that it will close in the first calendar quarter of 2010. No assurance can be given at this time that the acquisition will in fact be completed as it is subject to many conditions, some of which have yet to be fulfilled.

### Special Note Regarding Forward-Looking Statements

This Report on Form 10-K contains certain forward-looking statements that are based on current expectations. When used in this discussion, the words "may", "will", "should", "expects", "plans", "anticipates", "believe", "anticipates", "expects", "estimates", "predicts", "potential" or "continue" or the negative of these terms and similar expressions are intended to identify forward-looking statements. Such statements are only predictions and are subject to certain risks and uncertainties, both known and unknown, including the risks in the section entitled "Risk Factors", 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.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, the Company does not intend to update any of the forward-looking statements to conform these statements to actual results or to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

The Company's financial statements are stated in United States Dollars and are prepared in accordance with United States Generally Accepted Accounting Principles. In this annual report, unless otherwise specified, all dollar amounts are expressed in United States Dollars.

## ITEM 1A. RISK FACTORS

There are certain inherent risks which will have an effect on the Company's development in the future and some of these risk factors are noted below but are not all encompassing since there may be others unknown to management at the present time which might have an impact in the future on the development of the Company.

### 1. **The Company is uncertain if it will be able to obtain additional capital necessary to continue development of its technology.**

The Company has incurred a cumulative net loss for the period from October 8, 1998 (date of inception) to September 30, 2009 of \$7,625,357. As a result of these losses and negative cash flows from operations, the Company's ability to continue operations will be dependent upon the availability of capital from outside sources unless and until it achieves profitability.

### 2. **Whether the Company will continue to be a going concern**

The Company's auditors' concern in the audit opinion with regard to the Company's financial statements as at September 30, 2009 as to whether the Company will be able to raise sufficient funds to complete its objectives indicates that the Company might not be able to continue as a going concern. Without adequate future financing, the Company might cease to operate and the existing shareholders and any future shareholders will lose their entire investment.

### 3. **Some of the present shareholders have acquired shares at extremely low prices**

Some of the present shareholders have acquired shares at prices as low as \$0.001 per share, whereas other shareholders have purchased their shares at prices ranging from \$0.15 to \$0.75 per share.

### 4. **Future issuance of stock options, warrants and/or rights will have a diluting factor on existing and future shareholders**

The grant and exercise of stock options, warrants or rights to be issued in the future will likely result in a dilution of the value of the Company's common shares for all shareholders. The Company has established a Combined Incentive and Non-Qualified Stock Option Plan and may in the future issue further stock options to officers, directors and consultants which will dilute the interest of the existing and future shareholders. Moreover, the Company may seek authorization to increase the number of its authorized shares and sell additional securities and/or rights to purchase such securities at any time in the future. Dilution of the value of the common shares will likely result from such sales.

### 5. **The Company does not expect to declare or pay any dividends**

The Company has not declared or paid any dividends on its common stock since its inception, and it does not anticipate paying any such dividends for the foreseeable future.

### 6. **Conflict of interest**

Some of the Directors of the Company are also directors and officers of other companies, and conflicts of interest may arise between their duties as directors of the Company and as directors and officers of other companies.

### 7. **Concentration of ownership by management.**

The management of the Company and their immediate family members, either directly or indirectly, own or control 5,985,681 shares as of the filing date. Even though this represents only 20.5% of the issued and outstanding shares, it might be difficult for any one shareholder to solicit sufficient votes to replace the existing management. Therefore, any given shareholder may never have a voice in the direction of the Company.

### 8. **Key-man insurance**

The Company carries no key-man insurance. In the event that any of the Company's senior executive officers departed the Company or passed away, the Company may not have the available funds to attract an individual of similar experience. Management is considering obtaining key-man insurance once it has sufficient funds to do so.

### 9. **Limited full time employees**

The only employee who worked full time for the Company was its Chief Executive Officer and President, Bradley E. Sparks. The other directors devote time to the activities of the Company as required from time to time. On November 12, 2009, Ronald P. Erickson replaced Mr. Sparks. At the present time, other than Mr. Erickson, the Company has no full-time employees.

**ITEM 1A. RISK FACTORS - continued**

**10. Trading in the Company's stock is restricted by the SEC's Penny Stock Regulations which limit a stockholder's ability to buy and sell the Company's shares.**

The SEC has adopted regulations which generally define "penny stock" to be any equity security that has a market price (as defined) less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. Under the penny stock rules, additional sales practice requirements are imposed on broker-dealers who sell to persons other than established customers and "accredited investors." The term "accredited investor" refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to broker-dealers to trade in the Company's securities. The penny stock rules may discourage investor interest in and limit the marketability of, the Company's common stock.

**11. Recently Enacted and Proposed Regulatory Changes**

Recently enacted and proposed changes in the laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002 and rules proposed by the SEC and NASDAQ could cause the Company to incur increased costs as it evaluates the implications of new rules and responds to new requirements. The new rules will make it more difficult for the Company to obtain certain types of insurance, including directors and officers liability insurance, and the Company may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for the Company to attract and retain qualified persons to serve on the Company's board of directors, or as executive officers. The Company is presently evaluating and monitoring developments with respect to these new and proposed rules, and it cannot predict or estimate the amount of the additional costs it may incur or the timing of such costs.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

**Offices**

The Company's executive offices are located at 500 Union Street, Suite 406, Seattle, Washington, USA, 98101. The office is located in premises which are also used by the Chairman of the Board of the Company for other business interests. The Company pays rent of \$400.00 per month for using this office.

**Other Property**

The only property owned by the Company is its intellectual property. During 2007, the Company filed additional patents covering work that the RATLab LLC performed. The patents focus on using photonics to establish a unique identifier for objects, on communicating that identifier, and on comparing it against a template. The Company has received notification from the U.S. Patent and Trademark Office that the original patent filed was denied. It was determined by the Company that it was not economically feasible to contest the finding. As of the report date, the Company has not received any notification from the U.S. Patent and Trademark Office as to whether any of the patents filed in 2007 will be granted.

**ITEM 3. LEGAL PROCEEDINGS**

There are no legal proceedings to which the Company is a party or to which its property is subject, nor to the best of management's knowledge are any material legal proceedings contemplated.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The last annual shareholders' meeting was held on August 7, 2002. No matters have been submitted to a vote of securities holders in the most recent fiscal year.

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

The Company's common stock currently is quoted on the OTCBB. During the past year, however, there has been a very limited trading market for the Company's common stock. Since its inception, the Company has not paid any dividends on its common stock, and the Company does not anticipate that it will pay dividends in the foreseeable future. As at September 30, 2009 the Company had 29,162,707 shares of common stock issued and outstanding held by 120 shareholders of record. In addition, the Company had outstanding options to purchase 1,310,000 shares of common stock at exercise prices ranging from \$0.15 to \$0.75 per share.

**Securities authorized for issuance under equity compensation plans.**

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	
Equity compensation plans approved by security holders	1,310,000	\$0.67	1,135,000
Equity compensation plans not approved by security holders	0		
Total	1,310,000		1,135,000

**Recent issuance of unregistered securities**

On October 10, 2008, the Company converted \$906,823 of debt at \$0.15 per share into 6,045,487 shares of the Company's common stock. On March 27, 2009, the Company converted \$152,971 of debt at \$0.15 per share into 1,019,806 shares of the Company's common stock. On August 14, 2009 the Company converted \$60,000 of debt at \$0.15 per share into 400,000 shares of the Company's common stock. These stock issuances were exempt from registration under Section 4(2) of the Securities Act of 1933.

**ITEM 6. SELECTED FINANCIAL DATA**

The Registrant is a "smaller reporting company" as defined Rule 10(f)(1) of Regulation S-K, and as such is not required to present the information required under this Item.

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

Then Company is currently focusing on the commercialization and distribution of the technology that it has had developed over the last five years. These efforts are more fully described above under "Item 1, Business."



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

**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. A summary of the private placements completed in FY 2009 is included above under Item 5. 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 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 year, 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 fiscal year 2009, the Company converted \$1,119,794 of its outstanding indebtedness and accrued interest owed various trade creditors into Company common stock as described above under Item 5.

**Results of Operations**

The Company has had no revenues from operations since its inception. In fiscal year 2009, the Company has continued its focus on technology development and seeking channels for connections with and distribution of products to the Company's potential customers. In particular, the Company expanded its pursuit of a distribution partner to provide access to potential customers and bring insight about potential customer requirements. The Company met with numerous potential distribution partners during the fiscal year. The Company and its RATLab technology partner provided numerous demonstrations to potential customers and joint venture partners. Additionally, through trade show activity, the Company explored potential partnerships and applications for its technology. While the economic climate during this past fiscal year has been challenging and the capital markets more restrictive than in recent memory, the Company and its management believe that the Company's technology provides transformative solutions for security, authentication and diagnostic applications which are cost effective and can reduce the costs associated with counterfeiting.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Registrant has no investments in any market risk sensitive instruments either held for trading purposes or entered into for other than trading purposes.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The financial statements of the Company are included following the signature page to this Form 10-K. The Registrant is a "smaller reporting company" as defined Rule 10(f)(1) of Regulation S-K, and as such is not required to present any "Supplementary Data"

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

The reports of the Company's independent accountants, Madsen & Associates, CPA's Inc., for the financial statements as of September 30, 2008 and 2009 are included herein. To the Company's knowledge, there are no disputes with our auditors.

**ITEM 9A. 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 September 30, 2009, have concluded that the Company's disclosure controls and procedures are not 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 in the SEC rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures.

## ITEM 9A. CONTROLS AND PROCEDURES - *continued*

### (b) Management's Report on Internal Control Over Financial Reporting

Our Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(c) and (d) of the Exchange Act. Our internal controls are designed to provide reasonable assurance that the reported financial information is presented fairly, financial disclosures are adequate and that the judgments inherent in the preparation of financial statements are reasonable and in accordance with generally accepted accounting principles of the United States of America (GAAP).

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, because of changes in conditions, effectiveness of internal control over financial reporting may vary over time.

We evaluated control deficiencies identified through our test of the design and operating effectiveness of controls over financial reporting to determine whether the deficiencies, individually or in combination, are significant deficiencies or material weaknesses. In performing the assessment, our management has identified one material weakness in internal control over financial reporting existing as of September 30, 2009. Our evaluation of the significance of each deficiency included both quantitative and qualitative factors. Based on that evaluation, the Company's management concluded that as of September 30, 2009 and as of the date that the evaluation of the effectiveness of our internal controls and procedures was completed, the Company's internal controls are not effective, as follows:

Our size has prevented us from being able to employ sufficient resources to enable us to have an adequate level of supervision and segregation of duties within our internal control system. There is one person involved in processing transactions. Therefore, it is difficult to effectively segregate accounting duties. While we strive to segregate duties as much as practicable, there are insufficient financial resources to justify additional staff. As a result, this significant internal control deficiency is not expected to be remediated until the Company secures customers and additional financial resources. This lack of segregation of duties leads management to conclude that the Company's disclosure controls and procedures are not 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.

Other than the weakness identified above, there were no other changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permits the Company to provide only management's report in this annual report.

## ITEM 9B. OTHER INFORMATION

There is no additional information that was not disclosed by the Company through 8K filings throughout the fiscal year.

## PART III

## ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth as of September 30, 2009, the name, age, and position of each executive officer and director and the term of office of each director of the Company.

<u>Name</u>	<u>Age</u>	<u>Position Held</u>	<u>Term as Director Since</u>
Ronald P. Erickson	65	Chairman of the Board and Director	April 24, 2003
Bradley E. Sparks	62	Chief Executive Officer, President and Director	November 10, 2006
Jon Pepper	59	Director	April 19, 2006
Dr. Masahiro Kawahata	71	Director	April 19, 2006
Marco Hegyi	52	Director	February 14, 2008
Yoshitami Arai	78	Director	October 8, 2008

## ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE - *continued*

Each director of the Company serves for a term of one year and until his successor is elected at the Company's annual shareholders' meeting and is qualified, subject to removal by the Company's shareholders. Each officer serves, at the pleasure of the Board of Directors, for a term of one year and until his successor is elected at the Annual General Meeting of the Board of Directors.

Set forth below is certain biographical information regarding each of the Company's executive officers and directors.

**RONALD P. ERICKSON** has been a director and officer of the Company since April 24, 2003. He currently serves as the Company's Chairman, Chief Executive Officer and President. He was appointed to the positions of CEO and President on November, 10, 2009. Earlier, he was appointed President and Chief Executive Officer of the Company on September 29, 2003, and resigned from this position on August 31, 2004 at which time he was appointed Chairman of the Board. Resident in Seattle, he is a seasoned executive with more than 25 years of expertise in the high technology, telecommunications and microcomputer industries. Mr. Erickson is currently Chairman of *ivi, inc.*, a Seattle digital media company which streams live television broadcast over the Internet. Mr. Erickson was a co-founder of Blue Frog Mobile, a Seattle mobile media entertainment company. Mr. Erickson was formerly Chairman of Intrinsic Software Inc., a Vancouver-based publicly-traded company providing proprietary software and solutions which enable the development and networking of intelligent devices such as PDA's. Mr. Erickson is the current chair, and former CEO of eCharge, an electronic payment systems developer, where he played a major role in raising approximately US \$100 million in equity capital from major international investors. Mr. Erickson previously was co-founder, Chairman, President and CEO of GlobalTel Resources, Inc., a provider of telecommunication services, messaging and intranet solutions. During his career Mr. Erickson has also held executive positions at Egghead Software Inc, NBI Inc and MicroRim Inc. Mr. Erickson has J.D. degree from the University of California, Davis, and maintains an active license to practice law in the State of Washington and the District of Columbia. He has an MA from the University of Wyoming and a BA from Central Washington University.

**JON PEPPER** is the co-founder of Pepcom, an industry leader in producing press-only technology showcase events around the country. Prior to that, Pepper started the DigitalFocus newsletter, a ground-breaking newsletter on digital imaging that was distributed to industry leaders and opinion makers worldwide. Mr. Pepper has been closely involved with the high technology revolution since the beginning of the personal computer era. He was a well-regarded former journalist and columnist, and his work on technology subjects appeared in *The New York Times*, *Fortune*, *PC Magazine*, *Men's Journal*, *Working Woman*, *PC Week*, *Popular Science*, and many other well known publications. Mr. Pepper was educated at Union College in Schenectady, New York and the Royal Academy of Fine Arts in Copenhagen.

**DR. MASAHIRO KAWAHATA** is the former Director of the Fujitsu Research Institute. Dr. Kawahata has taught at Tokai University, is a Consulting Professor at Stanford University, Provost's Distinguished Professor at the University of Southern California and Visiting Professor at the University of Washington. He is known in Japan as "the father of multimedia" for his work as National Program Director in developing the nationwide fiber optic network. Early in 2005, the U.S. government officially acknowledged him as "Non-U.S. Scientist of Extraordinary Ability." He has served as a Director of numerous technology companies, and has received several prestigious awards in the United States and Japan.

**BRADLEY E. SPARKS** currently serves as a Director of Visualant, Inc. On November 12, 2009, Mr. Sparks resigned as the Company's Chief Executive Officer and President. He held these positions since November 2006. Before joining Visualant, he was the Chief Financial Officer of WatchGuard Technologies, Inc. from 2005-2006. Before joining WatchGuard, he was the founder and managing director of Sunburst Growth Ventures, LLC, a private investment firm specializing in emerging-growth companies. Previously, he founded Pointer Communications and served as Chief Financial Officer for several telecommunications companies, including eSpire Communications, Inc., Digex, Inc., Omnipoint Corporation, and WAM!NET. He also served as Vice President and Treasurer of MCI Communications from 1988-1993 and as Vice President and Controller from 1993-1995. Before his tenure at MCI, Mr. Sparks held various financial management positions at Ryder System, Inc. Mr. Sparks currently serves on the Board of Directors of software company iCIMS. Mr. Sparks graduated from the United States Military Academy at West Point and is a former Army Captain in the Signal Corps. He has an MS in Management from the Sloan School of Management at MIT and is a licensed CPA in Florida.

**MARCO HEGYI** currently provides growth management advisory services to companies of all sizes and works at the board of directors, CEO and senior management levels to form and deploy technology-based growth strategies. Previously, Mr. Hegyi worked at Yahoo, where he served as Senior Director, Global Product Management/Search Marketing. Prior to Yahoo, Mr. Hegyi was at Microsoft, leading program management for Microsoft Windows and Office beta releases aimed at software developers in the Platform, Products and Services Division. While at Microsoft, he formed new service concepts and created operating programs to extend the depth and breadth of the company's unparalleled developer eco-system, including managing offshore, outsource teams in China and India. He was the named inventor of a filed Microsoft patent for a business process in service delivery. Before Microsoft, Mr. Hegyi served in a number of senior management and board positions with technology companies, where he led strategic growth and facilitated company mergers and acquisitions. Mr. Hegyi began his career as a system software engineer developing operating systems and communication protocols.

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE - continued**

**YOSHITAMI ARAI** is a retired Japanese businessman having served in many professional and civic capacities in Japan and internationally. He has previously served as a Director and Senior Executive of companies as diverse as 7-Eleven, Tokyu Hotels, Systems International, Catalina Marketing and Sony.

To the knowledge of management, during the past five years, no present or former director, executive officer or person nominated to become a director or an executive officer of the Company:

- (1) filed a petition under the federal bankruptcy laws or any state insolvency law, nor had a receiver, fiscal agent or similar officer appointed by the court for the business or property of such person, or any partnership in which he was a general partner at or within two years before the time of such filings;
- (2) was convicted in a criminal proceeding or named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses);
- (3) was the subject of any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining him from or otherwise limiting, the following activities:
  - (i) acting as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, associated person of any of the foregoing, or as an investment advisor, underwriter, broker or dealer in securities, or as an affiliate person, director or employee of any investment company, or engaging in or continuing any conduct or practice in connection with such activity;
  - (ii) engaging in any type of business practice; or
  - (iii) engaging in any activities in connection with the purchase or sale of any security or commodity or in connection with any violation of federal or state securities laws or federal commodities laws;
- (4) was the subject of any order, judgment, or decree, not subsequently reversed, suspended, or vacated, of any federal or state authority barring, suspending or otherwise limiting for more than 60 days the right of such person to engage in any activity described above under this Item, or to be associated with persons engaged in any such activities;
- (5) was found by a court of competent jurisdiction in a civil action or by the Securities and Exchange Commission to have violated any federal or state securities law, and the judgment in such civil action or finding by the Securities and Exchange Commission has not been subsequently reversed, suspended, or vacated;
- (6) was found by a court of competent jurisdiction in a civil action or by the Commodity Futures Trading Commission to have violated any federal commodities law, and the judgment in such civil action or finding by the Commodity Futures Trading Commission has not been subsequently reversed, suspended or vacated.

**Audit Committee Financial Expert**

Mr. Marco Hegyi serves as the Audit Committee chairman and has been designated by the Board as the Audit Committee's "Financial Expert". The following other Directors also serve on the Audit Committee: Jon Pepper and Yoshitami Arai.

**Compliance with Section 16 (a) of the Exchange Act**

The Company knows of no director, officer, or beneficial owner of more than ten percent of any class of equity securities of the registrant registered pursuant to Section 12 ("Reporting Person") that failed to file any reports required to be furnished pursuant to Section 16(a). Other than those disclosed below, the registrant knows of no Reporting Person that failed to file the required reports during the most recent fiscal year.

The following table sets forth as at September 30, 2009, the name and position of each Reporting Person that failed to file on a timely basis any reports required pursuant to Section 16 (a) during the most recent fiscal year.

<u>Name</u>	<u>Position</u>	<u>Report to be Filed</u>
Yoshitami Arai	Director	Form 3
Ronald P. Erickson	President/CEO	Form 5
Marco Hegyi	Director	Form 5
Masahiro Kawahata	Director	Form 5
Jon Pepper	Director	Form 5
Bradley Sparks	Director	Form 5

**Code of Ethics**

The Company's Code of Ethics was attached as Exhibit 14.1 to its Form 10-KSB filed for its fiscal year 2008.

**ITEM 11. EXECUTIVE COMPENSATION**

**Compensation Summary for Executive Officers**

The following table sets forth compensation paid or accrued by the Company for the last three fiscal years ended September 30, 2007, 2008 and 2009 with regard to individuals who served as the Principal Executive Officer and/or Principal Financial Officer for any period during the fiscal year ended September 30, 2009 and for executive officers receiving compensation in excess of \$100,000 during these fiscal periods.

<b>Summary Compensation Table</b>					
(a)	(b)	(c)	(f)	(i)	(j)
Name and Principal Position	Year	Salary (1) (\$)	Option Awards(2) (\$)	All other compensation (\$)	Total (\$)
Bradley E. Sparks	2007	213,333	194,106	-0-	407,439
CEO, President, CFO	2008	240,000	139,786	-0-	379,786
and Director	2009	240,000	139,786	-0-	379,786

(1) Presentation includes amounts accrued for financial statement purposes under FAS 123R.

(2) The salary amounts summarized for Bradley E. Sparks are all accrued, but unpaid. Mr. Sparks resigned as Chief Executive Officer, President, Chief Financial Officer, Secretary and Treasurer of the Company on November 12, 2009. He remains a Director of the Company.

**CEO Compensation**

Pursuant to a letter agreement between the Company and Bradley E. Sparks, the Company agreed to pay Mr. Sparks an annual base salary of \$240,000. The Company also granted to Mr. Sparks an option to purchase 1,000,000 shares of our common stock, which option vests and becomes exercisable during the term of employment in four equal annual installments of twenty-five percent of the total number of shares subject to such option, the first installment exercisable on the six month anniversary (May 10, 2007), with an additional twenty-five percent of such Shares becoming exercisable on each of the three successive twelve month periods following May 10, 2008. On November 12, 2009, Mr. Sparks resigned his executive positions with the Company. He remains a member of the Company Board of Directors. Amounts owing to Mr. Sparks remain unpaid. Ronald P. Erickson, Company Chairman and Director, was appointed, on November 12, 2009, to fill the positions vacated by Mr. Sparks. Mr. Erickson is currently serving without compensation with his compensation to be determined by the Board of Directors.

**Outstanding equity awards**

<b>Outstanding Equity Option awards as of September 30, 2009</b>				
(a)	(b)	(c)	(e)	(f)
Name and Principle Position	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price (\$)	Option Expiration Date
Bradley E. Sparks CEO, President and Director	750,000	250,000(1)	0.75	Nov. 9, 2011

(1) The remaining unvested options held by Mr. Sparks become exercisable in one installment of 250,000 shares each effective on the successive twelve month period following May 10, 2009

**Compensation Pursuant to Plans**

None

**Pension Table**

None

ITEM 11. EXECUTIVE COMPENSATION - *continued*

Director Compensation

<b>Director Compensation Table</b>				
(a)	(c)	(d)	(g)	(j)
Name	Stock Awards (1) (\$)	Option Awards (\$)	All other compensation (\$)	Total (\$)
Ronald P. Erickson, Chairman	67,500	-0-	-0-	67,500
Marco Hegyi	6,750	-0-	-0-	6,750
Dr. Masahiro Kawahata (2)	40,500	-0-	-0-	40,500
Jon Pepper (3)	6,750	-0-	-0-	6,750
Yoshitami Arai	6,750			6,750

- (1) Directors other than Bradley E. Sparks, Chief Executive Officer and President, receive annual common stock grants for their participation on the Board of Directors; no directors receive fees for board participation. On October 8, 2008, the board granted to Ron Erickson 500,000 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 each. The shares of common stock were issued for past services performed and board participation. Amounts shown reflect the closing stock bid price on the date the grant became effective.
- (2) In June 2006 the Company granted to Dr. Masahiro Kawahata options for 100,000 shares of common stock at \$0.75 per share which options are fully vested and expire June 15, 2011.
- (3) In June 2006, the Company granted to Jon Pepper options for 35,000 shares of common stock at \$0.75 per share, which options are fully vested and expire June 15, 2011

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

The following table sets forth as of the date of the filing of this Form 10K, the name and address and the number of shares of the Company's common stock, with a par value of \$0.001 per share, held of record or beneficially owned by each person who held of record, or was known by the Company to own beneficially, more than 5% of the issued and outstanding shares of the Company's common stock, and the name and shareholdings of each director and of all officers and directors as a group.

Name and Address of Beneficial Owner	Nature of Ownership(1)	Amount of Beneficial Ownership	Percent of Class
Coventry Capital, LLC 320-1100 Melville Street Vancouver, British Columbia Canada	Direct	3,413,967	12.3%
<i>DIRECTORS and OFFICERS:</i>			
Ronald P. Erickson c/o 500 Union Street, Suite 406 Seattle, WA 98101	Direct	2,639,806(2)(6)(7)	9.0%
Bradley E. Sparks c/o 500 Union Street, Suite 406 Seattle, WA 98101	Direct	750,000(3)	2.5%
Dr. Masahiro Kawahata Tokyo, Japan	Direct	651,875(4)(6)(7)	2.2%
Jon Pepper c/o 500 Union Street, Suite 406 Seattle, WA 98101	Direct	285,000(5)(6)(7)	1.0%

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

Marco Hegyi c/o 500 union Street; Suite 406 Seattle, WA 98101	Direct	250,000(6)(7)	0.8%
Yoshitami Arai Tokyo, Japan	Direct	100,000(7)	0.3%
All Directors and Officers as a Group (6 persons)		<u>4,675,681</u>	<u>15.97%</u>

- (1) All shares owned directly are owned beneficially and of record, and such shareholder has sole voting, investment and dispositive power, unless otherwise noted.
- (2) One million common shares granted to Mr. Erickson (see footnotes (6) and (7) below) are held by Juliz I Limited Partnership, an Erickson family limited partnership. On March 27, 2009 Mr. Erickson converted \$152,971 of debt into the Company's common stock at \$0.15 per share and was issued 1,019,806 shares of common stock. In addition to these shares, Mr. Erickson's adult children own 1,300,000 shares. Mr. Erickson disclaims any beneficial ownership or control of such shares.
- (3) Stock options for 1,000,000 shares of common stock at \$0.75 per share of which 750,000 shares are available for exercise within 60 days. The options expire on November 10, 2011.
- (4) This figure includes vested stock options for 100,000 shares of common stock exercisable at \$0.75 per share on or before June 15, 2011. In addition to these shares, Dr. Kawahata's adult child owns 10,000 shares. Dr. Kawahata disclaims any beneficial ownership or control of such shares.
- (5) Vested stock options for 35,000 shares of common stock exercisable at \$0.75 per share expiring on June 15, 2011.
- (6) On December 14, 2007, the board granted Ron Erickson 500,000 shares of common stock, Dr. Masahiro Kawahata 200,000 shares of common stock, and Jon Pepper 200,000 shares of common stock. On February 14, 2008, Marco Hegyi was granted 200,000 shares of common stock upon joining the board.
- (7) On October 8, 2008, the board granted to Ron Erickson 500,000 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 each. The shares of common stock were issued for past services performed and board participation.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS****Transactions with Management and Others**

Except as indicated below, there were no material transactions, or series of similar transactions, during the Company's last fiscal year ended September 30, 2009, or any currently proposed transactions, or series of similar transactions, to which the Company was or is to be a party, in which the amount involved exceeds \$30,000, and in which any director or executive officer, or any security holder who is known by the Company to own of record or beneficially more than 5% of any class of the Company's common stock, or any member of the immediate family of any of the foregoing persons, has an interest.

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. Officers and employees of RATLab LLC own collectively 6.7% of the outstanding common stock of Visualant, Inc. as of the date of this filing.

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 September 30, 2009, the outstanding notes payable totaled \$50,750 consisting of the note payable to Sparks. Interest expense accrues on the notes at a rate of 18% per annum and interest on late interest payments accrues at a rate of 30% per year. Accrued interest on the notes payable is recorded in the balance sheet in accrued expenses and other liabilities. In addition, the Company has recorded accounts payable totaling approximately \$29,000 due to Mr. Sparks for expenses incurred on the Company's behalf. Pursuant to the employment agreement with Bradley Sparks, the Company has recorded accrued payroll and medical insurance totaling approximately \$698,000 as of September 30, 2009.

Mr. Erickson converted outstanding debt with accrued interest in the amount of \$152,971 into 1,019,806 shares of common stock of the Company valued at \$0.15 per share on March 27, 2009. In addition, an affiliate of Mr. Erickson's, Juliz I Limited Partnership, loaned the Company operating funds during fiscal 2009. The balance outstanding at September 30, 2009 is \$34,630. Additionally, Mr. Erickson loaned the Company and incurred expenses on behalf of the Company for a total of \$24,322 during the 2009 fiscal year.

## PART IV

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

(1) Audit Fees

The aggregate fees billed by the independent accountants for the last two fiscal years for professional services for the audit of the Company's annual financial statements and the review included in the Company's Form 10-QSB and services that are normally provided by the accountants in connection with statutory and regulatory filings or engagements for those fiscal years were \$13,205.

(2) Audit-Related Fees

The aggregate fees billed in each of the last two fiscal years for assurance and related services by the principal accountants that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under Item 9 (e)(1) of Schedule 14A was NIL.

(3) Tax Fees

The aggregate fees billed in each of the last two fiscal years for professional services rendered by the principal accountants for tax compliance, tax advice, and tax planning was \$1,000.

(4) All Other Fees

During the last two fiscal years there were no other fees charged by the principal accountants other than those disclosed in (1) and (3) above.

(5) Audit Committee's Pre-approval Policies and Procedures

At the present time, there are not sufficient directors, officers and employees involved with the Company to make any pre-approval policies meaningful. Once the Company has elected more directors and appointed directors and non-directors to the Audit Committee it will have meetings and function in a meaningful manner.

### ITEM 15 EXHIBITS AND REPORTS ON FORM 8-K

(a) (1) **Financial Statements.**

The following financial statements are included in this report:

<u>Title of Document</u>	<u>Page</u>
Report of Madsen & Associates, Certified Public Accountants	19
Balance Sheet as at September 30, 2009 and 2008	20
Statements of Operations for the Years ended September 30, 2009, 2008 and 2007 and the period from October 8, 1998 (inception) to September 30, 2009.	21
Statement of Changes in Stockholders' Equity from inception through the Year Ended September 30, 2009.	22
Statement of Cash Flows for the Years Ended September 30, 2009 and 2008 and the period from October 8, 1998 (inception) to September 30, 2009.	23
Notes to the Financial Statements	24



**ITEM 15 EXHIBITS AND REPORTS ON FORM 8-K - continued**

**(a) (2) Financial Statement Schedules**

The following financial statement schedules are included as part of this report:

None.

**(a) (3) Exhibits**

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

- 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 as Ex. 10.1, and incorporated herein by reference.
- 10.2 Independent Contractor Agreement dated June 16, 2004 between the Company and eVision Technologies Inc. to provide research and development services with respect to the Company's color technology, filed as Exhibit 10.2 to the Company's Registration Statement on Form SB-2 filed on August 1, 2005, File No. 333-127100, and incorporated herein by reference.
- 10.3 Worldwide Licensing Agreement dated April 21, 2005 between the Company and eVision Technologies Inc. granting the Company exclusive rights to the CBN coding system, filed as Exhibit 10.3 to the Company's Registration Statement on Form SB-2 filed on August 1, 2005, File No. 333-127100, and incorporated herein by reference.
- [10.4 Cross licensing agreement between Visualant, Inc. and RATLab, LLC dated October 23, 2008 granting certain exclusive and non-exclusive reciprocal and field of use rights to technology developed and owned by Visualant and the RATLab, LLC. Filed as Exhibit 10.4 to Form 10K filed on January 13, 2010 and incorporated herein by reference.](#)
- 14.1 Code of Ethics for Employees and Directors, filed as Exhibit 14.1 to Form 10-KSB filed on January 16, 2007, and incorporated herein by reference.
- [31.1 Certification by Chief Executive Officer pursuant to Rule 13a-14\(a\).](#)
- [31.2 Certification by Chief Financial Officer pursuant to Rule 13a-14\(a\).](#)
- [32.1 Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- [32.2 Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

**SIGNATURES**

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**VISUALANT, INCORPORATED**  
(the "Registrant")

Date: January 13, 2010

By: /s/ Ronald P. Erickson  
Ronald P. Erickson  
Chief Executive Officer and President

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: January 13, 2010

By: /s/ Ronald P. Erickson  
Ronald P. Erickson  
Chairman of the Board and Director

Date: January 13, 2010

By: /s/ Ronald P. Erickson  
Ronald P. Erickson  
Chief Financial Officer and Secretary-Treasurer

Board of Directors  
Visualant Incorporated  
Seattle, Washington

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have audited the accompanying balance sheet of Visualant Incorporated (development stage company) at September 30, 2009 and the related statements of operations, stockholders' equity, and cash flows for the years ended September 30, 2009 and 2008 and the period October 8, 1998 (date of inception) to September 30, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall balance sheet presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Visualant Incorporated at September 30, 2009 and the results of operations, and cash flows for the years ended September 30, 2009 and 2008 and the period October 8, 1998 (date of inception) to September 30, 2009 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company will need additional working capital for its planned activity and to service its debt, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are described in the notes to the financial statements. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Madsen & Associates, CPA's Inc.

Salt Lake City, Utah,  
January 13, 2010

**VISUALANT, INCORPORATED**  
**(Development Stage Company)**  
**BALANCE SHEET**  
**September 30, 2009 and 2008**

	<u>September 30, 2009</u>	<u>September 30, 2008</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 5,325	\$ 255
Prepaid Expenses	6,514	1,766
	<u>11,839</u>	<u>2,021</u>
Investments	<u>50</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>\$ 11,889</u>	<u>\$ 2,021</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Notes payable	\$ 157,072	\$ 50,750
Accrued expenses and other liabilities	855,753	615,224
Accounts payable	<u>365,526</u>	<u>1,045,341</u>
Total Current Liabilities	<u>1,378,351</u>	<u>1,711,315</u>
Long Term Notes Payable	-	425,340
Total Liabilities	1,378,351	2,136,655
Commitments and Contingencies	-	-
<b>STOCKHOLDERS' DEFICIT</b>		
Preferred stock - \$0.001 par value, 50,000,000 shares authorized, no shares issued and outstanding		
Common stock - \$0.001 par value, 100,000,000 shares authorized, 29,162,707 and 18,353,891 shares issued and outstanding	29,162	18,354
Additional paid in capital	6,229,733	4,521,760
Deficit accumulated during the development stage	<u>(7,625,357)</u>	<u>(6,674,748)</u>
Total Stockholders' Equity (Deficiency)	<u>(1,366,462)</u>	<u>(2,134,634)</u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<u>\$ 11,889</u>	<u>\$ 2,021</u>

The accompanying notes are an integral part of these financial statements

**VISUALANT, INCORPORATED**  
(Development Stage Company)

**STATEMENTS OF OPERATIONS**

Periods Ended September 30, 2009 and 2008 and the Period  
October 8, 1998 (Date of Inception) to September 30, 2009

	<u>Year Ended September 30, 2008</u>	<u>Year Ended September 30, 2009</u>	<u>Period from Inception from October 8, 1998 to September 30, 2009</u>
<b>Revenues</b>	\$ -	\$ -	\$ -
<b>Expenses</b>			
Research and development	-	214,105	1,451,522
Administrative	791,962	682,943	4,672,232
Total Operating Expense	791,962	897,048	6,123,754
Loss from Operations	(791,962)	(897,048)	(6,123,754)
<b>Other Income (Expense)</b>			
Settlement of debt	-	-	43,400
Interest expense	(153,104)	(53,561)	(390,676)
Loss of deposit	-	-	(1,154,327)
<b>Net Loss</b>	<u>\$ (945,066)</u>	<u>\$ (950,609)</u>	<u>\$ (7,625,357)</u>
Net Loss Applicable to Common Stockholders Basic and diluted	<u>\$ (0.05)</u>	<u>\$ (0.03)</u>	
Weighted Average Shares used in computing basic and diluted net loss per share	<u>18,029,095</u>	<u>28,003,021</u>	

The accompanying notes are an integral part of these financial statements

**VISUALANT INCORPORATED**  
**(Development Stage Company)**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**For the Period October 8, 1998 (Date of Inception)**  
**to September 30, 2008**

	Common Stock		Capital in Excess of Par Value	Accumulated Deficit
	Shares	Amount		
<b>Balance October 8, 1998</b> (date of inception)	-	\$ -	\$ -	\$ -
Issuance of common stock for cash at \$.002 - November 20, 1998	4,500,000	4,500	4,500	-
Issuance of common stock for cash at \$.01 - November 25, 1998	6,000,000	6,000	54,000	-
Issuance of common stock for cash at \$.25 - December 4, 1998	35,000	35	8,715	-
Capital contributions - expenses	-	-	3,650	-
Net operating loss for the period October 8, 1998 to September 30, 1999	-	-	-	(27,748)
Capital contributions - expenses	-	-	3,650	-
Net operating loss for the year ended September 30, 2000	-	-	-	(64,537)
Capital contributions - expenses	-	-	3,650	-
Net operating loss for the year ended September 30, 2001	-	-	-	(7,585)
Issuance of common stock for cash at \$.50 - July 5, 2002	26,200	26	13,116	-
Net operating loss for the year ended September 30, 2002	-	-	-	(113,475)
Issuance of common stock for cash at \$.50 - July 2003	100,000	100	49,900	-
Issuance of common stock for services at \$.001- June 2003	150,000	150	-	-
Issuance of common stock as payment of debt at \$.50 - July 2003	184,848	185	92,239	-
Refund and return of common shares at \$.50 - August 2003	(26,200)	(26)	(13,074)	-
Issuance of common stock for cash at \$.75 - September 2003	520,000	520	389,480	-
Net operating loss for the year ended September 30, 2003	-	-	-	(1,819,398)
<b>Balance September 30, 2003</b>	11,489,848	11,490	609,826	(2,032,743)
Issuance of common stock for cash at \$.50 - net of issuance costs - Aug 2004	200,000	200	89,800	-
Compensation - incentive stock options	-	-	24,000	-
Net operating loss for the year ended September 30, 2004	-	-	-	(161,267)
<b>Balance September 30, 2004</b>	11,689,848	11,690	723,626	(2,194,010)
Issuance of common stock for cash at \$.50 - October to December 2004	424,000	424	211,576	-
Issuance of common stock for debt at \$.50 -	2,665,502	2,665	1,330,086	-
Issuance of common stock for license at \$.75 - April 2005	10,000	10	7,490	-
Issuance of common stock for cash at \$.75 - May and June 2005	1,269,999	1,270	951,230	-
Issuance of common stock for services at \$.75 - August 2005	77,875	78	58,328	-
Issuance of common stock for cash at \$.75 - August 2005	170,000	170	127,330	-
Compensation - incentive stock options	-	-	24,000	-
Net operating loss for the year ended ended September 30, 2005	-	-	-	(868,643)
<b>Balance September 30, 2005</b>	16,307,224	\$ 16,307	\$ 3,433,666	\$ (3,062,653)
Issuance of common stock for cash at \$0.75 - October 2005 to Sep-06	146,667	147	109,853	-
Issuance of common stock for services at \$.75 - May 2006	50,000	50	37,450	-
Compensation - incentive stock options	-	-	24,000	-
Net operating loss for the year ended ended September 30, 2006	-	-	-	(1,032,036)
<b>Balance September 30, 2006</b>	16,503,891	\$ 16,504	\$ 3,604,969	\$ (4,094,689)
Issuance of common stock for services	150,000	150	74,850	-
Issuance of common stock for deferred financing total	200,000	200	95,800	-
Issuance of options for services	-	-	228,152	-
Stock compensation expense	-	-	230,724	-
Net operating loss for the year ended September 30, 2007	-	-	-	(1,634,993)
<b>Balance September 30, 2007</b>	16,853,891	\$ 16,854	\$ 4,234,495	\$ (5,729,682)
Issuance of stock for services	1,500,000	1,500	\$ 139,000	-
Stock compensation expense	-	-	148,265	-
Net operating loss for the period ended March 31, 2008	-	-	-	(945,066)
<b>Balance at September 30, 2008</b>	18,353,891	18,354	4,521,760	(6,674,748)
Issuance of stock for services	6,575,043	6,575	\$ 929,432	-
Stock compensation expense	-	-	147,709	-
Issuance of stock for debt retirement	4,233,773	4,233	630,832	-
Net operating loss for the period ended March 31, 2008	-	-	-	(950,609)
<b>Balance at September 30, 2009</b>	29,162,707	\$ 29,162	\$ 6,229,733	(7,625,357)

The accompanying notes are an integral part of these financial statements

**VISUALANT, INCORPORATED**  
**(Development Stage Company)**  
**STATEMENT OF CASH FLOWS**  
For the periods ended September 30, 2009 and 2008 and the Period  
October 8, 1998 (Date of Inception) to September 30, 2009

	<u>September 30,</u> <u>2008</u>	<u>September 30,</u> <u>2009</u>	<u>October 8, 1998 to</u> <u>September 30,</u> <u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss	\$ (945,066)	\$ (950,609)	\$ (7,625,357)
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 services	140,500	382,855	681,311
Stock based compensation	139,786	139,787	582,297
Stock options issued for services	8,479	7,922	244,553
Amortization of deferred financing costs	83,156	-	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	3,771	(4,748)	(6,514)
Accounts payable and accrued expenses	569,538	429,913	3,515,653
Net Cash Provided By (Used in) Operating Activities	<u>164</u>	<u>5,120</u>	<u>(1,326,972)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment	-	-	(12,308)
Purchase of investment - deposit	-	(50)	(1,154,377)
Net Cash Used in Investing Activities	<u>-</u>	<u>(50)</u>	<u>(1,166,685)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of common stock	-	-	2,022,892
Proceeds from issuance of convertible debt	-	-	425,340
Repayment of notes payable	-	-	(250,201)
Proceeds from issuance of notes payable -related party	-	-	-
Proceeds from issuance of notes payable	-	-	300,951
Net Cash Provided by Financing Activities	<u>-</u>	<u>-</u>	<u>2,498,982</u>
Net Changes in Cash	164	5,070	5,325
Cash at Beginning of Period	91	255	-
Cash at End of Period	<u>\$ 255</u>	<u>\$ 5,325</u>	<u>\$ 5,325</u>
<b>Supplemental disclosure of cash flow information</b>			
Cash paid during the period for interest	-	35,139	141,413
Conversion of accounts payable into promissory note	106,322	-	-
Issuance of common stock to retire debt	482,095	-	-
Issuance of common stock in repayment of payables	706,122	-	-

The accompanying notes are an integral part of these financial statements

**VISUALANT INCORPORATED**  
**(Development Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

**1. ORGANIZATION**

The Company was incorporated under the laws of the State of Nevada on October 8, 1998 with the name of "Cigar King Corporation" with authorized common stock of 200,000,000 shares at \$.001 par value. On September 13, 2002 the name was changed to "Starberrys Corporation" as part of a change in the authorized capital stock by the addition of 50,000,000 shares of preferred stock with a par value of \$.001 and on August 18, 2004 the name was changed to "Visualant Incorporated". There are no preferred shares issued and the terms have not been determined.

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

**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 \$951,000 and \$945,000 for the years ended September 30, 2009 and 2008, respectively. Our current liabilities exceeded our current assets by approximately \$1.4 million as of September 30, 2009. Our net cash provided by operating activities approximated \$5,170 for the year ended September 30, 2009.

As of September 30, 2009, 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 September 30, 2009, our accumulated deficit was \$7,625,357. 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 financial statements for the year ended September 30, 2009 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 and the management of the Company has developed a strategy, which it believes will accomplish this objective through additional equity funding, payment of debt by the issuance of common stock, and advances of short term debt by officers and directors, which will enable the Company to continue to conduct operations. The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Accounting Principles*

The Company's financial statements and accompanying notes are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates are used in accounting for revenue recognition, reserves for doubtful accounts, product returns, obsolete and excess inventory, warranties, valuation allowances on deferred tax assets and purchase price allocations. Actual results could differ from those estimates.



**VISUALANT INCORPORATED**  
**(Development Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

***Fair Value Measurements***

We adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (now part of ASC 820), on October 1, 2008 for financial assets and liabilities. We elected to defer adoption for our non-financial assets and liabilities until October 1, 2009 as permitted.

As of September 30, 2009, there are no financial assets or liabilities requiring additional fair value disclosure.

ASC 820 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. ASC 820 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.

***Foreign Currency Translation***

Parts of the transactions of the Company were completed in Canadian dollars. Foreign currency transaction gains and losses are a result of the effect of exchange rate changes on transactions denominated in currencies other than the functional currency. Gains and losses on those foreign currency transactions are included in determining net income or loss for the period in which exchange rates change. US dollars are considered to be the functional currency.

***Financial Instruments***

The carrying amounts of financial instruments, including cash and accounts payable, are considered by management to be their estimated fair values due their short term maturities.

***Financial and Concentration Risk***

The Company does not have any concentration or related financial credit risk.

***Research and Development Costs***

Research and development costs, including wages, supplies, depreciation of equipment used in the research activity, and any assigned overhead expense, are expensed as incurred.

***Revenue Recognition***

Revenue will be recognized on the sale and delivery of a product or the completion of a service provided.

***Advertising and Market Development***

The company will expense advertising and market development costs as incurred.

***Cash and Cash Equivalents***

The Company considers all highly liquid investments with purchased maturities of three months or less to be cash equivalents.

***Dividend Policy***

The Company has not adopted a policy regarding payment of dividends

**VISUALANT INCORPORATED**  
**(Development Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

*Accounting for Income Taxes*

We recognize in the financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure.

*Accounting for Share Based Compensation*

The Company has share-based compensation plans under which employees and non-employee directors may be granted restricted stock, as well as options to purchase shares of Company common stock at the fair market value at the time of grant. Stock-based compensation cost is measured by the Company at the grant date, based on the fair value of the award, over the requisite service period. For options issued to employees, the Company recognizes stock compensation costs utilizing the fair value methodology over the related period of benefit. Grants of stock options and stock to non-employees and other parties are accounted for in accordance with the ASC 505.

*Basic and Diluted Net Income (Loss) Per Share*

Net loss per common share excludes any dilutive effects of options, warrants and convertible securities. Net earnings (loss) per share is computed using the weighted-average number of outstanding common shares and common stock equivalent shares during the applicable period. Common stock equivalent shares, which include options warrants and convertible securities, are excluded from the computation if their effect is anti-dilutive. There were no dilutive instruments for the year ended September 30, 2009.

*Recent and Adopted Accounting Pronouncements*

On June 29, 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162*. This statement modifies the Generally Accepted Accounting Principles ("GAAP") hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative accounting literature to be applied by nongovernmental entities in the preparation of financial statements.

Effective July 1, 2009, the FASB Accounting Standards Codification (ASC), also known collectively as the "Codification," is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the SEC. Nonauthoritative guidance and literature would include, among other things, FASB Concepts Statements, American Institute of Certified Public Accountants Issue Papers and Technical Practice Aids and accounting textbooks. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance. It is organized by topic, subtopic, section, and paragraph, each of which is identified by a numerical designation. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009, for most entities. The Company adopted the provisions of SFAS No. 168 as required; all references to GAAP have been updated and replaced with ASC references.

In December 2007, the FASB issued guidance which is now part of ASC 808-10, *Collaborative Arrangements*, (formerly EITF Issue 07-1, "Accounting for Collaborative Arrangements Related to the Development and Commercialization of Intellectual Property"). This new guidance defines collaborative arrangements and establishes presentation and disclosure requirements for transactions within a collaborative arrangement (both with third parties and between participants in the arrangement). The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2008. The guidance requires retrospective application to all collaborative arrangements existing as of the effective date, unless retrospective application is impracticable. The impracticability evaluation and exception should be performed on an arrangement-by-arrangement basis. The adoption of this new guidance had no effect on the Company's financial statements.

In June 2008, the FASB issued new guidance on determining whether instruments granted in share-based payment transactions are participating securities (formerly known as Staff Position EITF 03-06-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities"). The new guidance is now part of ASC 260, *Earnings per Share*, and provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The new guidance was effective for fiscal years beginning after December 15, 2008. The Company's implementation of this new guidance had no impact on its consolidated financial statements.

On April 9, 2009, the FASB issued new guidance, which is now part of the ASC as listed below, relating to fair value accounting, impairment of securities, and disclosures. This guidance is effective for interim and annual periods ending after June 15, 2009. The adoption did not have a material impact on the consolidated financial statements.

**VISUALANT INCORPORATED**  
**(Development Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

- ASC 820-10, *Fair Value Measurements and Disclosures* (formerly FSP FAS 157-4, “*Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly*”);
- ASC 320-10, *Investments – Debt and Equity Securities* (formerly FSP FAS 115-2, “*Recognition and Presentation of Other-Than-Temporary Impairments*”); and
- ASC 825-10, *Financial Instruments* (formerly FSP FAS 107-1 and APB 28-1, “*Interim Disclosures about Fair Value of Financial Statements*”).

On May 28, 2009, the FASB issued new guidance for accounting for subsequent events. The new guidance, which is now part of ASC 855, *Subsequent Events* (formerly, SFAS No. 165, *Subsequent Events*) is consistent with existing auditing standards in defining subsequent events as events or transactions that occur after the balance sheet date but before the financial statements are issued or are available to be issued, but it also requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The new guidance defines two types of subsequent events: “recognized subsequent events” and “non-recognized subsequent events.” Recognized subsequent events provide additional evidence about conditions that existed at the balance sheet date and must be reflected in the company’s financial statements. Non-recognized subsequent events provide evidence about conditions that arose after the balance sheet date and are not reflected in the financial statements of a company. Certain non-recognized subsequent events may require disclosure to prevent the financial statements from being misleading. The new guidance was effective on a prospective basis for interim or annual periods ending after June 15, 2009. The Company adopted the provisions of SFAS 165 as required. The Company has evaluated subsequent events for the period from September 30, 2009, the date of these financial statements, to the date these financial statements are being filed with the Securities Exchange Commission (“SEC”), which is January 15, 2009. There were no events or transactions occurring during this subsequent event reporting period which require recognition in the financial statements.

**4. 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.

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. In accordance with the definitive agreements, RATLab LLC formed Novabeam, Inc., an affiliate for purposes of commercializing the intellectual property, of which 10% was sold and transferred to the Company for \$50. Finally, in satisfaction of outstanding matters, 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.

**5. 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 \$482,095 amount converted 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 September 30, 2009, 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 related party 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.

**VISUALANT INCORPORATED**  
**(Development Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

**5. NOTES PAYABLE - continued**

On April 30, 2009, accounts payable totaling \$82,000 has been converted into a promissory note.

On September 30, 2009, accounts payable totaling \$24,322 arising primarily from operating cash advances to the Company from Ronald Erickson, the Company's Chairman of the Board, has been converted into a demand note. Interest expense accrues on the note at a rate of 8%.

**6. 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.

**7. COMMON CAPITAL STOCK**

During the fiscal year ended September 30, 2009, the company issued 7,058,816 shares of common stock in satisfaction of \$1,059,793 of outstanding indebtedness, including the debt due to Coventry Capital, 950,000 shares of common stock as grants to directors, 950,000 shares of common stock as grants to consultants, and 1,850,000 shares in resolution of certain outstanding matters with the RATLab LLC.

**8. 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 of Stock Based Compensation

We record compensation expense associated with stock options and other equity-based compensation using 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. 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 is recognized in the period the forfeiture estimate is changed.

Options to purchase 75,000 shares of common stock were issued to a non-employee consultant during fiscal year 2009.

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	\$ 0.55	2.8 yrs
Granted	75,000		
Exercised	-		
Expired	(250,000)		
Forfeited	-		
Outstanding as of September 30, 2009	<u>1,310,000</u>	<u>\$ 0.67</u>	<u>2.15</u>

Total compensation cost recognized for fair value options issued to employees and directors was approximately \$147,000 and \$140,000 for the years ended September 30, 2008 and 2009, respectively.

Options have also been granted to consultants for services. Total cost recognized for the fair value of options issued for services was approximately \$1,500 and \$7,900 for the years ended September 30, 2008 and 2009, respectively.

**VISUALANT INCORPORATED**  
**(Development Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

**9. SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES**

See Note 5 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 4,676,681 shares of common stock or 16% of the Company.

Mr. Sparks is owed \$693,333 of accrued salary plus \$55,856 which has been accrued to pay applicable payroll taxes, FUTA, etc. Additionally, interest of \$23,876 is owed Mr. Sparks for the note payable described in Note 5 to these Notes to Financial Statements. Mr. Sparks is also owed \$33,929 for cash amounts advanced by him to Visualant to fund operating expenses since his employment.

Mr. Erickson is owed \$513 for cash amounts advanced by him to Visualant to fund operating expenses. On September 30, 2009, \$24,322 owed to Mr. Erickson was converted into a demand note (see Note 5). During the quarter ended September 30, 2009, Mr. Erickson advanced \$19,942 to the Company. Additionally, the Company owes Juliz I Limited Partnership (a limited partnership of which Mr. Erickson exercises control) \$34,630 for cash amounts advanced to fund operating expenses during the year ending September 30, 2009. During third quarter 2009, \$152,970 outstanding to Mr. Erickson has been converted to common stock.

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

**10. CANCELLATION OF AGREEMENT TO PURCHASE SHARES OF SCI**

On April 9, 2003 the Company signed a Purchase Agreement with Malaremastastarnas Riksforening, the owner of all the shares of Skandinaviska Farginstituter 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.

**11. SUBSEQUENT EVENTS**

As disclosed in the Company's Form 8-K filed with the SEC on November 23, 2009, the Company has entered into a letter of intent with regard to the possible acquisition of TransTech Systems, Inc. Due diligence is continuing. If the Company proceeds with this acquisition, it is anticipated that it will close in the first calendar quarter of 2010. No assurance can be given at this time that the acquisition will in fact be completed as it is subject to many conditions, some of which have yet to be fulfilled.



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 RATLAB and/or assigns will exploit the VSUL technology in certain enumerated fields of use. RATLAB 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 RATLAB 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 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 VSUL IP 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/ Dr. Tom Furness

\_\_\_\_\_  
Dr. Tom Furness, Manager



EXHIBIT A

NON-COMMERCIAL LICENSE AGREEMENT

This Non-Commercial License Agreement (this "**Agreement**"), dated as of October 23, 2008, is made by and between Visualant, Inc., a Nevada corporation ("**Visualant**") and RatLab, LLC, a Washington limited liability company ("**RatLab**"). Visualant and RatLab (sometimes referred to herein individually as a "**Party**" and collectively as the "**Parties**") therefore agree as follows:

**Section 1. Definitions**

"**Affiliate**" means a corporation, limited liability company, joint venture or other entity of which RatLab or its members has ownership and control of at least fifty percent (50%) of all outstanding shares or securities or other ownership interests that represent the power to direct the management and policies of such entity.

"**Improvement**" means any advancement, development, improvement, enhancement, correction, modification, adaptation, translation, transformation, annotation, extension, compilation, collective work or derivative work.

"**Intellectual Property Rights**" means any patent, copyright, trademark, trade secret, mask work, moral right or other intellectual property or proprietary right under the laws of any jurisdiction.

"**Third Party**" means any individual, corporation, limited liability company, partnership, trust, association, governmental authority or other entity that is not a Party.

"**Third Party Infringement**" means any past, present or future infringement, misappropriation, unauthorized use or other violation of any of the Visualant IP by any Third Party.

"**Visualant IP**" means: (a) the Visualant Patents; (b) any other intellectual property assets listed in the attached *Exhibit A*; (c) any other intellectual property or proprietary rights owned or controlled by Visualant that are necessary or useful for RatLab's exploitation of license granted pursuant to this Agreement; and (d) any Improvements to any of items described in (a), (b) or (c) above developed, created or invented by Visualant.

"**Visualant Patent**" means: (a) any patent or patent application owned or controlled by Visualant now or in the future listed, including any patents or patent applications listed under the heading of "Visualant Patents" in the attached *Exhibit A*, and any patents that may issue from the pending patent applications listed in the attached *Exhibit A*; (b) any patent that may issue from any continuation or divisional that has priority based upon any of the patent applications described in (a) above; (c) any reissues, renewals, substitutions, re-examinations and extensions of any of the patents described in (a) or (b) above; and (d) any foreign patents corresponding to any of the patents described in (a), (b) or (c) above.

## **Section 2. Non-Commercial License Grant**

Visualant hereby grants to RatLab a non-exclusive, worldwide, non-transferable (except as described in Section 4.2), sublicensable, fully paid-up, perpetual, royalty-free right and license to use and exploit the Visualant IP for non-commercial purposes. Without limiting the generality of the foregoing, the license and rights granted under this Section 2.1 include, without limitation, the rights to do the following: (a) make, have made, use, distribute, have distributed, and import any items covered by the Visualant IP; (b) make Improvement to the Visualant IP; and (c) sublicense any of the licenses or rights granted hereunder.

## **Section 3. Intellectual Property Rights**

3.1 Administration and Prosecution of Intellectual Property Rights Visualant will control the prosecution, maintenance, registration and other management of the Visualant IP. Visualant will keep RatLab informed of the status of all prosecution, maintenance, registration and other management activities related to the Visualant IP and will provide RatLab with a reasonable opportunity to advise Visualant on such activities. Without limiting the generality of the foregoing, if Visualant chooses to abandon any portion of the Visualant IP, Visualant will provide RatLab written notice at least sixty (60) days prior to the last allowable date for filing or taking any other action required with respect to the prosecution, maintenance or registration of such portion of the Visualant IP and RatLab may, at any time thereafter, take actions necessary to preserve the Visualant IP.

### **3.2 Third Party Infringement.**

(a) If any Third Party Infringement comes to the attention of either Party, then such Party will give the other Party prompt written notice thereof (including, without limitation, a statement of the facts which are known by the Party giving the notice and which such Party believes might reasonably serve as a basis for a claim of Third Party Infringement, together with a copy of any documentation evidencing the same).

(b) Visualant will have the first right to respond to, address, and/or prosecute any alleged Third Party Infringement by securing cessation of the infringement or initiating an action or suit against the infringer or otherwise responding to, addressing and/or prosecuting such alleged Third Party Infringement. To exercise this first right, Visualant must initiate bona fide action to respond to, address, and/or prosecute any alleged Third Party Infringement within ninety (90) days of learning of such infringement. If Visualant chooses to institute suit or action against an alleged infringer, Visualant may bring such suit in its own name (or, if required by law, in its and RatLab's name) and at its own expense. Further, if Visualant institutes an action or suit against an alleged infringer as provided in this Agreement, then (i) RatLab will fully and promptly cooperate and assist Visualant in connection with any such suit or action, and Visualant will pay RatLab's reasonable attorney fees and other out-of-pocket directly associated expenses, and (ii) Visualant will receive all damages, awards, or settlement proceeds.

(c) If Visualant fails, within ninety (90) days of learning of an alleged Third Party Infringement, to secure cessation of the alleged Third Party Infringement, institute suit against the alleged infringer, or to otherwise respond to, address and/or prosecute the alleged Third Party Infringement, then RatLab may, upon written notice to Visualant, assume full right and responsibility to institute suit or action against the alleged infringer. If RatLab elects to commence an action as described above, then RatLab may do so in its own name (or if required by law, in its own and Visualant's name) and at its own expense. Further, if RatLab institutes an action or suit against an alleged infringer as provided in this Agreement, then Visualant will fully and promptly cooperate and assist RatLab in connection with the action or suit, and RatLab will pay all of Visualant's reasonable attorney fees and other out-of-pocket directly associated expenses. RatLab will not settle any suits or actions in any manner relating to the Visualant IP without obtaining the prior written consent of Visualant, which will not be unreasonably withheld, delayed or conditioned. After RatLab has recovered its reasonable attorney's fees and other out-of-pocket expense directly related to any action, suit, or settlement for infringement to Visualant IP, the remaining damages, awards, or settlement proceeds will be divided as follows: fifty percent (50%) to Visualant and fifty percent (50%) to RatLab.

(d) Neither RatLab nor Visualant is obligated under this Agreement to institute or prosecute a suit against any alleged infringer of the Visualant IP.

### 3.3 Ownership of Improvements.

(a) Visualant will be the owner of any Intellectual Property Right in any Improvement of the Visualant IP developed, created or invented by Visualant.

(b) RatLab or its sublicensees will be the owner of any Intellectual Property Right in any Improvement of the Visualant IP developed, created or invented by RatLab or its sublicensees (subject to any Intellectual Property Rights of Visualant in the Visualant IP) and RatLab will not be obligated to deliver to Visualant any such Improvement; provided, however, RatLab will promptly notify Visualant of any Improvements to the Visualant IP developed, created or invented by RatLab and will license such Improvements to Visualant pursuant to a separate agreement containing the same terms as are applicable to the "Visualant IP" licensed to RatLab on an exclusive basis pursuant to the Commercial License Agreement, dated October 23, 2008, between the Parties.

3.4 Reservation of Rights: Ownership of IP. Except as expressly provided in this Agreement, no title to or ownership of any Visualant IP or any proprietary rights associated with the Visualant IP, is transferred to RatLab or any other person under this Agreement. RatLab acknowledges and agrees that Visualant is the sole owner of all right, title and interest in and to the Visualant IP listed on Schedule A hereto, and RatLab agrees that at the request of Visualant, RatLab will execute all instruments and documents and will take all other action necessary to insure that Visualant has vested title to the Visualant IP. RatLab represents and warrants that it will not undertake any act or thing which in any way impairs or is intended to impair any part of the right, title, interest or goodwill of Visualant in the Visualant IP.

**Section 4. Miscellaneous**

4.1 Waiver: Amendments. The failure of any Party to insist, in any one or more instances, upon performance of any of the terms, covenants or conditions of this Agreement will not be construed as a waiver or a relinquishment of any right or claim granted or arising hereunder or of the future performance of any such term, covenant, or condition, and such failure will in no way affect the validity of this Agreement or the rights and obligations of the parties hereto. This Agreement may not be modified, amended or supplemented except by an agreement in writing signed by Visualant and RatLab.

4.2 Assignment and Binding Effect. Neither Party may transfer or assign its rights or obligations under this Agreement without the express written consent of the other Party; provided, however, RatLab may assign any of its rights or obligations under this Agreement to an Affiliate without the prior written consent of Visualant, but subject to giving Visualant notice of such assignment and the terms and conditions thereof. Subject to the foregoing, this Agreement will inure to the benefit of and will be binding upon the Parties and their respective successors and permitted assigns.

4.3 Governing Law. This Agreement will be governed by and construed under the laws of the state of Washington, without giving effect to any contrary conflict of laws provisions.

4.4 Notices. All notices and other communications hereunder will be in writing and will be deemed given (a) upon receipt if delivered personally (or if mailed by registered or certified mail), (b) the day after dispatch if sent by overnight courier, (c) upon receipt if transmitted by telecopier or other means of facsimile transmission (and confirmed by a copy delivered in accordance with clause (a) or (b)), properly addressed to the parties at the following addresses:

RatLab:	RatLab, LLC. 4939 NE 65th Street Seattle, WA 98115
Visualant:	Visualant, Inc. 500 Union Street, Ste. 406 Seattle, WA 98101

Any Party may change its address for such communications by giving notice thereof to the other parties in conformity with this Section.

4.5 Protection of the License in Bankruptcy. The Parties expressly agree that the Visualant IP is "intellectual property" as defined in Section 101(35A) of the United States Bankruptcy Code, 11 U.S.C. Section 101 et. seq. (the "**Bankruptcy Code**"). In the event of any proceeding under the Bankruptcy Code for the bankruptcy, reorganization or protection of either Party, this Agreement shall be subject to Section 365(n) of the Bankruptcy Code.

4.6 Severability. If any provision of this Agreement, or the application thereof, will for any reason and to any extent be held to be invalid or unenforceable, the remainder of this Agreement and the application of such provision to other persons or circumstances will be interpreted so as best to reasonably effect the intent of the parties hereto. The parties further agree to replace such invalid or unenforceable provision of this Agreement with a valid and enforceable provision which will achieve, to the extent possible, the economic, business and other purposes of the invalid or unenforceable provision.

4.7 Counterparts. This Agreement may be executed in any number of counterparts, each of which will be deemed to be an original, and all of which together will constitute one and the same instrument notwithstanding that all Parties are not signatories to each counterpart.

4.8 Entire Agreement. This Agreement (together with any exhibit or attachments) constitutes the entire agreement between the Parties hereto with respect to the subject matter of this Agreement and supersedes all prior negotiations, understandings and agreements between the Parties with respect to the subject matter of this Agreement.

*[Remainder of Page Left Intentionally Blank]*

IN WITNESS WHEREOF, the Parties have caused this Agreement to be made and executed by duly authorized officers.

Visualant, Inc.

RatLab, LLC

By: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Date Signed: \_\_\_\_\_

Date Signed: \_\_\_\_\_

*[Signature Page to Non-Coercial License Agreement]*

**EXHIBIT A**

**VISUALANT IP**

**VISUALANT PATENTS**

1. Schowengerdt, B.T., Furness, T.A., Melville, R.D., Schroder, K.E., Burstein, R.A., and Chinthammit, W. SYSTEM AND METHOD OF EVALUATING AN OBJECT USING ELECTROMAGNETIC ENERGY. *International Patent Application No. PCT/US2007/017082.*
2. Schowengerdt, B.T., Furness, T.A., and Walker, N.E. (2006) METHOD, APPARATUS, AND ARTICLE TO FACILITATE DISTRIBUTED EVALUATION OF OBJECTS USING ELECTROMAGNETIC ENERGY. *U.S. Patent Application No. 11/831,662.*
3. Furness, T.A., Schowengerdt, B.T., Melville, R., Walker, N.E., and Sparks, B.E. (2006) METHOD, APPARATUS, AND ARTICLE TO FACILITATE EVALUATION OF OBJECTS USING ELECTROMAGNETIC ENERGY. *U.S. Patent Application No. 11/831,717.*
4. Schowengerdt, B.T., Furness, T.A., Melville, R.D., Schroder, K.E., Burstein, R.A., and Chinthammit, W. SYSTEM AND METHOD OF EVALUATING AN OBJECT USING ELECTROMAGNETIC ENERGY. *U.S. Provisional Patent Application No. 60/820,938.*
5. Schowengerdt, B.T., Furness, T.A., and Walker, N.E. (2006) METHOD, APPARATUS, AND ARTICLE TO FACILITATE DISTRIBUTED EVALUATION OF OBJECTS USING ELECTROMAGNETIC ENERGY. *U.S. Provisional Patent Application No. 60/834,662.*
6. Furness, T.A., Schowengerdt, B.T., Melville, R., and Walker, N.E. (2006) METHOD, APPARATUS, AND ARTICLE TO FACILITATE EVALUATION OF OBJECTS USING ELECTROMAGNETIC ENERGY. *U.S. Provisional Patent Application No. 60/834,589.*
7. Furness, T.A., Schowengerdt, B.T., Melville, R., and Walker, N.E. (2006) METHOD, APPARATUS, AND ARTICLE TO FACILITATE EVALUATION OF OBJECTS USING ELECTROMAGNETIC ENERGY. *U.S. Provisional Patent Application No. 60/871,639.*
8. Furness, T.A., Schowengerdt, B.T., Melville, R., Walker, N.E., and Sparks, B.E. (2006) METHOD, APPARATUS, AND ARTICLE TO FACILITATE EVALUATION OF OBJECTS USING ELECTROMAGNETIC ENERGY. *U.S. Provisional Patent Application No. 60/883,312.*
9. Furness, T.A., Schowengerdt, B.T., Melville, R., Walker, N.E., and Sparks, B.E. (2006) METHOD, APPARATUS, AND ARTICLE TO FACILITATE EVALUATION OF OBJECTS USING ELECTROMAGNETIC ENERGY. *U.S. Provisional Patent Application No. 60/890,446.*

**EXHIBIT B**

**COMMERCIAL LICENSE AGREEMENT**

This Commercial License Agreement (this "**Agreement**"), dated as of October 23, 2008 (the "**Effective Date**"), is made by and between Visualant, Inc., a Nevada corporation ("**Visualant**") and RatLab, LLC, a Washington limited liability company ("**RatLab**"). Visualant and RatLab (sometimes referred to herein individually as a "**Party**" and collectively as the "**Parties**") therefore agree as follows:

**Section 1. Definitions**

"**Affiliate**" means a corporation, limited liability company, joint venture or other entity of which RatLab or its members has ownership and control of at least fifty percent (50%) of all outstanding shares or securities or other ownership interests that represent the power to direct the management and policies of such entity.

"**Fields of Use**" means the worldwide market for products and services relating to medical and healthcare testing (including medical diagnosis testing through both home and physician-provided healthcare solutions), agricultural testing (including both plant and animal, including veterinary medical testing), environmental testing (including air and water testing), and gemology and jewelry.

"**Gross Revenue**" means any revenue actually received by RatLab, or a RatLab Affiliate, as a result of the sale to any of RatLab's or RatLab Affiliate's customers or end users of Licensed Products that incorporate one or more of the unexpired Visualant IP; provided, however, that "Gross Revenue" does not include any (a) reimbursed expenses or costs that are passed through to a customer or end user (e.g., travel), (b) taxes collected by RatLab for remittance to governmental authorities, or (c) refunds or credits.

"**Improvement**" means any advancement, development, improvement, enhancement, correction, modification, adaptation, translation, transformation, annotation, extension, compilation, collective work or derivative work to or based upon the Visualant IP.

"**Intellectual Property Rights**" means any patent, copyright, trademark, trade secret, mask work, moral right or other intellectual property or proprietary right under the laws of any jurisdiction.

"**License**" means the license granted by Visualant to RatLab pursuant to Section 2.1 of this Agreement.

"**Licensed Product**" means any product or service of RatLab or its sublicensees intended for use in the Fields of Use and that incorporates or uses any of the Visualant IP.

"**Third Party**" means any individual, corporation, limited liability company, partnership, trust, association, governmental authority or other entity that is not a Party.



"**Third Party Infringement**" means any past, present or future infringement, misappropriation, unauthorized use or other violation of any of the Visualant IP within the Field of Use by any Third Party.

"**Visualant IP**" means the Visualant Patents, any other intellectual property assets listed in the attached *Exhibit A*, and any other intellectual property or proprietary rights owned or controlled by Visualant that are necessary or useful for exploitation of the Licensed Products.

"**Visualant Patent**" means: (a) any patent or patent application owned or controlled by Visualant now or in the future listed, including any patents or patent applications listed under the heading of "Visualant Patents" in the attached *Exhibit A*, and any patents that may issue from the pending patent applications listed in the attached *Exhibit A*; (b) any patent that may issue from any continuation or divisional that has priority based upon any of the patent applications described in (a) above; (c) any reissues, renewals, substitutions, re-examinations and extensions of any of the patents described in (a) or (b) above; and (d) any foreign patents corresponding to any of the patents described in (a), (b) or (c) above.

## **Section 2. License Grant; Covenants**

2 . 1 License Grant. Subject to the provisions of Section 2.2 below, Visualant hereby grants to RatLab an exclusive (within the Fields of Use), worldwide, non-transferable (except as described in Section 5.2), sublicensable (with the notice of Visualant), royalty-bearing, right and license to use and exploit the Visualant IP within the Fields of Use. Without limiting the generality of the foregoing, the license and rights granted herein include, without limitation, the rights to do the following: (a) make, have made, offer for sale, sell, use, distribute, have distributed, and import any products or services within the Fields of Use under the Visualant IP; (b) make Improvements of and to the Visualant IP; (c) exercise any other rights under the Visualant IP, including the right to take any action against any past, present or future infringement of the Visualant IP in the Fields of Use; and (d) sublicense any of the licenses or rights granted hereunder, subject, however, to the prior notice consent of Visualant.

2 . 2 Exclusivity. During the Term, and so long as RatLab satisfies the milestones set forth in this Section 2.2 (the "**Milestones**") Visualant will not grant to any Third Party any license under any of the Visualant IP to incorporate or utilize the Visualant IP in products or services intended for use in the Fields of Use. The following Milestones will apply to RatLab's efforts to commercialize the Visualant IP:

- (a) Within six (6) months after the Effective Date, create an Affiliate for the purposes of commercializing the Visualant IP within the Fields of Use;
- (b) Within twenty-four (24) months after the Effective Date, obtain funding for such Affiliate so that the Affiliate can operate on a stand-alone basis (i.e., is able to support its own officers and staff, and conduct research either on its own or in conjunction with RatLab);
- (c) Within thirty-six (36) months after the Effective Date, develop a demonstration unit of a Licensed Product; and

(d) Within forty-eight (48) months after the Effective Date, deliver the first License Fee to Visualant.

If RatLab fails to satisfy any of the Milestones, the restrictions on Visualant imposed by this Section 2.2 will terminate and RatLab's rights under the License will be non-exclusive for the remainder of the Term.

### **Section 3. Intellectual Property Rights**

3.1 Administration of Visualant IP. Visualant will control the prosecution, maintenance, registration and other management of the Visualant IP. Visualant will keep RatLab informed of the status of all prosecution, maintenance, registration and other management activities related to the Visualant IP and will provide RatLab with a reasonable opportunity to advise Visualant on such activities. Without limiting the generality of the foregoing, if Visualant chooses to abandon any portion of the Visualant IP, Visualant will provide RatLab written notice at least sixty (60) days prior to the last allowable date for filing or taking any other action required with respect to the prosecution, maintenance or registration of such portion of the Visualant IP and RatLab may, at any time thereafter, take actions necessary to preserve the Visualant IP.

#### **3.2 Third Party Infringement.**

(a) If any Third Party Infringement comes to the attention of either Party, then such Party will give the other Party prompt written notice thereof (including, without limitation, a statement of the facts which are known by the Party giving the notice and which such Party believes might reasonably serve as a basis for a claim of Third Party Infringement, together with a copy of any documentation evidencing the same).

(b) RatLab will have the first right to respond to, address, and/or prosecute any alleged Third Party Infringement by securing cessation of the infringement or initiating an action or suit against the infringer or otherwise responding to, addressing and/or prosecuting such alleged Third Party Infringement. To exercise this first right, RatLab must initiate bona fide action to respond to, address, and/or prosecute any alleged Third Party Infringement within ninety (90) days of learning of such infringement. If RatLab chooses to institute suit or action against an alleged infringer, RatLab may bring such suit in its own name (or, if required by law, in its and Visualant's name) and at its own expense. Further, if RatLab institutes an action or suit against an alleged infringer as provided in this Agreement, then (i) Visualant will fully and promptly cooperate and assist RatLab in connection with any such suit or action, and RatLab will pay Visualant's reasonable attorneys fees and other out-of-pocket directly associated expenses. RatLab will not settle any suits or actions in any manner relating to the Visualant IP without obtaining the prior written consent of RatLab, which will not be unreasonable withheld, delayed or conditioned. After RatLab has recovered its reasonable attorney's fees and other out-of-pocket expenses directly related to any action, suit, or settlement for infringement of Visualant IP, the remaining damages, awards, or settlement proceeds will be divided as follows: fifty percent (50%) to RatLab and fifty percent (50%) to Visualant.

(c) If RatLab fails, within ninety (90) days of learning of an alleged Third Party Infringement, to secure cessation of the alleged Third Party Infringement, institute suit against the alleged infringer, or to otherwise respond to, address and/or prosecute the alleged Third Party Infringement, then Visualant may, upon written notice to RatLab, assume full right and responsibility to institute suit or action against the alleged infringer. If Visualant elects to commence an action as described above, then Visualant may do so in its own name (or if required by law, in its own and RatLab's name) and at its own expense. Further, if Visualant institutes an action or suit against an alleged infringer as provided in this Agreement, then RatLab will fully and promptly cooperate and assist Visualant in connection with the action or suit, and Visualant will pay all of RatLab's reasonable attorney fees and other out-of-pocket directly associated expenses. Visualant will not settle any suits or actions in any manner relating to the Visualant IP without obtaining the prior written consent of RatLab, which will not be unreasonably withheld, delayed or conditioned. After Visualant has recovered its reasonable attorney's fees and other out-of-pocket expenses directly related to any action, suit, or settlement for infringement of Visualant IP, the remaining damages, awards, or settlement proceeds will be divided as follows: fifty percent (50%) to Visualant and fifty percent (50%) to RatLab.

(d) Neither RatLab nor Visualant is obligated under this Agreement to institute or prosecute a suit against any alleged infringer of the Visualant IP.

### 3.3 Ownership of Improvements.

(a) By RatLab.

(i) RatLab or its sublicensees will be the owner of any Intellectual Property Rights in any Improvement to the Visualant IP developed, created or invented by RatLab or its sublicensees at RatLab's expense and neither RatLab nor its sublicensees will be obligated to deliver to Visualant any such Improvement pursuant to this Agreement; provided, however, RatLab will promptly notify Visualant of any such Improvements and license such Improvements to Visualant for use in certain fields of use pursuant to a separate agreement between the Parties containing substantially the same terms as are applicable to the Visualant IP licensed to RatLab pursuant to this Agreement.

(ii) Visualant will be the owner of any Intellectual Property Rights in any Improvement to the Visualant IP developed, created or invented by RatLab at Visualant's expense (e.g., pursuant to a separate research and development agreement or otherwise) and Visualant will not be obligated to deliver to RatLab any such Improvement pursuant to this Agreement; provided, however, RatLab will promptly notify Visualant of any such Improvements and Visualant will license such Improvements to RatLab for use in the Fields of Use pursuant to a separate agreement between the Parties containing substantially the same terms as are applicable to the Visualant IP licensed to RatLab pursuant to this Agreement.

(b) By Visualant. Visualant will be the owner of any Intellectual Property Right in any Improvement of the Visualant IP developed, created or invented by Visualant and Visualant will not be obligated to deliver to RatLab any such Improvement pursuant this Agreement; provided, however, Visualant will promptly notify RatLab of any such Improvements and Visualant will license such Improvements to RatLab for use in the Fields of Use pursuant to a separate agreement between the Parties containing substantially the same terms as are applicable to the Visualant IP licensed to RatLab pursuant to this Agreement.

3.4 Reservation of Rights; Ownership of IP. Except as expressly provided in this Agreement, no title to or ownership of any Visualant IP is transferred to RatLab or any other person under this Agreement. RatLab acknowledges and agrees that Visualant is the sole owner of all right, title and interest in and to the Visualant IP listed on Schedule A hereto, and RatLab agrees that at the request of Visualant, RatLab will execute all instruments and documents and will take all other action necessary to insure that Visualant has vested title to the Visualant IP. RatLab represents and warrants that it will not undertake any act or thing which in any way impairs or is intended to impair any part of the right, title, interest or goodwill of Visualant in the Visualant IP.

#### **Section 4. Compensation**

4.1 License Fee. RatLab will pay Visualant five percent (5%) of the Gross Revenues received with respect to any Licensed Product incorporating one or more of the valid and unexpired Visualant IP (the "**License Fee**").

4.2 Reporting and Payment. Once RatLab satisfies the Milestone set forth in Section 2.2(d), within thirty (30) calendar days of the end of each subsequent calendar quarter (or portion thereof) during the Term of this Agreement, RatLab will remit payment to Visualant for all License Fees earned during such calendar quarter (or portion thereof). Each payment will be accompanied by a statement setting forth in reasonable detail the basis for such payment. All amounts payable under this Agreement are payable in the lawful money of the United States.

4.3 Taxes. RatLab will collect and pay any sales, use, excise, import or export value added or similar tax or duty not based on Visualant's or any of its affiliates' net income associated with sales of the Licensed Products by RatLab.

#### **Section 5. Term and Termination**

5.1 General. Unless otherwise terminated pursuant to Section 5.2, the term of the License (the "**Term**") will commence as of the Effective Date and will continue until the last to expire of the Visualant IP.

5.2 Early Termination. RatLab may terminate this Agreement for its convenience upon thirty (30) days' written notice to Visualant. In addition, either Party may terminate the Agreement by giving the other Party written notice of termination if: (a) the other Party commits a material breach of this Agreement and fails to cure such breach within thirty (30) days after the non-breaching Party gives the breaching Party written notice of such breach; or (b) the bankruptcy, receivership or similar proceeding against the other Party which is not dismissed within thirty (30) days after it is commenced.

5.3 Effect of Expiration or Termination. Upon any expiration or termination of the Term: (a) the License will terminate immediately and automatically; provided, however, all sublicense granted by RatLab prior to the effective date of any termination of the Term will survive such termination; and (b) the Parties' respective rights and obligations under Sections 3.3, 3.4, 5 and 6 of this Agreement will survive.

**Section 6. Miscellaneous**

6.1 Waiver: Amendments. The failure of any Party to insist, in any one or more instances, upon performance of any of the terms, covenants or conditions of this Agreement will not be construed as a waiver or a relinquishment of any right or claim granted or arising hereunder or of the future performance of any such term, covenant, or condition, and such failure will in no way affect the validity of this Agreement or the rights and obligations of the parties hereto. This Agreement may not be modified, amended or supplemented except by an agreement in writing signed by Visualant and RatLab.

6.2 Assignment and Binding Effect. Neither Party may transfer or assign its rights or obligations under this Agreement without the express written consent of the other Party; provided, however, RatLab may assign any of its rights or obligations under this Agreement to an Affiliate without the prior written consent of Visualant but subject to giving Visualant notice of such assignment and the terms and conditions thereof. Subject to the foregoing, this Agreement will inure to the benefit of and will be binding upon the Parties and their respective successors and permitted assigns.

6.3 Governing Law. This Agreement will be governed by and construed under the laws of the state of Washington, without giving effect to any contrary conflict of laws provisions.

6.4 Notices. All notices and other communications hereunder will be in writing and will be deemed given (a) upon receipt if delivered personally (or if mailed by registered or certified mail), (b) the day after dispatch if sent by overnight courier, (c) upon receipt if transmitted by telecopier or other means of facsimile transmission (and confirmed by a copy delivered in accordance with clause (a) or (b)), properly addressed to the parties at the following addresses:

RatLab: RatLab, LLC.  
4939 NE 65th Street  
Seattle, WA 98115

Visualant: Visualant, Inc.  
500 Union Street, Ste. 406  
Seattle, WA 98101

Any Party may change its address for such communications by giving notice thereof to the other parties in conformity with this Section.

6.5 Protection of the License in Bankruptcy. The Parties expressly agree that the Visualant IP and RatLab Softwares "intellectual property" as defined in Section 101(35A) of the United States Bankruptcy Code, 11 U.S.C. Section 101 et seq. (the "**Bankruptcy Code**"). In the event of any proceeding under the Bankruptcy Code for the bankruptcy, reorganization or protection of either Party, this Agreement shall be subject to Section 365(n) of the Bankruptcy Code.

6.6 Severability. If any provision of this Agreement, or the application thereof, will for any reason and to any extent be held to be invalid or unenforceable, the remainder of this Agreement and the application of such provision to other persons or circumstances will be interpreted so as best to reasonably effect the intent of the parties hereto. The parties further agree to replace such invalid or unenforceable provision of this Agreement with a valid and enforceable provision which will achieve, to the extent possible, the economic, business and other purposes of the invalid or unenforceable provision.

6.7 Counterparts. This Agreement may be executed in any number of counterparts, each of which will be deemed to be an original, and all of which together will constitute one and the same instrument notwithstanding that all Parties are not signatories to each counterpart.

6.8 Entire Agreement. This Agreement, together with any exhibit or attachments, constitutes the entire agreement between the Parties hereto with respect to the subject matter of this Agreement and supersedes all prior negotiations, understandings and agreements between the Parties with respect to the subject matter of this Agreement.

*[Remainder of Page Left Intentionally Blank]*

**EXHIBIT A**

**VISUALANT IP**

**VISUALANT PATENTS**

1. Schowengerdt, B.T., Furness, T.A., Melville, R.D., Schroder, K.E., Burstein, R.A., and Chinthammit, W. SYSTEM AND METHOD OF EVALUATING AN OBJECT USING ELECTROMAGNETIC ENERGY. *International Patent Application No. PCT/US2007/017082.*
2. Schowengerdt, B.T., Furness, T.A., and Walker, N.E. (2006) METHOD, APPARATUS, AND ARTICLE TO FACILITATE DISTRIBUTED EVALUATION OF OBJECTS USING ELECTROMAGNETIC ENERGY. *U.S. Patent Application No. 11/831,662.*
3. Furness, T.A., Schowengerdt, B.T., Melville, R., Walker, N.E., and Sparks, B.E. (2006) METHOD, APPARATUS, AND ARTICLE TO FACILITATE EVALUATION OF OBJECTS USING ELECTROMAGNETIC ENERGY. *U.S. Patent Application No. 11/831,717.*
4. Schowengerdt, B.T., Furness, T.A., Melville, R.D., Schroder, K.E., Burstein, R.A., and Chinthammit, W. SYSTEM AND METHOD OF EVALUATING AN OBJECT USING ELECTROMAGNETIC ENERGY. *U.S. Provisional Patent Application No. 60/820,938.*
5. Schowengerdt, B.T., Furness, T.A., and Walker, N.E. (2006) METHOD, APPARATUS, AND ARTICLE TO FACILITATE DISTRIBUTED EVALUATION OF OBJECTS USING ELECTROMAGNETIC ENERGY. *U.S. Provisional Patent Application No. 60/834,662.*
6. Furness, T.A., Schowengerdt, B.T., Melville, R., and Walker, N.E. (2006) METHOD, APPARATUS, AND ARTICLE TO FACILITATE EVALUATION OF OBJECTS USING ELECTROMAGNETIC ENERGY. *U.S. Provisional Patent Application No. 60/834,589.*
7. Furness, T.A., Schowengerdt, B.T., Melville, R., and Walker, N.E. (2006) METHOD, APPARATUS, AND ARTICLE TO FACILITATE EVALUATION OF OBJECTS USING ELECTROMAGNETIC ENERGY. *U.S. Provisional Patent Application No. 60/871,639.*
8. Furness, T.A., Schowengerdt, B.T., Melville, R., Walker, N.E., and Sparks, B.E. (2006) METHOD, APPARATUS, AND ARTICLE TO FACILITATE EVALUATION OF OBJECTS USING ELECTROMAGNETIC ENERGY. *U.S. Provisional Patent Application No. 60/883,312.*
9. Furness, T.A., Schowengerdt, B.T., Melville, R., Walker, N.E., and Sparks, B.E. (2006) METHOD, APPARATUS, AND ARTICLE TO FACILITATE EVALUATION OF OBJECTS USING ELECTROMAGNETIC ENERGY. *U.S. Provisional Patent Application No. 60/890,446.*

EXHIBIT C

NON-EXCLUSIVE LICENSE AGREEMENT  
(RATLAB SOFTWARE)

This Non-Exclusive License Agreement (this "**Agreement**"), dated as of October 23, 2008, is made by and between Visualant, Inc., a Nevada corporation ("**Visualant**") and RatLab, LLC, a Washington limited liability company ("**RatLab**"). Visualant and RatLab (sometimes referred to herein individually as a "**Party**" and collectively as the "**Parties**") therefore agree as follows:

**Section 1. Definitions**

"**Affiliate**" means a corporation, limited liability company, joint venture or other entity of which RatLab or its members has ownership and control of at least fifty percent (50%) of all outstanding shares or securities or other ownership interests that represent the power to direct the management and policies of such entity.

"**Confidential Information**" means any confidential or proprietary information of a Party, including without limitation, trade secrets, functional and technical specifications, designs, drawings, translations, analysis, research, processes, computer programs (including, without limitation, the RatLab Software), beta versions, algorithms, methods, ideas, "know how," and other technical information.

"**Fields of Use**" means the fields of use identified in the attached *Exhibit A*.

"**Gross Revenue**" means any revenue actually received by Visualant as a result of the sale to any of Visualant's customers or end users of Licensed Products; provided, however, that "Gross Revenue" does not include any (a) reimbursed expenses or costs that are passed through to a customer or end user (e.g., travel), (b) taxes collected by Visualant for remittance to governmental authorities, or (c) refunds or credits.

"**Improvement**" means any advancement, development, improvement, enhancement, correction, modification, adaptation, translation, transformation, annotation, extension, compilation, collective work or derivative work.

"**Intellectual Property Rights**" means any patent, copyright, trademark, trade secret, mask work, moral right or other intellectual property or proprietary right under the laws of any jurisdiction.

"**Licensed Product**" means any product or service that includes the RatLab Software.

"**RatLab Software**" means the computer code (both source code and object code) and documentation listed in the attached *Exhibit B*.

"**User**" means an individual or entity to which Visualant provides a license to use the RatLab Software (as part of a Licensed Product) for such Licensee's own use and not for redistribution, subject to the restriction in Section 2.



## Section 2. License Grant; Restrictions

2.1 License Grant; Delivery of RatLab Software. Subject to the terms and conditions of this Agreement including Visualant's payment of all fees due under this Agreement, RatLab hereby grants to Visualant a non-exclusive, worldwide, non-transferable (except as described in Section 8.4), sublicensable, royalty-bearing right and license to do the following within the Fields of Use during the Term: (a) incorporate and utilize the RatLab Software in Licensed Products; (b) make Improvement to the RatLab Software for use in connection with the exercise of the rights described in Section 2.1(a); (c) incorporate the RatLab Software and Improvement to the RatLab Software into Licensed Products; (d) grant sublicenses to Users to use the RatLab Software and Improvements to the RatLab Software in accordance with the terms and conditions of this Agreement; (e) make and use copies of the RatLab Software and Improvement to the RatLab Software in connection with the exercise of the rights described in subsections (a) through (d) of this Section 2.1; and (f) support and maintain the RatLab Software and Improvement to the RatLab Software. Upon execution of this Agreement, RatLab will deliver one or more master copies of the RatLab Software to Visualant.

2.2 No Third-Party Distribution. Visualant may only sublicense rights to the RatLab Software directly to Users within the Fields of Use and may not market or distribute the RatLab Software through any third party. No User will have the right to further sublicense or distribute the RatLab Software to or through any third party.

2.3 User License Agreements. Visualant must enter into a license agreement with each User, which agreement must: (a) be no less protective of RatLab and the RatLab Software than this Agreement; (b) provide for a limited, non-exclusive license to install and use the RatLab Software within Fields of Use and in accordance with this Agreement; (c) include a disclaimer that RatLab will have no liability to User including any liability for damages, whether direct, indirect, incidental or consequential or for loss of profits arising from or related to the use of the RatLab Software provided by Visualant to the User or Visualant's products or software; and (d) provide that RatLab is an intended third-party beneficiary of such agreement.

2.4 Restrictions. Visualant will not, and will not allow any User to: (a) make any copies of the RatLab Software or install the RatLab Software on any hardware or equipment other than a Licensed Product; (b) de-compile, disassemble, or otherwise reverse engineer or attempt to reconstruct or discover any source code, algorithms or file formats or programming or interoperability interfaces of the RatLab Software or of any files contained or generated using the RatLab Software by any means whatsoever; (c) except for the rights granted to Visualant pursuant to Section 2.1(b), modify or create any derivative works from the RatLab Software or any part thereof or separate the RatLab Software into its component parts; (d) merge the RatLab Software with any other software other than as expressly set forth in the documentation accompanying the RatLab Software (if any); (e) disclose to any third party any performance information or analysis relating to the RatLab Software; (f) except for the rights granted to Visualant pursuant to Section 2.1, sell, sublicense, lease, rent, loan, assign, convey or otherwise transfer the RatLab Software or any component thereof; (g) use the RatLab Software on a different operating system(s) than that specified in the documentation accompanying the RatLab Software (if any); or (h) remove, obscure or alter any notice of copyright, trademark or other proprietary right appearing on or in the RatLab Software (including any component therein) or any documentation accompanying the RatLab Software. Visualant will permit RatLab, at all reasonable times, and at RatLab's expense, to verify that the use of the RatLab is within the terms of this Agreement.

**Section 3. Intellectual Property Rights**

3.1 Ownership of Improvements.

(a) Visualant will be the owner of any Intellectual Property Right in any Improvement of the RatLab Software developed, created or invented by Visualant (subject to any Intellectual Property Rights of RatLab in the RatLab Software) [and Visualant will not be obligated to deliver to RatLab any such Improvement pursuant to this Agreement; provided however, Visualant will promptly notify RatLab of any such Improvements and Visualant will license such Improvements to RatLab pursuant to a separate agreement between the Parties containing substantially the same terms as are applicable to the "Visualant IP" licensed to RatLab on an exclusive basis pursuant to the Commercial License Agreement, dated October 23, 2008, between the Parties.

(b) RatLab will be the owner of any Intellectual Property Right in any Improvement of the RatLab Software developed, created or invented by RatLab and RatLab will not be obligated to deliver to Visualant any such Improvement.

3.2 Reservation of Rights. Except as expressly provided in this Agreement, no title to or ownership of any RatLab Software or any proprietary rights associated with the RatLab Software, is transferred to Visualant or any other person under this Agreement.

**Section 4. Compensation**

4.1 License Fee. Visualant will pay RatLab five percent (5%) of the Gross Revenue received with respect to any Licensed Product incorporating any RatLab Software (the "**License Fee**").

4.2 Reporting and Payment. Within thirty (30) business days of the end of each calendar quarter (or portion thereof) during the Term of this Agreement, Visualant will remit payment to RatLab for all License Fees earned during such calendar quarter (or portion thereof). Each payment will be accompanied by a statement setting forth in reasonable detail the basis for such payment. All amounts payable under this Agreement are payable in the lawful money of the United States.

4.3 Taxes. Visualant will collect and pay any sales, use, excise, import or export value added or similar tax or duty not based on RatLab's or any of its affiliates' net income associated with sales of the Licensed Products by Visualant.

**Section 5. Term and Termination**

5.1 General. Unless otherwise terminated pursuant to Section 5.2, the term of the License (the "**Term**") will commence as of the Effective Date and will continue for a period of twenty (20) years.

5.2 Early Termination. Either Party may terminate the Agreement by giving the other Party written notice of termination if: (a) the other Party commits a material breach of this Agreement and fails to cure such breach within thirty (30) days after the non-breaching Party gives the breaching Party written notice of such breach; or (b) the bankruptcy, receivership or similar proceeding against the other Party which is not dismissed within thirty (30) days after it is commenced.

5.3 Effect of Expiration or Termination. Upon any expiration or termination of the Term: (a) the license granted to Visualant pursuant to this Agreement will terminate immediately and automatically; provided, however, all sublicense granted by Visualant prior to the effective date of any termination of the Term will survive such termination; and (b) the Parties' respective rights and obligations under Sections 2.4, 3, 5, 6 and 7 of this Agreement will survive.

#### **Section 6. Confidentiality**

Each Party agrees to hold the Confidential Information of the other Party in the strictest confidence and not to disclose such Confidential Information to any third party, except as otherwise expressly provided by this Agreement. Each Party will, however, be permitted to disclose relevant aspects of such Confidential Information to its officers, employees, attorneys, or auditors, all on a need-to-know basis, provided that such individuals or entities have undertaken to protect the Confidential Information to the same extent as required under this Agreement. Each Party will give the other Party notice immediately upon learning of any unauthorized use or disclosure of Confidential Information. The obligations set forth in this Section 7 do not apply if and to the extent the Party receiving Confidential Information ("**Receiving Party**") establishes that: (a) the information disclosed to the Receiving Party was already known to the Receiving Party, without obligation to keep it confidential; (b) the Receiving Party received the information in good faith from a third party lawfully in possession thereof without obligation to keep such information; (c) the information was publicly known at the time of its receipt by the Receiving Party or has become publicly known other than by a breach of this Agreement; (d) the information is independently developed by the Receiving Party without use of the other Party's Confidential Information; or (e) the information is required to be disclosed by applicable statute or regulation or by judicial or administrative process; provided that, in the case of (e) above, the Receiving Party will use reasonable efforts under the circumstances to notify the other Party of such requirements so as to provide such Party the opportunity to obtain such protective orders or other relief as the compelling court or other entity may grant.

#### **Section 7. Miscellaneous**

7.1 No Warranties. RATLAB MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, WITH REGARD TO THE RATLAB SOFTWARE (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR ANY IMPLIED WARRANTY ARISING OUT OF COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE). FURTHER, RATLAB DOES NOT REPRESENT OR WARRANT THAT THE RATLAB SOFTWARE WILL MEET ALL OF VISUALANT'S OR ITS USERS' REQUIREMENTS, OR WILL ALWAYS BE AVAILABLE, ACCESSIBLE, UNINTERRUPTED, TIMELY, SECURE, ACCURATE, COMPLETE, ERROR-FREE, OR VIRUS-FREE.

7.2 Limitation of Liability. EXCEPT FOR VIOLATION OF ANOTHER PARTY'S INTELLECTUAL PROPERTY RIGHTS OR BREACH OF SECTION 2.4, NEITHER PARTY'S AGGREGATE LIABILITY TO THE OTHER PARTY OR ANY THIRD PARTY UNDER THIS AGREEMENT WILL EXCEED THE LICENSE FEES PAID BY VISUALANT UNDER THIS AGREEMENT, AND NEITHER PARTY WILL BE LIABLE FOR ANY SPECIAL, INDIRECT, INCIDENTAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES, INCLUDING BUT NOT LIMITED TO LOST PROFITS, LOST REVENUE, LOST DATA, REPLACEMENT GOODS, OR INTERRUPTION OF USE OF ANY OF THE COCO PRODUCTS, WHETHER IN CONTRACT, TORT, NEGLIGENCE OR OTHERWISE, EVEN IF A PARTY HAS BEEN ADVISED OF THE POSSIBILITY THEREOF.

7.3 Waiver: Amendments. The failure of any Party to insist, in any one or more instances, upon performance of any of the terms, covenants or conditions of this Agreement will not be construed as a waiver or a relinquishment of any right or claim granted or arising hereunder or of the future performance of any such term, covenant, or condition, and such failure will in no way affect the validity of this Agreement or the rights and obligations of the parties hereto. This Agreement may not be modified, amended or supplemented except by an agreement in writing signed by Visualant and RatLab.

7.4 Assignment and Binding Effect. Neither Party may transfer or assign its rights or obligations under this Agreement without the express written consent of the other Party; provided, however, RatLab may assign any of its rights or obligations under this Agreement to an Affiliate without the prior written consent of Visualant. Subject to the foregoing, this Agreement will inure to the benefit of and will be binding upon the Parties and their respective successors and permitted assigns.

7.5 Governing Law. This Agreement will be governed by and construed under the laws of the state of Washington, without giving effect to any contrary conflict of laws provisions.

7.5 Notices. All notices and other communications hereunder will be in writing and will be deemed given (a) upon receipt if delivered personally (or if mailed by registered or certified mail), (b) the day after dispatch if sent by overnight courier, (c) upon receipt if transmitted by telecopier or other means of facsimile transmission (and confirmed by a copy delivered in accordance with clause (a) or (b)), properly addressed to the parties at the following addresses:

RatLab:	RatLab, LLC. 4939 NE 65th Street Seattle, WA 98115
Visualant:	Visualant, Inc. 500 Union Street, Ste. 406 Seattle, WA 98101

Any Party may change its address for such communications by giving notice thereof to the other parties in conformity with this Section.

7.6 Protection of the License in Bankruptcy. The Parties expressly agree that the RatLab Software is "intellectual property" as defined in Section 101(35A) of the United States Bankruptcy Code, 11 U.S.C. Section 101 et. seq. (the "**Bankruptcy Code**"). In the event of any proceeding under the Bankruptcy Code for the bankruptcy, reorganization or protection of either Party, this Agreement will be subject to Section 365(n) of the Bankruptcy Code.

7.7 Severability. If any provision of this Agreement, or the application thereof, will for any reason and to any extent be held to be invalid or unenforceable, the remainder of this Agreement and the application of such provision to other persons or circumstances will be interpreted so as best to reasonably effect the intent of the parties hereto. The parties further agree to replace such invalid or unenforceable provision of this Agreement with a valid and enforceable provision which will achieve, to the extent possible, the economic, business and other purposes of the invalid or unenforceable provision.

7.8 Counterparts. This Agreement may be executed in any number of counterparts, each of which will be deemed to be an original, and all of which together will constitute one and the same instrument notwithstanding that all Parties are not signatories to each counterpart.

7.9 Entire Agreement. This Agreement, together with any exhibit or attachments, constitutes the entire agreement between the Parties hereto with respect to the subject matter of this Agreement and supersedes all prior negotiations, understandings and agreements between the Parties with respect to the subject matter of this Agreement.

*[Remainder of Page Left Intentionally Blank]*

IN WITNESS WHEREOF, the Parties have caused this Agreement to be made and executed by duly authorized officers.

Visualant, Inc.

RatLab, LLC

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date Signed: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date Signed: \_\_\_\_\_

*[Signature Page to Non-Exclusive License Agreement (RatLab Software)]*

**EXHIBIT A**

**FIELDS OF USE**

1. Verification of authenticity of various manufactured goods or substances when compared against a prestored standard of the spectral signature of authentic goods.

**EXHIBIT B**

**RATLAB SOFTWARE**

Cyclops - Labview VIs           Version "Working"  
Cyclops - Labview VIs           Version 01a "Master Fingerprint"  
Cyclops - Labview VIs           Version "Cyclops\_main modding for 30LEDs.vi"  
Cyclops - Labview Vis           Version "Cyclop30\_DEMO.vi"  
Cyclops - Labview VIs           Speech recognition        Version "Cyclop30\_DEMO\_sound\_SR.vi"  
Cyclops - Labview VIs           Speech recognition        Version "Cyclop30\_DEMO\_record\_playback.vi"  
Cyclops - Labview Vis           Version "Cyclop30\_DEMO\_v2.vi"  
Cyclops - Labview VIs           Speech recognition        Version "Cyclop30\_DEMO\_v2.vi"  
Cyclops - Labview VIs           Version "Cyclops\_NYC\_DEMO.llb"  
Tetraclops - ARM 7 Firmware 1.0 Labview dependent - Version 1  
Tetraclops - ARM 7 Firmware 1.0 Labview dependent - Version 2  
Tetraclops - ARM 7 Firmware 1.0 Labview dependent - Version 3  
Tetraclops - ARM 7 Firmware 1.0 Labview dependent - Version 4  
Tetraclops - ARM 7 Firmware 1.0 Labview dependent - Version 5  
Tetraclops - ARM 7 Firmware 1.0 Labview dependent - Version 6  
Tetraclops - ARM 7 Firmware 1.0 Labview dependent - Version 7  
Tetraclops - ARM 7 Firmware 1.0 Labview dependent - Version 8  
Tetraclops - CPLD Firmware - Version 1  
Tetraclops - CPLD Firmware - Version 2  
Tetraclops - CPLD Firmware - Version 3  
Tetraclops - CPLD Firmware - Version 4  
Tetraclops - CPLD Firmware - Version 5  
Tetraclops - CPLD Firmware - Version 6  
Tetraclops - CPLD Firmware - Version 7  
Tetraclops - CPLD Firmware - Version 8  
Tetraclops - CPLD Firmware - Version 9  
Tetraclops - Labview VIs - Version 1  
Tetraclops - Labview VIs - Version 2  
Tetraclops - Labview VIs - Version 3  
Tetraclops - Labview VIs - Version 4  
Tetraclops - Labview VIs - Version 5  
Tetraclops - Labview VIs - Version 6  
Tetraclops - Labview VIs - Version 7  
Tetraclops - Labview VIs - Version 8  
Tetraclops - Server software - Java + My SQL - Version 1  
Tetraclops - PDA communication software + User Interface- C++        Version 1  
Tetraclops - ARM 7 Firmware 2.0 Labview independent - Version 1  
Simulator, initial import (rev 1)  
Simulator, first working classifier (rev 14)  
Simulator, first working pca (rev 57)



Simulator, first working ica (rev 75)  
Spectrographic reconstruction - C++ called by web page - Initial Version  
Simulator, first working probability method (rev 95)  
Object authentication - C DLL, called by labview - Version 2.0  
Object authentication - C DLL, called by labview - Version 3.0  
Object authentication - C DLL, called by labview - Version 4.0  
Spectrographic reconstruction - C DLL called by LabView - first alpha test (rev 121)  
Object authentication - C DLL, called by labview - Version 5.0  
Object authentication - C DLL, called by labview - Version 6.0  
Object authentication - C DLL, called by labview - Version 7.0  
Object authentication - Java run on Server - First alpha test (rev 7)  
Spectrographic reconstruction - C++ called by web page - Current version  
Spectrographic reconstruction - C DLL called by LabView - Vancouver trip (rev 137)  
Spectrographic reconstruction - C++ run local on PC (sent to CBN) Version 1  
Object authentication - Java run on Server - SF Demo version (rev 56)  
Simulator, set up to find best gel filters  
Spectrographic reconstruction - C++ run local on PC Version 2  
Spectrographic reconstruction - C++ run local on PC Version 3  
Spectrographic reconstruction - Java run on Server - first alpha test (rev 49)  
Spectrographic reconstruction - Java run on Server - black and white cal (rev 68)  
Server-in-the-Sky networking algorithms (v. 1.0)

**EXHIBIT D**

**TEMPLATE LICENSE AGREEMENT**

This Commercial License Agreement (this "**Agreement**"), dated as of \_\_\_\_\_ (the "**Effective Date**"), is made by and between Visualant, Inc., a Nevada corporation ("**Visualant**") and RatLab, LLC, a Washington limited liability company ("**RatLab**"). Visualant and RatLab (sometimes referred to herein individually as a "**Party**" and collectively as the "**Parties**") therefore agree as follows:

**Section 1. Definitions**

"**Affiliate**" means a corporation, limited liability company, joint venture or other entity of which RatLab or its members has ownership and control of at least fifty percent (50%) of all outstanding shares or securities or other ownership interests that represent the power to direct the management and policies of such entity.

"**Fields of Use**" \_\_\_\_\_

"**Gross Revenue**" means any revenue actually received by RatLab, or a RatLab Affiliate, as a result of the sale to any of RatLab's or RatLab Affiliate's customers or end users of Licensed Products that incorporate one or more of the unexpired Visualant IP; provided, however, that "Gross Revenue" does not include any (a) reimbursed expenses or costs that are passed through to a customer or end user (e.g., travel), (b) taxes collected by RatLab for remittance to governmental authorities, or (c) refunds or credits.

"**Improvement**" means any advancement, development, improvement, enhancement, correction, modification, adaptation, translation, transformation, annotation, extension, compilation, collective work or derivative work to or based upon the Visualant IP.

"**Intellectual Property Rights**" means any patent, copyright, trademark, trade secret, mask work, moral right or other intellectual property or proprietary right under the laws of any jurisdiction.

"**License**" means the license granted by Visualant to RatLab pursuant to Section 2.1 of this Agreement.

"**Licensed Product**" means any product or service of RatLab or its sublicensees intended for use in the Fields of Use and that incorporates or uses any of the Visualant IP.

"**Third Party**" means any individual, corporation, limited liability company, partnership, trust, association, governmental authority or other entity that is not a Party.

"**Third Party Infringement**" means any past, present or future infringement, misappropriation, unauthorized use or other violation of any of the Visualant IP within the Field of Use by any Third Party.

"**Visualant IP**" means the Visualant Patents, any other intellectual property assets listed in the attached *Exhibit A*, and any other intellectual property or proprietary rights owned or controlled by Visualant that are necessary or useful for exploitation of the Licensed Products.

"**Visualant Patent**" means: (a) any patent or patent application owned or controlled by Visualant now or in the future listed, including any patents or patent applications listed under the heading of "Visualant Patents" in the attached *Exhibit A*, and any patents that may issue from the pending patent applications listed in the attached *Exhibit A*; (b) any patent that may issue from any continuation or divisional that has priority based upon any of the patent applications described in (a) above; (c) any reissues, renewals, substitutions, re-examinations and extensions of any of the patents described in (a) or (b) above; and (d) any foreign patents corresponding to any of the patents described in (a), (b) or (c) above.

**Section 2. License Grant; Covenants**

2.1 License Grant. Subject to the provisions of Section 2.2 below, Visualant hereby grants to RatLab an exclusive (within the Fields of Use), worldwide, non-transferable (except as described in Section 5.2), sublicensable (with the notice of Visualant), royalty-bearing, right and license to use and exploit the Visualant IP within the Fields of Use. Without limiting the generality of the foregoing, the license and rights granted herein include, without limitation, the rights to do the following: (a) make, have made, offer for sale, sell, use, distribute, have distributed, and import any products or services within the Fields of Use under the Visualant IP; (b) make Improvements of and to the Visualant IP; (c) exercise any other rights under the Visualant IP, including the right to take any action against any past, present or future infringement of the Visualant IP in the Fields of Use; and (d) sublicense any of the licenses or rights granted hereunder, subject, however, to the prior notice consent of Visualant.

2.2 Exclusivity. During the Term, and so long as RatLab satisfies the milestones set forth in this Section 2.2 (the "**Milestones**") Visualant will not grant to any Third Party any license under any of the Visualant IP to incorporate or utilize the Visualant IP in products or services intended for use in the Fields of Use. The following Milestones will apply to RatLab's efforts to commercialize the Visualant IP:

- (a) Within six (6) months after the Effective Date, create an Affiliate for the purposes of commercializing the Visualant IP within the Fields of Use;
- (b) Within twenty-four (24) months after the Effective Date, obtain funding for such Affiliate so that the Affiliate can operate on a stand-alone basis (i.e., is able to support its own officers and staff, and conduct research either on its own or in conjunction with RatLab);
- (c) Within thirty-six (36) months after the Effective Date, develop a demonstration unit of a Licensed Product; and
- (d) Within forty-eight (48) months after the Effective Date, deliver the first License Fee to Visualant.

If RatLab fails to satisfy any of the Milestones, the restrictions on Visualant imposed by this Section 2.2 will terminate and RatLab's rights under the License will be non-exclusive for the remainder of the Term.

### **Section 3. Intellectual Property Rights**

3.1 Administration of Visualant IP. Visualant will control the prosecution, maintenance, registration and other management of the Visualant IP. Visualant will keep RatLab informed of the status of all prosecution, maintenance, registration and other management activities related to the Visualant IP and will provide RatLab with a reasonable opportunity to advise Visualant on such activities. Without limiting the generality of the foregoing, if Visualant chooses to abandon any portion of the Visualant IP, Visualant will provide RatLab written notice at least sixty (60) days prior to the last allowable date for filing or taking any other action required with respect to the prosecution, maintenance or registration of such portion of the Visualant IP and RatLab may, at any time thereafter, take actions necessary to preserve the Visualant IP.

#### **3.2 Third Party Infringement.**

(a) If any Third Party Infringement comes to the attention of either Party, then such Party will give the other Party prompt written notice thereof (including, without limitation, a statement of the facts which are known by the Party giving the notice and which such Party believes might reasonably serve as a basis for a claim of Third Party Infringement, together with a copy of any documentation evidencing the same).

(b) RatLab will have the first right to respond to, address, and/or prosecute any alleged Third Party Infringement by securing cessation of the infringement or initiating an action or suit against the infringer or otherwise responding to, addressing and/or prosecuting such alleged Third Party Infringement. To exercise this first right, RatLab must initiate bona fide action to respond to, address, and/or prosecute any alleged Third Party Infringement within ninety (90) days of learning of such infringement. If RatLab chooses to institute suit or action against an alleged infringer, RatLab may bring such suit in its own name (or, if required by law, in its and Visualant's name) and at its own expense. Further, if RatLab institutes an action or suit against an alleged infringer as provided in this Agreement, then (i) Visualant will fully and promptly cooperate and assist RatLab in connection with any such suit or action, and RatLab will pay Visualant's reasonable attorneys fees and other out-of-pocket directly associated expenses. RatLab will not settle any suits or actions in any manner relating to the Visualant IP without obtaining the prior written consent of RatLab, which will not be unreasonable withheld, delayed or conditioned. After RatLab has recovered its reasonable attorney's fees and other out-of-pocket expenses directly related to any action, suit, or settlement for infringement of Visualant IP, the remaining damages, awards, or settlement proceeds will be divided as follows: fifty percent (50%) to RatLab and fifty percent (50%) to Visualant.

(c) If RatLab fails, within ninety (90) days of learning of an alleged Third Party Infringement, to secure cessation of the alleged Third Party Infringement, institute suit against the alleged infringer, or to otherwise respond to, address and/or prosecute the alleged Third Party Infringement, then Visualant may, upon written notice to RatLab, assume full right and responsibility to institute suit or action against the alleged infringer. If Visualant elects to commence an action as described above, then Visualant may do so in its own name (or if required by law, in its own and RatLab's name) and at its own expense. Further, if Visualant institutes an action or suit against an alleged infringer as provided in this Agreement, then RatLab will fully and promptly cooperate and assist Visualant in connection with the action or suit, and Visualant will pay all of RatLab's reasonable attorney fees and other out-of-pocket directly associated expenses. Visualant will not settle any suits or actions in any manner relating to the Visualant IP without obtaining the prior written consent of RatLab, which will not be unreasonably withheld, delayed or conditioned. After Visualant has recovered its reasonable attorney's fees and other out-of-pocket expenses directly related to any action, suit, or settlement for infringement of Visualant IP, the remaining damages, awards, or settlement proceeds will be divided as follows: fifty percent (50%) to Visualant and fifty percent (50%) to RatLab.

(d) Neither RatLab nor Visualant is obligated under this Agreement to institute or prosecute a suit against any alleged infringer of the Visualant IP.

### 3.3 Ownership of Improvements.

(a) By RatLab.

(i) RatLab or its sublicensees will be the owner of any Intellectual Property Rights in any Improvement to the Visualant IP developed, created or invented by RatLab or its sublicensees at RatLab's expense and neither RatLab nor its sublicensees will be obligated to deliver to Visualant any such Improvement pursuant to this Agreement; provided, however, RatLab will promptly notify Visualant of any such Improvements and license such Improvements to Visualant for use in certain fields of use pursuant to a separate agreement between the Parties containing substantially the same terms as are applicable to the Visualant IP licensed to RatLab pursuant to this Agreement.

(ii) Visualant will be the owner of any Intellectual Property Rights in any Improvement to the Visualant IP developed, created or invented by RatLab at Visualant's expense (e.g., pursuant to a separate research and development agreement or otherwise) and Visualant will not be obligated to deliver to RatLab any such Improvement pursuant to this Agreement; provided, however, RatLab will promptly notify Visualant of any such Improvements and Visualant will license such Improvements to RatLab for use in the Fields of Use pursuant to a separate agreement between the Parties containing substantially the same terms as are applicable to the Visualant IP licensed to RatLab pursuant to this Agreement.

(b) By Visualant. Visualant will be the owner of any Intellectual Property Right in any Improvement of the Visualant IP developed, created or invented by Visualant and Visualant will not be obligated to deliver to RatLab any such Improvement pursuant to this Agreement; provided, however, Visualant will promptly notify RatLab of any such Improvements and Visualant will license such Improvements to RatLab for use in the Fields of Use pursuant to a separate agreement between the Parties containing substantially the same terms as are applicable to the Visualant IP licensed to RatLab pursuant to this Agreement.

3.4 Reservation of Rights; Ownership of IP. Except as expressly provided in this Agreement, no title to or ownership of any Visualant IP is transferred to RatLab or any other person under this Agreement. RatLab acknowledges and agrees that Visualant is the sole owner of all right, title and interest in and to the Visualant IP listed on Schedule A hereto, and RatLab agrees that at the request of Visualant, RatLab will execute all instruments and documents and will take all other action necessary to insure that Visualant has vested title to the Visualant IP. RatLab represents and warrants that it will not undertake any act or thing which in any way impairs or is intended to impair any part of the right, title, interest or goodwill of Visualant in the Visualant IP.

#### **Section 4. Compensation**

4.1 License Fee. RatLab will pay Visualant five percent (5%) of the Gross Revenues received with respect to any Licensed Product incorporating one or more of the valid and unexpired Visualant IP (the "**License Fee**").

4.2 Reporting and Payment. Once RatLab satisfies the Milestone set forth in Section 2.2(d), within thirty (30) calendar days of the end of each subsequent calendar quarter (or portion thereof) during the Term of this Agreement, RatLab will remit payment to Visualant for all License Fees earned during such calendar quarter (or portion thereof). Each payment will be accompanied by a statement setting forth in reasonable detail the basis for such payment. All amounts payable under this Agreement are payable in the lawful money of the United States.

4.3 Taxes. RatLab will collect and pay any sales, use, excise, import or export value added or similar tax or duty not based on Visualant's or any of its affiliates' net income associated with sales of the Licensed Products by RatLab.

#### **Section 5. Term and Termination**

5.1 General. Unless otherwise terminated pursuant to Section 5.2, the term of the License (the "**Term**") will commence as of the Effective Date and will continue until the last to expire of the Visualant IP.

5.2 Early Termination. RatLab may terminate this Agreement for its convenience upon thirty (30) days' written notice to Visualant. In addition, either Party may terminate the Agreement by giving the other Party written notice of termination if: (a) the other Party commits a material breach of this Agreement and fails to cure such breach within thirty (30) days after the non-breaching Party gives the breaching Party written notice of such breach; or (b) the bankruptcy, receivership or similar proceeding against the other Party which is not dismissed within thirty (30) days after it is commenced.

5.3 Effect of Expiration or Termination. Upon any expiration or termination of the Term: (a) the License will terminate immediately and automatically; provided, however, all sublicense granted by RatLab prior to the effective date of any termination of the Term will survive such termination; and (b) the Parties' respective rights and obligations under Sections 3.3, 3.4, 5 and 6 of this Agreement will survive.

**Section 6. Miscellaneous**

6.1 Waiver: Amendments. The failure of any Party to insist, in any one or more instances, upon performance of any of the terms, covenants or conditions of this Agreement will not be construed as a waiver or a relinquishment of any right or claim granted or arising hereunder or of the future performance of any such term, covenant, or condition, and such failure will in no way affect the validity of this Agreement or the rights and obligations of the parties hereto. This Agreement may not be modified, amended or supplemented except by an agreement in writing signed by Visualant and RatLab.

6.2 Assignment and Binding Effect. Neither Party may transfer or assign its rights or obligations under this Agreement without the express written consent of the other Party; provided, however, RatLab may assign any of its rights or obligations under this Agreement to an Affiliate without the prior written consent of Visualant but subject to giving Visualant notice of such assignment and the terms and conditions thereof. Subject to the foregoing, this Agreement will inure to the benefit of and will be binding upon the Parties and their respective successors and permitted assigns.

6.3 Governing Law. This Agreement will be governed by and construed under the laws of the state of Washington, without giving effect to any contrary conflict of laws provisions.

6.4 Notices. All notices and other communications hereunder will be in writing and will be deemed given (a) upon receipt if delivered personally (or if mailed by registered or certified mail), (b) the day after dispatch if sent by overnight courier, (c) upon receipt if transmitted by telecopier or other means of facsimile transmission (and confirmed by a copy delivered in accordance with clause (a) or (b)), properly addressed to the parties at the following addresses:

RatLab:	RatLab, LLC. 4939 NE 65th Street Seattle, WA 98115
Visualant:	Visualant, Inc. 500 Union Street, Ste. 406 Seattle, WA 98101

Any Party may change its address for such communications by giving notice thereof to the other parties in conformity with this Section.

6.5 Protection of the License in Bankruptcy. The Parties expressly agree that the Visualant IP and RatLab Softwares "intellectual property" as defined in Section 101(35A) of the United States Bankruptcy Code, 11 U.S.C. Section 101 et seq. (the "**Bankruptcy Code**"). In the event of any proceeding under the Bankruptcy Code for the bankruptcy, reorganization or protection of either Party, this Agreement shall be subject to Section 365(n) of the Bankruptcy Code.

6.6 Severability. If any provision of this Agreement, or the application thereof, will for any reason and to any extent be held to be invalid or unenforceable, the remainder of this Agreement and the application of such provision to other persons or circumstances will be interpreted so as best to reasonably effect the intent of the parties hereto. The parties further agree to replace such invalid or unenforceable provision of this Agreement with a valid and enforceable provision which will achieve, to the extent possible, the economic, business and other purposes of the invalid or unenforceable provision.

6.7 Counterparts. This Agreement may be executed in any number of counterparts, each of which will be deemed to be an original, and all of which together will constitute one and the same instrument notwithstanding that all Parties are not signatories to each counterpart.

6.8 Entire Agreement. This Agreement, together with any exhibit or attachments, constitutes the entire agreement between the Parties hereto with respect to the subject matter of this Agreement and supersedes all prior negotiations, understandings and agreements between the Parties with respect to the subject matter of this Agreement.

*[Remainder of Page Left Intentionally Blank]*



IN WITNESS WHEREOF, the Parties have caused this Agreement to be made and executed by duly authorized officers.

Visualant, Inc.

RatLab, LLC

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date Signed: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date Signed: \_\_\_\_\_

*[Signature Page to Commercial License Agreement]*

**EXHIBIT A**

**VISUALANT IP**

**VISUALANT PATENTS**

19. Schowengerdt, B.T., Furness, T.A., Melville, R.D., Schroder, K.E., Burstein, R.A., and Chinthammit, W. SYSTEM AND METHOD OF EVALUATING AN OBJECT USING ELECTROMAGNETIC ENERGY. *International Patent Application No. PCT/US2007/017082.*
20. Schowengerdt, B.T., Furness, T.A., and Walker, N.E. (2006) METHOD, APPARATUS, AND ARTICLE TO FACILITATE DISTRIBUTED EVALUATION OF OBJECTS USING ELECTROMAGNETIC ENERGY. *U.S. Patent Application No. 11/831,662.*
21. Furness, T.A., Schowengerdt, B.T., Melville, R., Walker, N.E., and Sparks, B.E. (2006) METHOD, APPARATUS, AND ARTICLE TO FACILITATE EVALUATION OF OBJECTS USING ELECTROMAGNETIC ENERGY. *U.S. Patent Application No. 11/831,717.*
22. Schowengerdt, B.T., Furness, T.A., Melville, R.D., Schroder, K.E., Burstein, R.A., and Chinthammit, W. SYSTEM AND METHOD OF EVALUATING AN OBJECT USING ELECTROMAGNETIC ENERGY. *U.S. Provisional Patent Application No. 60/820,938.*
23. Schowengerdt, B.T., Furness, T.A., and Walker, N.E. (2006) METHOD, APPARATUS, AND ARTICLE TO FACILITATE DISTRIBUTED EVALUATION OF OBJECTS USING ELECTROMAGNETIC ENERGY. *U.S. Provisional Patent Application No. 60/834,662.*
24. Furness, T.A., Schowengerdt, B.T., Melville, R., and Walker, N.E. (2006) METHOD, APPARATUS, AND ARTICLE TO FACILITATE EVALUATION OF OBJECTS USING ELECTROMAGNETIC ENERGY. *U.S. Provisional Patent Application No. 60/834,589.*
25. Furness, T.A., Schowengerdt, B.T., Melville, R., and Walker, N.E. (2006) METHOD, APPARATUS, AND ARTICLE TO FACILITATE EVALUATION OF OBJECTS USING ELECTROMAGNETIC ENERGY. *U.S. Provisional Patent Application No. 60/871,639.*
26. Furness, T.A., Schowengerdt, B.T., Melville, R., Walker, N.E., and Sparks, B.E. (2006) METHOD, APPARATUS, AND ARTICLE TO FACILITATE EVALUATION OF OBJECTS USING ELECTROMAGNETIC ENERGY. *U.S. Provisional Patent Application No. 60/883,312.*
27. Furness, T.A., Schowengerdt, B.T., Melville, R., Walker, N.E., and Sparks, B.E. (2006) METHOD, APPARATUS, AND ARTICLE TO FACILITATE EVALUATION OF OBJECTS USING ELECTROMAGNETIC ENERGY. *U.S. Provisional Patent Application No. 60/890,446.*

**EXHIBIT E**

<b>Name</b>	<b>SHARES VESTED</b>	<b>SHARES TO VEST per Exhibit F</b>
Furness, Thomas	700,000	500,000
Schowengerdt, Brian	700,000	500,000
Walker, Nicholas	80000	
Melville, Ross	100000	
Burstein, Bob	80000	
Burnette, John	80000	
Chinthammit, Winyu	20000	
Schroder, Konrad	80000	
Jones, Alden	10000	
<b>TOTAL</b>	<b>1,850,000</b>	<b>1,000,000</b>

**EXHIBIT F**

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 with in the Exclusive Fields.

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

**CHIEF EXECUTIVE OFFICER  
CERTIFICATION PURSUANT TO RULE 13a-14**

I, Ronald P. Erickson, President and Chief Executive Officer of Visualant, Incorporated, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended September 30, 2009 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 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 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 report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual 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 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 of the 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 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.

Dated: January 13, 2010

By: /s/ Ronald P. Erickson  
Ronald P. Erickson  
President and Chief Executive Officer

**CHIEF FINANCIAL OFFICER  
CERTIFICATION PURSUANT TO RULE 13a-14**

I, Ronald P. Erickson, Chief Financial Officer of Visualant, Incorporated, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended September 30, 2009 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 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 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 report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent quarter (the registrant's fourth fiscal quarter in the case of an annual 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 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 of the 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 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.

Dated: January 13, 2010

By: /s/Ronald P. Erickson  
Ronald P. Erickson  
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 Annual Report on Form 10-K of Visualant, Incorporated (the "Company") for the year ended September 30, 2009 as filed with the Securities and Exchange Commission, Ronald P. Erickson, Chief Executive Officer, President and Director of the Company, does hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), that, to his knowledge:

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

Dated: January 13, 2010

By: /s/ Ronald P. Erickson  
Ronald P. Erickson  
Chief Executive Officer, President and Director

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.

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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 on Form 10-K of Visualant, Incorporated (the "Company") for the year ended September 30, 2009, as filed with the Securities and Exchange Commission (the "Report"), Ronald P. Erickson, Chief Financial Officer of the Company, does hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), that, to his knowledge:

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

Dated: January 13, 2010

By: /s/ Ronald P. Erickson  
Ronald P. Erickson  
Chief Financial Officer and Secretary-Treasurer

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.

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