

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

FORM 10-Q

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

For the quarterly period ended June 30, 2013

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)

90-0273142

(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 August 14, 2013: 166,679,149 shares

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ITEM 1. FINANCIAL STATEMENTS

VISUALANT, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2013	September 30, 2012 (Audited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,509,829	\$ 1,141,165
Restricted cash	200,000	-
Accounts receivable, net of allowance of \$40,750 and \$16,750, respectively	809,856	1,012,697
Prepaid expenses	63,463	222,978
Inventories	690,629	344,692
Refundable tax assets	30,045	29,316
Total current assets	<u>3,303,822</u>	<u>2,750,848</u>
EQUIPMENT, NET	442,270	469,001
OTHER ASSETS		
Intangible assets, net	855,689	1,110,111
Goodwill	983,645	983,645
Other assets	<u>6,161</u>	<u>6,161</u>
TOTAL ASSETS	<u>\$ 5,591,587</u>	<u>\$ 5,319,766</u>
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
CURRENT LIABILITIES:		
Accounts payable - trade	\$ 2,297,387	\$ 1,593,861
Accounts payable - related parties	103,691	73,737
Accrued expenses	55,859	391,311
Accrued expenses - related parties	-	5,849
Deferred revenue	-	666,667
Convertible notes payable	-	750,000
Derivative liability - warrants	4,184,000	-
Notes payable - current portion of long term debt	683,101	1,631,903
Total current liabilities	<u>7,324,038</u>	<u>5,113,328</u>
LONG TERM LIABILITIES:		
Long term debt	<u>2,455</u>	<u>4,015</u>
COMMITMENTS AND CONTINGENCIES	-	-
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, 500,000,000 shares authorized, 166,677,149 and 90,992,954 shares issued and outstanding at 6/30/13 and 9/30/12, respectively	166,679	90,993
Additional paid in capital	17,430,415	13,995,554
Accumulated deficit	(19,378,609)	(13,915,931)
Total stockholders' (deficit) equity	<u>(1,781,515)</u>	<u>170,616</u>
Noncontrolling interest	<u>46,609</u>	<u>31,807</u>
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY	<u>\$ 5,591,587</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,		Nine Months Ended,	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
REVENUE	\$ 2,060,250	\$ 1,813,625	\$ 6,333,552	\$ 5,525,785
COST OF SALES	1,642,240	1,457,420	4,807,196	4,512,899
GROSS PROFIT	418,010	356,205	1,526,356	1,012,886
RESEARCH AND DEVELOPMENT EXPENSES	341,231	23,000	720,022	99,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,018,083	1,076,134	3,570,911	2,754,050
OPERATING LOSS	(941,304)	(742,929)	(2,764,577)	(1,840,164)
OTHER INCOME (EXPENSE):				
Interest expense	(38,605)	(12,261)	(154,642)	(128,503)
Other income	5,296	7,610	25,206	19,758
Loss on change - derivative liability warrants	(1,448,710)	-	(1,448,710)	-
Loss on purchase of warrants and additional investment right	-	-	(1,150,000)	-
Total other expense	(1,482,019)	(4,651)	(2,728,146)	(108,745)
LOSS BEFORE INCOME TAXES	(2,423,323)	(747,580)	(5,492,723)	(1,948,909)
Income taxes - current benefit	(13,910)	(9,965)	(30,045)	(24,159)
NET LOSS	(2,409,413)	(737,615)	(5,462,678)	(1,924,750)
NONCONTROLLING INTEREST	(6,476)	(786)	(14,802)	2,750
NET (LOSS) ATTRIBUTABLE TO VISUALANT, INC. AND SUBSIDIARIES COMMON SHAREHOLDERS	\$ (2,402,937)	\$ (736,829)	\$ (5,447,876)	\$ (1,927,500)
Basic and diluted income (loss) per common share attributable to Visualant, Inc. and subsidiaries common shareholders-				
Basic and diluted income (loss) per share	\$ (0.02)	\$ (0.01)	\$ (0.05)	\$ (0.03)
Weighted average shares of common stock outstanding- basic and diluted	124,638,584	67,597,374	108,181,494	59,398,032

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

VISUALANT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended,	
	June 30, 2013	June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (5,462,678)	\$ (1,927,500)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation and amortization	303,270	258,870
Issuance of capital stock for services and expenses	254,500	229,000
Issuance of warrants for services and expenses	25,000	-
Issuance of capital stock for accrued liabilities	136,630	11,454
Stock based compensation	227,335	250,069
(Loss) on sale of assets	(10,572)	(7,189)
Loss on purchase of warrants and additional investment right	850,000	-
Loss on change - derivative liability warrants	1,448,710	-
Provision for losses on accounts receivable	29,281	-
Changes in operating assets and liabilities:		
Accounts receivable	301,700	111,804
Prepaid expenses	159,515	39,128
Inventory	(345,937)	61,114
Accounts payable - trade and accrued expenses	264,039	478,206
Deferred revenue	(666,667)	916,667
Income tax receivable	(729)	(15,080)
CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(2,486,603)	406,543
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(23,746)	5,301
Proceeds from sale of equipment	12,201	8,302
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES:	(11,545)	13,603
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	109,337	(1,734)
Repayment of debt	(1,899,500)	(26,822)
Proceeds from the issuance of common stock	4,852,372	2,626,669
Repayments of capital leases	(10,199)	(9,489)
Change in noncontrolling interest	14,802	(15,478)
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,066,812	2,573,146
NET INCREASE IN CASH AND CASH EQUIVALENTS	568,664	2,993,292
CASH AND CASH EQUIVALENTS, beginning of period	1,141,165	92,313
CASH AND CASH EQUIVALENTS, end of period	\$ 1,709,829	\$ 3,085,605
Supplemental disclosures of cash flow information:		
Interest paid	\$ 109,545	\$ 12,458
Taxes paid	\$ -	\$ -
Non-cash investing and financing activities:		
Debt converted to common stock	\$ 750,000	\$ 200,000
Note payable issued for additional investment right	\$ 850,000	\$ -
Acquisition of leased equipment	\$ -	\$ 597

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

VISUALANT, INCORPORATED AND SUBSIDIARIES
NOTES TO 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 500,000,000 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 has invented a way to shine light at a material (solid surface, liquid, or gas) and measure the amount of light that is reflected back. The pattern of this reflected light is compared to other patterns the Company has captured and this allows the Company to identify, detect, or diagnose materials that cannot be identified by the human eye. The Company refers to this pattern of reflected light as a ChromaID™. The Company designs ChromaID Scanner devices made with electronic, optical, and software parts to produce and capture the light.

The Company's first product, the ChromaID F12 Lab Kit, scans and identifies solid surfaces. The Company is marketing this product to customers who are considering licensing the technology. Target markets include, but are not limited to, commercial paint manufacturers, pharmaceutical equipment manufacturers, process control companies, currency paper and ink manufacturers, security card, reader, and scanner manufacturers, food processing, and electronic gaming.

Through our wholly owned subsidiary, TransTech Systems, Inc., 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.

On June 10, 2013, the Company entered into a Purchase Agreement, Warrants, Registration Rights Agreement and Voting Agreement with Special Situations and forty other accredited investors pursuant to which we issued 52,300,000 shares of common stock at \$0.10 per share for a total of \$5,230,000, which amount includes the conversion of \$500,000 in outstanding debt of the Company owed to one of its officers. As part of the transaction which closed on June 14, 2013, the Company issued to the investors (i) five year Series A Warrants to purchase a total of 52,300,000 shares of common stock at \$0.15 per share; and (ii) five year Series B Warrants to purchase a total of 52,300,000 shares of common stock at \$0.20 per share. The transaction was entered into to strengthen our balance sheet, complete the purchase of our TransTech subsidiary, and provide working capital to support the rapid movement of our ChromaID technology into the marketplace.

The Company has a Joint Development Agreement through December 31, 2013 with Sumitomo Precision Products Co., Ltd., which focuses on the commercialization of the ChromaID™ technology as well as a License Agreement providing SPP with an exclusive license of the ChromaID™ technology in identified Asian territories. SPP is publicly traded in Japan and has operations in Japan, United States, China, United Kingdom, Canada and other parts of the world.

To date, the Company has been issued five patents by the United States Office of Patents and Trademarks. See page 9 for more detailed information regarding the Company's patents and business.

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 \$5,462,678 and \$2,725,692 for the nine months ended June 30, 2013 and the year ended September 30, 2012, respectively. Our net cash used in operating activities was \$2,468,603 for the nine months ended June 30, 2013.

The Company anticipates that it will record losses from operations for the foreseeable future. As of June 30, 2013, our accumulated deficit was \$19,378,609. The Company has limited capital resources, and operations to date have been funded with the proceeds from private equity and debt financings and loans from Ronald P. Erickson, our Chief Executive Officer. 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, 2013, 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.

VISUALANT, INCORPORATED AND SUBSIDIARIES
NOTES TO 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 June 30, 2013 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, 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 and 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 AND FINANCIAL INSTRUMENTS – ASC Topic 820, *Fair Value Measurement and Disclosures*, defines fair value as the exchange price that would be received for 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. This topic also establishes a fair value hierarchy, which requires classification based on observable and unobservable inputs when measuring fair value. The fair value hierarchy distinguishes between assumptions based on market data (observable inputs) and an entity's own assumptions (unobservable inputs). The hierarchy consists of three levels:

Level 1 – Quoted prices in active markets for identical assets and liabilities;

Level 2 – Inputs other than level one inputs that are either directly or indirectly observable; and

VISUALANT, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Level 3 – Unobservable inputs developed using estimates and assumptions, which are developed by the reporting entity and reflect those assumptions that a market participant would use.

Financial Instruments	Fair Value Measurements Using Inputs			Carrying
	Level 1	Level 2	Level 3	Amount at June 30, 2013
Liabilities:				
Derivative Instruments - Warrants	\$ -	\$ 4,184,000	\$ -	\$ 4,184,000
Total	\$ -	\$ 4,184,000	\$ -	\$ 4,184,000

Liabilities measured at fair value on a recurring basis are summarized as follows:

	June 30, 2013
Market price and estimated fair value of common stock:	\$ 0.090
Exercise price	\$ 0.15-0.20
Expected term (years)	3-5 years
Dividend yield	-
Expected volatility	82%
Risk-free interest rate	1.3%

The risk-free rate of return reflects the interest rate for the United States Treasury Note with similar time-to-maturity to that of the warrants.

The recorded value of other financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable, other current assets, and accounts payable and accrued expenses approximate the fair value of the respective assets and liabilities at June 30, 2013 and 2012 based upon the short-term nature of the assets and liabilities.

Derivative Instruments - Warrants

The Company issued 104,600,000 warrants in connection with the June 2013 Private Placement of 52,300,000 shares of common stock. The strike price of these warrants is \$0.15 to \$0.20 per share. These warrants were not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign operation. These warrants were issued with a down-round provision whereby the exercise price would be adjusted downward in the event that additional shares of the Company's common stock or securities exercisable, convertible or exchangeable for the Company's common stock were issued at a price less than the exercise price. Therefore, the fair value of these warrants were recorded as a liability in the consolidated balance sheet and are marked to market each reporting period until they are exercised or expire or otherwise extinguished.

The proceeds from the Private Placement were allocated between the Common Shares and the Warrants issued in connection with the Private Placement based upon their estimated fair values as of the closing date at June 14, 2013, resulting in the aggregate amount of \$2,494,710 to the Stockholders' Equity and \$2,735,290 to the warrant derivative. During 2013, the Company recognized \$1,448,710 of other expense resulting from the increase in the fair value of the warrant liability at June 30, 2013.

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 SPP License fee is being recorded as revenue over the life the Joint Development Agreement discussed below. The Company recorded deferred revenue of \$0 and \$666,667 as of June 30, 2013 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.

VISUALANT, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 June 30, 2013 and September 30, 2012, the Company had refundable tax assets related to TransTech of \$30,045 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 June 30, 2013, there were options outstanding for the purchase of 11,005,000 common shares, warrants for the purchase of 112,357,050 common shares, and an undetermined number shares of common stock related to convertible debt, which could potentially dilute future earnings per share. As of June 30, 2012, there were options outstanding for the purchase of 9,020,000 common shares, warrants for the purchase of 4,977,051 common shares, and 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 CHROMAID™ TECHNOLOGY

The Company’s ChromaID™ Technology

The Company has invented a way to project light at a material (solid surface, liquid, or gas) and measure the amount of light that is reflected back. The pattern of this reflected light is compared to other patterns the Company has captured and this allows the Company to identify, detect, or diagnose materials that cannot be identified by the human eye. The Company refers to this pattern of reflected light as a ChromaID™. The Company designs ChromaID scanning devices made with electronic, optical, and software parts to produce and capture the light.

The Company’s first product, the ChromaID F12 Lab Kit, scans and identifies solid surfaces. The Company is marketing this product to customers who are considering licensing the technology. Target markets include, but are not limited to, commercial paint manufacturers, pharmaceutical equipment manufacturers, process control companies, currency paper and ink manufacturers, security card, reader, and scanner manufacturers, food processing, and electronic gaming.

The Company’s Patents

On August 9, 2011, the Company was issued US Patent No. 7,996,173 B2 entitled “Method, Apparatus and Article to Facilitate Distributed Evaluation of Objects Using Electromagnetic Energy,” by the United States Office of Patents and Trademarks. The patent expires August 24, 2029.

On December 13, 2011, the Company was issued US Patent No. 8,076,630 B2 entitled “System and Method of Evaluating an Object Using Electromagnetic Energy” by the United States Office of Patents and Trademarks. The patent expires November 7, 2028.

On December 20, 2011, the Company was issued US Patent No. 8,081,304 B2 entitled “Method, Apparatus and Article to Facilitate Evaluation of Objects Using Electromagnetic Energy” by the United States Office of Patents and Trademarks. The patent expires July 28, 2030.

VISUALANT, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On October 9, 2012, the Company was issued US Patent No. 8,285,510 B2 entitled "Method, Apparatus, and Article to Facilitate Distributed Evaluation of Objects Using Electromagnetic Energy" by the United States Office of Patents and Trademarks. The patent expires July 31, 2027.

On February 5, 2013, the Company was issued US Patent No. 8,368,878 B2 entitled "Method, Apparatus and Article To Facilitate Evaluation of Objects Using Electromagnetic Energy by the United States Office of Patents and Trademarks. The patent expires July 31, 2027.

The Company is pursuing an aggressive patent strategy to expand our unique intellectual property in the United States and Japan and other countries.

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 with SPP, a publicly-traded Japanese corporation, for the commercialization of our ChromaID™ technology. On March 29, 2013, the Company entered into an Amendment to Joint Research and Product Development Agreement with SPP. The Amended Agreement extends the Joint Development Agreement from March 31, 2013 to December 31, 2013 and focuses on the commercialization of our ChromaID™ technology.

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 for an exclusive License Agreement which covers select countries in Asia. A running royalty for the license granted under the License Agreement will be negotiated at the completion of the Joint Development Agreement. The SPP License fee was recorded as revenue over the life the Joint Development Agreement and was fully recorded as of May 31, 2013.

SPP is publicly traded in Japan and has operations in Japan, United States, China, United Kingdom, Canada and other parts of the world.

6. ACQUISITION OF TRANSTECH SYSTEMS, INC.

Our wholly owned subsidiary, TransTech Systems, is based in Aurora, Oregon, and was founded in 1994. TransTech provides value-added security and authentication solutions to corporate and government security and law enforcement markets throughout the United States. With recorded revenues of \$7.6 million in 2012, TransTech has a respected national reputation for outstanding product knowledge, sales and service excellence.

The Company closed the acquisition of TransTech on June 8, 2010. The Company acquired its 100% interest in TransTech by issuing a Promissory 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 per annum from the date of the Note. The Note was secured by a security interest in the stock and assets of TransTech, and was payable over a period of three years. The final balance of \$1,000,000 on the Note and accrued interest of \$30,397 were paid to Mr. Gingo on June 12, 2013, to complete the purchase price for the TransTech stock.

On June 8, 2010 in connection with the acquisition of TransTech, the Company issued a total of 3,800,000 shares of restricted common stock of the Company to James Gingo, Jeff Kruse and Steve Waddle, executives of TransTech, and Paul Bonderson, a TransTech investor. The parties valued the shares in this transaction at \$76,000 or \$0.02 per share, the closing bid price during negotiations.

This acquisition was entered into to accelerate market entry and penetration through well-operated and positioned dealers of security and authentication systems, thus creating a natural distribution channel for products featuring the Company's proprietary ChromaID technology.

7. ACCOUNTS RECEIVABLE/CUSTOMER CONCENTRATION

Accounts receivable were \$809,856 and \$1,012,697, net of allowance, as of June 30, 2013 and September 30, 2012, respectively. The Company had no customers in excess of 10% of our consolidated revenues for the nine months ended June 30, 2013. The Company had one customer (11.6%) with accounts receivable in excess of 10% as of June 30, 2013. The Company does expect to have customers with consolidated revenues or accounts receivable balances of 10% of total accounts receivable in the foreseeable future.

8. INVENTORIES

Inventories were \$690,629 and \$344,692 as of June 30, 2013 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 June 30, 2013 and September 30, 2012.

VISUALANT, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. FIXED ASSETS

Property and equipment as of June 30, 2013 consisted of the following:

	Estimated Useful Lives	June 30, 2013		
		Purchased	Capital Leases	Total
Machinery and equipment	2-10 years	\$ 119,998	\$ 87,039	\$ 207,037
Leasehold improvements	5-20 years	603,612	-	603,612
Furniture and fixtures	3-10 years	73,539	101,260	174,799
Software and websites	3-7 years	63,782	44,849	108,631
Less: accumulated depreciation		(435,409)	(216,400)	(651,809)
		<u>\$ 425,522</u>	<u>\$ 16,748</u>	<u>\$ 442,270</u>

Fixed assets, net of accumulated depreciation, were \$442,270 and \$469,001 as of June 30, 2013 and September 30, 2012, respectively. Accumulated depreciation was \$651,809 and \$606,509 as of June 30, 2013 and September 30, 2012, respectively. Total depreciation expense was \$49,160 and \$43,823 for the nine months ended June 30, 2013 and 2012, respectively. All equipment is used for selling, general and administrative purposes and accordingly all depreciation is classified in selling, general and administrative expenses.

10. INTANGIBLE ASSETS

Intangible assets as of June 30, 2013 and September 30, 2012 consisted of the following:

	Estimated Useful Lives	June 30, 2013	September 30, 2012
Customer contracts	5 years	\$ 983,645	\$ 983,645
Technology	5 years	712,500	712,500
Less: accumulated amortization		(840,456)	(586,034)
Intangible assets, net		<u>\$ 855,689</u>	<u>\$ 1,110,111</u>

Total amortization expense was \$254,422 and \$215,047 for the nine months ended June 30, 2013 and 2012, 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.

11. ACCOUNTS PAYABLE

Accounts payable were \$2,297,387 and \$1,593,861 as of June 30, 2013 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 (37.5%, 19.2%, and 11.6%) with accounts payable in excess of 10% of its accounts payable as of June 30, 2013. The Company does expect to have vendors with accounts payable balances of 10% of total accounts payable in the foreseeable future.

12. ACCRUED EXPENSES

Accrued expenses were \$55,859 and \$391,311 as of June 30, 2013 and September 30, 2012, respectively. As of September 30, 2012 liabilities consisted of accrued interest and \$250,000 due to Gemini Master Fund, Ltd. for the repurchase of a warrant under a Warrant Repurchase Agreement dated August 28, 2012.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. CONVERTIBLE NOTES PAYABLE

Agreements with Gemini Master Fund, Ltd. and Ascendant Capital Partners, LLC

On May 31, 2013, the Company paid \$250,000 plus interest of \$35,175 under the Amendment to Warrant Purchase Agreement with Gemini dated January 23, 2013. The Company has acquired the warrant from Gemini and cancelled it.

On June 26, 2013, the Company acquired all additional investment rights ("AIR") between the Company and Gemini under the AIR Agreement dated January 23, 2013 with the payment of \$850,000 and interest of \$17,349.

The Company's equity line of credit with Ascendant remains outstanding, with available credit of \$2,516,859. The Company has no current intention to utilize this line of credit, which expires August 29, 2013.

14. NOTES PAYABLE, CAPITALIZED LEASES AND LONG TERM DEBT

Notes payable, capitalized leases and long term debt as of June 30, 2013 and September 30, 2012 consisted of the following:

	June 30, 2013	September 30, 2012
BFI Business Finance Secured Credit Facility	\$ 477,812	\$ 568,475
TransTech capitalized leases, net of capitalized interest	7,744	17,943
Note payable to Umpqua Bank	200,000	-
Related party notes payable-		
James Gingo Promissory Note	-	1,000,000
Lynn Felsing	-	49,500
Total debt	685,556	1,635,918
Less current portion of long term debt	(683,101)	(1,631,903)
Long term debt	\$ 2,455	\$ 4,015

BFI Finance Corp Secured Credit Facility

On December 9, 2008 TransTech entered into a \$1,000,000 secured credit facility with BFI Business Finance to fund its operations. On June 26, 2013 but effective June 12, 2013, the secured credit facility was renewed until December 12, 2013, with a floor for prime interest of 4.5%. The eligible borrowing is based on 80% of eligible trade accounts receivable, not to exceed \$700,000. The Company agreed to repay the \$183,000 inventory balance monthly with a final payment by November 30, 2013. The secured credit facility is collateralized by the assets of TransTech, with a guarantee by the Company.

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.

Note Payable to Umpqua Bank

On May 20, 2013, the Company entered into a \$200,000 Note Payable with Umpqua Bank. The Note Payable has a maturity date of May 31, 2014 and provides for interest of 2.79%, subject to adjustment annually. The Note Payable is collateralized by restricted cash of \$200,000.

Capitalized Leases

TransTech has capitalized leases for equipment. The leases have a remaining lease term of 3-28 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:

VISUALANT, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30,	Total
2014	\$ 105,611
2015	65,292
2016	38,008
2017	-
2018	-
Beyond	-
Total	<u>\$ 208,911</u>

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

Related Party Notes Payable

The Company closed the acquisition of TransTech on June 8, 2010. The Company acquired its 100% interest in TransTech by issuing a Promissory Note to James Gingo, the President and sole shareholder of TransTech, in the amount of \$2,300,000, plus interest at the rate of three and one-half percent per annum from the date of the Note. The Note was secured by a security interest in the stock and assets of TransTech, and was payable over a period of three years. The final balance of \$1,000,000 on the Note and accrued interest of \$30,397 were paid to Mr. Gingo on June 12, 2013, to complete the purchase price for the TransTech stock.

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

Years Ended June 30,	Total
2014	\$ 683,101
2015	2,455
2016	-
2017	-
2018	-
Total	<u>\$ 685,556</u>

15. EQUITY

The following equity issuances occurred during the nine months ended June 30, 2013:

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 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, for investor relation services. The shares were valued at \$0.13 per share. The Company expensed \$19,500 during the nine months ended June 30, 2013. 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.

On January 24, 2013, Gemini converted \$300,000 of principal and \$50,630 of accrued interest into 7,012,603 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 on January 29, 2013.

VISUALANT, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On January 24, 2013, Ascendant converted \$50,000 of principal and \$8,438 of accrued interest into 1,168,767 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 on January 29, 2013.

On January 28, 2013, Gemini converted \$300,000 of principal and \$50,959 of accrued interest into 7,019,178 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 on January 30, 2013.

On February 11, 2013, the Company entered into a Consulting Services Agreement with Integrated Consulting Services for strategic advice on our product roadmap. The Company issued a warrant for the purchase of 250,000 shares of common stock. The warrants are exercisable at \$.10 per share and expire February 10, 2016. The Company valued the warrant at \$0.10 per share and expensed \$25,000 during the nine months ended June 30, 2013. Pursuant to the Consulting Services Agreement, the Company agreed to issue an additional warrant for the purchase of 250,000 shares of common stock on August 12, 2013.

On February 13, 2013, the Company issued 150,000 shares of restricted common stock to Manna Advisory Services, LLC, for investor relation services. The shares were valued at \$0.10 per share. The Company expensed \$15,000 during the nine months ended June 30, 2013. The shares do not have registration rights. A notice filing under Regulation D was filed with the SEC in February 15, 2013.

On February 13, 2013, the Company issued 150,000 shares of restricted common stock to David Markowski, an investor for services related to the acquisition of TransTech. The shares were valued at \$0.10 per share. The Company expensed \$15,000 during the nine months ended June 30, 2013. The shares do not have registration rights. A notice filing under Regulation D was filed with the SEC in February 15, 2013.

On February 13, 2013, the Company issued 2,000,000 shares of restricted common stock to two employees (1,200,000 shares for Ronald Erickson our Chief Executive Officer and 200,000 for Mark Scott, our Chief Financial Officer) and two directors (400,000 shares for Marco Hegyi and 200,000 shares for Jon Pepper) for services during 2012. The shares were valued at \$0.10 per share. The Company expensed \$200,000 during the nine months ended June 30, 2013. The shares do not have registration rights. A notice filing under Regulation D was filed with the SEC in February 15, 2013.

On March 1, 2013, the Company issued 50,000 shares of restricted common stock to Manna Advisory Services, LLC, for investor relation services. The shares were valued at \$0.10 per share. The Company expensed \$5,000 during the nine months ended June 30, 2013. The shares do not have registration rights. A notice filing under Regulation D was filed with the SEC in April 4, 2013.

On April 26, 2013, Ascendant was issued a total of 4,564,068 shares of common stock as a result of Ascendant's cashless exercise of a warrant ("Ascendant Warrant"). On January 23, 2013, the Company had agreed to repurchase the Ascendant Warrant for a purchase price of \$300,000, payment of which was due March 31, 2013; however, the Company did not complete that purchase, thereby enabling Ascendant to exercise the Ascendant Warrant on April 26, 2013. A notice filing under Regulation D was filed with the SEC May 3, 2013.

On April 30, 2013, the Company issued 120,000 shares of restricted common stock to David Markowski, an investor for services related to the acquisition to TransTech. The shares were valued at \$0.10 per share. The Company expensed \$12,000 during the nine months ended June 30, 2013. The shares do not have registration rights. A notice filing under Regulation D was filed with the SEC May 16, 2013.

We entered into an Option Agreement with Ascendant dated April 26, 2013, pursuant to which we had the option to purchase from Ascendant 4,000,000 shares of our common stock (the "Option Shares") for an aggregate purchase price of \$300,000. On May 31, 2013, the Company exercised its option to purchase the 4,000,000 Option Shares from Ascendant and paid to Ascendant the \$300,000 purchase price. To date, Ascendant has delivered only 2,284,525 of the 4,000,000 Option Shares purchased by the Company, and has failed to deliver the remaining 1,715,475 Option Shares. See Note 18 for additional details on legal proceedings.

On June 10, 2013, the Sterling Group forfeited a warrant to purchase 300,000 shares of common stock at \$0.20 per share.

On June 10, 2013, the Company entered into a Purchase Agreement, Warrants, Registration Rights Agreement and Voting Agreement with Special Situations and forty other accredited investors pursuant to which we issued 52,300,000 shares of common stock at \$0.10 per share for a total of \$5,230,000, which amount includes the conversion of \$500,000 in outstanding debt of the Company owed to one of its officers. As part of the transaction which closed June 14, 2013, the Company issued to the investors (i) five year Series A Warrants to purchase a total of 52,300,000 shares of common stock at \$0.15 per share; and (ii) five year Series B Warrants to purchase a total of 52,300,000 shares of common stock at \$0.20 per share. Since we currently have an insufficient number of authorized shares of common stock to permit the exercise of all of the Warrants, the Warrants were issued subject to authorization and approval of an increase in the number of authorized shares of the Company by its stockholders at a special meeting of the stockholders to be held in August 2013. A notice filing under Regulation D was filed with the SEC June 18, 2013.

The Company also issued 5,230,000 placement agent warrants exercisable at \$0.10 per share GVC Capital, with an obligation to issue up to 5,230,000 additional placement agent warrants exercisable at \$0.15 per share. The \$0.15 placement agent warrants shall issue only upon the exercise of the Series A Warrants by the Investors, and are issuable ratably based upon the number of Warrants exercised by the Investors. The placement agent warrants have a term of five years from the date of closing of the Transaction.

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A summary of the warrants issued as of June 30, 2013 were as follows:

	June 30, 2013	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	3,369,050	\$ 0.307
Issued	110,080,000	0.100
Exercised	-	-
Forfeited	(300,000)	(0.200)
Expired	(792,000)	(0.500)
Outstanding at end of period	112,357,050	\$ 0.173
Exercisable at end of period	112,357,050	

A summary of the status of the warrants outstanding as of June 30, 2013 is presented below:

	June 30, 2013			
Number of Warrants	Weighted Average Remaining Life	Weighted Average Exercise Price	Shares Exercisable	Weighted Average Exercise Price
6,080,000	4.37	\$ 0.100	6,080,000	\$ 0.100
52,300,000	4.88	0.150	52,300,000	0.150
52,300,000	4.88	0.200	52,300,000	0.200
1,059,073	0.62	0.20-0.29	1,059,073	0.20-0.29
117,977	0.80	0.30-0.39	117,977	0.30-0.39
500,000	0.63	0.40-0.49	500,000	0.40-0.49
112,357,050	4.75	\$ 0.173	112,357,050	\$ 0.173

The significant weighted average assumptions relating to the valuation of the Company's warrants for the period ended June 30, 2013 were as follows:

Dividend yield	0%
Expected life	3-5 years
Expected volatility	143%
Risk free interest rate	1.5%

At June 30, 2013, vested warrants of 112,357,050 had an aggregate intrinsic value of \$0.

16. 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 was 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. On March 21, 2013, an amendment to the Stock Option Plan was approved by the stockholders of the Company, increasing the number of shares reserved for issuance under the Plan to 14,000,000 shares.

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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

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 and were effective March 21, 2013, when the Company was authorized to issue options up to 14,000,000 shares under the 2011 Stock Incentive Plan at the Annual Stockholder Meeting.

There are currently 11,005,000 options to purchase common stock at an average exercise price of \$0.131 per share outstanding at June 30, 2013 under the 2011 Stock Incentive Plan. The Company recorded \$221,692 and \$232,567 of compensation expense, net of related tax effects, relative to stock options for the nine months ended June 30, 2013 and 2012 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 nine months ended June 30, 2013 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	5,100,000	0.130	663,000
Exercised	-	-	-
Forfeitures	(15,000)	0.240	(3,600)
Outstanding as of June 30, 2013	11,005,000	\$ 0.131	1,436,200

The following table summarizes information about stock options outstanding and exercisable at June 30, 2013:

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	6.50 years	0.090	375,000	0.090
0.100	1,900,000	8.25 years	0.100	2,000,000	0.100
0.120	200,000	1.00 years	0.120	100,000	0.120
0.130	5,100,000	6.43 years	0.130	3,633,333	0.130
0.150	3,100,000	6.55 years	0.150	3,100,000	0.150
0.240	205,000	2.00 years	0.240	165,000	0.240
	11,005,000	7.29 years	\$ 0.131	9,373,333	\$ 0.135

There is no aggregate intrinsic value of the exercisable options as of June 30, 2013.

VISUALANT, INCORPORATED AND SUBSIDIARIES
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17. OTHER SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

Mr. Erickson, our Chief Executive Officer and/or entities in which Mr. Erickson has a beneficial interest have made advances and loans to us in the total principal amount of \$960,000 on or before the date hereof at an average annual interest rate of 4.2%. In addition, Mr. Erickson and/or entities in which Mr. Erickson has a beneficial interest also have unreimbursed 2013 expenses and unpaid salary and interest from 2013 on the outstanding principal amount of the Loans totaling approximately \$65,000 as of June 14, 2013. Mr. Erickson and related entities converted \$500,000 of the advances and loans as part of the PPM which closed June 14, 2013. The remaining amounts were paid to Mr. Erickson and related entities by June 30, 2013. The PPM is discussed in Note 15.

Mr. Mark Scott, our Chief Financial Officer, invested \$10,000 in the Private Placement which closed June 14, 2013 and is disclosed in Note 15.

Other related party transactions are discussed in Note 14.

18. 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.

On May 31, 2013, the Company exercised its option to purchase the 4,000,000 Option Shares from Ascendant and paid to Ascendant the \$300,000 purchase price. To date, Ascendant has delivered only 2,284,525 of the 4,000,000 Option Shares purchased by the Company and has failed to deliver the remaining 1,715,475 Option Shares. On June 17, 2013, the Company filed a complaint (the "Complaint") against Ascendant Capital Partners, LLC ("Ascendant") in the Orange County Superior Court of California (Case No. 30-2013-00656770-CU-BC-CJC) for breach of contract, seeking damages, specific performance and injunctive relief against Ascendant. In its Complaint, the Company alleged that Ascendant breached its obligations under the Option Agreement by delivering to the Company only 2,284,525 of the 4,000,000 Option Shares and failing to deliver the remaining 1,715,475 Option Shares. The Company filed a motion for preliminary injunction with the California Superior Court, seeking preliminary injunctive relief requiring Ascendant to transfer the remaining 1,715,475 Option Shares to Visualant or, in the alternative, enjoining Ascendant from transferring, selling, or otherwise encumbering the Option Shares. The Complaint is currently being reviewed by the California Superior Court.

EMPLOYMENT AGREEMENTS

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

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, the Company entered into a lease which expires August 31, 2014. The monthly lease rate was \$1,944 for the year ending August 31, 2013 and \$2,028 for the year ending August 31, 2014. On June 14, 2013, the Company amended the lease and added Suite 450, increasing our monthly payment to \$3,978 through August 31, 2013, \$4,057 from September 1, 2013 to May 31, 2014 and \$4,140 from June 1, 2014 through August 31, 2014.

TransTech Facilities

TransTech is located at 12142 NE Sky Lane, Suite 130, Aurora, OR 97002. They lease 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.

VISUALANT, INCORPORATED AND SUBSIDIARIES
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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 June 30,	Total
2014	\$ 105,611
2015	65,292
2016	38,008
2017	-
2018	-
Beyond	-
Total	\$ 208,911

19. 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 June 30, 2013, the following material transactions occurred:

On July 3, 2013, the Company filed a registration statement on Form S-1 covering 70,300,000 shares. The common stock being registered for resale consists of (i) 52,300,000 shares of common stock issued to Special Situations and forty other accredited investors (collectively, the "Investors") pursuant to a Private Placement which closed June 14, 2013; and (ii) 18,000,000 shares of common stock issuable upon exercise of a portion of the five-year Warrants to purchase shares of common stock at \$0.15 per share issued as part of the above-referenced Private Placement.

At a special meeting of shareholders held on August 9, 2013 the stockholders of the Company approved of an increase in the authorized shares of common stock from 200,000,000 to 500,000,000 and thereafter to amend the articles of the Company to reflect this change in share authorization.

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.

The following summarizes our plans for our ChromaID™ technology, which is expected to provide the majority of net revenues in future years. TransTech currently provides the majority of our net revenues. There is no government regulation to our business at this time.

Through our wholly owned subsidiary, TransTech Systems, Inc. or 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.

Our ChromaID™ Technology

We have invented a way to project light at a material (solid surface, liquid, or gas) and measure the amount of light that is reflected back. The pattern of this reflected light is compared to other patterns we have captured and this allows us to identify, detect, or diagnose materials that cannot be identified by the human eye. We refer to this pattern of reflected light as a ChromaID™. We design ChromaID scanning devices made with electronic, optical, and software parts to produce and capture the light.

Our first product, the ChromaID F12 Lab Kit, scans and identifies solid surfaces. We are marketing this product to customers who are considering licensing the technology. Target markets include, but are not limited to, commercial paint manufacturers, pharmaceutical equipment manufacturers, process control companies, currency paper and ink manufacturers, security card, reader, and scanner manufacturers, food processing, and electronic gaming.

Our Patents

On August 9, 2011, we were issued US Patent No. 7,996,173 B2 entitled “Method, Apparatus and Article to Facilitate Distributed Evaluation of Objects Using Electromagnetic Energy,” by the United States Office of Patents and Trademarks. The patent expires August 24, 2029.

On December 13, 2011, we were issued US Patent No. 8,076,630 B2 entitled “System and Method of Evaluating an Object Using Electromagnetic Energy” by the United States Office of Patents and Trademarks. The patent expires November 7, 2028.

On December 20, 2011, we were issued US Patent No. 8,081,304 B2 entitled “Method, Apparatus and Article to Facilitate Evaluation of Objects Using Electromagnetic Energy” by the United States Office of Patents and Trademarks. The patent expires July 28, 2030.

On October 9, 2012, we were issued US Patent No. 8,285,510 B2 entitled “Method, Apparatus, and Article to Facilitate Distributed Evaluation of Objects Using Electromagnetic Energy” by the United States Office of Patents and Trademarks. The patent expires July 31, 2027.

On February 5, 2013, we were issued US Patent No. 8,368,878 B2 entitled “Method, Apparatus and Article To Facilitate Evaluation of Objects Using Electromagnetic Energy by the United States Office of Patents and Trademarks. The patent expires July 31, 2027.

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

Our Joint Development Agreement with Sumitomo Precision Products Co., Ltd.

On May 31, 2012, we entered into a Joint Research and Product Development Agreement with SPP, a publicly-traded Japanese corporation, for the commercialization of our ChromaID™ technology. On March 29, 2013, we entered into an Amendment to Joint Research and Product Development Agreement with SPP. The Amended Agreement extends the Joint Development Agreement from March 31, 2013 to December 31, 2013 and focuses on the commercialization of our ChromaID™ technology.

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 for an exclusive License Agreement which covers select countries in Asia. A running royalty for the license granted under the License Agreement will be negotiated at the completion of the Joint Development Agreement. The SPP License fee was recorded as revenue over the life the Joint Development Agreement and was fully recorded as of May 31, 2013.

SPP is publicly traded in Japan and has operations in Japan, United States, China, United Kingdom, Canada and other parts of the world.

Our Acquisition of TransTech Systems, Inc.

Our wholly owned subsidiary, TransTech is based in Aurora, Oregon, and was founded in 1994. TransTech provides value-added security and authentication solutions to corporate and government security and law enforcement markets throughout the United States. With recorded revenues of \$7.6 million in 2012, TransTech has a respected national reputation for outstanding product knowledge, sales and service excellence.

We closed the acquisition of TransTech on June 8, 2010. This acquisition is expected to accelerate market entry and penetration through well-operated and positioned dealers of security and authentication systems, thus creating a natural distribution channel for products featuring the company’s proprietary ChromaID technology.

Products

TransTech products are as follows:

ID Systems & Components: Provision of ID personalization systems to the security industry. These systems include components such as ID cards, printers, software, supplies, data collection devices, document scanners, photo capture products, document authentication devices, and signature capture products.

Logical and Physical Access Control: Logical access readers used for logging onto computer networks and VPNs, physical access control readers used to gain access into buildings or secure areas, software such as visitor management & temporary card solutions, and additional applications outside of security.

Radio Frequency Identification and Tracking: These products include RF scanner, readers, cards, tags, labels, tracking software, and even video surveillance cameras to tie video clips of the asset or article movement to the personnel using them or to record other events surrounding asset and article movement.

Markets

Regions: Revenues are derived from over 400 distributors and national account customers in the United States, with the majority in the Western region.

Route to Market: TransTech's focus is on its reseller channel. Approximately 90% of sales are through the reseller channel and government prime vendors. The remaining approximately 10% is direct to end users.

Distribution Network Development: TransTech is exploring a closer position with its direct channel for tighter market feedback, insurance against manufacturer's policies, and for financial benefits. This exploration includes partnering, LLCs, Joint Ventures, and potential acquisitions.

Applications and Verticals: The primary use of TransTech products is for security applications. These fit within many verticals, including but not limited to, commercial industries, manufacturing, distribution, transportation, government, health care, education, entertainment. In recent years there has been growth into several non-security applications such as gaming/player's cards, loyalty cards, gift cards, direct marketing, certifications, amusement, payment, and guest cards.

Key Partners

Customers: We currently do not have any customer concentrations where one customer exceeds 10% of net revenues on an annual basis.

Suppliers: Evolis, Fargo, Magicard and NiSCA, are major vendors whose products account for approximately 70% of TransTech's revenue. Our products do not have any limit on availability, subject to proper payment of outstanding invoices.

THE COMPANY'S COMMON STOCK

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

KEY MARKET PRIORITIES

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

Our Developing Markets and Customers.

Our plan is to develop markets and customers who have a need to identify, detect, or diagnose flat surface materials which include, but are not limited to, commercial paint manufacturers, pharmaceutical equipment manufacturers, process control companies, currency paper and ink manufacturers, security card, reader, and scanner manufacturers, food processing, and electronic gaming.

Future market opportunities might include identification, detection, or diagnosis of:

- Powders for law enforcement applications,
- Drugs and drug container seals for protection against contamination and counterfeiting for pharmaceutical applications.
- Fruit and vegetable ripeness for agriculture applications,
- Noninvasive skin analysis for discovery of certain diseases or conditions for medical applications.

Our Commercialization Plans for our ChromaID Technology.

The current path to commercialization for the markets stated above is to sell a ChromaID F12 Lab Kit which includes:

- ChromaID F12 Scanner. A small device made with electronic, optical, and software parts which shine light onto a flat material and measures the amount of light that is reflected back. The device is the size of a flashlight (5.5" long and 1.25" diameter).
- ChromaID Lab Software. A software application that runs on a Windows Personal Computer. This software configures and controls the ChromaID F12 Scanner, displays the captured ChromaID Profile, and compares it to known ChromaID Profiles.

The ChromaID F12 Scanner allows customers to evaluate the technology and determine if it is appropriate for their application. The main electronic and optical parts of the ChromaID scanner can be supplied to customers to put in their own products, these parts are called the 'Scanhead'. A set of ChromaID Developer Tools are also available, which allows customers to develop their own products based on the ChromaID technology.

The ChromaID profile must be stored, managed, and readily accessible. The database can be owned and operated 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 made available on a per-access transaction basis or on a monthly or annual subscription basis. The actual storage location of the database can be cloud-based or local depending on the requirements of access, size of the database and security as defined by the customer. As a result, large databases can be accessed by cell phone or other mobile technologies.

Based on the commercialization plans outlined above, revenue can be derived from several sources:

- Sale of the ChromaID F12 Lab Kit and ChromaID Developer Tools.
- Licensing of the ChromaID technology,
- Sales of the Scanhead and associated licensing and royalties.
- ChromaID database administration and management services.

Our Acceleration of 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 in order to focus on specific target vertical markets which have the greatest potential for early adoption. The ChromaID F12 Lab Kit provides a means for us to demonstrate the technology to customers in these markets.

Development of License, Royalty and Other Opportunities

Our plan is to develop license and royalty producing opportunities and partners, including major companies in the US, Europe and Asia. We expect to develop our patent portfolio by continually extending the reach and application of our intellectual property.

Our first major license was signed May 31, 2012 with SPP. Our Business Development team is pursuing other license opportunities with customers in our target markets.

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 TransTech. 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 and a volatile market price for our common stock. 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 June 30,			
	2013	2012	\$ Variance	% Variance
Revenue	\$ 2,060	\$ 1,814	\$ 246	13.6%
Cost of sales	1,642	1,458	184	-12.6%
Gross profit	418	356	62	17.4%
Research and development expenses	341	23	318	-1382.6%
Selling, general and administrative expenses	1,018	1,076	(58)	5.4%
Operating loss	(941)	(743)	(198)	-26.6%
Other income (expense):				
Interest expense	(38)	(12)	(26)	-216.7%
Other income	5	7	(2)	-28.6%
Loss on change- derivative liability warrants	(1,449)	-	(1,449)	-100.0%
Total other expense	(1,482)	(5)	(1,477)	-29540.0%
Loss before income taxes	(2,423)	(748)	(1,675)	-223.9%
Income taxes - current benefit	(14)	(10)	(4)	40.0%
Net loss	(2,409)	(738)	(1,671)	-226.4%
Non-controlling interest	(6)	(1)	(5)	-500.0%
Net loss attributable to Visualant, Inc. common shareholders	<u>\$ (2,403)</u>	<u>\$ (737)</u>	<u>\$ (1,666)</u>	<u>-226.1%</u>

THREE MONTHS ENDED JUNE 30, 2013 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2012

SALES

Net revenue for the three months ended June 30, 2013 increased \$246,000 to \$2,060,000 as compared to \$1,814,000 for the three months ended June 30, 2012. The increase was due to license revenue of \$167,000 from SPP and increased sales of \$1,894,000 at TransTech. Net revenue for the three months ended June 30, 2012 reflected \$84,000 from SPP and sales of \$1,730,000 at TransTech. SPP paid the Company an initial payment of \$1 million under a License Agreement dated May 31, 2012 providing SPP with an exclusive license of our technology in identified Asian territories. This license revenue will be fully recognized by May 31, 2013. The TransTech increase primarily resulted from the release of new products.

COST OF SALES

Cost of sales for the three months ended June 30, 2013 increased \$184,000 to \$1,642,000 as compared to \$1,458,000 for the three months ended June 30, 2012. The increase was due to product mix at TransTech.

Gross margin was \$167,000 for our license revenue and \$251,000 from TransTech for a total of \$418,000 as compared to \$356,000 for the three months ended June 30, 2012. The gross margin was 20.3% for the three months ended June 30, 2013 as compared to 19.6% for the three months ended June 30, 2012. The increase relates to the SPP license revenue, offset by a reduction TransTech gross margin from 15.8% to 13.3% related to the release of new products.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the three months ended June 30, 2013 increased \$318,000 to \$341,000 as compared to \$23,000 for the three months ended June 30, 2012. The increase was due to commercialization of Visualant's ChromaID 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 June 30, 2013 decreased \$58,000 to \$1,018,000 as compared to \$1,076,000 for the three months ended June 30, 2012. The decrease was due to reduced business develop, public relations and investor relation activities. Business development, public relation and investor relation expenditures include cash and share issuances to develop markets, license agreements and an investor base for us.

During the three months ended June 30, 2013, we recorded non-cash expenses of \$176,000.

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 June 30, 2013 was \$1,482,000 as compared to other expense of \$5,000 for the three months ended June 30, 2012. The expenses for the three months ended June 30, 2013 included \$1,449,000 related to loss on the change in derivative liability for the warrants issued on June 14, 2013 and interest expense \$38,000 in other income. The other expense for the three months ended June 30, 2012 included interest expense of \$12,000, offset by other income of \$7,000.

NET LOSS

Net loss for the three months ended June 30, 2013 was \$2,409,000 as compared to a net loss of \$738,000 for the three months ended June 30, 2012 for the reasons discussed above. The net loss included non-cash expenses of \$1,894,000.

We expect losses to continue as we commercialize our ChromaID™ technology.

(dollars in thousands)

	Nine Months Ended June 30,			
	2013	2012	\$ Variance	% Variance
Revenue	\$ 6,334	\$ 5,526	\$ 808	14.6%
Cost of sales	4,807	4,513	294	-6.5%
Gross profit	1,527	1,013	514	50.7%
Research and development expenses	720	99	621	-627.3%
Selling, general and administrative expenses	3,572	2,754	818	-29.7%
Operating loss	(2,765)	(1,840)	(925)	-50.3%
Other income (expense):				
Interest expense	(154)	(129)	(25)	-19.4%
Other income	25	20	5	25.0%
Loss on change- derivative liability warrants	(1,449)	-	(1,449)	-100.0%
Loss on purchase of warrants and additional investment right	(1,150)	-	(1,150)	-100.0%
Total other expense	(2,728)	(109)	(2,619)	-2402.8%
Loss before income taxes	(5,493)	(1,949)	(3,544)	-181.8%
Income taxes - current benefit	(30)	(24)	(6)	25.0%
Net loss	(5,463)	(1,925)	(3,538)	-183.8%
Non-controlling interest	(15)	3	(18)	600.0%
Net loss attributable to Visualant, Inc. common shareholders	\$ (5,448)	\$ (1,928)	\$ (3,520)	-182.6%

NINE MONTHS ENDED JUNE 30, 2013 COMPARED TO THE NINE MONTHS ENDED JUNE 30, 2012

SALES

Net revenue for the nine months ended June 30, 2013 increased \$808,000 to \$6,334,000 as compared to \$5,526,000 for the nine months ended June 30, 2012. The increase was due to license revenue of \$667,000 from SPP and increased sales of \$5,667,000 at TransTech. Net revenue for the nine months ended June 30, 2012 reflected \$84,000 from SPP and sales of \$5,442,000 at TransTech. SPP paid the Company an initial payment of \$1 million under a License Agreement dated May 31, 2012 providing SPP with an exclusive license of our technology in identified Asian territories. This license revenue will be fully recognized by May 31, 2013. The TransTech increase primarily resulted from the release of new products.

COST OF SALES

Cost of sales for the nine months ended June 30, 2013 increased \$294,000 to \$4,807,000 as compared to \$4,513,000 for the nine months ended June 30, 2012. The increase was due to increased sales and product mix at TransTech.

Gross margin was \$667,000 for our license revenue and \$860,000 from TransTech for a total of \$1,527,000 as compared to \$1,013,000 for the nine months ended June 30, 2012. The gross margin was 24.1% for the nine months ended June 30, 2013 as compared to 18.3% for the nine months ended June 30, 2012. The increase relates to the SPP license revenue, offset by a reduction TransTech gross margin from 15.2% to 17.1% related to the release of new products.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the nine months ended June 30, 2013 increased \$621,000 to \$720,000 as compared to \$99,000 for the nine months ended June 30, 2012. The increase was due to commercialization of Visualant's ChromaID technology and the expenses incurred for the Joint Development Agreement with SPP.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the nine months ended June 30, 2013 increased \$818,000 to \$3,572,000 as compared to \$2,754,000 for the nine months ended June 30, 2012. The increase was due to increased business develop, public relations and investor relation activities. Business development, public relation and investor relation expenditures include cash and share issuances to develop markets, license agreements and an investor base for us.

During the nine months ended June 30, 2013, we recorded non-cash expenses of \$965,000.

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 nine months ended June 30, 2013 was \$2,728,000 as compared to other expense of \$109,000 for the nine months ended June 30, 2012. The expenses for the nine months ended June 30, 2013 included \$1,449,000 related to loss on the change in derivative liability for the warrants issued on June 14, 2013, \$1,150,000 loss on the purchase of warrants and additional investment right, \$154,000 for interest expense, offset by \$25,000 in other income. The other expense for the nine months ended June 30, 2012 included interest expense of \$129,000, offset by other income of \$20,000.

NET LOSS

Net loss for the nine months ended June 30, 2013 was \$5,463,000 as compared to a net loss of \$1,925,000 for the nine months ended June 30, 2012 for the reasons discussed above. The net loss included non-cash expenses of \$3,264,000. We expect losses to continue as we commercialize our ChromaID™ technology.

LIQUIDITY AND CAPITAL RESOURCES

We had cash of \$1,710,000 and net working capital of approximately \$164,000 (excluding the derivative liability- warrants of \$4,184,000) as of June 30, 2013.

We have financed our corporate operations and our technology development through the issuance of convertible debentures, the sale common stock, issuance of common stock in conjunction with an equity line of credit, and loans by our Chief Executive Officer (from April 1, 2013 to June 14, 2013).

We finance TransTech operations from operations and a Secured Credit Facility with BFI Finance Corp.

On June 10, 2013, we entered into a Purchase Agreement, Warrants, Registration Rights Agreement and Voting Agreement or the Transaction with Special Situations and forty other accredited investors pursuant to which we issued 52,300,000 shares of common stock at \$0.10 per share for a total of \$5,230,000, which amount includes the conversion of \$500,000 in outstanding debt of the Company owed to one of its officers. As part of the Transaction which closed June 14, 2013, we issued to the Investors (i) five year Series A Warrants to purchase a total of 52,300,000 shares of common stock at \$0.15 per share; and (ii) five year Series B Warrants to purchase a total of 52,300,000 shares of common stock at \$0.20 per share. The Transaction was closed to strengthen our balance sheet, to pay the liabilities discussed below, and provide working capital to support the rapid movement of our ChromaID technology into the marketplace. In addition, we have Special Situations as an investor. If exercised, the warrants are expected to provide the following liquidity (before fees):

Series A Warrant- up to \$7,845,000

Series B Warrant- up to \$10,460,000

The net proceeds from the above-referenced Transaction with Special Situations and the other Investors which closed June 14, 2013, were used in part to pay the obligations discussed previously to: (i) James Gingo to pay the final note payment to James Gingo related to the TransTech stock acquisition, (ii) Gemini Master Fund, Ltd. for the warrant repurchase, (iii) Ascendant Capital Markets for the option exercise price, and (iv) Gemini Master Fund, Ltd. for the June 30, 2013 payment under the AIR Termination Agreement. The balance of the proceeds from the Transaction will be used by us for technology development, operating expenses and to pay our debts.

We expect to need to obtain additional financing in the future. 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 we are unable to obtain additional financing, we may need to restructure our operations, and divest all or a portion of our business.

OPERATING ACTIVITIES

Net cash used in operating activities for the nine months ended June 30, 2013 was \$2,487,000. This amount was primarily related to a net loss of \$5,463,000, an increase in inventory of \$346,000 and a reduction in deferred revenue of \$667,000, offset by depreciation and amortization and other non-cash expenses of \$3,264,000 and an increase in accounts payable and accrued expenses of \$264,000.

INVESTING ACTIVITIES

Net cash used in investing activities for the nine months ended June 30, 2013 was \$12,000. This amount was primarily related to capital expenditures of \$24,000, offset by proceeds from the sale of equipment of \$12,000.

FINANCING ACTIVITIES

Net cash provided by financing activities for the nine months ended June 30, 2013 was \$3,067,000. This amount was primarily related to net proceeds the issuance of common stock of \$4,852,000, proceeds from the line of credit of \$109,000, offset by repayment of debt of \$1,900,000.

During the nine months ended June 30, 2013, we issued the following:

52,300,000 shares of common stock at \$0.10 per share for a total of \$5,230,000, which amount includes the conversion of \$500,000 in outstanding debt of the Company owed to one of its officers.

19,771,000 shares related to financing transactions with Gemini and Ascendant that we previously discussed.

993,000 shares to Ascendant and received \$100,000 under the equity line of credit that we previously discussed.

We committed to acquire the Gemini warrant, 4,000,000 Ascendant shares and the Gemini AIR termination rights as discussed above. This decision was made based on the expected closing of the private placement which closed June 14, 2013 and the need to eliminate the dilution under the Gemini and Ascendant financing transactions.

Our contractual cash obligations as of June 30, 2013 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	\$ 208,911	\$ 105,611	\$ 103,300	\$ 0	\$ 0
Notes payable	685,556	683,101	2,455	0	0
Capital expenditures	375,000	75,000	150,000	150,000	0
	<u>\$ 1,269,467</u>	<u>\$ 863,712</u>	<u>\$ 255,755</u>	<u>\$ 150,000</u>	<u>\$ 0</u>

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

This item is not applicable.

ITEM 4. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures

We conducted an evaluation under the supervision and with the participation of our management, of the effectiveness of the design and operation of our disclosure controls and procedures. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended ("Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures also include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our principal executive and principal financial officers concluded as of June 30, 2013 that our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weaknesses in our internal controls over financial reporting discussed immediately 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 the following material weakness during its assessment of internal controls over financial reporting:

Audit Committee: While we have an audit committee, we lack a financial expert. During 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.

b) Changes In Internal Control Over Financial Reporting

During the quarter ended June 30, 2013, there were no changes in our internal controls over financial reporting during this fiscal quarter that materially affected, or is reasonably likely to have a materially affect, on 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 the most significant risks and uncertainties known and identified by our management are described below.

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

We expect that we will need additional financing to implement our business plan and to service our ongoing operations and pay our current debts. There can be no assurance that we will be able to secure any needed funding, or that if such funding is available, the terms or conditions would be acceptable to us. If we are unable to obtain additional financing when it is needed, we may have to restructure our operations.

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 or the perception that sales may occur could cause the market price of our common stock to decline. As of August 14, 2013, there were approximately 166.7 million shares of our common stock issued and outstanding. If all 18,000,000 of the Series A Warrant shares issued in connection with the private placement with Special Situations are issued, approximately 184,700,000 of the Company's currently authorized 500,000,000 shares of common stock will be issued and outstanding.

In addition, assuming approval of the increase in the number of authorized shares of common stock of the Company following the special meeting of stockholders as discussed in Business below, an additional 34,300,000 shares will be subject to issuance upon exercise of the Series A Warrants, and 52,300,000 shares will be subject to issuance upon exercise of the Series B Warrants. If all such shares are issued, there would be 271,300,000 shares of common stock issued and outstanding.

The Company has also issued 5,230,000 placement agent warrants and is obligated to issue up to 5,230,000 additional placement agent warrants under certain circumstances as more fully described in the description of the Transaction in "Business" below, which has the potential to add an additional 10,460,000 shares to the total number of 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 or 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.

In addition, as of August 14, 2013, there are also options outstanding for the purchase of 11.0 million common shares at a \$0.131 average strike price, and warrants for the purchase of 112.4 million common shares at a \$0.173 average exercise price.

These options and warrants could result in further dilution to common stock holders and may affect the market price of the common stock.

OUR PRIVATE PLACEMENT WHICH CLOSED JUNE 14, 2013 MAY REQUIRE ADJUSTMENT IN THE PRICE OF THE WARRANTS ISSUED

The warrants issued in connection with the recent transaction with Special Situations may require an adjustment in the exercise price of the warrants if we issue common stock, warrants or equity below the price that is reflected in the warrants. This adjustment may affect the market price of the common stock.

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. As of June 30, 2013, we had an accumulated deficit of \$19.4 million. 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 and litigation;
- Issuance of convertible or equity securities and related warrants 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.

TRADING IN THE COMPANY'S STOCK MAY BE RESTRICTED BY THE SEC'S PENNY STOCK REGULATIONS.

Our stock is categorized as a penny stock. The SEC has adopted Rule 15c-9 which generally defines "penny stock" to be any equity security that has a market price (as defined) less than US\$ 5.00 per share or an exercise price of less than US\$ 5.00 per share, subject to certain exclusions, none of which apply to our stock (e.g., net tangible assets in excess of \$2,000,000 or average revenue of at least \$6,000,000 for the last three years). Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and accredited investors. 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. Finally, broker-dealers may not handle penny stocks under \$0.10 per share.

These disclosure requirements reduce the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock to current and future investors, resulting in limited ability for investors to sell their shares.

FINRA SALES PRACTICE REQUIREMENTS MAY ALSO LIMIT A SHAREHOLDER'S ABILITY TO BUY AND SALE OUR STOCK.

In addition to the "penny stock" rules described above, FINRA has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for our shares.

The penny stock rules may discourage investor interest in and limit the marketability of our common stock to current and future investors, resulting in limited ability for investors to sell their shares.

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. 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 directors' and officers' liability insurance and commercial liability 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 SUMITOMO PRECISION PRODUCTS CO. LTD IS IMPORTANT TO OUR OPERATIONS AND IS SUBJECT TO EXPIRATION.

On May 31, 2012, we entered into a Joint Research and Product Development Agreement with SPP for the commercialization of our ChromaID technology. The term of the Joint Development Agreement was extended to December 31, 2013. This Joint Development Agreement focuses on the commercialization of the Company's ChromaID™ technology. The Company's failure to operate in accordance with the terms of the Joint Development Agreement could result in the agreement not being renewed at the expiration of its current term.

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

Our financial statements and notes for the nine months ended June 30, 2013 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 will 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.

WE ARE SUBJECT TO CORPORATE GOVERNANCE AND INTERNAL CONTROL REQUIREMENTS, AND OUR COSTS RELATED TO COMPLIANCE WITH, OR OUR FAILURE TO COMPLY WITH EXISTING AND FUTURE REQUIREMENTS, COULD ADVERSELY AFFECT OUR BUSINESS.

We must comply with corporate governance requirements under the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as well as additional rules and regulations currently in place and that may be subsequently adopted by the SEC and the Public Company Accounting Oversight Board. These laws, rules, and regulations continue to evolve and may become increasingly stringent in the future. We are required to include management's report on internal controls as part of our annual report pursuant to Section 404 of the Sarbanes-Oxley Act. We strive to continuously evaluate and improve our control structure to help ensure that we comply with Section 404 of the Sarbanes-Oxley Act. The financial cost of compliance with these laws, rules, and regulations is expected to remain substantial.

Our management has concluded that our disclosure controls and procedures were not effective due to the presence of the following material weaknesses in internal control over financial reporting:

While we have an audit committee, we lack a financial expert. During 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 SEC and as adopted under the Sarbanes-Oxley Act of 2002.

Management anticipates that such disclosure controls and procedures will not be effective until the material weaknesses are remediated. We cannot assure you that we will be able to fully comply with these laws, rules, and regulations that address corporate governance, internal control reporting, and similar matters. Failure to comply with these laws, rules and regulations could materially adversely affect our reputation, financial condition, and the value of our securities.

THE OFFERING MAY NOT COVER ALL DEBTS DUE IN THE NEXT SIX MONTHS.

The funds received by the Company in the Special Situations transaction may not cover all debts and other obligations due in the coming months. We may need additional financing within the next six months. 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.

WE MAY ISSUE PREFERRED STOCK THAT COULD HAVE RIGHTS THAT ARE PREFERENTIAL TO THE RIGHTS OF COMMON STOCK THAT COULD DISCOURAGE POTENTIALLY BENEFICIAL TRANSACTIONS TO OUR COMMON SHAREHOLDERS.

An issuance of additional shares of preferred stock could result in a class of outstanding securities that would have preferences with respect to voting rights and dividends and in liquidation over our common stock and could, upon conversion or otherwise, have all of the rights of our common stock. Our Board of Directors' authority to issue preferred stock could discourage potential takeover attempts or could delay or prevent a change in control through merger, tender offer, proxy contest or otherwise by making these attempts more difficult or costly to achieve. The issuance of preferred stock could impair the voting, dividend and liquidation rights of common stockholders without their approval.

IF THE COMPANY WERE TO DISSOLVE OR WIND-UP, HOLDERS OF OUR COMMON STOCK MAY NOT RECEIVE A LIQUIDATION DISTRIBUTION.

If we were to wind-up or dissolve the Company and liquidate and distribute our assets, our shareholders would share ratably in our assets only after we satisfy any amounts we owe to our creditors. If our liquidation or dissolution were attributable to our inability to profitably operate our business, then it is likely that we would have material liabilities at the time of liquidation or dissolution. Accordingly, we cannot give you any assurance that sufficient assets will remain available after the payment of our creditors to enable you to receive any liquidation distribution with respect to any shares you may hold.

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

During the three months ended June 30, 2013, 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 April 26, 2013, Ascendant was issued a total of 4,565,068 shares of common stock as a result of Ascendant's cashless exercise of a warrant. On January 23, 2013, we agreed to repurchase the Ascendant Warrant for a purchase price of \$300,000, payment of which was due by March 31, 2013; however, we did not complete that purchase, thereby enabling Ascendant to exercise the Ascendant Warrant on April 26, 2013. A notice filing under Regulation D was filed with the SEC May 3, 2013.

We entered into an Option Agreement with Ascendant dated April 26, 2013, pursuant to which we had the option to purchase from Ascendant 4,000,000 shares of our common stock for an aggregate purchase price of \$300,000. On May 31, 2013, the Company exercised its option to purchase the 4,000,000 Option Shares from Ascendant and paid to Ascendant the \$300,000 purchase price. To date, Ascendant has delivered only 2,284,525 of the 4,000,000 Option Shares purchased by the Company, and has failed to deliver the remaining 1,715,475 Option Shares. On June 17, 2013, we filed a complaint (the "Complaint") against Ascendant in the Orange County Superior Court of California (Case No. 30-2013-00656770-CU-BC-CJC) for breach of contract, seeking damages, specific performance and injunctive relief against Ascendant. In its Complaint, we alleged that Ascendant breached its obligations under the Option Agreement by delivering to us only 2,284,525 of the 4,000,000 Option Shares and failing to deliver the remaining 1,715,475 Option Shares. The Company has filed a motion for preliminary injunction with the California Superior Court, seeking preliminary injunctive relief requiring Ascendant to transfer the remaining 1,715,475 Option Shares to Visualant or, in the alternative, enjoining Ascendant from transferring, selling, or otherwise encumbering the Option Shares. The Complaint is currently being reviewed by the California Superior Court.

On April 30, 2013, we issued 120,000 shares of restricted common stock to David Markowski for services related to the acquisition of TransTech. The shares were valued at \$0.10 per share. We expensed \$12,000 during the nine months ended June 30, 2013. The shares do not have registration rights. A notice filing under Regulation D was filed with the SEC May 16, 2013.

On June 10, 2013, we entered into a Purchase Agreement, Warrants, Registration Rights Agreement and Voting Agreement or the Transaction with Special Situations and forty other accredited investors pursuant to which we issued 52,300,000 shares of common stock at \$0.10 per share for a total of \$5,230,000, which amount includes the conversion of \$500,000 in outstanding debt of the Company owed to one of its officers. As part of the Transaction which closed June 14, 2013, we issued to the Investors (i) five year Series A Warrants to purchase a total of 52,300,000 shares of common stock at \$0.15 per share; and (ii) five year Series B Warrants to purchase a total of 52,300,000 shares of common stock at \$0.20 per share. Since we currently have an insufficient number of authorized shares of common stock to permit the exercise of all of the Warrants, the Warrants were issued subject to authorization and approval of an increase in the number of authorized shares of the Company by its stockholders at a special meeting of the stockholders to be held in August 2013. A notice filing under Regulation D was filed with the SEC June 18, 2013.

We also issued 5,230,000 placement agent warrants exercisable at \$0.10 per share to GVC Capital, with an obligation to issue up to 5,230,000 additional placement agent warrants exercisable at \$0.15 per share. The \$0.15 placement agent warrants shall issue only upon the exercise of the Series A Warrants by the Investors, and are issuable ratably based upon the number of Warrants exercised by the Investors. The placement agent warrants have a term of five years from the date of closing of the Transaction.

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

10.1	Amendment to Joint Research and Product Development Agreement dated March 29, 2013 by and between Visualant Inc. and Sumitomo Precision Products Co., Ltd. (1)
10.2	Option Agreement dated April 26, 2013 by and between Visualant, Inc. and Ascendant Capital Partners LLC. (2)
10.3	Demand Promissory Note dated May 31, 2013 by and between Visualant, Inc. and J3E2A2Z LP. (4)
10.4	Form of Purchase Agreement by and between Visualant, Inc. and investors. (3)
10.5	Form of Warrant by and between Visualant, Inc. and investors. (3)
10.6	Form of Registration Rights Agreement by and between Visualant, Inc. and investors. (3)
10.7	Form of Voting Agreement by and between Visualant, Inc. and investors. (3)
10.8	Security Agreement dated June 12, 2013 by and between Visualant, Inc. and BFI Business Finance (4)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer. (4)
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer. (4)
32.1	Section 906 Certifications. (4)
32.2	Section 906 Certifications. (4)
101	Interactive data files pursuant to Rule 405 of Regulation S-T. (5)

(1) Attached as an exhibit to the Company's Form 8-K dated March 29, 2013 and filed with the SEC on April 4, 2013, and hereby incorporated by reference

(2) Attached as an exhibit to the Company's Form 8-K dated March 29, 2013 and filed with the SEC on April 4, 2013, and hereby incorporated by reference,

(3) Attached as an exhibit to the Company's Form 8-K dated June 14, 2013 and filed with the SEC on June 18, 2013, and hereby incorporated by reference.

(4) Filed herewith.

(5) 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: August 14, 2013

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

Date: August 14, 2013

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

DEMAND PROMISSORY NOTE

USD \$585,000

Seattle, WA
May 31, 2013

FOR VALUE RECEIVED, the undersigned ("Maker") promises to pay to the order of J3E2A2Z LP or its assigns ("Holder"), the principal sum of Five Hundred and Eight Five Thousand U.S. Dollars (\$585,000), all as hereinafter provided and upon the following terms, agreements, and conditions:

1. Maturity Date. No monthly or other installment payments of principal or interest shall be required hereunder. This Note shall be due and payable in full on demand by the Holder.

2. Payment. All payments shall be made to Holder hereof at the following address:

500 Union Street, Suite 420
Seattle, WA 98101

or at such other place as Holder may specify in writing from time to time. Whenever any payment to be made hereunder shall be due on a day other than a business day, such payment shall be made on the next succeeding business day. The term "business day" as used herein shall mean any day other than a Saturday, Sunday, or public holiday.

3. Interest. Interest shall accrue at 4% per annum.

4. Repayment. This Note shall be paid in accordance with the terms of the Promissory Note between Maker and Holder dated as of the date hereof (the "Note").

5. Transferability of Note. This Note and any of the rights hereunder may be not assigned, by operation of law or otherwise, by Holder without the written consent of Maker. The Holder or anyone who takes the Note by transfer and who is entitled to receive payments under the Note will be called the "Note Holder."

6. Default and Remedy. If any of the following events, hereinafter called "events of default," should occur:

(a) Any failure by Maker to pay in full when due any sums hereunder; or

(b) Any material breach by Maker of a provision of the Loan Agreement or this Note; or

(c) Maker shall: (i) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian of itself or of all or substantially all of its properties and assets; (ii) become insolvent (as such term may be defined or interpreted under any applicable statute); or (iii) commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect, or consent to any such relief or to the appointment of or taking possession of its property by any official in an involuntary case or other proceeding commenced against it;

Then, in any of such Events of Default, Holder shall send written notice to Maker of such default and allow Maker ten (10) days from the date of such written notice to cure said default in the case of a default under Section 5.1(a) or (b), and thirty (30) days from the date of said written notice to cure said default in the case of a default under Section 5.1(c). Said written notice shall be personally delivered, sent by a nationally recognized overnight courier service, or sent by registered or certified mail, return receipt requested, to Maker at its address contained in the notice provision contained herein. In the event Maker fails to cure within the 10-day or 30-day cure period, as applicable, then the Lender shall be entitled to the entire amount of the indebtedness, which amount shall be immediately due and payable without further notice or demand pursuant to the terms of the Note executed herewith.

7. Fees and Costs. Maker promises to pay all costs, expenses, and attorneys' fees incurred by the Holder hereof in the event this Note is referred to an attorney for the collection of the debt, or in any litigation or controversy arising from or connected with the Loan Agreement or this Note in which the Holder hereof prevails. If a judgment is obtained thereon, such attorneys' fees, costs, and expenses shall be in such amount as the court shall deem reasonable.

8. Liability. Maker hereby waives demand, presentment for payment, protest, and notice of protest and of nonpayment.

9. Applicable Law. This Note and all actions arising out of or in connection with this Note shall be governed by and construed in accordance with the laws of the State of Washington, without giving effect to its conflict of law principles for the purpose of applying the laws of another jurisdiction.

10. Amendment. No provision of this Note may be modified, amended or waived without the written consent of Maker and Holder hereof.

10. Binding Effect. The terms and provisions of this Note shall be binding upon Maker and its successors and assigns, and shall inure to the benefit of Holder and its successors and assigns.

11. Business Purpose. The loan evidenced by this Note is for business purposes.

IN WITNESS WHEREOF, the undersigned Maker has caused this instrument to be executed as of the day and year first above written.

MAKER:

VISUALANT, INC.

/s/ Mark Scott

By: Mark Scott

Its: Chief Financial Officer

SECURITY AGREEMENT
(All Assets)

This Security Agreement (All Assets) (as hereafter amended, revised and/or extended, this "Agreement") is entered into on **June 12, 2013** and between **VISUALANT, INCORPORATED**, a(n) **Nevada corporation** (together with its successors and assigns, "Guarantor/Pledgor") and **BFI Business Finance**, a **California corporation** (together with its successors and assigns, "Lender"), at Campbell, California.

RECITALS

- A. Lender has provided and/or will provide financial accommodations to **TransTech Systems, Inc.** (together with its successors and assigns, "Borrower").
- B. Guarantor/Pledgor has executed that certain General Continuing Guaranty (as hereafter amended, revised, and/or extended, the "Guaranty") in favor of Lender, whereby Guarantor/Pledgor agrees to guarantee the Obligations owing by Borrower to Lender, as more completely set forth in the Guaranty.
- C. This Agreement is given to secure Guarantor/Pledgor's Obligations to Lender under the Guaranty as well as any other Obligations that may be owed now or in the future by Guarantor/Pledgor to Lender.

AGREEMENT

1. Incorporation by Reference. The foregoing Recitals and the documents referred to in such Recitals are incorporated herein by this reference as though set forth in full herein.

2. Definitions.

"Acceptable to Lender" means acceptable to Lender exercising reasonable business judgment, considered in light of all of the facts and circumstances existing with respect to the issue under consideration, including but not limited to, the performance by Guarantor/Pledgor of its obligations under the Guaranty and this Agreement and whether any of such facts and circumstances cause Lender to reasonably deem itself insecure if any given decision were to be made or not made or any approval were to be given or not given.

"Accounts" means all currently existing and hereafter arising accounts as defined in the Code, as such definition may be amended from time to time, and shall include, but not be limited to, a right to payment of a monetary obligation for property sold or services rendered, and any and all credit insurance, guaranties, or security therefor.

"Books" means all of Guarantor/Pledgor's books and records, including, without limitation, all ledgers, records indicating, summarizing, or evidencing Guarantor/Pledgor's properties or assets (including, without limitation, the Collateral) or liabilities, all information relating to Guarantor/Pledgor's business operations or financial condition, and all computer programs, disc or tape files, printouts, runs, or other computer prepared information, and the Equipment containing such information.

"Cash Collateral Account" has the meaning given in Section 5.2 hereof.

"Chattel Paper" has the meaning given in the Code, as such definition may be amended from time to time, which defines Chattel Paper as (a.) a record or records that evidence both a monetary obligation; and (b.) a security interest in (i.) specific goods; (ii.) a security interest in specific goods and Software used in the goods; (iii.) a security interest in specific goods and license of Software used in the goods; or (iv.) a lease of specific goods and license of Software used in the goods.

"Chief Executive Office" has the meaning given in Section 8.18 hereof.

“Code” means the Oregon Uniform Commercial Code or any successor statute, as same may be amended and / or renumbered from time to time hereafter.

“Collateral” means all of the personal property and Trade Fixtures now owned or hereafter acquired by Guarantor/Pledgor whether now existing or hereafter arising and wherever located, including without limitation: (a.) all Accounts; (b.) all Chattel Paper including, without limitation, Electronic Chattel Paper; (c.) all Inventory; (d.) all Equipment; (e.) all Trade Fixtures; (f.) all Fixtures, but only if connected with Real Property Collateral; (g.) all Instruments; (h.) all Financial Assets, including without limitation, Investment Property; (i.) all Documents; (j.) all Deposit Accounts; (k.) all Letter of Credit Rights; (l.) all General Intangibles, including, without limitation, copyrights, trademarks, and patents, Payment Intangibles and Software; (m.) all Supporting Obligations; (n.) any Commercial Tort Claim listed on any schedule provided herewith or hereafter; (o.) all returned or repossessed goods arising from or relating to any Accounts or Chattel Paper; (p.) all certificates of title and certificates of origin or manufacturers statements of origin relating to any of the foregoing, now owned or hereafter acquired; (q.) all property similar to any of the foregoing hereafter acquired by Guarantor/Pledgor; (r.) all ledger sheets, files, records, documents, instruments, and other books and records (including, without limitation, related electronic data processing Software) evidencing an interest in or relating to the above; (s.) all money, cash or cash equivalents; and (t.) to the extent not otherwise included in the foregoing, all proceeds, products, insurance claims, and other rights to payment and all accessions to, replacements for, attachments to, substitutions for, and rents and profits of, and noncash proceeds of, each of the foregoing including, without limitation, cash or other property which were proceeds and are recovered by a bankruptcy trustee or otherwise as a preferential transfer by Guarantor/Pledgor. Notwithstanding any contrary term of this Agreement, the definition of “Collateral” shall not include any waste or other materials that have been or may be designated as a Hazardous Substance or a Hazardous Waste.

“Commercial Tort Claim” has the meaning give in the Code, as such definition may be amended from time to time, which means a claim arising in tort with respect to which the claimant is an organization or if the claimant is an individual, (a.) the claim arose in a. the course of the claimant’s business or profession; and (b.) does not include damages arising out of personal injury to or death of an individual.

“Deposit Account(s)” has the meaning given in the Code, as such definition may be amended from time to time, including, without limitation, a demand, time, savings, passbook, or similar account maintained with a bank or other depository institution.

“Discretion” means the exercise by Lender of its reasonable business judgment in light of all of the facts and circumstances existing with respect to the issue under consideration.

“Documents” has the meaning given in the Code, as such definition may be amended from time to time.

“Electronic Chattel Paper” has the meaning given in the Code, as such definition may be amended from time to time, which defines Electronic Chattel Paper as Chattel Paper evidenced by a record or records consisting of information stored in an electronic medium.

“Environmental Laws” has the meaning given in Section 4.8 hereof.

“Equipment” means all of Guarantor/Pledgor’s now owned and hereafter acquired equipment as defined in the Code, as such definition may be amended from time to time, and wherever located, and shall include, but not be limited to, all goods (other than inventory, farm products, or consumer goods) including, without limitation, machinery, computers and computer hardware and Software (whether owned or licensed), vehicles, tools, furniture, Trade Fixtures (but not including Fixtures unless Real Property Collateral has been pledged to Lender), all attachments, accessions and property now or hereafter affixed thereto or used in connection therewith, and substitutions and replacements thereof, wherever located.

“Financial Assets” has the meaning given in the Code, as such definition may be amended from time to time, which defines Financial Assets as any of the following: (a.) a security; (b.) an obligation of a person or a share, participation, or other interest in a person or in property or an enterprise of a person, that is, or is of a type, dealt in or traded on financial markets or that is recognized in any area in which it is issued or dealt in as a medium for investment; and (c.) any property that is held by a securities intermediary for another person in a securities account that has expressly agreed with the other person that the property is to be treated as a financial asset.

“Fixtures” has the meaning given in the Code, as such definition may be amended from time to time, which defines Fixtures as goods that have become so related to particular real property that an interest in them arises under property law, but shall not include Trade Fixtures.

“General Intangibles” means general intangibles as defined in the Code, as such definition may be amended from time to time, (and shall include, but not be limited to, registered and unregistered patents, trademarks, service marks, copyrights, trade names, applications for the foregoing, trade secrets, goodwill, processes, drawings, blueprints, customer lists, licenses, whether as licensor or licensee, choses in action and other claims and existing and future leasehold interests in Equipment, Payment Intangibles and Software), all whether arising under the laws of the United States of America or any other country.

“Guarantor” has the meaning given in Section 6.1.3 hereof.

“Guarantor/Pledgor” has the meaning given in the preamble of this Agreement.

“Guaranty” means the guaranty executed by Guarantor/Pledgor in favor of Lender, as the Guaranty may be amended or revised from time to time.

“Hazardous Substances” and “Hazardous Wastes” means all or any of the following:

(a.) substances that are defined or listed in, or otherwise classified pursuant to, any applicable laws or regulations as “hazardous substances,” “hazardous materials,” “hazardous wastes,” “toxic substances,” or any other formulation intended to define, list, or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, reproductive toxicity, or “EP toxicity”;

(b.) oil, petroleum, or petroleum derived substances, natural gas, natural gas liquids, synthetic gas, drilling fluids, produced waters, and other wastes associated with the exploration, development, or production of crude oil, natural gas, or geothermal resources;

(c.) any flammable substances or explosives or any radioactive materials; and

(d.) asbestos in any form or electrical Equipment which contains any oil or dielectric fluid containing levels of polychlorinated biphenyls in excess of fifty (50) parts per million.

“Indebtedness” has the same meaning as “Obligations”.

“Instrument” has the meaning given in the Code, as such definition may be amended from time to time, which defines an Instrument as a negotiable instrument or any other writing that evidences a right to payment of a monetary obligation, is not itself a security agreement or lease, and is of a type that in the ordinary course of business is transferred by delivery with any necessary endorsement or assignment. Instrument shall include, but not be limited to, promissory notes.

“Inventory” means all present and future inventory, as defined in the Code, as such definition may be amended from time to time, in which Guarantor/Pledgor has any interest and wherever located, and shall include but not be limited to, goods held for sale or lease or to be furnished under a contract of service and all of Guarantor/Pledgor’s present and future raw materials, work in process, finished goods, and packing and shipping materials, wherever located, and any documents of title representing any of the above.

“Investment Property” has the meaning given in the Code, as such definition may be amended from time to time, which defines Investment Property as securities, security accounts, commodity contracts, or commodity accounts.

“Letter of Credit Rights” has the meaning given in the Code, as such definition may be amended from time to time, which defines Letter of Credit Rights as a right to payment or performance under a letter of credit, whether or not beneficiary has demanded or is at the time entitled to demand payment or performance.

“Loan Agreement” means the Loan and Security Agreement executed by and between Borrower and Lender, as the Loan Agreement now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated, or replaced.

“Loan Documents” means collectively, this Agreement, the Loan Agreement, the Term Loan Documents, the Guaranty, and all notes, other guarantees, security agreements, subordination agreements, and other agreements, documents and instruments now or at any time hereafter executed and/or delivered by Borrower or any Obligor in connection with this Agreement or otherwise, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

“Lockbox Account” has the meaning given in Section 5.2 hereof.

“Material Event of Default” has the meaning given in Section 6.1 hereof.

“Obligations” means all of the following: (a.) the due and punctual payment of all amounts due or to become due under this Agreement; (b.) the performance of all obligations of Borrower and/or Guarantor/Pledgor under the Loan Documents; and (c.) all present and future obligations owing by Borrower and/or Guarantor/Pledgor to Lender whether or not for the payment of money, whether or not evidenced by any note or other instrument, whether direct or indirect, absolute or contingent, due or to become due, joint or several, primary or secondary, liquidated or unliquidated, secured or unsecured, original or renewed or extended, whether arising before, during or after the commencement of any bankruptcy case in which Borrower and/or Guarantor/Pledgor is a debtor, including but not limited to any expenses and any obligations arising pursuant to letters of credit or acceptance transactions or any other financial accommodations; and all principal, interest, fees, charges, expenses, attorneys’ fees and accountants’ fees chargeable to Borrower and/or Guarantor/Pledgor or incurred by Lender in connection with the Loan Documents. Except to the extent otherwise provided, this Agreement does not secure any obligation described above which is secured by a consensual lien on real property.

“Payment Intangibles” means a General Intangible under which the account debtor’s principal obligation is a monetary obligation.

“Permitted Indebtedness” means all of the following:

- (a.) Indebtedness evidenced by the Guaranty, the Loan Agreement and / or the Loan Documents;
- (b.) amounts owing under licenses in the ordinary course of Guarantor/Pledgor’s business, so long as the licensor (if a third party other than Guarantor/Pledgor) has entered into an agreement in form and content reasonably satisfactory to Lender;
- (c.) subordinated debt that is subject to a subordination agreement in favor of Lender in form and content reasonably satisfactory to Lender;
- (d.) Permitted Purchase Money Indebtedness for Acquisition of Fixed Assets;
- (e.) the Indebtedness set forth in the latest financial statements of Guarantor/Pledgor submitted to Lender on or prior to the Closing Date;
- (f.) Indebtedness secured by Permitted Liens; and
- (g.) refinancings, renewals, or extensions of the foregoing, provided: 1) the terms and conditions of such refinancings, renewals, or extensions do not materially impair the prospects of repayment of the Obligations by Borrower; 2) the net cash proceeds of such refinancings, renewals, or extensions do not result in an increase in the aggregate principal amount of the Indebtedness so refinanced, renewed, or extended; 3) such refinancings, renewals, or extensions do not result in a shortening of the average weighted maturity of the Indebtedness so refinanced, renewed, or extended; and 4) that to the extent that the Indebtedness that is refinanced was subordinated in right of payment to the Obligations, then the subordination terms and conditions of the refinancing of the Indebtedness must be at least as favorable to Lender as those applicable to the refinanced Indebtedness;

“Permitted Liens” means all of the following:

- (a.) liens and Security Interests held by Lender or agreed to by Lender in the any Loan Documents;
- (b.) liens for unpaid taxes of Guarantor/Pledgor that are either (i.) not yet due and payable; or (ii.) (1.) do not constitute an Event of Default hereunder; and (2.) are the subject of a Permitted Protest;
- (c.) liens and Security Interests granted against Equipment disclosed in writing by Guarantor/Pledgor to Lender and consented to by Lender in writing;
- (d.) liens described in Schedule A-1 hereto, provided such liens are subject to such subordination agreements as Lender may require;
- (e.) purchase money liens or the interests of lessor under capital leases to the extent that such liens or interests secure Permitted Purchase Money Indebtedness for Acquisition of Fixed Assets and so long as such lien attaches only to the asset purchased or acquired and the proceeds thereof;
- (f.) with respect to real property, easements, rights of way, reservations, covenants, conditions, restrictions, zoning variances, and other similar encumbrances that do not materially interfere with the use or value of the property subject thereto;
- (g.) obligations and duties as lessee under any operating lease existing on the date of this Agreement; and obligations and duties as lessee under any lease existing on the date of this Agreement;
- (h.) any liens incurred in connection with the refinancing, renewal, or modification of indebtedness secured by Permitted Liens, provided: (i.) the terms and conditions of such refinancings, renewals, or extensions do not materially impair the prospects of repayment of the Obligations by Guarantor/Pledgor; (ii.) the net cash proceeds of such refinancings, renewals, or extensions do not result in an increase in the aggregate principal amount of the Indebtedness so refinanced, renewed, or extended; (iii.) such refinancings, renewals, or extensions do not result in a shortening of the average weighted maturity of the Indebtedness so refinanced, renewed, or extended; and (iv.) that to the extent that the Indebtedness that is refinanced was subordinated in right of payment to the Obligations, then the subordination terms and conditions of the refinancing of the Indebtedness must be at least as favorable to Lender as those applicable to the refinanced Indebtedness;
- (i.) liens for unpaid taxes, assessments, or other governmental charges or levies (i.) that are not yet delinquent; or (ii.) do not constitute an Event of Default hereunder and are the subject of Permitted Protests;
- (j.) judgment liens that do not constitute an Event of Default under this Agreement;
- (k.) liens on amounts deposited in connection with obtaining Workers’ Compensation Insurance or other unemployment insurance; and
- (l.) liens on amounts deposited as security for surety or appeal bonds in connection with obtaining such bonds in the ordinary course of business, provided that such deposits have been made with Lender’s prior written consent.

“Permitted Protest” means a protest taken by Guarantor/Pledgor in good faith with respect to disputed taxes for which a bond has been posted by Guarantor/Pledgor in the amount of the disputed taxes that have not yet been paid.

“Permitted Purchase Money Indebtedness for Acquisition of Fixed Assets” means, as of any date of determination, Purchase Money Indebtedness for Acquisition of Fixed Assets incurred after the date hereof in an aggregate principal amount outstanding at any one time which shall not exceed **Twenty-five Thousand and 00/100 Dollars (\$25,000.00)** without Lender’s prior written consent, which consent shall not be unreasonably withheld.

“Real Property Collateral” means any item(s) of real property pledged by Guarantor/Pledgor to Lender.

“Software” has the meaning given in the Code, as such definition may be amended from time to time, which defines Software as a computer program and any supporting information provided in connection with a transaction relating to the program.

“Supporting Obligations” has the meaning given in the Code, as such definition may be amended from time to time, which defines a Supporting Obligation as a letter-of-credit right or secondary obligation that supports the payment or performance of an Account, Chattel Paper, a Document, a General Intangible, an Instrument, or a Financial Asset, including, without limitation, Investment Property.

“Term Loan Documents”, to the extent applicable, has the meaning given in the Loan Agreement.

“Trade Fixtures” means Equipment and furnishings which are used in Guarantor/Pledgor’s business or operations which become affixed to the premises at which Guarantor/Pledgor has its Chief Executive Office or other location owned, operated or otherwise used by Guarantor/Pledgor, but which Equipment and furnishings can be removed without causing undue damage to such premises or other location.

3. Grant of Security Interest in the Collateral. Guarantor/Pledgor hereby grants a continuing security interest in the Collateral to secure payment when due, whether by stated maturity, demand, acceleration or otherwise, of all (a.) Obligations owing to Lender by Borrower as defined in the Agreement; and (b.) all Obligations of Guarantor/Pledgor under the Guaranty, this Agreement and any other agreement by and between Lender and Guarantor/Pledgor.

4. Warranties, Covenants, and Agreements. Guarantor/Pledgor warrants, covenants and agrees as set forth below.

4.1. Information; Right to Inspect. Guarantor/Pledgor shall furnish to Lender, in form and at intervals as Lender may reasonably request, any information Lender may reasonably request and allow Lender to examine, inspect, and copy any of Guarantor/Pledgor’s books and records. Guarantor/Pledgor shall, at the written request of Lender, mark its records and the Collateral to clearly indicate the security interest of Lender under this Agreement. Lender agrees to give Guarantor/Pledgor reasonable notice of its intent to examine, inspect, and copy any of Guarantor/Pledgor’s records. Notwithstanding the foregoing, after the occurrence of and during the continuation of a Material Event of Default, as defined below, no such prior notice shall be required. In that regard, (i) any fraud, defalcation or conversion on the part of Borrower or Guarantor/Pledgor or any other Guarantor shall be deemed to be a Material Event of Default; and (ii) there shall be no requirement that such fraud, defalcation or conversion be continuing in order to permit Lender to exercise any rights or remedies available to Lender under the Guaranty or applicable law.

4.2. Warranties as to Collateral. At the time any Collateral becomes, or is represented to be, subject to a security interest in favor of Lender, Guarantor/Pledgor shall be deemed to have warranted that (a.) Guarantor/Pledgor is the lawful owner of the Collateral and has the right and authority to subject the Collateral to a security interest granted to Lender; (b.) none of the Collateral is subject to any security interest other than that in favor of Lender or the holder of any Permitted Lien; (c.) there are no financing statements on file, other than in favor of Lender or the holders of Permitted Liens; and (d.) Guarantor/Pledgor acquired its rights in the Collateral in the ordinary course of its business.

4.3. Collateral Shall be Free From Liens Other Than Permitted Liens. Guarantor/Pledgor shall keep the Collateral free at all times from all claims, liens, security interests, and encumbrances other than those in favor of Lender or the holders of Permitted Liens. Guarantor/Pledgor will not, without the prior written consent of Lender, sell, transfer or lease, or permit to be sold, transferred or leased, any or all of the Collateral, except (where inventory is pledged as Collateral) for Inventory in the ordinary course of its business and will not return any Inventory to its supplier. Lender or its representatives may at all reasonable times and upon reasonable advance notice inspect the Collateral and may enter upon all premises where the Collateral is kept or might be located; provided, however, that Lender agrees to give Guarantor/Pledgor reasonable notice of its intent to inspect the Collateral and enter upon the premises where the Collateral is kept or might be located. Notwithstanding the foregoing, after the occurrence of and during the continuation of a Material Event of Default, no such prior notice shall be required.

4.4. Reasonable Acts to Establish and Maintain Priority of Lender's Lien. Guarantor/Pledgor shall do all reasonable acts and or cause to be executed all writings reasonably requested by Lender to establish, maintain, and continue a perfected and first security interest of Lender in the Collateral subject to Permitted Liens. Guarantor/Pledgor agrees that Lender has no obligation to acquire or perfect any lien on or security interest in any asset(s), whether real property or personal property, to secure payment of the Indebtedness, and Guarantor/Pledgor is not relying upon assets in which Lender may have a lien or security interest for payment of the Indebtedness.

4.5. Taxes and Assessments. Guarantor/Pledgor shall pay within the time that they can be paid without interest or penalty, all taxes, assessments, and similar charges which at any time are or may become a lien, charge, or encumbrance upon any Collateral, except to the extent subject to a Permitted Protest. If Guarantor/Pledgor fails to pay any of these taxes, assessments, or other charges in the time provided above, Lender has the option (but not the obligation) to do so and Guarantor/Pledgor agrees to repay all amounts so expended by Lender immediately upon demand, together with interest at the highest lawful default rate which could be charged by Lender to Borrower and/or Guarantor/Pledgor on any Indebtedness.

4.6. Collateral Shall be Maintained in Good Condition: Insurance. Guarantor/Pledgor shall keep the Collateral in good condition and will protect it from loss, damage, or deterioration from any cause, subject only to normal wear and tear. Guarantor/Pledgor has and will maintain at all times (a.) with respect to the Collateral, insurance under an "all risk" policy against fire and other risks customarily insured against, and (b.) public liability insurance and other insurance as may be required by law or reasonably required by Lender, all of which insurance shall be in amount, form and content, and written by companies as may be satisfactory to Lender, containing a lender's loss payable endorsement Acceptable to Lender. Guarantor/Pledgor will deliver to Lender immediately upon demand evidence satisfactory to Lender that the required insurance has been procured. If Guarantor/Pledgor fails to maintain satisfactory insurance, Lender has the option (but not the obligation) to do so and Guarantor/Pledgor agrees to repay all amounts so expended by Lender immediately upon demand, together with interest at the highest lawful default rate which could be charged by Lender to Guarantor/Pledgor on any Indebtedness.

4.7. Warranties as to Accounts. With respect to the Accounts pledged as Collateral under this Agreement, then on each occasion on which Guarantor/Pledgor evidences to Lender the account balances on and the nature and extent of the Accounts, Guarantor/Pledgor shall be deemed to have warranted that except as otherwise indicated to the best of Guarantor/Pledgor's knowledge after reasonable inquiry, the following is true: (a.) each of those Accounts is valid and enforceable without the need for performance by Guarantor/Pledgor of any act; (b.) each of those balances reflected as to each Account is in fact owing; (c.) there are no setoffs, recoupments, credits, contra accounts, counterclaims or defenses against any of those Accounts; (d.) as to any Accounts represented by a note, trade acceptance, draft or other instrument or by any chattel paper or document, the same have been endorsed and/or delivered by Guarantor/Pledgor to Lender; (e.) Guarantor/Pledgor has not received with respect to any Account, any notice of the death of the related account debtor, nor the dissolution, liquidation, termination of existence, insolvency, business failure, appointment of a receiver for, assignment for the benefit of creditors by, or filing of a petition in bankruptcy by or against, the account debtor; and (f.) as to each Account, the Account Debtor is not an affiliate of Guarantor/Pledgor, the United States of America or any department, agency or instrumentality of it, or a citizen or resident of any jurisdiction outside of the United States. Guarantor/Pledgor will do all acts and will execute all writings reasonably requested by Lender to perform, enforce performance of, and collect all Accounts. Guarantor/Pledgor shall immediately advise Lender at such time that Guarantor/Pledgor learns that any of the foregoing representations and warranties are incorrect in any material respect. Guarantor/Pledgor shall neither make nor permit any modification, compromise, or substitution for any Account other than in the ordinary course of Guarantor/Pledgor's business without the prior written consent of Lender, which consent shall not unreasonably be withheld. Guarantor/Pledgor shall, at Lender's reasonable prior request, arrange for verification of Accounts directly with the accounts of Guarantor/Pledgor or by other methods Acceptable to Lender.

4.8. Compliance by Guarantor/Pledgor with Laws. Guarantor/Pledgor at all times shall be in material compliance with all applicable laws, including, without limitation, any laws, ordinances, directives, orders, statutes, or regulations an object of which is to regulate or improve health, safety, or the environment (collectively, "Environmental Laws").

4.9. Redelivery of Collateral. If Lender, acting in its sole reasonable Discretion, redelivers Collateral to Guarantor/Pledgor or Guarantor/Pledgor's designee for any of the following purposes: (a.) the ultimate sale or exchange thereof; (b.) the presentation, collection, renewal, or registration of transfer thereof; or (c.) the loading, unloading, storing, shipping, transshipping, manufacturing, processing or otherwise dealing with it preliminary to sale or exchange; such redelivery shall be in trust for the benefit of Lender and shall not constitute a release of Lender's security interest in it or in the proceeds or products of it unless Lender specifically so agrees in writing. If Guarantor/Pledgor requests any such redelivery, Guarantor/Pledgor will deliver with such request a proposed form of financing statement, which financing statement will be filed by Lender if such financing statement is in form and substance satisfactory to Lender. Any proceeds of Collateral coming into Guarantor/Pledgor's possession as a result of any such redelivery shall be held in trust for Lender and immediately delivered to Lender for application against the Indebtedness. Lender may (in its sole reasonable Discretion) deliver any or all of the Collateral to Guarantor/Pledgor, and such delivery by Lender shall discharge Lender from all liability or responsibility for such Collateral. Lender, at its option, may require delivery of any Collateral to Lender at any time following the occurrence and during the continuance of a Material Event of Default with such endorsements or assignments of the Collateral as Lender may request.

4.10. Additional Rights of Lender Upon Default by Guarantor/Pledgor. Upon the occurrence and during the continuance of a Material Event of Default under the Guaranty, after giving such notice as may be reasonable under the circumstances, Lender may as to Collateral other than Equipment, Fixtures or Inventory (a.) cause any or all of such Collateral to be transferred to its name or to the name of its nominees; (b.) receive or collect by legal proceedings or otherwise all dividends, interest, principal payments and other sums and all other distributions at any time payable or receivable on account of such Collateral, and hold the same as Collateral, or apply the same to the Indebtedness, the manner and distribution of the application to be in the sole reasonable Discretion of Lender; and (c.) enter into any extension, subordination, reorganization, deposit, merger or consolidation agreement or any other agreement relating to or affecting such Collateral, and deposit or surrender control of such Collateral, and accept other property in exchange for such Collateral and hold or apply the property or money so received pursuant to this Agreement.

4.11. Assignment of Indebtedness and Collateral by Lender. Lender may assign any of the Indebtedness and deliver any or all the Collateral to its assignee, which then shall have with respect to Collateral so delivered all the rights and powers of Lender under this Agreement, and after that Lender shall be fully discharged from all liability and responsibility with respect to Collateral so delivered under the following circumstances: (a.) Lender is assigning the Indebtedness and related obligations for collateral purposes only; (b.) a Material Event of Default has occurred and is continuing; or (c.) the assignee is the successor in interest to Lender following a change of control of Lender.

4.12. Independent Investigation and Decision by Guarantor/Pledgor. Guarantor/Pledgor delivers this Agreement based solely on Guarantor/Pledgor's independent investigation of (or decision not to investigate) the financial condition of Borrower and is not relying on any information furnished by Lender. Guarantor/Pledgor assumes full responsibility for obtaining any further information concerning Borrower's financial condition, the status of the Indebtedness or any other matter that the undersigned may deem necessary or appropriate now or later. Guarantor/Pledgor waives any duty on the part of Lender, and agrees that Guarantor/Pledgor is not relying upon nor expecting Lender to disclose to Guarantor/Pledgor any fact now or later known by Lender, whether relating to the operations or condition of Borrower, the existence, liabilities or financial condition of any guarantor of the Indebtedness, the occurrence of any default with respect to the Indebtedness, or otherwise, notwithstanding any effect such fact may have upon Guarantor/Pledgor's risk or Guarantor/Pledgor's rights against Borrower. Guarantor/Pledgor knowingly accepts the full range of risk encompassed in this Agreement, which risk includes, without limitation, the possibility that Borrower may incur Indebtedness to Lender after the financial condition of Borrower or Borrower's ability to pay debts as they mature, has deteriorated.

4.13. Indemnification for Violation by Guarantor/Pledgor of Law. Guarantor/Pledgor shall defend, indemnify and hold harmless Lender, its employees, agents, shareholders, officers, and directors from and against any and all claims, damages, fines, expenses, liabilities or causes of action of whatever kind, including, without limitation, reasonable consultants' fees, reasonable legal expenses, and reasonable attorneys' fees and estimated allocated costs of in-house legal counsel, paralegals and other legal staff, suffered by any of them as a direct or indirect result of any actual or asserted violation by Guarantor/Pledgor of any law, including, without limitation, Environmental Laws, or of any remediation relating to any property required by any law, including, without limitation, Environmental Laws, except to the extent caused directly by the gross negligence or willful misconduct of Lender.

4.14. Reasonable Costs of Lender. Guarantor/Pledgor agrees to pay Lender all such reasonable costs incurred by Lender, immediately upon demand, and until paid all costs shall bear interest at the highest per annum rate applicable to any of the Indebtedness, but not in excess of the maximum rate permitted by law. Any reference in this Agreement to attorneys' fees shall be deemed a reference to the reasonable attorneys' fees, costs, and expenses of outside counsel and paralegals and the estimated allocated costs of in-house legal counsel, paralegals and other legal staff, whether or not a suit or action is instituted, and to court costs if a suit or action is instituted, and whether such actually or estimated allocated attorneys' fees or court costs are incurred at the trial court level, on appeal, in a bankruptcy, (including, without limitation, motions for relief from stay, for determination of dischargeability or otherwise) administrative or probate proceeding or otherwise.

5. Collection of Proceeds.

5.1. Collection of Accounts. Guarantor/Pledgor agrees to collect and enforce payment of all Collateral until such time as Lender shall direct Guarantor/Pledgor to the contrary under the following circumstances: (a.) after a Material Event of Default has occurred and is continuing; or (b.) if Lender reasonably believes it is necessary to do so to prevent prejudice to Lender. Immediately upon notice to Guarantor/Pledgor by Lender and at all times after that, Guarantor/Pledgor agrees to fully and promptly cooperate and assist Lender in the collection and enforcement of all Collateral and to hold in trust for Lender all payments received in connection with Collateral and from the sale, lease or other disposition of any Collateral, all rights by way of suretyship or guaranty and all rights in the nature of a lien or security interest which Guarantor/Pledgor now or later has regarding Collateral. Immediately upon and after such notice, Guarantor/Pledgor agrees to (a.) endorse to Lender and immediately deliver to Lender all payments received on Collateral or from the sale, lease or other disposition of any Collateral or arising from any other rights or interests of Guarantor/Pledgor in the Collateral, in the form received by Guarantor/Pledgor without commingling with any other funds; and (b.) immediately deliver to Lender all property in Guarantor/Pledgor's possession or later coming into Guarantor/Pledgor's possession through enforcement of Guarantor/Pledgor's rights or interests in the Collateral. Guarantor/Pledgor irrevocably authorizes Lender or any Lender employee or agent to endorse the name of Guarantor/Pledgor upon any checks or other items that are received in payment for any Collateral, and to do any and all things necessary in order to reduce these items to money. Lender shall have no duty as to the collection or protection of Collateral or the proceeds of it, nor as to the preservation of any related rights, beyond the use of reasonable care in the custody and preservation of Collateral in the possession of Lender. Guarantor/Pledgor agrees to take all steps necessary to preserve rights against prior parties with respect to the Collateral. Nothing in this Section 5.1 shall be deemed to constitute consent by Lender to any sale, lease, or other disposition of any Collateral.

5.2. Accounts Pledged as Collateral. With respect to any Accounts that are pledged as Collateral under this Agreement, Guarantor/Pledgor agrees that immediately upon Lender's written request (whether or not a Material Event of Default exists) the Indebtedness shall be on a "remittance basis" as follows: Guarantor/Pledgor shall at its sole expense establish and maintain (and Lender, at Lender's option, may establish and maintain at Guarantor/Pledgor's expense): (a.) an United States Post Office lock box (the "Lock Box"), to which Lender shall have exclusive access and control. Guarantor/Pledgor expressly authorizes Lender, from time to time, to remove contents from the Lock Box, for disposition in accordance with this Agreement. Guarantor/Pledgor agrees to notify all account debtors and other parties obligated to Guarantor/Pledgor that all payments made to Guarantor/Pledgor (other than payments by electronic funds transfer) shall be remitted, for the credit of Guarantor/Pledgor, to the Lock Box, and Guarantor/Pledgor shall include a like statement on all invoices; and (b.) a non interest bearing deposit account with Lender which shall be titled as designated by Lender (the "Cash Collateral Account") as security for payment of the Indebtedness to which Lender shall have exclusive access and control. Guarantor/Pledgor agrees to notify all accounts of Guarantor/Pledgor and other parties obligated to Guarantor/Pledgor that all payments made to Guarantor/Pledgor by electronic funds transfer shall be remitted, to the Cash Collateral Account, and Guarantor/Pledgor, at Lender's request, shall include a like statement on all invoices. Guarantor/Pledgor shall execute all documents and authorizations as may reasonably be required by Lender to establish and maintain the Lock Box and the Cash Collateral Account.

5.3. Processing by Lender; Indemnification by Guarantor/Pledgor. To the extent that Accounts are pledged as Collateral under this Agreement, all items or amounts which are remitted to the Lock Box or otherwise delivered by or for the benefit of Guarantor/Pledgor to Lender on account of partial or full payment of, or with respect to, any Collateral shall, at Lender's option (a.) be applied to the payment of the Indebtedness, whether then due or not, in such order or at such time of application as Lender may determine in its sole reasonable Discretion; or (b.) be deposited to the Cash Collateral Account.

6. Default, Enforcement of Rights and Application of Proceeds

6.1. Definition of Event of Default Guarantor/Pledgor shall be in default under this Agreement upon the occurrence of any of the following events (each, a "Material Event of Default"):

6.1.1. Any Event of Default by Borrower under the Loan Agreement or any of the other the Loan Documents of any material term, provision, condition, covenant or agreement occurs without being cured to the extent that cure is permitted under the Loan Agreement or the other Loan Documents;

6.1.2. Guarantor/Pledgor fails to pay the Indebtedness or any other indebtedness when due, or such portion of it as may be due, by acceleration or otherwise;

6.1.3. Any failure or neglect to comply with, or breach of, or default under, any material term, provision, condition, covenant or agreement of this Agreement, the Guaranty or any other agreement or commitment between Borrower, Guarantor/Pledgor, or any other guarantor of any of the Indebtedness of Borrower (each, a "Guarantor") and Lender;

6.1.4. Any warranty, representation, financial statement, or other information made, given or furnished to Lender by or on behalf of Borrower, Guarantor/Pledgor, or any Guarantor shall be, or shall prove to have been, false, materially misleading or intentionally misleading when made, given, or furnished;

6.1.5. Any loss, theft, substantial damage or destruction to or of any Collateral, or the issuance or filing of any attachment, levy, garnishment or the commencement of any proceeding in connection with any Collateral or of any other judicial process of, upon or in respect of Borrower, Guarantor/Pledgor, any Guarantor, or any Collateral without such attachment, levy, garnishment or commencement of proceeding being dismissed within ten (10) days;

6.1.6. The sale or other disposition by Borrower, Guarantor/Pledgor, or any Guarantor of any substantial portion of its assets or property or voluntary suspension of the transaction of business by Borrower, Guarantor/Pledgor, or any Guarantor, or death, dissolution, termination of existence, merger, consolidation, insolvency, business failure, or assignment for the benefit of creditors of or by Borrower, Guarantor/Pledgor, or any Guarantor; or commencement of any proceedings under any state or federal bankruptcy or insolvency law or laws for the relief of Guarantor/Pledgor by or against Borrower, Guarantor/Pledgor, or any Guarantor; or the appointment of a receiver, trustee, court appointee, sequestrator or otherwise, for all or any part of the property of Borrower, Guarantor/Pledgor, or any Guarantor, without such proceeding being dismissed in sixty (60) days; provided, however, that nothing shall require Lender to continue to advance sums to Borrower upon the filing of such a proceeding by or against Guarantor/Pledgor;

6.1.7. If applicable, Lender reasonably deems the margin of Collateral to be insufficient or itself insecure, in good faith believing that the prospect of payment of the Indebtedness or performance of this Agreement is materially impaired or shall fear material deterioration, removal, or waste of Collateral; or

6.1.8. Any breach or default under this Agreement, the Guaranty the Loan Agreement, the Loan Documents or any other present or future agreement between Borrower and Lender shall become a Material Event of Default if Borrower or Guarantor/Pledgor has not cured said breach or default within the time period specified by Lender in its sole reasonable Discretion in any notice of default, which time period shall depend upon the facts and circumstances then in effect.

6.2. Specified Remedies Available to Lender.

6.2.1. Upon the occurrence and during the continuance of a Material Event of Default, Lender may at its reasonable Discretion and with such prior notice to Guarantor/Pledgor as may be reasonable under the circumstances, declare any or all of the Indebtedness to be immediately due and payable, and shall have and may exercise any one or more of the following rights and remedies:

6.2.1.1. exercise all the rights and remedies upon default, in foreclosure and otherwise, available to secured parties under the provisions of the Code and other applicable law;

6.2.1.2. institute legal proceedings to foreclose upon the lien and security interest granted by this Agreement, to recover judgment for all amounts then due and owing as Indebtedness, and to collect the same out of any Collateral or the proceeds of any sale of it;

6.2.1.3. institute legal proceedings for the sale, under the judgment or decree of any court of competent jurisdiction, of any or all Collateral; and/or

6.2.1.4. personally or by its agents, attorneys, or appointment of a receiver, enter upon any premises where Collateral may then be located, and take possession of all or any of it and/or render it unusable; and without being responsible for loss or damage to such Collateral, hold, operate, sell, lease, or dispose of all or any Collateral at one or more public or private sales, leasings or other dispositions, at places and times and on terms and conditions as Lender may deem fit, without any previous demand or advertisement; and except as provided in this Agreement, all notice of sale, lease or other disposition, and advertisement, and other notice or demand, any right or equity of redemption, and any obligation of a prospective purchaser or lessee to inquire as to the power and authority of Lender to sell, lease, or otherwise dispose of the Collateral or as to the application by Lender of the proceeds of sale or otherwise, which would otherwise be required by, or available to Guarantor/Pledgor under, applicable law are hereby expressly waived by Guarantor/Pledgor to the fullest extent permitted.

6.2.2. At any sale pursuant to this Section 6.2, whether under the power of sale, by virtue of judicial proceedings or otherwise, it shall not be necessary for Lender or a public officer under order of a court to have present physical or constructive possession of Collateral to be sold. The recitals contained in any conveyances and receipts made and given by Lender or the public officer to any purchase at any sale made pursuant to this Agreement shall, to the extent permitted by applicable law, conclusively establish the truth and accuracy of the matters stated (including, without limitation, as to the amounts of the principal of and interest on the Indebtedness, the accrual and nonpayment of it and advertisement and conduct of the sale); and all prerequisites to the sale shall be presumed to have been satisfied and performed to the extent permitted by applicable law.

6.3. Notification of Account Debtors. Upon the occurrence and during the continuance of a Material Event of Default, Lender may (a.) request that Guarantor/Pledgor notify the Guarantor/Pledgor's account debtor or obligors of Lender's security interest in the Collateral, including, without limitation, the Accounts and Inventory, and direct payment of the proceeds of Accounts and the sale of Inventory to Lender; or (b.) itself so notify and direct any account debtor or obligor to pay Lender directly; provided, however, that if any fraud, defalcation or conversion on the part of Borrower and/or Guarantor/Pledgor shall have occurred regardless of the dollar amount involved with such fraud, conversion or defalcation, (a.) such Event of Default shall be deemed to be a Material Event of Default; and (b.) there shall be no requirement that such Event of Default be continuing to permit Lender to send such notification to Guarantor/Pledgor's Accounts.

6.4. Application of Proceeds of Sale. The proceeds of any sale or other disposition of Collateral authorized by this Agreement shall be applied by Lender first, to all reasonable expenses authorized by the Code and all reasonable attorneys' fees and reasonable legal expenses incurred by Lender and estimated allocated costs of in-house legal counsel, paralegals and other legal staff; the balance of the proceeds of the sale or other disposition shall be applied in the payment of the Indebtedness, first, to interest, then to principal, then to remaining Indebtedness and the surplus, if any, shall be paid over to Guarantor/Pledgor or to such other person(s) as may be entitled to it under applicable law. Guarantor/Pledgor shall remain liable for any deficiency, which it shall pay to Lender immediately upon demand.

6.5. No Restriction. Nothing in this Agreement is intended, nor shall it be construed, to preclude Lender from pursuing any other remedy provided by law for the collection of the Indebtedness or for the recovery of any other sum to which Lender may be entitled for the breach of this Agreement by Guarantor/Pledgor. Nothing in this Agreement shall reduce or release in any way any rights or security interests of Lender contained in any existing agreement between Borrower, Guarantor/Pledgor, or any Guarantor and Lender.

6.6. No Waiver Effective Unless in Writing and Signed by Authorized Officer of Lender. No waiver of default or consent to any act of Guarantor/Pledgor by Lender shall be effective unless in writing and signed by an authorized officer of Lender. No waiver of any default or forbearance on the part of Lender in enforcing any of its rights under this Agreement shall operate as a waiver of any other default or of the same default on a future occasion or of any rights.

6.7. Appointment of Agent and Grant of Power of Attorney. Guarantor/Pledgor irrevocably appoints Lender or any agent of Lender (which appointment is coupled with an interest) the true and lawful attorney of Guarantor/Pledgor (with full power of substitution) in the name, place, and stead of, and at the expense of, Guarantor/Pledgor (which power of attorney shall only be used (a.) upon the occurrence and during the continuance of a Material Event of Default, after giving such notice as may be reasonable under the circumstances unless giving such notice would cause prejudice to lender in Lender's reasonable judgment; or (b.) if Lender reasonably believes in good faith that the power of attorney should be used to avoid prejudice to Lender):

6.7.1. to demand, receive, sue for, and give receipts or acquittances for any monies due or to become due on any Collateral and to endorse any item representing any payment on or proceeds of the Collateral;

6.7.2. to execute and file in the name of and on behalf of Guarantor/Pledgor all financing statements or other filings deemed necessary or desirable by Lender to evidence, perfect, or continue the security interests granted in this Agreement; and

6.7.3. to do and perform any act on behalf of Guarantor/Pledgor permitted or required under this Agreement.

Upon the occurrence of and during the continuance of a Material Event of Default and upon written request of Lender, Guarantor/Pledgor will assemble the Collateral and make it available to Lender at any place designated by Lender that is reasonably convenient to Lender and Guarantor/Pledgor.

7. Indemnification.

7.1. Limitation on Loss or Damage. Guarantor/Pledgor agrees that Lender shall not be liable for any loss or damage which Guarantor/Pledgor may suffer as a result of Lender's processing of items or its exercise of any other rights or remedies under this Agreement, including, without limitation, indirect, special or consequential damages, loss of revenues or profits, or any claim, demand or action by any third party arising out of or in connection with the processing of items or the exercise of any other rights or remedies under this Agreement. Guarantor/Pledgor agrees to indemnify and hold Lender harmless from and against all such third party claims, demands, or actions, and all related expenses or liabilities, including, without limitation, attorneys' fees and estimated allocated costs of in-house legal counsel, paralegals, and other legal staff. Lender shall not in any way or manner be liable or responsible for the safekeeping of the Collateral; any loss or damage thereto occurring or arising in any manner or fashion from any cause; any diminution in the value thereof; or any act or default of any carrier, warehouseman, bailee, forwarding agency, or other Person. All risk of loss, damage, or destruction of the Collateral shall be borne by Guarantor/Pledgor.

7.2. Hold Harmless, etc. Guarantor/Pledgor agrees to defend, indemnify, save, and hold Lender and Lender's officers, employees, shareholders, directors, attorneys, and agents harmless against all obligations, demands, claims, and liabilities claimed or asserted by any other Person arising out of or relating to the transactions contemplated by this Agreement or any of the other Loan Documents; and all losses (including attorneys' fees and legal and other costs) in any way suffered, incurred, or paid by Lender as a result of or in any way arising out of, following, or consequential to the transactions contemplated by this Agreement or any of the other Loan Documents; provided, however, that no such indemnification shall apply with respect to any liability directly arising out of the gross negligence or willful misconduct on the part of Lender or any of Lender's officers, employees, shareholders, directors, attorneys, and agents.

8. General Terms.

8.1. Notices. Until Lender is advised in writing by Guarantor/Pledgor to the contrary, all notices, requests and demands required under this Agreement or by law shall be given to, or made upon, Guarantor/Pledgor at the address indicated in Section 8.20 below.

8.2. Notifications of Changes. Guarantor/Pledgor will give Lender not less than ninety (90) days' prior written notice of all contemplated changes in Guarantor/Pledgor's name, Chief Executive Office location, and/or location of any of the Collateral, but the giving of this notice shall not cure any Event of Default caused by this change.

8.3. No Assumption by Lender of Duties of Borrower. Lender assumes no duty of performance or other responsibility under any contracts contained within the Collateral.

8.4. Assignments, etc. by Lender. Lender has the right to sell, assign, transfer, negotiate, or grant any interest in, any or all of the Indebtedness and any related obligations, including, without limitation, this Agreement, in the following circumstances: (a.) Lender is assigning the Indebtedness and related obligations for collateral purposes only; (b.) a Material Event of Default has occurred and is continuing; or (c.) the assignee is the successor in interest to Lender following a change of control of Lender. Lender has the right to grant participations in any or all of the Indebtedness irrespective of whether (a.) Lender is assigning the Indebtedness and related obligations for collateral purposes only; (b.) an Event of Default has occurred and is continuing; or (c.) the assignee is the successor in interest to Lender following a change of control of Lender. In connection with the above, but without limiting its ability to make other disclosures to the full extent allowable, Lender may disclose all documents and information which Lender now or later has relating to Guarantor/Pledgor, the Indebtedness or this Agreement, however obtained. Guarantor/Pledgor further agree(s) that Lender may provide information relating to this Agreement or relating to Guarantor/Pledgor to Lender's parent, affiliates, subsidiaries, and service providers.

8.5. Further Credit Reports. Borrower acknowledges and agrees that Lender may from time to time at its sole discretion run such further credit reports and other reports as it may deem necessary to continue to keep itself apprised regarding the continued financial condition of Borrower during the term of this Agreement and hereby authorizes Lender to run such credit and other reports from time to time as Lender deems appropriate.

8.6. Setoff. In addition to Lender's other rights, any Indebtedness owing from Lender to Guarantor/Pledgor can be set off and applied by Lender on any Indebtedness at any time(s) either before or after maturity or demand without notice to any Borrower, Guarantor/Pledgor, any other guarantor, or any other person.

8.7. Waivers. Guarantor/Pledgor waives any right to require Lender to undertake any of the following: (a.) proceed against any person or property; (b.) give notice of the terms, time and place of any public or private sale of personal property security held from Borrower or any other person, or otherwise comply with the provisions of ORS 79.0601 et seq., including without limitation, ORS 79.0611 or the equivalent of Uniform Commercial Code 9-611 in any other applicable state's codification of the Uniform Commercial Code; or (c.) pursue any other remedy in Lender's power. Guarantor/Pledgor waives notice of acceptance of this Agreement and presentment, demand, protest, notice of protest, dishonor, notice of dishonor, notice of default, notice of intent to accelerate or demand payment of any Indebtedness, any and all other notices to which the undersigned might otherwise be entitled, and diligence in collecting any Indebtedness, and agree(s) that Lender may, once or any number or times, modify the terms of any Indebtedness, compromise, extend, increase, accelerate, renew or forbear to enforce payment of any or all Indebtedness, or permit Borrower to incur additional Indebtedness, all without notice to Guarantor/Pledgor and without affecting in any manner the unconditional obligation of Guarantor/Pledgor under this Agreement. Guarantor/Pledgor unconditionally and irrevocably waives each and every defense and setoff of any nature which, under principles of guaranty or otherwise, would operate to impair or diminish in any way the obligation of Guarantor/Pledgor under this Agreement and acknowledges that such waiver is by this reference incorporated into each security agreement, collateral assignment, pledge and/or other document from Guarantor/Pledgor now or later securing the Indebtedness, and acknowledges that as of the date of this Agreement no such defense or setoff exists.

8.8. Waiver of Subrogation Rights etc. Until Lender has been paid in full, with no agreement or obligation to extend any further financial accommodations to Borrower, Guarantor/Pledgor waives any and all rights (whether by subrogation, indemnity, reimbursement, or otherwise) to recover from Borrower any amounts paid or the value of any Collateral given by Guarantor/Pledgor pursuant to this Agreement.

8.9. Agreement Regarding What Constitutes Reasonable Notice. In the event that applicable law shall obligate Lender to give prior notice to Guarantor/Pledgor of any action to be taken under this Agreement, Guarantor/Pledgor agrees that a written notice given to Guarantor/Pledgor at least ten (10) days before the date of the action shall be reasonable notice of the intended action and, specifically, reasonable notification of the time and place of any public sale or of the time after which any private sale, lease, or other disposition is to be made, unless a shorter notice period is reasonable under the circumstances. A notice shall be deemed to be given under this Agreement when delivered to Guarantor/Pledgor or when placed in an envelope addressed to Guarantor/Pledgor and deposited, with postage prepaid, in a post office or official depository under the exclusive care and custody of the United States Postal Service or delivered to an overnight courier. The mailing shall be by overnight courier, certified mail, or first class mail.

8.10. Reinstatement. Notwithstanding any prior revocation, termination, surrender, or discharge of this Agreement in whole or in part, the effectiveness of this Agreement shall automatically continue or be reinstated in the event that any payment received or credit given by Lender in respect of the Indebtedness is returned, disgorged, or rescinded under any applicable law, including, without limitation, bankruptcy or insolvency laws, in which case this Agreement, shall be enforceable against Guarantor/Pledgor as if the returned, disgorged, or rescinded payment or credit had not been received or given by Lender, and whether or not Lender relied upon this payment or credit or changed its position as a consequence of it. In the event of continuation or reinstatement of this Agreement, Guarantor/Pledgor agrees upon demand by Lender to execute and deliver to Lender those documents which Lender determines are appropriate to further evidence (in the public records or otherwise) this continuation or reinstatement, although the failure of Guarantor/Pledgor to do so shall not affect in any way the reinstatement or continuation.

8.11. Successors and Assigns. This Agreement and all of the rights and remedies of Lender under this Agreement shall inure to the benefit of Lender's successors and assigns and to any other holder who derives from Lender title to or an interest in the Indebtedness or any portion of it, and shall bind Guarantor/Pledgor and the heirs, legal representatives, successors, and assigns of Guarantor/Pledgor. Nothing in this Section 8.11 is or shall be deemed to constitute consent by Lender to any assignment by Guarantor/Pledgor.

8.12. Joint and Several Undertakings. If there is more than one Guarantor/Pledgor, all undertakings, warranties and covenants made by Guarantor/Pledgor and all rights, powers and authorities given to or conferred upon Lender are made or given jointly and severally.

8.13. Meanings Except as otherwise provided in this Agreement. All terms in this Agreement have the meanings assigned to them in ORS Chapter 79 (or, absent definition in ORS Chapter 79, in any other division) of the Code in effect as of the date of this Agreement.

8.14. No Exercise or Delay in Exercise of Rights Shall Preclude Exercise by Lender of any Other Right. No single or partial exercise, or delay in the exercise, of any right or power under this Agreement, shall preclude other or further exercise of the rights and powers under this Agreement. The unenforceability of any provision of this Agreement shall not affect the enforceability of the remainder of this Agreement. This Agreement constitutes the entire agreement of Guarantor/Pledgor and Lender with respect to the subject matter of this Agreement. No amendment or modification of this Agreement shall be effective unless the same shall be in writing and signed by Guarantor/Pledgor and an authorized officer of Lender.

8.15. Choice of Law. This Agreement shall in all respects be governed by and construed in accordance with the internal laws of the State of Oregon without regard to conflict of laws principles.

8.16. Venue. The parties agree that all actions or proceedings arising in connection with this Agreement and/or the Loan Documents shall be tried and litigated only in the State and Federal courts located in the County of Multnomah, State of Oregon or, at the sole option of Lender, in any other court in which Lender shall initiate legal or equitable proceedings and which has subject matter jurisdiction over the matter in controversy. Each of Guarantor/Pledgor and Lender waives, to the extent permitted under applicable law, any right each may have to assert the doctrine of forum non conveniens or to object to venue to the extent any proceeding is brought in accordance with this section.

8.17. Counterparts. This Agreement may be executed in any number of counterparts, all of which, taken together, shall constitute a single original.

8.18. Chief Executive Office; Other Locations. Guarantor/Pledgor's Chief Executive Office is located and shall be maintained at **500 Union Street, Suite 420, Seattle, Washington 98101**. If any Collateral is located at other than the Chief Executive Office, such Collateral is located and shall be maintained at the following locations:

-----n/a-----

8.19. Termination. This Agreement shall be terminated only by the filing of a termination statement in accordance with the applicable provisions of the Code, but the obligations contained in Sections 4.13 (indemnification for violations of law by Guarantor/Pledgor), 5.3 (as to indemnification for processing by Lender) and 8.10 (reinstatement of Indebtedness) of this Agreement shall survive termination.

8.20. Address and Method of Notice. Unless otherwise provided in this Agreement, all notices or demands by any party relating to this Agreement or any of the other Loan Documents shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by overnight mail, registered or certified mail, postage prepaid, return receipt requested, or by prepaid telex, TWX, telefacsimile, or telegram (with messenger delivery specified) to Borrower or to Lender, as the case may be, at its address set forth below:

If to Guarantor/Pledgor: VISUALANT, INCORPORATED
500 Union Street, Suite 420, Seattle, Washington 98101
Attn: **Ronald P. Erickson, President**
Telephone No.: **(206) 903-1351**
Facsimile No.: _____

If to Lender: BFI Business Finance
851 East Hamilton Avenue, Second Floor, Campbell, California 95008
Attn: **David Drogos, President**
Telephone No.: **(408) 369-4000**
Facsimile No.: **(408) 369-4018**

The parties hereto may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other. All notices or demands sent in accordance with this Section 8.20, other than notices by Lender in connection with ORS 79.0610, 79.0611, 79.0612, 79.0613, 79.0614, 79.0615, 79.0617, 79.0618, 79.0620, 79.0621, or 79.0624, shall be deemed received on the earlier of the date of actual receipt or three (3) days after the deposit thereof in the mail. Guarantor/Pledgor acknowledges and agrees that notices sent by Lender in connection with the foregoing described sections of the Code shall be deemed sent when deposited in the mail or transmitted by telefacsimile or other similar method set forth above.

8.21. Captions. Captions are solely to be used for the convenience of the parties hereto and shall not be used to construe the meaning of the terms of this Agreement.

8.22. Further Assurances. Guarantor/Pledgor shall execute such other and further documents and instruments as Lender may reasonably request in order to implement the provisions of this Agreement and to perfect and protect the security interest of Lender.

8.23. Integration. This is an integrated agreement and taken together with the documents executed in connection herewith, represents the final agreement of the parties with respect to the subject matter hereof. Any amendments hereto shall be in writing and signed by the party to be charged.

9. WAIVER OF JURY TRIAL. GUARANTOR/PLEDGOR AND LENDER ACKNOWLEDGE THAT THE RIGHT TO TRIAL BY JURY IS A CONSTITUTIONAL ONE, BUT THAT IT MAY BE WAIVED. EACH PARTY AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF ITS CHOICE, KNOWINGLY AND VOLUNTARILY, AND FOR THE MUTUAL BENEFIT OF THE PARTIES WAIVES ANY RIGHT TO TRIAL BY JURY IN THE EVENT OF LITIGATION REGARDING THE PERFORMANCE OR ENFORCEMENT OF, OR IN ANY WAY RELATED TO, THIS AGREEMENT OR THE INDEBTEDNESS.

10. **Oregon Law. Under Oregon law, most agreements, promises, and commitments made by Borrower, after October 3, 1989, concerning loans and other credit extensions which are not for personal, family, or household purposes or secured solely by the Borrower's residence must be in writing, express consideration, and be signed by Borrower to be enforceable.**

This Agreement is subject to the terms and conditions set forth in **Addendum A** attached hereto and made a part hereof.

IN WITNESS WHEREOF, the parties have executed this Security Agreement (All Assets) as of the date first set forth above.

VISUALANT, INCORPORATED

/s/ Mark Scott

By: Mark E. Scott

Title: Secretary

Accepted at Campbell, California:

BFI Business Finance

/s/ Jeffrey Lizar

By: Jeffrey Lizar

Title: Executive Vice President

State of California

County of _____

On _____ before me, _____, a notary public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing is true and correct.

Witness my hand and official seal.

Signature _____ (Seal)

Addendum A to Security Agreement (All Assets)

Pursuant to this **Addendum A to Security Agreement (All Assets)** (this "Addendum"), the foregoing Security Agreement (All Assets) (the "Agreement") by and between **BFI Business Finance** ("Lender") and **VISUALANT, INCORPORATED** ("Guarantor/Pledgor") is hereby amended and/or supplemented by the following terms and conditions, which are incorporated by this reference in the Agreement, as the following additional sections of the Agreement:

11. ...Intentionally left blank...

Schedule A-1

Additional Permitted Liens

None

SECTION 302 CERTIFICATIONS

I, Ronald P. Erickson, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: August 14, 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 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: August 14, 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 Quarterly Report of Visualant, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2013 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
August 14, 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 Quarterly Report of Visualant, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2013 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
August 14, 2013