

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

FORM 10-Q /A
Amendment No. 1

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

For the quarterly period ended December 31, 2012

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

For the transition period from _____ to _____

Commission File number 000-30262



VISUALANT, INCORPORATED

(Exact name of registrant as specified in charter)

Nevada

(State or other jurisdiction of incorporation or organization)

91-1948357

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

500 Union Street, Suite 420, Seattle, Washington USA

(Address of principal executive offices)

98101

(Zip Code)

206-903-1351

(Registrant's telephone number, including area code)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of common stock, \$.001 par value, issued and outstanding as of February 11, 2013: 109,928,606 shares

EXPLANATORY NOTE

We are filing this Amendment No. 1 on Form 10-Q/A to our Quarterly Report on Form 10-Q for the quarter ended December 31, 2012 (the "Form 10-Q"), which was originally filed with the Securities and Exchange Commission on February 11, 2013, for the sole purpose of updating our Risk Factors that are included in Item 1A.

No other changes have been made to the Form 10-Q. This Amendment does not reflect events that have occurred after the February 11, 2013 filing date of the Form 10-Q, or modify or update the disclosures presented therein, except to reflect the amendment described above.

TABLE OF CONTENTS

	<u>Page Number</u>
PART I FINANCIAL INFORMATION	3
ITEM 1 Financial Statements (unaudited except as noted)	3
Consolidated Balance Sheets as of December 31, 2012 and September 30, 2012 (audited)	3
Consolidated Statements of Operations for the three months ended December 31, 2012 and 2011	4
Consolidated Statements of Cash Flows for the three months ended December 31, 2012 and 2011	5
Notes to the Financial Statements.	6
ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operation	17
ITEM 3 Quantitative and Qualitative Disclosures About Market Risk	20
ITEM 4 Controls and Procedures	20
PART II OTHER INFORMATION	21
ITEM 1A. Risk Factors	21
ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds	26
ITEM 5 Other Information	26
ITEM 6 Exhibits and Reports on Form 8-K	26
SIGNATURES	27

ITEM 1. FINANCIAL STATEMENTS

VISUALANT, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2012	September 30, 2012
ASSETS		(Audited)
CURRENT ASSETS:		
Cash and cash equivalents	\$ 602,077	\$ 1,141,165
Accounts receivable, net of allowance of \$16,750 and \$16,750, respectively	746,788	1,012,697
Prepaid expenses	151,194	222,978
Inventories	710,808	344,692
Refundable tax assets	9,887	29,316
Total current assets	<u>2,220,754</u>	<u>2,750,848</u>
EQUIPMENT, NET	461,404	469,001
OTHER ASSETS		
Intangible assets, net	1,025,304	1,110,111
Goodwill	983,645	983,645
Other assets	<u>6,161</u>	<u>6,161</u>
TOTAL ASSETS	<u>\$ 4,697,268</u>	<u>\$ 5,319,766</u>
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
CURRENT LIABILITIES:		
Accounts payable - trade	\$ 1,906,053	\$ 1,593,861
Accounts payable - related parties	-	73,737
Accrued expenses	414,358	391,311
Accrued expenses - related parties	-	5,849
Deferred revenue	416,667	666,667
Convertible notes payable	650,000	750,000
Note payable - current portion of long term debt	1,548,659	1,631,903
Total current liabilities	<u>4,935,737</u>	<u>5,113,328</u>
LONG TERM LIABILITIES:		
Long term debt	<u>3,273</u>	<u>4,015</u>
STOCKHOLDERS' (DEFICIT) EQUITY:		
Preferred stock - \$0.001 par value, 50,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock - \$0.001 par value, 200,000,000 shares authorized, 94,428,058 and 90,992,954 shares issued and outstanding at 12/31/12 and 9/30/12, respectively	94,428	90,993
Additional paid in capital	14,242,207	13,995,554
Accumulated deficit	(14,616,867)	(13,915,931)
Total stockholders' (deficit) equity	<u>(280,232)</u>	<u>170,616</u>
Noncontrolling interest	38,490	31,807
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY	<u>\$ 4,697,268</u>	<u>\$ 5,319,766</u>

The accompanying notes are an integral part of these consolidated financial statements.

VISUALANT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended,	
	December 31, 2012	December 31, 2011
REVENUE	\$ 2,055,363	\$ 1,812,853
COST OF SALES	1,521,968	1,489,605
GROSS PROFIT	533,395	323,248
RESEARCH AND DEVELOPMENT EXPENSES	166,379	39,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,050,444	795,828
OPERATING LOSS	(683,428)	(511,580)
OTHER INCOME (EXPENSE):		
Interest expense	(40,265)	(58,538)
Other income	12,870	7,304
Total other expense	(27,395)	(51,234)
LOSS BEFORE INCOME TAXES	(710,823)	(562,814)
Income taxes - current benefit	(9,887)	(7,948)
NET LOSS	(700,936)	(554,866)
NONCONTROLLING INTEREST	6,683	4,755
NET LOSS ATTRIBUTABLE TO VISUALANT, INC. AND SUBSIDIARIES COMMON SHAREHOLDERS	\$ (707,619)	\$ (559,621)
Basic and diluted loss per common share attributable to Visualant, Inc. and subsidiaries common shareholders-		
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)
Weighted average shares of common stock outstanding- basic and diluted	93,401,103	52,338,958

The accompanying notes are an integral part of these consolidated financial statements.

VISUALANT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended,	
	December 31, 2012	December 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (700,936)	\$ (559,621)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation and amortization	102,080	157,297
Issuance of capital stock for services and expenses	19,500	86,246
Issuance of capital stock for accrued liabilities	14,602	-
Stock based compensation	16,014	78,698
Amortization of debt discount	-	100,085
(Loss) on sale of assets	(7,056)	(2,217)
Provision for losses on accounts receivable	310	156
Changes in operating assets and liabilities:		
Accounts receivable	265,599	70,520
Prepaid expenses	71,784	(77,525)
Inventory	(366,116)	(43,048)
Accounts payable - trade and accrued expenses	255,653	110,799
Deferred revenue	(250,000)	-
Income tax receivable	19,429	1,132
CASH (USED IN) OPERATING ACTIVITIES	(559,137)	(77,478)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(10,469)	849
Proceeds from sale of equipment	7,849	2,450
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES:	(2,620)	3,299
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on line of credit	(50,694)	-
Proceeds from line of credit	-	72,106
Repayment of debt	(30,000)	-
Proceeds from the issuance of common stock	99,972	88,766
Repayments of capital leases	(3,292)	(3,446)
Proceeds from the issuance of convertible debt	-	(100,000)
Change in noncontrolling interest	6,683	(4,324)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	22,669	53,102
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(539,088)	(21,077)
CASH AND CASH EQUIVALENTS, beginning of period	1,141,165	92,313
CASH AND CASH EQUIVALENTS, end of period	\$ 602,077	\$ 71,236
Supplemental disclosures of cash flow information:		
Interest paid	\$ 14,470	\$ 13,813
Taxes paid	\$ -	\$ -
Non-cash investing and financing activities:		
Debtenture converted to common stock	\$ 100,000	\$ 100,000

The accompanying notes are an integral part of these consolidated financial statements.

VISUALANT, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

Visualant, Inc. (the "Company" or "Visualant") was incorporated under the laws of the State of Nevada on October 8, 1998 with authorized common stock of 200,000,000 shares at \$0.001 par value. On September 13, 2002, 50,000,000 shares of preferred stock with a par value of \$0.001 were authorized by the shareholders. There are no preferred shares issued and the terms have not been determined. The Company's executive offices are located in Seattle, Washington.

The Company developed a unique patented Visualant Spectral Pattern Matching™ "SPM" technology. This technology directs structured light onto a physical substance to capture a Visualant Spectral Signature™ called a ChromaID™. When matched against existing databases, the ChromaID can be used to identify, detect, or diagnose markers invisible to the human eye. ChromaID scanners can be integrated into a variety of mobile or fixed-mount form factors, making it possible to effectively conduct analyses in the field that could only previously be performed by large and expensive lab-based tests.

The Company entered into a one year Joint Development Agreement on May 31, 2012 with Sumitomo Precision Products Co., Ltd. ("SPP"), which focuses on the commercialization of the SPM technology and a License Agreement providing SPP with an exclusive license of the SPM technology in identified Asian territories. For more information, visit: <http://www.visualant.net>.

SPP is publicly traded on the Tokyo and Osaka Stock Exchanges and has operations in Japan, United States, China, United Kingdom, Canada and other parts of the world. Additional information on SPP is available at <http://www.spp.co.jp/English/index2-e.html>.

Through the Company's wholly owned subsidiary, TransTech Systems, Inc. ("TransTech"), based in Aurora, Oregon, the Company provides value added security and authentication solutions to corporate and government security and law enforcement markets throughout the United States.

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. The Company incurred net losses of \$2,725,692 and \$2,395,525 for the years ended September 30, 2012 and 2011, respectively. The Company's current liabilities exceeded its current assets by approximately \$2.7 million as of December 31, 2012. Our net cash used in operating activities was \$58,174 for the year ended September 30, 2012.

As of December 31, 2012, the Company had \$602,077 in cash. The Company needs to obtain additional financing to implement its business plan and service its debt repayments, including approximately \$1,000,000 due to James Gingo on June 8, 2013. 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.

The Company anticipates that it will record losses from operations for the foreseeable future. As of December 31, 2012, our accumulated deficit was \$14.6 million. The Company has 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, 2012 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 dependent upon obtaining additional working capital. The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

3. SIGNIFICANT ACCOUNTING POLICIES: ADOPTION OF ACCOUNTING STANDARDS

PRINCIPLES OF CONSOLIDATION - The consolidated financial statements include the accounts of the Company and its wholly owned and majority-owned subsidiaries. Inter-Company items and transactions have been eliminated in consolidation.

CASH AND CASH EQUIVALENTS - The Company classifies highly liquid temporary investments with an original maturity of three months or less when purchased as cash equivalents. The Company maintains cash balances at various financial institutions. Balances at US banks are insured by the Federal Deposit Insurance Corporation up to \$250,000. Beginning December 31, 2010 and through December 31, 2012, all noninterest-bearing transaction accounts are fully insured, regardless of the balance of the account, at all FDIC-insured institutions. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risk for cash on deposit. As of December 31, 2012, the Company had no uninsured cash.

VISUALANT, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS - Accounts receivable consist primarily of amounts due to the Company from normal business activities. The Company maintains an allowance for doubtful accounts to reflect the expected non-collection of accounts receivable based on past collection history and specific risks identified within the portfolio. If the financial condition of the customers were to deteriorate resulting in an impairment of their ability to make payments, or if payments from customers are significantly delayed, additional allowances might be required.

INVENTORIES - Inventories consist primarily of printers and consumable supplies, including ribbons and cards, badge accessories, capture devices, and access control components held for resale and are stated at the lower of cost or market on the first-in, first-out ("FIFO") method. Inventories are considered available for resale when drop shipped and invoiced directly to a customer from a vendor, or when physically received by TransTech at a warehouse location. The company records a provision for excess and obsolete inventory whenever an impairment has been identified. There is a \$10,000 reserve for impaired inventory as of December 31, 2012 and September 30, 2012.

EQUIPMENT - Equipment consists of machinery, leasehold improvements, furniture and fixtures and software, which are stated at cost less accumulated depreciation and amortization. Depreciation is computed by the straight-line method over the estimated useful lives or lease period of the relevant asset, generally 2-10 years, except for leasehold improvements which are depreciated over 5-20 years.

INTANGIBLE ASSETS / INTELLECTUAL PROPERTY - The Company amortizes the intangible assets and intellectual property acquired in connection with the acquisition of TransTech Systems, Inc. ("TransTech"), over sixty months on a straight - line basis, which was the time frame that the management of the Company was able to project forward for future revenue, either under agreement or through expected continued business activities. Intangible assets and intellectual property acquired from RATLab LLC ("RATLab") and Javelin LLC ("Javelin") are recorded likewise.

GOODWILL - Goodwill is the excess of cost of an acquired entity over the fair value of amounts assigned to assets acquired and liabilities assumed in a business combination. With the adoption of ASC 350, goodwill is not amortized, rather it is tested for impairment annually, and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Impairment testing for goodwill is done at a reporting unit level. Reporting units are one level below the business segment level, but are combined when reporting units within the same segment have similar economic characteristics. Under the criteria set forth by ASC 350, the Company has one reporting unit based on the current structure. An impairment loss generally would be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. The Company performs annual assessments and has determined that no impairment is necessary.

LONG-LIVED ASSETS - The Company reviews its long-lived assets for impairment when changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets under certain circumstances are reported at the lower of carrying amount or fair value. Assets to be disposed of and assets not expected to provide any future service potential to the Company are recorded at the lower of carrying amount or fair value (less the projected cost associated with selling the asset). To the extent carrying values exceed fair values, an impairment loss is recognized in operating results.

FAIR VALUE MEASUREMENTS- Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an 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. The fair value hierarchy contains three levels as follows:

Level 1 - Unadjusted quoted prices that are available in active markets for the identical assets or liabilities at the measurement date.

Level 2 - Other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in nonactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 - Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

VISUALANT, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis. The Company accounts for fair value measurements in accordance with ASC 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measurement and expands disclosure about fair value measurement. The fair value hierarchy requires the use of observable market data when available. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

REVENUE RECOGNITION – TransTech revenue is derived from other products and services. Revenue is considered realized when the services have been provided to the customer, the work has been accepted by the customer and collectability is reasonably assured. Furthermore, if an actual measurement of revenue cannot be determined, we defer all revenue recognition until such time that an actual measurement can be determined. If during the course of a contract management determines that losses are expected to be incurred, such costs are charged to operations in the period such losses are determined. Revenues are deferred when cash has been received from the customer but the revenue has not been earned. The Sumitomo Precision Products License fee is being recorded as revenue over the life the Joint Development Agreement discussed below. The Company recorded deferred revenue of \$416,667 and \$666,667 as of December 31, 2012 and September 30, 2012, respectively.

STOCK BASED COMPENSATION - The Company has share-based compensation plans under which employees, consultants, suppliers and 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.

INCOME TAXES - Income tax benefit is based on reported loss before income taxes. Deferred income taxes reflect the effect of temporary differences between asset and liability amounts that are recognized for financial reporting purposes and the amounts that are recognized for income tax purposes. These deferred taxes are measured by applying currently enacted tax laws where that company operates out of. The Company recognizes refundable and deferred assets to the extent that management has determined their realization. As of December 31, 2012 and September 30, 2012, the Company had refundable tax assets related to TransTech of \$9,887 and \$29,316, respectively.

NET LOSS PER SHARE – Under the provisions of ASC 260, "Earnings Per Share," basic loss per common share is computed by dividing net loss available to common shareholders by the weighted average number of shares of common stock outstanding for the periods presented. Diluted net loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the income of the Company, subject to anti-dilution limitations. The common stock equivalents have not been included as they are anti-dilutive. As of December 31, 2012, there were options outstanding for the purchase of 5,920,000 common shares, warrants for the purchase of 3,369,050 common shares, and an undetermined number shares of common stock related to convertible debt, which could potentially dilute future earnings per share. As of December 31, 2011, there were options outstanding for the purchase of 5,920,000 common shares, warrants for the purchase of 4,377,050 common shares, an undetermined number shares of common stock related to convertible debt, which could potentially dilute future earnings per share.

DIVIDEND POLICY - The Company has never paid any cash dividends and intends, for the foreseeable future, to retain any future earnings for the development of our business. Our future dividend policy will be determined by the board of directors on the basis of various factors, including our results of operations, financial condition, capital requirements and investment opportunities.

USE OF ESTIMATES - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECENT ACCOUNTING PRONOUNCEMENTS

A variety of proposed or otherwise potential accounting standards are currently under study by standard setting organizations and various regulatory agencies. Due to the tentative and preliminary nature of those proposed standards, management has not determined whether implementation of such proposed standards would be material to our consolidated financial statements.

4. DEVELOPMENT OF SPECTRUM PATTERN MATCHING TECHNOLOGY

The Company has developed a unique patented Visualant Spectral Pattern Matching™ "SPM" technology. This technology directs structured light onto a physical substance to capture a Visualant Spectral Signature™ called a ChromaID™. When matched against existing databases, the ChromaID can be used to identify, detect, or diagnose markers invisible to the human eye. ChromaID scanners can be integrated into a variety of mobile or fixed-mount form factors, making it possible to effectively conduct analyses in the field that could only previously be performed by large and expensive lab-based tests.

VISUALANT, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Visualant Spectral Pattern Matching and the ChromaID profile were developed over a seven year period by Professors Dr. Tom Furness and Dr. Brian Showngerdt of RATLab LLC under contract to Visualant. The technology is now being transferred into products and a ScanHead module. Visualant has partnered with Sumitomo Precision Products to manufacture the ScanHead and reduce the technology to a reliable and cost effective form. The first demonstration of this is the Cyclops6 ChromaID Scanner which was demonstrated at the Japanese Instrumentation Manufacturing Association trade show in Tokyo in October 2012. The Cyclops 6 ChromaID Scanner can be used to evaluate the technology for flat surface applications and has sensitivity from 350nm to 1450nm.

Visualant is pursuing an aggressive patent strategy to expand our unique intellectual property in the United States and Japan. The following patents have been issued to date:

On September 6, 2011, the Company announced that it was issued US Patent No. 7,996,173, entitled "Method, Apparatus and Article to Facilitate Distributed Evaluation of Objects Using Electromagnetic Energy," by the United States Office of Patents and Trademarks.

On January 19, 2012, the Company announced that it was issued US Patent No. 8,081,304, entitled "Method, Apparatus and Article to Facilitate Evaluation of Objects Using Electromagnetic Energy" by the United States Office of Patents and Trademarks.

On March 20, 2012, the Company announced that it was issued US Patent No. 8,076,630, entitled "System and Method of Evaluating an Object Using Electromagnetic Energy" by the United States Office of Patents and Trademarks.

On November 1, 2012, the Company announced that it was issued US Patent No. 8,285,510 entitled "System and Method of Evaluating an Object Using Electromagnetic Energy" by the United States Office of Patents and Trademarks.

5. JOINT DEVELOPMENT AGREEMENT WITH SUMITOMO PRECISION PRODUCTS CO., LTD.

On May 31, 2012, the Company entered into a Joint Research and Product Development Agreement (the "Joint Development Agreement") with Sumitomo Precision Products Co., Ltd. ("SPP"), a publicly-listed Japanese corporation for the commercialization of Visualant's SPM technology. A copy of the Joint Development Agreement was filed by the Company with its Form 8-K filed June 4, 2012.

SPP invested \$2,250,000 in exchange for 17,307,693 shares of restricted common shares priced at \$0.13 per share that was funded on June 21, 2012. SPP also paid the Company an initial payment of \$1 million in accordance with the terms of the License Agreement filed by the Company with its Form 8-K filed June 4, 2012. A running royalty for the license granted under the License Agreement will be negotiated at the completion of the Joint Development Agreement.

SPP is publicly traded on the Tokyo and Osaka Stock Exchanges and has operations in Japan, United States, China, United Kingdom, Canada and other parts of the world. Additional information on SPP is available at <http://www.spp.co.jp/English/index2-e.html>.

6. ACCOUNTS RECEIVABLE/CUSTOMER CONCENTRATION

Accounts receivable were \$746,788 and \$1,012,697, net of allowance, as of December 30, 2012 and September 30, 2012, respectively. The Company had no customers in excess of 10% of our consolidated revenues for the three months ended December 31, 2012. The Company had no customers with accounts receivable in excess of 10% as of December 31, 2012. The Company does expect to have customers with consolidated revenues or accounts receivable balances of 10% of total accounts receivable in the foreseeable future.

7. INVENTORIES

Inventories were \$710,808 and \$344,692 as of December 31, 2012 and September 30, 2012, respectively. Inventories consist primarily of printers and consumable supplies, including ribbons and cards, badge accessories, capture devices, and access control components held for resale. There is a \$10,000 reserve for impaired inventory as of December 31, 2012 and September 30, 2012.

8. FIXED ASSETS

Fixed assets, net of accumulated depreciation, were \$461,404 and \$469,001 as of December 31, 2012 and September 30, 2012, respectively. Accumulated depreciation was \$624,422 and \$606,509 as of December 31, 2012 and September 30, 2012, respectively. Total depreciation expense was \$17,273 and \$15,546 for the three months ended December 31, 2012 and 2011, respectively. All equipment is used for selling, general and administrative purposes and accordingly all depreciation is classified in selling, general and administrative expenses.

VISUALANT, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Property and equipment as of December 31, 2012 were comprised of the following:

	Estimated Useful Lives	December 31, 2012		
		Purchased	Capital Leases	Total
Machinery and equipment	2-10 years	\$ 122,957	\$ 87,039	\$ 209,996
Leasehold improvements	5-20 years	603,612	-	603,612
Furniture and fixtures	3-10 years	62,326	101,260	163,586
Software and websites	3- 7 years	63,783	44,849	108,632
Less: accumulated depreciation		(412,319)	(212,103)	(624,422)
		<u>\$ 440,359</u>	<u>\$ 21,045</u>	<u>\$ 461,404</u>

9. INTANGIBLE ASSETS

Intangible assets as of December 31, 2012 and September 30, 2012 consisted of the following:

	Estimated Useful Lives	December 31, 2012	September 30, 2012
Customer contracts	5 years	\$ 983,645	\$ 983,645
Technology	5 years	712,500	\$ 712,500
Less: accumulated amortization		(670,841)	(586,034)
Intangible assets, net		<u>\$ 1,025,304</u>	<u>\$ 1,110,111</u>

Total amortization expense was \$84,807 and \$71,682 for the three months ended December 31, 2012 and 2011, respectively.

The fair value of the TransTech intellectual property acquired was \$983,645, estimated by using a discounted cash flow approach based on future economic benefits associated with agreements with customers, or through expected continued business activities with its customers. In summary, the estimate was based on a projected income approach and related discounted cash flows over five years, with applicable risk factors assigned to assumptions in the forecasted results.

The fair value of the RATLab intellectual property associated with the assets acquired was \$450,000 estimated by using a discounted cash flow approach based on future economic benefits. In summary, the estimate was based on a projected income approach and related discounted cash flows over five years, with applicable risk factors assigned to assumptions in the forecasted results.

The fair value of the Javelin intellectual property acquired was \$262,500 estimated by using a discounted cash flow approach based on future economic benefits associated with the assets acquired. In summary, the estimate was based on a projected income approach and related discounted cash flows over five years, with applicable risk factors assigned to assumptions in the forecasted results.

10. ACCOUNTS PAYABLE

Accounts payable were \$1,906,053 and \$1,593,861 as of December 31, 2012 and September 30, 2012, respectively. Such liabilities consisted of amounts due to vendors for inventory purchases and technology development, external audit, legal and other expenses incurred by the Company. TransTech had 3 vendors (31.6%, 26.1%, and 15.9%) with accounts payable in excess of 10% of its accounts payable as of December 31, 2012. The Company does expect to have vendors with accounts payable balances of 10% of total accounts payable in the foreseeable future.

11. CONVERTIBLE NOTES PAYABLE

On May 19, 2011, the Company entered into a Securities Purchase Agreement (“Agreement”) with Gemini Master Fund, Ltd. (“Gemini”) and Ascendant Capital Partners, LLC (“Ascendant”) (Gemini and Ascendant are collectively referred to as the “Investors”), pursuant to which the Company issued \$1.2 million in principal amount of 10% convertible debentures (the “Original Debentures”) which were due May 1, 2012. The due date of the Original Debentures was extended to September 30, 2012 pursuant to a First Amendment to the Agreement on March 12, 2012, and further extended to September 30, 2013 pursuant to a Second Amendment to the Agreement on August 16, 2012. In addition, the Company issued 5-year warrants to the Investors to collectively purchase 2,400,000 shares of our common stock. The purchase price for the debentures was 83.3% of the face amount, resulting in the Company receiving \$1.0 million, less legal fees, placement agent fees and expenses as set forth below. The Agreement includes an additional investment right granted to the Investors, pursuant to which the Investors have the right at any time until September 30, 2013, to purchase up to \$1.2 million in principal amount of additional debentures (the “Additional Debentures”) on the same terms and conditions as the Original Debentures, except that the conversion price on the Additional Debentures may have a higher floor. The conversion price on both the Original Debentures and the Additional Debentures are subject to a potential downward adjustment for any equity sales subsequent to the date of issuance. In conjunction with the purchase of the Additional Debentures, the Investors also have the right to purchase additional warrants. The full terms of the transactions with Gemini and Ascendant are set forth in the transaction agreements, copies of which are filed with the Company’s 10-K for the year ended September 30, 2012 as Exhibits 10.1 through 10.10.

VISUALANT, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

On August 28, 2012, the Company entered into a Warrant Purchase Agreement with Gemini and acquired the Gemini Warrant covering the purchase of up to 1.8 million shares, subject to adjustment, by paying \$250,000 on August 28, 2012 and agreeing to pay \$250,000 on or before November 30, 2012.

As of December 31, 2012, Gemini had \$600,000 and Ascendant had \$50,000 remaining in principal amount of Original Debentures outstanding plus accrued interest thereon that are convertible into common shares. Ascendant also had a warrant for the purchase of up to 600,000 shares of our common stock at an original exercise price of \$.35 per share, which exercise price is subject to adjustment and which has been adjusted downward as of the date hereof. See Exhibit 10.6 filed in Form 10-K on November 13, 2013. In addition, the additional investment and participation rights as defined in the Agreement granted to the Investors were extended from September 30, 2012 to September 30, 2013.

The Company paid legal fees and expenses in the amount of \$12,500. Visualant also paid \$80,000 or 8.0% of the cash received and issued a five-year warrant for 192,000 shares in placement agent fees to Ascendant Capital Markets LLC.

The Company filed a registration statement on Form S-1, which was declared effective on August 29, 2011, to register 15,340,361 shares of its common stock, including (i) up to 5,400,000 shares of our common stock for Gemini issuable on conversion of its Original Debenture and the exercise of a warrant issued to Gemini, and (ii) up to 1,992,000 shares of our common stock for Ascendant issuable on conversion of its Original Debenture and the exercise of a warrant issued to Ascendant. As of December 31, 2012, 7,036,975 shares of the Company's common stock have been issued to Gemini upon conversion of \$300,000 of the convertible debentures and interest of \$20,780 at an average of \$0.05 per share. As of December 31, 2012, 5,665,480 shares of the Company's common stock have been issued to Ascendant upon conversion of \$250,000 of the convertible debentures and interest of \$33,274 at an average of \$0.05 per share.

During the year ended September 30, 2012, the Company modified the terms of its outstanding Original Debentures with the Investors having an aggregate principal value of \$1,200,000. The maturity date was extended to September 30, 2013, the Investors converted principal and interest as outlined above at \$0.05 per share, and the Company paid a premium to Gemini in the form of redeeming its outstanding warrants for \$500,000. The fair value of the warrants was calculated using the Black-Scholes-Merton option valuation model. The following assumptions were used to determine the fair value of the Warrants using the Black-Scholes valuation model: a term of five years, risk-free rate of 3.92%, volatility of 100%, and dividend yield of zero. Interest expense has been recorded for the loss of \$500,000 related to the modification of the debentures. The difference between the conversion price and the fair market value of the common stock on the commitment date resulted in a beneficial conversion feature recorded of \$216,000. Total interest expense recognized, including the beneficial conversion feature was \$313,534 during the year ended September 30, 2012.

The conversion of the Original Debentures and the related warrants will likely result in a substantial dilution of the value of the common shares for all shareholders.

See Note 17, Subsequent Events for additional details on Convertible Notes Payable.

12. NOTES PAYABLE, CAPITALIZED LEASES AND LONG TERM DEBT

Notes payable, capitalized leases and long term debt as of December 31, 2012 and September 30, 2012 consisted of the following:

	December 31, 2012	September 30, 2012
BFI Finance Corp Secured Credit Facility	\$ 517,781	\$ 568,475
TransTech capitalized leases, net of capitalized interest	14,651	17,943
Related party notes payable-		
James Gingo Promissory Note	1,000,000	1,000,000
Lynn Felsingner	19,500	49,500
Total debt	1,551,932	1,635,918
Less current portion of long term debt	(1,548,659)	(1,631,903)
Long term debt	<u>\$ 3,273</u>	<u>\$ 4,015</u>

VISUALANT, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

BFI Finance Corp Secured Credit Facility

On December 9, 2008 TransTech entered into a \$1,000,000 secured credit facility with BFI Finance Corp to fund its operations. The interest rate is prime + 2.5%, with a floor for prime interest of 5.5%. On December 12, 2012, the secured credit facility was renewed for 6 months, with a floor for Prime of 4.5%. The eligible borrowing is based on 80% of eligible trade accounts receivable, not to exceed \$700,000, and 35% of inventory value, not to exceed \$300,000, for a total cap of \$1,000,000. As of December 31, 2012, the outstanding balance under this facility was \$517,781. The secured credit facility is guaranteed by James Gingo, the President of TransTech.

The Company's revolving credit facility requires a lockbox arrangement, which provides for all receipts to be swept daily to reduce borrowings outstanding under the credit facility.

Capitalized Leases

TransTech has capitalized leases for equipment. The leases have a remaining lease term of 22-38 months. The aggregate future minimum lease payments under capital leases, to the extent the leases have early cancellation options and excluding escalation charges, are as follows:

Years Ended December 31,	Total
2013	\$ 11,378
2014	3,273
2015	0
2016	-
2017	-
Total	14,651
Less current portion of capitalized leases	(11,378)
Long term capital leases	\$ 3,273

The imputed interest rate in the capitalized leases is approximately 10.5%.

Related Party Notes Payable

The Company acquired its 100% interest in TransTech by issuing a Promissory Note ("Note") to James Gingo, the President of TransTech, in the amount of \$2,300,000, plus interest at the rate of three and one-half percent (3.5%) per annum from the date of the Note. The Note is secured by a security interest in the stock and assets of TransTech, and is payable over a period of three (3) years as follows:

(i) The sum of \$650,000, the amount of any accrued interest due on the Bonderson debt of \$600,000 owed by James Gingo to the Bonderson Family Living Trust ("Bonderson Debt") and interest on the unpaid balance, shall be paid to Seller on the earlier of: (A) the one (1) year anniversary of the closing date; or (B) on the closing of \$2,500,000 or more in aggregate financing (whether debt, equity or some combination thereof) after the closing date. On June 8, 2011, the Company paid \$650,000 and accrued interest of \$80,500 to Mr. Gingo.

(ii) The sum of \$650,000, the amount of any accrued interest due on the Bonderson debt owed by James Gingo and interest on the unpaid balance shall be paid to Seller on the earlier of: (A) the two (2) year anniversary of the closing date; or (B) on the closing of \$5,000,000 or more in aggregate financing (whether debt, equity or some combination thereof) after the closing date. On July 31, 2012, the Company paid the \$650,000 and accrued interest of \$66,136 to Mr. Gingo.

(iii) The remaining balance of the Note and interest thereon shall be paid to Seller on the earlier of: (A) the three year anniversary of the closing date; or (B) on the closing of \$7,500,000 or more in aggregate financing (whether debt, equity or some combination thereof) after the closing date.

On April 30, 2009, accounts payable owed to Lynn Felsing, a consultant, totaling \$82,000 were converted into a demand note. As of December 31, 2012, the outstanding note payable totaled \$19,500.

VISUALANT, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Aggregate maturities for notes payable, capitalized leases and long term debt by year are as follows:

Years Ended December 31,	Total
2013	\$ 1,548,659
2014	3,273
2015	0
2016	-
2017	-
Total	\$ 1,551,932

13. EQUITY

The following equity issuances occurred during the three months ended December 31, 2012:

Unless otherwise indicated, all of the following private placements of Company securities were conducted under the exemption from registration as provided under Section 4(2) of the Securities Act of 1933 (and also qualified for exemption under 4(5), formerly 4(6) of the Securities Act of 1933, except as noted below). All of the shares issued were issued in private placements not involving a public offering, are considered to be "restricted stock" as defined in Rule 144 promulgated under the Securities Act of 1933 and stock certificates issued with respect thereto bear legends to that effect.

On October 8, 2012, Ascendant converted \$50,000 of principal and interest of \$6,959 into 1,139,178 shares of common stock at \$.050 per share under the Securities Purchase Agreement dated May 19, 2011. A notice filing under Regulation D was filed with the SEC in October 10, 2012.

On October 17, 2012, the Company issued to Ascendant 993,049 shares for \$100,000 or \$.101 per shares under the Securities Purchase Agreement dated June 17, 2011. A notice filing under Regulation D was filed with the SEC in October 19, 2012.

On October 26, 2012 the Company issued 150,000 shares of restricted common stock to Manna Advisory Services, LLC, a non-accredited investor for services. The shares were valued at \$0.13 per share. The shares do not have registration rights. A notice filing under Regulation D was filed with the SEC in October 30, 2012.

On November 28, 2012, Ascendant converted \$50,000 of principal and interest of \$7,644 into 1,152,877 shares of common stock at \$.050 per share under the Securities Purchase Agreement dated May 19, 2011. A notice filing under Regulation D was filed with the SEC in November 29, 2012.

14. STOCK OPTIONS

Description of Stock Option Plan

On April 29, 2011, the 2011 Stock Incentive Plan was approved at the Annual Stockholder Meeting. The Company is authorized to issue options for, and has reserved for issuance, up to 7,000,000 shares of common stock under the 2011 Stock Incentive Plan.

Determining Fair Value Under ASC 505

The Company records 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. The Company amortizes 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. The Company estimates the volatility of our common stock based on the historical volatility of its own common stock over the most recent period corresponding with the estimated expected life of the award. The Company bases 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. The Company has not paid any cash dividends on our common stock and does not anticipate paying any cash dividends in the foreseeable future. Consequently, the Company uses an expected dividend yield of zero in the Black-Scholes-Merton option valuation model and adjusts 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.

Stock Option Activity

The Company has authorized, subject to shareholder approval at the 2013 annual shareholder meeting, an increase in the number of shares available for issuance under the Company's Stock Incentive Plan from 7 million to 14 million. Stock option grants totaling 5,100,000 shares of common stock have been made to three directors and four employees for services provided during 2012. These options were authorized for issuance under the 2011 Stock Incentive Plan.

VISUALANT, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

There are currently 5,920,000 options to purchase common stock at an average exercise price of \$0.131 per share outstanding at December 31, 2012 under the 2011 Stock Incentive Plan. The Company recorded \$16,014 and \$78,698 of compensation expense, net of related tax effects, relative to stock options for the three months ended December 31, 2012 and 2011 in accordance with ASC 505. Net loss per share (basic and diluted) associated with this expense was approximately \$(0.00).

Stock option activity for the three months ended December 31, 2012 and the year ended September 30, 2012:

	Options	Weighted Average	
		Exercise Price	\$
Outstanding as of September 30, 2011	6,920,000	\$ 0.296	\$ 2,050,800
Granted	2,200,000	0.104	229,000
Exercised	-	-	-
Forfeitures	(3,200,000)	0.470	(1,503,000)
Outstanding as of September 30, 2012	5,920,000	0.131	\$ 776,800
Granted	-	-	-
Exercised	-	-	-
Forfeitures	-	-	-
Outstanding as of December 31, 2012	5,920,000	\$ 0.131	776,800

The following table summarizes information about stock options outstanding and exercisable at December 31, 2012:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life In Years	Weighted Average Exercise Price Exercisable	Number Exercisable	Weighted Average Exercise Price Exercisable
0.090	500,000	7.50 years	0.090	375,000	0.090
0.100	1,900,000	9.25 years	0.100	1,500,000	0.100
0.120	200,000	2.00 years	0.120	66,666	0.120
0.150	100,000	2.50 years	0.150	100,000	0.150
0.150	3,000,000	7.50 years	0.150	3,000,000	0.150
0.240	220,000	3.00 years	0.240	146,740	0.240
	5,920,000	7.61 years	\$ 0.131	5,188,406	\$ 0.140

There is no aggregate intrinsic value of the exercisable options as of September 30, 2012.

15. OTHER SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

Related party transactions are discussed in Note 12.

16. COMMITMENTS, CONTINGENCIES AND LEGAL PROCEEDINGS

LEGAL PROCEEDINGS

There are no pending legal proceedings against the Company that are expected to have a material adverse effect on its cash flows, financial condition or results of operations.

EMPLOYMENT AGREEMENTS

Mr. Erickson, Mr. Scott and other named executive officers of Visualant do not have employment agreements.

Agreement with James Gingo

On June 8, 2010, the Company entered into an Employment Agreement (“Gingo Agreement”) with Mr. Gingo. The Gingo Agreement has a three year term beginning on June 8, 2010 at the annual base salary of \$200,000 per year. The Gingo Agreement provides for participation in the Company’s benefit programs available to other employees (including group insurance arrangements). Also under the Gingo Agreement, Mr. Gingo is eligible for discretionary performance bonuses up to 50% of his annual salary based upon performance criteria to be determined by the Company’s Compensation Committee. If Mr. Gingo’s employment is terminated without Cause (as defined in the Gingo Agreement), Mr. Gingo will be entitled to a payment equal to one year’s annual base salary paid over the next year.

VISUALANT, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

LEASES

The Company is obligated under various non-cancelable operating leases for their various facilities and certain equipment.

Corporate Offices

The Company's executive office is located at 500 Union Street, Suite 420, Seattle, Washington, USA, 98101. On August 1, 2012, we entered into a lease which expires August 31, 2014. The monthly lease rate is \$1,944 for the year ending August 31, 2013 and \$2,028 for the year ending August 31, 2014.

TransTech Facilities

TransTech leases a total of approximately 9,750 square feet of office and warehouse space for its administrative offices, product inventory and shipping operations, at a monthly rental of \$4,292. The lease was extended from March 2011 for an additional five year term at a monthly rental of \$4,751. There are two additional five year renewals with a set accelerating increase of 10% per 5 year term. TransTech also leases additional 500 square feet of off-site space at \$250 per month from a related party.

The aggregate future minimum lease payments under operating leases, to the extent the leases have early cancellation options and excluding escalation charges, are as follows:

Years Ended December 31,	Total
2013	\$ 72,564
2014	81,348
2015	57,012
2016	9,502
2017	-
Beyond	-
Total	\$ 220,426

17. SUBSEQUENT EVENTS

The Company evaluates subsequent events, for the purpose of adjustment or disclosure, up through the date the financial statements are available.

Subsequent to December 31, 2012, the following material transactions occurred:

Agreements with Gemini Master Fund, Ltd. and Ascendant Capital Partners, LLC ("Investors")

On January 30, 2013, the Company and the Investors entered into the following additional agreements dated January 23, 2013 but made effective as of the date of their execution by the parties:

- (1) Warrant Purchase Agreement between the Company and Ascendant pursuant to which the Company repurchased the Ascendant Warrant for a purchase price of \$300,000, which amount is due in full on March 31, 2013.
- (2) Amendment to Warrant Purchase Agreement between the Company and Gemini extending the due date for payment of the balance of the purchase price, including accrued interest thereon, from November 30, 2012 to March 31, 2013.
- (3) AIR Termination Agreement between the Company and Gemini pursuant to which the Company acquired all additional investment rights ("AIR") of Gemini and Ascendant under the Securities Purchase Agreement for the sum of \$850,000, to be paid pursuant to the terms of a promissory note executed by the Company for the principal amount of \$850,000. The promissory note is payable in two installments of \$425,000 each, together with accrued interest thereon at the rate of 5% per annum, due on June 30, 2013 and September 30, 2013.

VISUALANT, INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Conversion of Existing Convertible Debentures

On January 24, 2013, Gemini converted \$300,000 of principal and \$50,630 of accrued interest on its Debenture into 7,012,603 shares of common stock at a conversion price of \$.05 per share.

On January 24, 2013, Ascendant converted \$50,000 of principal and \$8,438 of accrued interest on its Debenture into 1,168,767 shares of common stock at a conversion price of \$.05 per share.

On January 28, 2013, Gemini converted \$300,000 of principal and \$50,959 of accrued interest on its Debenture into 7,019,178 shares of common stock at a conversion price of \$.05 per share.

Following these conversions, as of January 28, 2013, the outstanding principal amounts and all accrued interest on the Debentures of both Gemini and Ascendant have been fully converted.

The Company's equity line of credit with Ascendant remains outstanding, with available credit of \$2,516,859.

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

Forward-looking statements in this report reflect the good-faith judgment of our management and the statements are based on facts and factors as we currently know them. Forward-looking statements are subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, but are not limited to, those discussed below as well as those discussed elsewhere in this report (including in Part II, Item 1A (Risk Factors)). Readers are urged not to place undue reliance on these forward-looking statements because they speak only as of the date of this report. We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this report.

We have developed a unique patented Spectral Pattern Matching "SPM" technology. This technology directs structured light onto a physical substance to capture a unique spectral signature. When matched against existing databases, the Spectral Signature can identify, detect, or diagnose markers invisible to the human eye. SPM scanners can be integrated into a variety of mobile or fixed-mount form factors, making it possible to effectively conduct analyses in the field that could only previously be performed by large and expensive lab-based tests.

We entered into a one year Joint Development Agreement on May 31, 2012 with Sumitomo Precision Products Co., Ltd. ("SPP"), which focuses on the commercialization of the SPM technology and a License Agreement providing SPP with an exclusive license of the SPM technology in identified Asian territories. We expect to extend the Joint Development Agreement in March 2013. For more information, visit: <http://www.visualant.net>.

SPP is publicly traded on the Tokyo and Osaka Stock Exchanges and has operations in Japan, United States, China, United Kingdom, Canada and other parts of the world. Additional information on SPP is available at <http://www.spp.co.jp/English/index2-e.html>.

On September 6, 2011, we announced that the Company was issued US Patent No. 7,996,173, entitled "Method, Apparatus and Article to Facilitate Distributed Evaluation of Objects Using Electromagnetic Energy," by the United States Office of Patents and Trademarks.

On January 19, 2012, we announced that the Company was issued US Patent No. 8,081,304, entitled "Method, Apparatus and Article to Facilitate Evaluation of Objects Using Electromagnetic Energy" by the United States Office of Patents and Trademarks.

On March 20, 2012, we announced that the Company was issued US Patent No. 8,076,630, entitled "System and Method of Evaluating an Object Using Electromagnetic Energy" by the United States Office of Patents and Trademarks.

On November 1, 2012, we announced that the Company was issued US Patent No. 8,285,510 entitled "System and Method of Evaluating an Object Using Electromagnetic Energy" by the United States Office of Patents and Trademarks.

We are pursuing an aggressive patent strategy to expand our unique intellectual property in the United States and Japan.

Through our wholly owned subsidiary, TransTech, based in Aurora, Oregon, we provide value added security and authentication solutions to corporate and government security and law enforcement markets throughout the United States.

THE COMPANY'S COMMON STOCK

Our common stock trades on the OTCBB Exchange under the symbol "VSUL."

KEY MARKET PRIORITIES

Currently, our key market priorities are, among other things, to:

Develop Markets and Customers.

Develop markets and customers who have a need for discovery, verification and authentication of flat surface products such as paint, papers, inks, cosmetics, plastics for security cards and similar products.

The specific vertical markets we are pursuing are major industrial and commercial paint manufacturers, home improvement companies, currency paper and ink manufacturers, security card manufacturers, card reader and scanner manufacturers, major cosmetic companies and cosmetic retailers.

Future market opportunities will include powder analysis for law enforcement applications and pharmaceutical company applications for verification of illegal substances and verification of products as protection against contamination and counterfeiting.

Other markets that may utilize the ChromaID technology would be agriculture for fruit and vegetable ripeness, petrochemical for fluid analysis and verification or emissions analysis.

The medical applications for the technology may include noninvasive skin analysis for discovery of certain diseases or conditions based on the ChromaID of the individual's skin.

Commercialize the SPM Technology.

The current path to commercialization for those markets as stated above is to produce ChromaID spectral signature generating, scanning and storing hardware and software components with a hardware form factor of a scan head component device. These scan head component modules can range in size from that of a pencil eraser to the size of a quarter coin depending upon the amount and type of light required for an accurate ChromaID signature.

These scan head modules can then be incorporated into various products produced by third parties for the applications listed above. Along with the sale of the component parts there is revenue potential from licensing the technology to partners as is the case with SPP. SPP is currently developing a scan head type device and has the rights to produce the components and market them in Asia. There may be other partnership opportunities in Europe and North America and those are being investigated.

Another avenue to revenue is database administration and management services. The ChromaID profile must be stored, managed, kept current or updated and readily accessible. In one model the database can be owned by the end customer but in the case of thousands of ChromaID profiles database management may be outsourced to Visualant or a third party provider. These database services can be a source of revenue on a per access transaction basis or on a monthly or annual subscription basis. By using a cell phone to access the database the actual storage location can be cloud based or local depending on the requirements of access and security as defined by the customer.

Complete work under the Joint Development Agreement with SPP.

Accelerate business development in the United States and Japan.

We are coordinating the sales and marketing efforts of both Visualant and SPP to leverage market data and information and to focus on specific target verticals that have the greatest potential for early adoption. These include the aforementioned flat surface but also gaming in Asia. With the successful launch of the Cyclops6 scan head at the JIMA instrument technology trade show in Japan we have become aware of a significantly expanded number of market opportunities from those who attended the show.

Develop license and royalty producing opportunities and partners, including major companies in the US, Europe and Asia.

Develop our patent portfolio by continually extending the reach and application of our intellectual property.

Engineer and release a Development Kit to enable potential customers to evaluate the SPM technology.

Launch an application product utilizing smartphone technology.

Improve our operations, including the following:

Improve TransTech revenue with new product lines for distribution, including radio frequency ID tracking products and new document authentication products. Visualant and TransTech are working together to expand and promote our capabilities, products and services to their respective markets. TransTech has long standing business relationships in many sectors of the security industry and those relationships are being leveraged to introduce key industry personnel to the ChromaID technology. Visualant sales efforts are also uncovering additional markets and customers that are of interest and potential revenue to Trans Tech. Additionally, as the Visualant technology is incorporated into more products TransTech expects to be able to pair these products with others to offer expanded solutions for distribution into the security market space improving the profitability of TransTech and the company.

Enhance our investor relation activities.

PRIMARY RISKS AND UNCERTAINTIES

We are exposed to various risks related to our need for additional financing, the sale of significant numbers of our shares, a volatile market price for our common stock and our merger and acquisition activities. These risks and uncertainties are discussed in more detail below in Part II, Item 1A.

RESULTS OF OPERATIONS

The following table presents certain consolidated statement of operations information and presentation of that data as a percentage of change from period-to-period.

(dollars in thousands)

THREE MONTHS ENDED DECEMBER 31, 2012 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2011

	Three Months Ended December 31,			
	2012	2011	\$ Variance	% Variance
Revenue	\$ 2,055	\$ 1,813	\$ 242	13.3%
Cost of sales	1,522	1,490	32	2.1%
Gross profit	533	323	210	65.0%
Research and development expenses	166	39	127	325.6%
Selling, general and administrative expenses	1,050	796	254	-31.9%
Operating loss	(683)	(512)	(171)	-33.4%
Other income (expense):				
Interest expense	(40)	(58)	18	31.0%
Other income	13	7	6	85.7%
Total other expense	(27)	(51)	24	47.1%
Loss before income taxes	(710)	(563)	(147)	-26.1%
Income taxes - current benefit	(9)	(8)	(1)	-12.5%
Net loss	(701)	(555)	(146)	-26.3%
Non-controlling interest	7	5	2	40.0%
Net loss attributable to Visualant, Inc. common shareholders	<u>\$ (708)</u>	<u>\$ (560)</u>	<u>\$ (148)</u>	<u>-26.4%</u>

SALES

Net revenue for the three months ended December 31, 2012 increased \$242,000 to \$2,055,000 as compared to \$1,813,000 for the three months ended December 31, 2011. The increase was due to license revenue from SPP.

COST OF SALES

Cost of sales for the three months ended December 31, 2012 increased \$32,000 to \$1,522,000 as compared to \$1,490,000 for the three months ended December 31, 2011. The increase was due to product mix at TransTech.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the three months ended December 31, 2012 increased \$127,000 to \$166,000 as compared to \$39,000 for the three months ended December 31, 2011. The increase was due to commercialization of Visualant's SPM technology and the expenses incurred for the Joint Development Agreement with SPP.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the three months ended December 31, 2012 increased \$254,000 to \$1,050,000 as compared to \$796,000 for the three months ended December 31, 2011. The increase was due to increased business develop, public relations and investor relation activities.

During the three months ended December 31, 2012, we recorded non-cash expenses of \$145,000.

The selling, general and administrative expenses consisted primarily of research and development expenses, employee and independent contractor expenses, overhead, equipment and depreciation, amortization of identifiable intangible assets and intellectual property, professional and consulting fees, investor relation, legal, patent, stock option and other general and administrative costs.

OTHER INCOME/EXPENSE

Other expense for the three months ended December 31, 2012 was \$27,000 as compared to other expense of \$51,000 for the three months ended December 31, 2011. The expenses for the three months ended December 31, 2012 included \$40,000 for interest expense, offset by \$13,000 in other income. The other expense for the three months ended December 31, 2011 included interest expense of \$58,000, offset by other income of \$7,000.

NET LOSS

Net loss for the three months ended December 31, 2012 was \$701,000 as compared to a net loss of \$560,000 for the three months ended December 31, 2011 for the reasons discussed above. The net loss included non-cash expenses of \$145,000.

LIQUIDITY AND CAPITAL RESOURCES

We had cash of \$602,000, a net working capital deficit of approximately \$2.7 million and total indebtedness of \$1.6 million as of December 31, 2012, including (i) \$1 million due to James Gingo on June 8, 2013; (ii) \$550,000 for the repurchase of the Gemini and Ascendant warrants on March 31, 2013; and (iii) \$425,000 due under the AIR Termination Agreement on each of June 30, 2013 and September 30, 2013.

We will need to obtain additional financing to implement our business plan and service our debt repayments. There can be no assurance that we will be able to secure funding, or that if such funding is available, the terms or conditions would be acceptable to us. If the Company is unable to obtain additional financing, we may need to restructure our operations, or divest all or a portion of our business.

Our recent efforts to generate additional liquidity, including through sales of our common stock, are described in more detail in the financial statement notes set forth in this Form 10Q.

If we raise additional capital through borrowing or other debt financing, we will incur substantial interest expense. Sales of additional equity securities will dilute on a pro rata basis the percentage ownership of all holders of common stock. When we raise more equity capital in the future, it will result in substantial dilution to our current stockholders.

OPERATING ACTIVITIES

Net cash used in operating activities for the three months ended December 31, 2012 was \$559,000. This amount was primarily related to a net loss of \$701,000, offset by depreciation and amortization and other non-cash expenses of \$145,000.

INVESTING ACTIVITIES

Net cash used in investing activities for the three months ended December 31, 2012 was \$2,000. This amount was primarily related to capital expenditures of \$10,000, offset by proceeds from the sale of equipment of \$7,000.

FINANCING ACTIVITIES

Net cash used in financing activities for the three months ended December 31, 2012 was \$23,000. This amount was primarily related to the repayment of debt of \$84,000 and change in controlling interest of \$7,000, offset by proceeds from the sale of common stock of \$99,000.

Our contractual cash obligations as of December 31, 2012 are summarized in the table below:

Contractual Cash Obligations	Total	Less Than 1 Year	1-3 Years	3-5 Years	Greater Than 5 Years
Operating leases	\$ 220,426	\$ 72,564	\$ 138,360	\$ 9,502	\$ 0
Note payable	1,551,932	1,548,659	3,273	0	0
Capital expenditures	525,000	125,000	150,000	125,000	125,000
Convertible notes payable payments	1,400,000	1,400,000	0	0	0
	<u>\$ 3,697,358</u>	<u>\$ 3,146,223</u>	<u>\$ 291,633</u>	<u>\$ 134,502</u>	<u>\$ 125,000</u>

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

This item is not applicable.

ITEM 4. CONTROLS AND PROCEDURES

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

a) Evaluation of Disclosure Controls and Procedures

We have adopted and maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act, is recorded, processed, summarized and reported within the time periods required under the SEC's rules and forms and that the information is gathered and communicated to our management to allow for timely decisions regarding required disclosure.

As required by Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, our management conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2012. Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and our management necessarily was required to apply its judgment in evaluating and implementing our disclosure controls and procedures. Based upon the evaluation described above, our management concluded that they believe that our disclosure controls and procedures were not effective, as of December 31, 2012, in providing reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management to allow timely decisions regarding required disclosures, and is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Management identified the weaknesses discussed below.

Identified Material Weakness

A material weakness in our internal control over financial reporting is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Management identified material weaknesses during its assessment of internal controls over financial reporting as of December 31, 2012.

While we have an audit committee, we lack a financial expert. By early 2013, the Board expects to appoint an additional independent Director to serve as Audit Committee Chairman who is an "audit committee financial expert" as defined by the Securities and Exchange Commission ("SEC") and as adopted under the Sarbanes-Oxley Act of 2002.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we assessed the effectiveness of our internal control over financial reporting as of the end of the period covered by this report based on the framework in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, our principal executive officer and principal financial officer concluded that our internal control over financial reporting were not effective to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with United States generally accepted accounting principles.

The effectiveness of our internal control over financial reporting as of September 30, 2012 has not been audited by PMB Helin Donovan, LLP, an independent registered public accounting firm.

CHANGES IN INTERNAL CONTROL

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

PART II. OTHER INFORMATION

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.

WE WILL NEED ADDITIONAL FINANCING TO PAY OUR DEBTS AND SUPPORT OUR TECHNOLOGY DEVELOPMENT AND ONGOING OPERATIONS.

We had cash of \$602,000, a net working capital deficit of approximately \$2.7 million and total indebtedness of \$1.6 million as of December 31, 2012, including (i) \$1 million due to James Gingo on June 8, 2013; (ii) \$550,000 for the repurchase of the Gemini and Ascendant warrants on March 31, 2013; and (iii) \$425,000 due under the AIR Termination Agreement on both June 30, 2013 and September 30, 2013.

We will need to obtain additional financing to implement our business plan and service our debt repayments. There can be no assurance that we will be able to secure funding, or that if such funding is available, the terms or conditions would be acceptable to us. If the Company is unable to obtain additional financing, we may need to restructure our operations, or divest all or a portion of our business.

Our recent efforts to generate additional liquidity, including through sales of our common stock, are described in more detail in the financial statement notes set forth in this Form 10Q.

If we raise additional capital through borrowing or other debt financing, we will incur substantial interest expense. Sales of additional equity securities will dilute on a pro rata basis the percentage ownership of all holders of common stock. When we raise more equity capital in the future, it will result in substantial dilution to our current stockholders.

THE SALE OF A SIGNIFICANT NUMBER OF OUR SHARES OF COMMON STOCK COULD DEPRESS THE PRICE OF OUR COMMON STOCK.

Sales or issuances of a large number of shares of common stock in the public market (including pursuant to the equity line of credit transaction that we entered into with Ascendant Capital Partners, LLC or the perception that sales may occur could cause the market price of our common stock to decline. As of February 11, 2013, there were approximately 109.9 million shares of common stock issued and outstanding. Significant shares of common stock are held by our principal shareholders, other Company insiders and other large shareholders. As “affiliates” (as defined under Rule 144 of the Securities Act (“Rule 144”)) of the Company, our principal shareholders, other Company insiders and other large shareholders may only sell their shares of common stock in the public market pursuant to an effective registration statement or in compliance with Rule 144.

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 \$0.05 to \$0.75 per share.

FUTURE ISSUANCE OF COMMON STOCK RELATED TO FAILURE TO PAY AMOUNTS DUE TO REPURCHASE WARRANTS AND ADDITIONAL INVESTMENT RIGHTS MAY HAVE A DILUTING FACTOR ON EXISTING AND FUTURE SHAREHOLDERS.

On May 19, 2011, we entered into a Securities Purchase Agreement (“Agreement”) with Gemini Master Fund, Ltd. (“Gemini”) and Ascendant Capital Partners, LLC (“Ascendant”) (Gemini and Ascendant are collectively referred to as the “Investors”), pursuant to which the Company issued \$1.2 million in principal amount of 10% convertible debentures (the “Original Debentures”) which were due May 1, 2012. The due date of the Original Debentures was extended to September 30, 2012 pursuant to a First Amendment to the Agreement on March 12, 2012, and further extended to September 30, 2013 pursuant to a Second Amendment to the Agreement on August 16, 2012. In addition, we issued 5-year warrants to the Investors to collectively purchase 2,400,000 shares of our common stock. The purchase price for the debentures was 83.3% of the face amount, resulting in the Company receiving \$1.0 million, less legal fees, placement agent fees and expenses as set forth below. The Agreement includes an additional investment right granted to the Investors, pursuant to which the Investors have the right at any time until September 30, 2013, to purchase up to \$1.2 million in principal amount of additional debentures (the “Additional Debentures”) on the same terms and conditions as the Original Debentures, except that the conversion price on the Additional Debentures may have a higher floor. The conversion price on both the Original Debentures and the Additional Debentures are subject to a potential downward adjustment for any equity sales subsequent to the date of issuance. In conjunction with the purchase of the Additional Debentures, the Investors also have the right to purchase additional warrants. The above description is only a summary of the transactions with Gemini and Ascendant and are subject to the full terms of the transaction agreements, copies of which were filed with the Company’s 10-K for the year ended September 30, 2012, as Exhibits 10.1 through 10.10.

On August 28, 2012, we entered into a Warrant Purchase Agreement with Gemini and acquired the Gemini Warrant covering the purchase of up to 1.8 million shares, subject to adjustment, by paying \$250,000 on August 28, 2012 and agreeing to pay \$250,000 on or before November 30, 2012.

On January 30, 2013, we and the Investors entered into the following additional agreements dated January 23, 2013 but made effective as of the date of their execution by the parties:

- (1) Warrant Purchase Agreement between the Company and Ascendant pursuant to which the Company repurchased the Ascendant Warrant for a purchase price of \$300,000, which amount is due in full on March 31, 2013.
- (2) Amendment to Warrant Purchase Agreement between the Company and Gemini extending the due date for payment of the balance of the purchase price, including accrued interest thereon, from November 30, 2012 to March 31, 2013.
- (3) AIR Termination Agreement between the Company and Gemini pursuant to which the Company acquired all additional investment rights (“AIR”) of Gemini and Ascendant under the Securities Purchase Agreement for the sum of \$850,000, to be paid pursuant to the terms of a promissory note executed by the Company for the principal amount of \$850,000. The promissory note is payable in two installments of \$425,000 each, together with accrued interest thereon at the rate of 5% per annum, due on June 30, 2013 and September 30, 2013.

Conversion of Existing Convertible Debentures

On January 24, 2013, Gemini converted \$300,000 of principal and \$50,630 of accrued interest on its Debenture into 7,012,603 shares of common stock at a conversion price of \$.05 per share.

On January 24, 2013, Ascendant converted \$50,000 of principal and \$8,438 of accrued interest on its Debenture into 1,168,767 shares of common stock at a conversion price of \$.05 per share.

On January 28, 2013, Gemini converted \$300,000 of principal and \$50,959 of accrued interest on its Debenture into 7,019,178 shares of common stock at a conversion price of \$.05 per share.

Following these conversions, as of January 28, 2013, the outstanding principal amounts and all accrued interest on the Debentures of both Gemini and Ascendant have been fully converted.

The conversion of the convertible notes payable resulted in substantial dilution of the value of the common shares for all shareholders. Failure to pay the \$550,000 for the repurchase of the Gemini and Ascendant warrants due on March 31, 2013 and the \$850,000 due under the AIR Termination Agreement on June 30, 2013 may result in substantial additional dilution of the value of the common shares for all shareholders.

RISKS ASSOCIATED WITH EQUITY LINE OF CREDIT WITH ASCENDIANT

The Securities Purchase Agreement dated June 17, 2011 with Ascendant will terminate if our common stock is not listed on one of several specified trading markets (which include the OTCBB and Pink Sheets, among others), if we file protection from our creditors, or if a Registration Statement on Form S-1 or S-3 is not effective.

If the price or the trading volume of our common stock does not reach certain levels, we will be unable to draw down the remainder of our \$3,000,000 equity line of credit with Ascendant.

The maximum draw down amount every 8 trading days under our equity line of credit facility is the lesser of \$100,000 or 20% of the total trading volume of our common stock for the 10-trading-day period prior to the draw down multiplied by the volume-weighted average price of our common stock for such period. As of February 11, 2013, we have drawn down \$483,141 under our equity line of credit with Ascendant. If our stock price and trading volume decline from current levels, we will not be able to draw down the remaining \$2,516,859 available under the equity line of credit.

As of February 11, 2013, the Company has issued 6,358,933 shares for \$483,141, or an average of \$.076 per share, under the Securities Purchase Agreement with Ascendant. The Company has registered a total of 10,285,714 shares of common stock for resale by Ascendant. Additional shares may be issued under the Securities Purchase Agreement, which will have a further dilutive effect on the Company's existing shareholders.

WE MAY ENGAGE IN ACQUISITIONS, MERGERS, STRATEGIC ALLIANCES, JOINT VENTURES AND DIVESTITURES THAT COULD RESULT IN FINANCIAL RESULTS THAT ARE DIFFERENT THAN EXPECTED.

In the normal course of business, we engage in discussions relating to possible acquisitions, equity investments, mergers, strategic alliances, joint ventures and divestitures. Such transactions are accompanied by a number of risks, including:

- Use of significant amounts of cash;
- Potentially dilutive issuances of equity securities on potentially unfavorable terms;
- Incurrence of debt on potentially unfavorable terms as well as impairment expenses related to goodwill and amortization expenses related to other intangible assets; and
- The possibility that we may pay too much cash or issue too many of our shares as the purchase price for an acquisition relative to the economic benefits that we ultimately derive from such acquisition.

The process of integrating any acquisition may create unforeseen operating difficulties and expenditures. The areas where we may face difficulties include:

- Diversion of management time, during the period of negotiation through closing and after closing, from its focus on operating the businesses to issues of integration;
- Decline in employee morale and retention issues resulting from changes in compensation, reporting relationships, future prospects or the direction of the business;

- The need to integrate each Company's accounting, management information, human resource and other administrative systems to permit effective management, and the lack of control if such integration is delayed or not implemented;
- The need to implement controls, procedures and policies appropriate for a public Company that may not have been in place in private companies, prior to acquisition;
- The need to incorporate acquired technology, content or rights into our products and any expenses related to such integration; and
- The need to successfully develop any acquired in-process technology to realize any value capitalized as intangible assets.

From time to time, we have also engaged in discussions with candidates regarding the potential acquisitions of our product lines, technologies and businesses. If a divestiture such as this does occur, we cannot be certain that our business, operating results and financial condition will not be materially and adversely affected. A successful divestiture depends on various factors, including our ability to:

- Effectively transfer liabilities, contracts, facilities and employees to any purchaser;
- Identify and separate the intellectual property to be divested from the intellectual property that we wish to retain;
- Reduce fixed costs previously associated with the divested assets or business; and
- Collect the proceeds from any divestitures.

In addition, if customers of the divested business do not receive the same level of service from the new owners, this may adversely affect our other businesses to the extent that these customers also purchase other products offered by us. All of these efforts require varying levels of management resources, which may divert our attention from other business operations.

If we do not realize the expected benefits or synergies of any divestiture transaction, our consolidated financial position, results of operations, cash flows and stock price could be negatively impacted.

WE MAY INCUR LOSSES IN THE FUTURE.

We have experienced net losses since inception. There can be no assurance that we will achieve or maintain profitability.

THE MARKET PRICE OF OUR COMMON STOCK HAS BEEN AND MAY CONTINUE TO BE VOLATILE.

The market price of our common stock has been and is likely in the future to be volatile. Our common stock price may fluctuate in response to factors such as:

- Announcements by us regarding liquidity, significant acquisitions, equity investments and divestitures, strategic relationships, addition or loss of significant customers and contracts, capital expenditure commitments, loan, note payable and agreement defaults, loss of our subsidiaries and impairment of assets;
- Issuance of convertible or equity securities for general or merger and acquisition purposes;
- Issuance or repayment of debt, accounts payable or convertible debt for general or merger and acquisition purposes;
- Sale of a significant number of shares of our common stock by shareholders;
- General market and economic conditions;
- Quarterly variations in our operating results;
- Investor and public relation activities;
- Announcements of technological innovations;
- New product introductions by us or our competitors;
- Competitive activities; and
- Additions or departures of key personnel.

These broad market and industry factors may have a material adverse effect on the market price of our common stock, regardless of our actual operating performance. These factors could have a material adverse effect on our business, financial condition and results of operations.

FUTURE ISSUANCE OF STOCK OPTIONS, WARRANTS AND/OR RIGHTS MAY 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 our common shares for all shareholders. We have 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, we are seeking authorization from the Company's shareholders at our 2013 annual meeting to increase the number of shares authorized and reserved for issuance under the Plan from 7 million to 14 million shares. Dilution of the value of the common shares will likely result from such option and/or stock grants, which in turn could adversely affect the market price of our common stock.

TRADING IN THE COMPANY'S STOCK MAY BE RESTRICTED BY BLUE SKY ELIGIBILITY AND THE SEC'S PENNY STOCK REGULATIONS.

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.

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. These factors could have a material adverse effect on our business, financial condition and results of operations.

WE ARE DEPENDENT ON KEY PERSONNEL.

Our success depends to a significant degree upon the continued contributions of key management and other personnel, some of whom could be difficult to replace. We do not maintain key man life insurance covering certain of our officers. Our success will depend on the performance of our officers, our ability to retain and motivate our officers, our ability to integrate new officers into our operations and the ability of all personnel to work together effectively as a team. Other than the James Gingo Employment Agreement which expires June 8, 2013, our officers do not have employment agreements. Our failure to retain and recruit officers and other key personnel could have a material adverse effect on our business, financial condition and results of operations.

WE HAVE LIMITED INSURANCE.

We have limited director and officer insurance and commercial insurance policies. Any significant claims would have a material adverse effect on our business, financial condition and results of operations.

OUR JOINT DEVELOPMENT AGREEMENT WITH SPP IS IMPORTANT TO OUR OPERATIONS AND IS SUBJECT TO EXPIRATION.

On May 31, 2012, we entered into a Joint Research and Product Development Agreement (the "Joint Development Agreement") with SPP for the commercialization of Visualant's SPM technology. A copy of the Joint Development Agreement was filed by the Company with its Form 8-K filed June 4, 2012. The Joint Development Agreement, which expires March 31, 2013, is expected to be extended in March 2013. We have certain product development responsibilities under the Joint Development Agreement. In addition, the ownership of technology under the Joint Development Agreement is discussed in our Form 8-K filed June 4, 2012.

The failure to operate in accordance with the Joint Development Agreement could result in the agreement not being renewed.

WE NEED TO CONTINUE AS A GOING CONCERN IF OUR BUSINESS IS TO SUCCEED.

Our Form 10-Q for the three months ended December 31, 2012 indicate that there are a number of factors that raise substantial doubt about our ability to continue as a going concern. Such factors identified in the report result from net losses, negative working capital and the need for additional financing to implement our business plan and service our debt repayments. If we are not able to continue as a going concern, it is likely investors will lose their investments.

WE MAY BE UNABLE TO PROTECT OUR IP RIGHTS, WHICH WOULD HARM OUR BUSINESS, FINANCIAL CONDITION AND OPERATING RESULTS.

We rely on a combination of patent, trademark, and trade secret laws, confidentiality procedures and licensing arrangements to protect our IP rights.

There can be no assurance that:

- any of our existing patents will continue to be held valid, if challenged;
- patents will be issued for any of our pending applications;
- any claims allowed from existing or pending patents will have sufficient scope or strength to protect us;
- our patents will be issued in the primary countries where our products are sold in order to protect our rights and potential commercial advantage; or
- any of our products or technologies do not infringe on the patents of other companies.

If we are enjoined from selling our products, or if we are required to develop new technologies or pay significant monetary damages or are required to make substantial royalty payments, our business and results of operations would be harmed.

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

During the three months ended December 31, 2012, we had the following unregistered sales of equity securities.

Unless otherwise indicated, all of the following private placements of Company securities were conducted under the exemption from registration as provided under Section 4(2) of the Securities Act of 1933 (and also qualified for exemption under 4(5), formerly 4(6) of the Securities Act of 1933, except as noted below). All of the shares issued were issued in private placements not involving a public offering, are considered to be “restricted stock” as defined in Rule 144 promulgated under the Securities Act of 1933 and stock certificates issued with respect thereto bear legends to that effect.

On October 8, 2012, Ascendant converted \$50,000 of principal and \$6,959 of interest into 1,139,178 shares of common stock at \$.050 per share under the Securities Purchase Agreement dated May 19, 2011. A notice filing under Regulation D was filed with the SEC in October 10, 2012.

On October 17, 2012, the Company issued to Ascendant 993,049 shares for \$100,000 at \$.101 per share under the Securities Purchase Agreement dated June 17, 2011. A notice filing under Regulation D was filed with the SEC in October 19, 2012.

On October 26, 2012 the Company issued 150,000 shares of restricted common stock to Manna Advisory Services, LLC, a non-accredited investor, for services. The shares were valued at \$0.13 per share. The shares do not have registration rights. A notice filing under Regulation D was filed with the SEC in October 30, 2012.

On November 28, 2012, Ascendant converted \$50,000 of principal and \$7,644 of interest into 1,152,877 shares of common stock at \$.050 per share under the Securities Purchase Agreement dated May 19, 2011. A notice filing under Regulation D was filed with the SEC in November 29, 2012.

ITEM 5. OTHER INFORMATION

This item is not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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

(a) Exhibits

14.1 Code of Conduct & Ethics dated November 30, 2012. (1)

[31.1 Rule 13a-14\(a\)/15d-14\(a\) Certification of Principal Executive Officer. \(2\)](#)

[31.2 Rule 13a-14\(a\)/15d-14\(a\) Certification of Principal Financial Officer. \(2\)](#)

[32.1 Section 906 Certifications. \(2\)](#)

[32.2 Section 906 Certifications. \(2\)](#)

99.1 Audit Committee Charter dated November 30, 2012. (1)

99.2 Compensation Committee Charter dated November 30, 2012. (1)

99.3 Nominations and Governance Committee Charter dated November 30, 2012. (1)

101 Interactive data files pursuant to Rule 405 of Regulation S-T. (3)

(1) Attached as an exhibit to the Company’s Form 8-K dated December 28, 2012 and filed with the SEC on January 3, 2013.

(2) Filed herewith.

(3) Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

SIGNATURES

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

VISUALANT, INCORPORATED

(Registrant)

Date: February 28, 2013

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

Date: February 28, 2013

By: /s/ Mark Scott
Mark Scott
Chief Financial Officer, Secretary and Treasurer
(Principal Financial and Accounting Officer)

SECTION 302 CERTIFICATIONS

I, Ronald P. Erickson, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A Amendment No. 1 of Visualant, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this 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(a) 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.

Date: February 28, 2013

/s/ Ronald P. Erickson

Ronald P. Erickson
Chief Executive Officer

SECTION 302 CERTIFICATIONS

I, Mark Scott, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A Amendment No. 1 of Visualant, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this 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(a) 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.

Date: February 28, 2013

/s/ Mark Scott

Mark Scott
Chief Financial Officer

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

In connection with the Amended Quarterly Report of Visualant, Inc. (the "Company") on Form 10-Q for the quarter ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald P. Erickson, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

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

This certificate is being made for the exclusive purpose of compliance by the Chief Executive and Financial and Accounting Officer of the Company with the requirements of Section 906 of the Sarbanes-Oxley Act of 2002, and may not be disclosed, distributed or used by any person or for any reason other than as specifically required by law.

/s/ Ronald P. Erickson

Ronald P. Erickson
Chief Executive Officer
February 28, 2013

**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 Amended Quarterly Report of Visualant, Inc. (the "Company") on Form 10-Q for the quarter ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark Scott, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

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

This certificate is being made for the exclusive purpose of compliance by the Chief Executive and Financial and Accounting Officer of the Company with the requirements of Section 906 of the Sarbanes-Oxley Act of 2002, and may not be disclosed, distributed or used by any person or for any reason other than as specifically required by law.

/s/ Mark Scott

Mark Scott
Chief Financial Officer
February 28, 2013