As filed with the Securities and Exchange Commission on October 4 , 2013

Registration No. _____

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1/A
AMENDMENT 3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

VISUALANT, INCORPORATED

(Exact name of registrant as specified in charter)

Nevada	**90-0273142**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
	3920
	(Primary Standard Industrial Classification Number)
500 Union Street, Suite 420, Seattle, Washington USA	**98101**
(Address of principal executive offices)	(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)

Ronald P. Erickson, Chief Executive Officer
Visualant, Inc.
500 Union Street, Suite 420
Seattle, WA 98101
206-903-1351

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:
James F. Biagi, Jr.
Fifth Avenue Law Group, PLLC
701 5th Avenue, Suite 2800
Seattle, WA 98104-7023
(206) 587-5700, (206) 587-5710 (fax)

As soon as practicable and from time to time after this registration statement becomes effective.

(Approximate date of commencement of proposed sale to the public)

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☒

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. ☐

If this Form is post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering.☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting Company	☒
(Do not check if a smaller reporting Company)			

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common stock issued to Special Situations Technology Funds , L.P. and 40 other accredited investors pursuant to a private placement which closed June 14, 2013 (1) (2)	52,300,000	$ 0.10	$ 5,230,000	$ 713.37
Shares of common stock issuable upon exercise of five-year Series A Warrants to purchase common stock at $0.15 per share related to the private placement which closed June 14, 2013 (1) (3)	52,300,000	$ 0.15	$ 7,845,000	$ 1,070.06
Shares of common stock issuable upon exercise of the five-year Series B Warrants to purchase common stock at $0.20 per share related to the private placement which closed June 14, 2013 (1) (3)	52,300,000	$ 0.20	$ 10,460,000	$ 1,426.74
Shares of common stock issuable upon exercise of the five-year Placement Agent Warrants to purchase common stock at $0.10 per share related to the private placement which closed June 14, 2013 (1) (3)	5,230,000	$ 0.10	$ 523,000	$ 71.34
Total	162,130,000		$ 24,058,000	$ 3,281.51

(1) The shares of our common stock being registered hereunder are being registered for sale by the Selling Shareholders named in the prospectus.
(2) Pursuant to Rule 457(g) under the Securities Act of 1933, the proposed maximum offering price and the amount of the registration fee have been calculated based on the price in the private placement paid by the Selling Shareholders which closed June 14, 2013.
(3) Pursuant to Rule 457(g) under the Securities Act of 1933, the proposed maximum offering price and the amount of the registration fee have been calculated based on the exercise price of the common stock warrants held by the Selling Shareholders in the private placement which closed June 14, 2013.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT HAS FILED A FURTHER AMENDMENT THAT SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED.

PRELIMINARY, SUBJECT TO COMPLETION, DATED OCTOBER 4 , 2013.

PROSPECTUS

Visualant, Inc.

162,130,000 Shares of Common Stock

This prospectus covers the resale by the selling security holders named herein of up to 162,130,000 shares of the Company's common stock, $.001 par value per share, including: (i) 52,300,000 shares of common stock issued to Special Situations and forty other accredited investors pursuant to the Private Placement which closed June 14, 2013; (ii) 52,300,000 shares of common stock issuable upon the exercise of the five-year Series A Warrants at $0.15 per share, which were issued to the investors as part of the above-referenced Private Placement; (iii) 52,300,000 shares of common stock issuable upon the exercise of five year Series B Warrants at $0.20 per share, which were issued to the investors as part of the above-referenced Private Placement; and (iv) 5,230,000 shares of common stock issuable upon the exercise of five year Placement Agent Warrants at $0.10 per share, which were issued to GVC Capital LLC or affiliated parties pursuant to the above-referenced Private Placement. The common stock covered by this prospectus will be offered for sale from time to time by the selling security holders identified in this prospectus in accordance with the terms described in the section entitled Plan of Distribution. The Company will not receive any of the proceeds from the sale of the common stock by the selling security holders.

The Company's common stock trades on the OTCQB under the symbol VSUL. OnOctober 3 , 2013, the last reported sale price for the Company's common stock as reported on OTCQB was $0.10 per share.

INVESTING IN THE COMPANY'S COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CONSIDER CAREFULLY THE "RISK FACTORS" DESCRIBED IN THIS PROSPECTUS BEGINNING ON PAGE 6.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is October 4 , 2013.

No offers to sell are made, nor are offers sought, to buy these securities in any jurisdiction where the offer or sale is not permitted.

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You may rely only on the information provided or incorporated by reference in this prospectus. Neither we nor the selling security holders have authorized anyone to provide information different from that contained in this prospectus. This prospectus is not an offer to sell or solicitation to buy the securities in any circumstances under which the offer or solicitation is unlawful.

PROSPECTUS SUMMARY

The following summary highlights information contained elsewhere in this prospectus. It may not contain all of the information that is important to you. You should read the entire prospectus carefully, especially the discussion regarding the risks of investing in Visualant, Inc. common stock under the heading Risk Factors, before investing in Visualant, Inc. common stock. In this prospectus, Visualant, VSUL, Company, we, us, and our refer to Visualant, Inc.

The Offering

This prospectus covers the resale by the selling security holders named herein of up to 162,130,000 shares of our common stock, $.001 par value per share, including: (i) 52,300,000 shares of common stock issued to Special Situations Technology Funds, L.P. and forty other accredited investors pursuant to the Private Placement which closed June 14, 2013; (ii) 52,300,000 shares of common stock issuable upon exercise of the Series A Warrants at $0.15 per share, which were issued to the investors as part of the above-referenced Private Placement; (iii) 52,300,000 shares of common stock issuable upon the exercise of five year Series B Warrants at $0.20 per share, which were issued to the investors as part of the above-referenced Private Placement; and (iv) 5,230,000 shares of common stock issuable upon the exercise of five year Placement Agent Warrants at $0.10 per share, which were issued to GVC Capital LLC or affiliated parties as part of the above-referenced Private Placement. Information regarding our common stock is included in the section of this prospectus entitled Description of Securities.

We agreed to register for resale the shares covered by this prospectus as a condition to the purchase and sale of the securities listed in the preceding paragraph, which were private offerings resulting in the purchasers holding restricted securities.

The Company and our Business

We were incorporated under the laws of the State of Nevada on October 8, 1998 with authorized common stock of 200,000,000 shares at $0.001 par value. On September 13, 2002, 50,000,000 shares of preferred stock with a par value of $0.001 were authorized by the stockholders. There are no preferred shares issued and the terms have not been determined. On August 12, 2013 our articles of incorporation were amended to increase the number of our authorized shares of common stock to 500,000,000. Our executive offices are located in Seattle, Washington.

The current focus of our business is our ChromaID technology. We have 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 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 Scanner 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. We have not yet generated any revenues from the sale of our ChromaID products.

Our wholly owned subsidiary, TransTech Systems, Inc., based in Aurora, Oregon, is a distributor of products, including systems solutions, components and consumables, for employee and government identification, document authentication, access control, and radio frequency identification. TransTech provides these products and services, along with marketing and business development assistance, to a growing channel of value-added resellers and system integrators throughout North America. To date, the majority of the Company's revenues have been generated by our TransTech subsidiary.

TransTech provides its channel partners pre-and post-sales support . Technical Services covers training and installation support, in-warranty repair, out of warranty repair, and spares programs. Our Customer Service team provides full sales, configuration, and logistics services. An increasing number of manufacturers are turning to TransTech Systems for channel development and introduction of their products to our market space.

On June 10, 2013, we entered into a Purchase Agreement, Warrants, and Registration Rights Agreement with Special Situations Technology Funds 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, 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. In addition, GVC Capital LLC, the placement agent in that transaction, was issued five-year warrants to purchase a total of 5,230,000 shares of common stock at $0.10 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.

We have 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 Sumitomo with an exclusive license of the ChromaID™ technology in identified Asian territories. Sumitomo is publicly traded in Japan and has operations in Japan, United States, China, United Kingdom, Canada and other parts of the world.

To date, we have been issued five patents by the United States Office of Patents and Trademarks. See page 17 for more detailed information regarding our patents and our business.

Summary Financial Results

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 Sumitomo and sales of $5,667,000 at TransTech. Net revenue for the nine months ended June 30, 2012 reflected $84,000 from Sumitomo and sales of $5,442,000 at TransTech. Sumitomo paid the Company an initial payment of $1 million under a License Agreement dated May 31, 2012 providing Sumitomo with an exclusive license of our technology in identified Asian territories. This license revenue was fully recognized by May 31, 2013. The TransTech increase primarily resulted from the release of new products, including radio frequency and asset tracking and kiosk printer products.

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.

Net revenue for the year ended September 30, 2012 decreased $1,212,000 to $7,924,000 as compared to $9,136,000 for the year ended September 30, 2011. The reduction was due to a large sale by TransTech to an aerospace company in the year ended September 30, 2011, which was not repeated in the year ended September 30, 2012. Net loss for the year ended September 30, 2012 was $2,732,000 as compared to a net loss of $2,410,000 for the year ended September 30, 2011. The net loss included non-cash expenses of $1,302,000 and other business development and investor relation expenditures to expand the business.

Going Concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. We 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.

We anticipate that we will record losses from operations for the foreseeable future. As of June 30, 2013, our accumulated deficit was $19,378,609. We have 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.

Our continuation 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.

Risks Factors

We are subject to a number of risks, which the reader should be aware of before deciding to purchase the securities in this offering. These risks are discussed below in the section titled Risk Factors beginning on page 6 of this prospectus.

Corporate Information

We were incorporated under the laws of the State of Nevada on October 8, 1998. Our executive offices are located at 500 Union Street, Suite 420, Seattle, WA 98101. Our telephone number is (206) 903-1351 and its principal website address is located at www.visualant.net. The information on our website is not incorporated as a part of this prospectus.

The Company's Common Stock

Our common stock currently trades on OTCQB under the symbol VSUL.

RISK FACTORS

An investment in our Common Stock involves a high degree of risk. You should carefully consider the following risk factors and other information in this prospectus before deciding to invest in shares of the Company's Common Stock. The most significant risks and uncertainties known and identified by our management are described below. If any of the following risks actually occurs, our business, financial condition, liquidity, results of operations and prospects for growth could be materially adversely affected, the trading price of our Common Stock could decline, and you may lose all or part of your investment. You should acquire shares of our Common Stock only if you can afford to lose your entire investment. We make various statements in this section that constitute "forward-looking statements". See "Forward-Looking Statements" beginning on page 11 of this prospectus.

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.

Although the Company recently secured financing as a result of its private placement with Special Situations Fund and other investors, the funds received by the Company in that 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.

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 October 4 , 2013, there were approximately 165.3 million shares of our common stock issued and outstanding. If all 52,300,000 of the Series A Warrant shares and all 52,300,000 of the Series B Warrant shares that are covered by this prospectus and registration statement are issued upon exercise of all of such Warrants, approximately 276,500,000 of the Company's currently authorized 500,000,000 shares of common stock will be 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 October 4 , 2013, there are also options outstanding for the purchase of 12.7 million common shares at a $0.126 average strike price, and warrants for the purchase of 113.5 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 EXERCISE PRICE OF THE WARRANTS ISSUED

The warrants issued in connection with the recent transaction with Special Situations (Series A Warrants to purchase a total of 52,300,000 shares of common stock at $0.15 per share, and Series B Warrants to purchase a total of 52,300,000 shares of common stock at $0.20 per share) 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. Although the Company has no present intention of issuing any additional shares of common stock, warrants or other equity securities at a price below the exercise price of the Series A and Series B Warrants, if it should do so, it would result in a reduction in the exercise price of the Series A and Series B Warrants. Upon exercise of these Warrants, the Company would receive substantially less capital to fund the Company's operations. This adjustment also could affect the market price of the common stock.

THE COMPANY MAY BE SUBJECT TO PENALTIES UNDER THE REGISTRATION RIGHTS AGREEMENT.

The Registration Rights Agreement between the Company, Special Situations Fund and the other investors in the private placement transaction that closed June 14, 2013, required that the Company file a registration statement within thirty days of closing covering the "Initial Registrable Securities" which includes the 52,300,000 shares of common stock plus the 52,300,000 Series A Warrant Shares. The Company, however, did not have a sufficient number of authorized shares of common stock to permit the exercise of all of the Series A Warrants and the registration of all 52,300,000 of the Series A Warrant Shares. Special Situations Fund and the other investors were notified of this shortfall and understood that the Company would include in the first registration statement only 18,000,000 of the Series A Warrant Shares and that the balance of the Series A Warrant Shares, together with the Series B Warrant Shares, would be included in the subsequent registration statement to be filed following the authorization by the Company's stockholders of an increase in the Company's authorized shares of common stock. However, since the Company did not obtain a formal written waiver from Special Situations and the other investors, under the terms of the Registration Rights Agreement, the Company's failure to include all 52,300,000 of the Series A Warrant Shares in the first registration statement could give rise to the imposition of penalties in an amount equal to 1.5% of the aggregate amount invested, payable to each investor on a pro rata basis, for each 30-day period for which the requisite registration statement was not filed with respect to the Initial Registrable Securities. The Company has now filed a registration statement covering all of the Initial Registrable Securities.

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 mayface 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, regardlessof 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 IN THE FUTURE BY THE SEC'S PENNY STOCK REGULATIONS.

Although our stock currently does not meet the definition of a "penny stock" due to an increase in our revenues for past two years, in the recent past our stock was categorized as a penny stock and it is possible that our stock may become a penny stock again in the future. The SEC has adopted Rule 15g-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 (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). If our securities were to become a penny stock in the future, they would be 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 would affect the ability of broker-dealers to trade our securities if we become subject to them in the future. The penny stock rules also could discourage investor interest in and limit the marketability of our common stock to 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.

TRANSFERS OF OUR SECURITIES MAY BE RESTRICTED BY VIRTUE OF STATE SECURITIES "BLUE SKY" LAWS WHICH PROHIBIT TRADING ABSENT COMPLIANCE WITH INDIVIDUAL STATE LAWS. THESE RESTRICTIONS MAY MAKE IT DIFFICULT OR IMPOSSIBLE TO SELL SHARES IN THOSE STATES.

Transfers of our common stock may be restricted under the securities or securities regulations laws promulgated by various states and foreign jurisdictions, commonly referred to as "blue sky" laws. Absent compliance with such individual state laws, our common stock may not be traded in such jurisdictions. Because the securities held by many of our stockholders have not been registered for resale under the blue sky laws of any state, the holders of such shares and persons who desire to purchase them should be aware that there may be significant state blue sky law restrictions upon the ability of investors to sell the securities and of purchasers to purchase the securities. These restrictions may prohibit the secondary trading of our common stock. Investors should consider the secondary market for our securities to be a limited one.

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 withSumitomo 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 our ChromaID™ technology. Our 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.

THE COMPANY OWES $33,000 UNDER THE JOINT DEVELOPMENT AGREEMENT WITH SUMITOMO PRECISION PRODUCTS CO. LTD AND THE AGREEMENT MAY NOT BE RENEWED.

We have recorded $100,000 in accounts payable- related parties as of June 30, 2013 for the amount due Sumitomo under the Joint Development Agreement, which was a one-time payment of $100,000 due March 31, 2013. As of October 4, 2013, we have paid $67,000 and still owe Sumitomo $33,000. There is no interest accruing or due on this payment. We received three demonstration units and related technology for this payment.

Our failure to pay the remaining $33,000 to Sumitomo under 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.

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 A REVERSE STOCK SPLIT IS EFFECTUATED, IT COULD RESULT IN DILUTION TO THE COMPANY'S STOCKHOLDERS.

At the Company's 2013 annual meeting of stockholders held on March 21, 2013, the stockholders approved and authorized the Board of Directors, in its discretion, to effect a reverse stock split of the Company's common stock based upon an exchange ratio of not less than 1-for-3 and not more than 1-for-10, and to reduce the Company's authorized capital from 200,000,000 shares of common stock to 100,000,000 shares of common stock in connection with any such reverse stock split (the Company's authorized shares have since been increased from 200,000,000 to 500,000,000 at the special meeting of stockholders held on August 9, 2013). The authority given to the Board to implement this reverse stock split may be exercised at any time up until the Company's 2014 annual meeting of stockholders. Although the Board has not yet determined to effectuate any reverse stock split, if it elects to do so and the Company's authorized shares of common stock are not correspondingly reduced in the same ratio, it would result in a greater percentage of the Company's authorized shares of common stock being available for issuance. Upon issuance of additional authorized shares, each of the Company's then current shareholders would suffer a greater degree of dilution in their ownership percentage of the Company's common stock than would otherwise have occurred prior to the reverse stock split.

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.

OUR ChromaID™ TECHNOLOGY IS NEW AND MAY NOT ACHIEVE COMMERCIAL SUCCESS

We are commercializing our ChromaID™ technology. To date, we have entered into one License Agreement with Sumitomo Precision Products Co., Ltd. Failure to sell our ChromaID products, grant additional licenses and obtain royalties, or develop other revenue streams will have a material adverse effect on our business, financial condition and results of operations. In such event, it is likely investors will lose their investments.

OUR TRANSTECH VENDOR BASE IS CONCENTRATED

Evolis, Fargo, Magicard and NiSCA, are major vendors of TransTech whose products account for approximately 70% of TransTech's revenue. TransTech buys, packages and distributes products from these vendors after issuing purchase orders. Any loss of these vendors would have a material adverse effect on our business, financial condition and results of operations.

GOVERNMENTAL REGULATORY APPROVAL MAY BE NECESSARY BEFORE SOME OF THE COMPANY'S PRODUCTS CAN BE SOLD AND THERE IS NO ASSURANCE SUCH APPROVAL WILL BE GRANTED

Our ChromaID technology may have a number of potential applications in fields of use which require prior governmental regulatory approval before the technology can be introduced to the marketplace. For example, the Company is exploring the use of its ChromaID technology for certain medical diagnostic applications. There is no assurance that the Company will be successful in developing medical applications for its ChromaID technology. If it were to be successful in developing medical applications of its technology, prior approval by the FDA and other governmental regulatory bodies may be required before the technology could be introduced into the marketplace. There is no assurance that such regulatory approval would be obtained for a medical diagnostic or other applications requiring such approval.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. Such forward-looking statements include statements regarding, among other things, (a) our expectations about product development activities, (b) our growth strategies, (c) anticipated trends in our industry, (d) our future financing plans, and (e) our anticipated needs for working capital. Forward-looking statements, which involve assumptions and describe our future plans, strategies, and expectations, are generally identifiable by use of the words may, will, should, expect, anticipate, estimate, believe, intend, or project or the negative of these words or other variations on these words or comparable terminology. This information may involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from the future results, performance, or achievements expressed or implied by any forward-looking statements. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various factors, including, without limitation, the risks outlined under "Risk Factors" and matters described in this prospectus generally. In light of these risks and uncertainties, the events anticipated in the forward-looking statements may not occur. These statements are based on current expectations and speak only as of the date of such statements. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of future events, new information or otherwise.

The information contained in this prospectus, as well as in our SEC filings, identifies important factors that could adversely affect actual results and performance. Prospective investors are urged to carefully consider such factors.

All forward-looking statements attributable to us are expressly qualified in their entirety by the foregoing cautionary statements.

USE OF PROCEEDS

We will not receive any proceeds from the sale of the common stock by the selling security holders. All proceeds from the sale of such securities offered by the selling security holders under this prospectus will be for the account of the selling security holders, as described below in the sections entitled Selling Security Holders and Plan of Distribution. With the exception of any brokerage fees and commissions which are the respective obligations of the selling security holders, we are responsible for the fees, costs and expenses of this registration statement, which includes our legal and accounting fees, printing costs, and filing and other miscellaneous fees and expenses.

DILUTION

Net Tangible Book Value

As of March 31, 2013, the net tangible book value of the Company was a deficit of ($3,313,195) or approximately $(0.030) per share based upon 111,978,606 shares of common stock outstanding.

Dilution to Investors in the Private Placement

The investors in the private placement which closed on June 14, 2013 paid (or will pay, assuming the full exercise of the warrants for 162,130,000 shares of common stock) a total of $24,058,000, resulting in an average price per share of common stock of approximately $0.148. The private placement will result in the Company's net tangible book value increasing to $19,437,760 or approximately $0.067 per share of common stock based upon 292,021,199 common shares outstanding. This assumes the full exercise of (i) the warrants for 104,600,000 common shares (52,300,000 shares at $0.15 per share and 52,300,000 shares at $0.20 per share that were issued in the private placement; (ii) the full exercise of the placement agent warrants for 5,320,000 shares at $0.10 per share; (iii) the full exercise of other outstanding warrants of 2,777,050 at $.232 per share; and (iv) the full exercise of stock option grants at $0.126 per share.

The investors who acquired shares in the private placement suffered immediate dilution and upon full exercise of the warrants will suffer total dilution in the average amount of $0.074 per share. As a result of the private placement, our existing stockholders experienced an increase in the net tangible book value of their shares of $0.097 per share without any additional investment on their part.

The stockholders who acquired shares in the private placement will own approximately 57.1% of the total number of outstanding shares (assuming full exercise of the warrants for 109,830,000 common shares) for which they will have made a cash investment of $24,058,000, or approximately $0.148 per share.

The following table reflects the change in net tangible book value and resulting dilution to investors in the private placement, and compares the differences in investment by the investors acquiring shares in the private placement with investment in our shares by our existing stockholders:

Private placement average price per share of common stock (52,300,000 shares at $0.10 per share and assuming full exercise of the Warrants for 109,830,000 shares at an average price of $0.171 per share)	$0.148
Net Tangible Book Value per share prior to private placement	$ (0.030)
Net Tangible Book Value per share after private placement	$0.067
Dilution to investors in private placement(assuming full exercise of Warrants for 109,830,000 shares at an average price of $0.171 per share)	$0.074
Increase in Net Tangible Book Value to existing stockholders following the private placement (without any additional investment by existing stockholders)	$0.097

The net tangible book value of the Company will remain the same upon the purchase of any shares from the selling stockholders in this registration statement. The purchasers of these shares will suffer immediate and substantial dilution in the average amount of $0.067 per share assuming the shares are purchased for the same price at which the investors in the private placement purchased these shares.

SELLING SECURITY HOLDERS

The following table sets forth the number of shares of our common stock which may be sold by each of the selling security holders pursuant to this prospectus, including: (i) 52,300,000 shares of common stock issued to Special Situations Technology Funds, L.P. and forty other accredited investors pursuant to the Private Placement which closed June 14, 2013; (ii) 52,300,000 shares of common stock issuable upon exercise of the five-year Series A Warrants at $0.15 per share, which were issued to the investors as part of the above-referenced Private Placement; (iii) 52,300,000 shares of common stock issuable upon the exercise of five year Series B Warrants at $0.20 per share, which were issued to the investors as part of the above-referenced Private Placement; and (iv) 5,230,000 shares of common stock issuable upon the exercise of five year Placement Agent Warrants at $0.10 per share, which were issued to GVC Capital LLC or affiliated parties as part of the above-referenced Private Placement. We agreed to register for resale the shares covered by this prospectus as a condition to the purchase of these securities, which were sold in a private offering resulting in the purchasers holding restricted securities.

We are registering these securities in order to permit the selling security holders to dispose of the shares of common stock, or interests therein, from time to time.

The selling security holders may decide to sell all, some, or none of the securities listed below. See the Plan of Distribution. We cannot provide an estimate of the number of securities that any of the selling security holders will hold in the future. For purposes of this table, beneficial ownership is determined in accordance with the rules of the SEC, and includes voting power and investment power with respect to such securities.

Except for Ronald P. Erickson and affiliated entities, Mark Scott, or as indicated in the section of this prospectus entitled Certain Relationships and Related Party Transactions beginning on page 38, no selling security holder has had any material relationship with us or our affiliates during the last three years.

Except as disclosed below in the table and footnotes to the table, no selling security holder is a registered broker-dealer or an affiliate of a broker-dealer. Those selling security holders who are identified in the table below as an affiliate of a broker-dealer (including certain individuals affiliated with GVC Capital) who purchased the offered securities in the Private Placement did so in the ordinary course of business and at the time of such purchase, such selling stockholders had no agreements or understandings, directly or indirectly, with any person to distribute the securities. GVC Capital is the only broker-dealer (as distinguished from an individual who is an affiliate of a broker-dealer) that purchased securities in the Private Placement. GVC Capital purchased such securities for its own account and at the time of such purchase, GVC Capital had no agreements or understandings, directly or indirectly, with any person to distribute the securities; however as a broker-dealer it is deemed an underwriter with respect to such shares.

In addition, GVC Capital and its affiliates received in connection with that same Private Placement, 5,230,000 placement agent warrants exercisable at $0.10 per share as compensation for underwriting activities. The placement agent warrants have a term of five years from the date of closing of the transaction. The Company also has an obligation to potentially issue up to 5,230,000 additional placement agent warrants exercisable at $0.15 per share; however, the $0.15 placement agent warrants will 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 shares underlying these potential additional placement agent warrants are not included as part of this registration statement. We also paid sales commission and expenses of $466,600 to GVC Capital.

The table below lists the selling security holders and other information regarding the beneficial ownership of the shares of common stock by each of the selling security holders. Column B lists the number of shares of common stock beneficially owned by each selling security holder prior to this offering and the number of shares of common stock beneficially owned prior to the private placement with Special Situations. Column C lists the shares of common stock and common stock underlying the warrants covered by this prospectus that may be disposed of by each of the selling security holders. Column D lists the placement agent shares of common stock underlying the warrants covered by this prospectus. Column E lists the number of shares of common stock that will be beneficially owned by the selling security holders assuming all of the shares covered by this prospectus are sold. Column F lists the percentage of shares beneficially owned by each selling security holder after and assuming all of the shares covered by this prospectus are sold. Beneficial ownership has been determined in accordance with Rule 13d-3 under the Exchange Act. October 4, 2013.

Name of Selling Shareholder (A)	Common Stock Beneficially Owned Prior to this Offering (B)	Common Stock Beneficially Owned Prior to Private Placement (B)	Common Stock Beneficially Owned After Offering (E)	COMMON STOCK BEING REGISTERED	
				Common Stock Being Offered (C)	Common Stock Underlying Warrant A Being Offered (C)
Michael L. Conn	750,000	-	-	250,000	250,000
Growth Ventures, Inc. Pension Plan & Trust/ Gary McAdam	1,500,000	-	-	500,000	500,000
Edward Staas	540,000	-	-	180,000	180,000
Jim Bisping	300,000	-	-	100,000	100,000
William D. Moreland	9,000,000	-	-	3,000,000	3,000,000
Len Goldberg	2,700,000	900,000	900,000	600,000	600,000
Michael S. Barish	4,500,000	-	-	1,500,000	1,500,000
Alva Terry Staples	750,000	-	-	250,000	250,000
Lucky Dog LLC/ Robert Doane	1,500,000	-	-	500,000	500,000
High Speed Aggregate, Inc./ Jeff Ploen	750,000	-	-	250,000	250,000
Wallace Family Trust John Wallace	3,000,000	-	-	1,000,000	1,000,000
H. Leigh Severance	2,500,000	1,000,000	1,000,000	500,000	500,000
Stephanie L. Russo	1,050,000	-	-	350,000	350,000
Robert G. Allison	2,250,000	-	-	750,000	750,000
Aeneas Valley Holdings LLC/ Scott Wilburn	6,000,000	-	-	2,000,000	2,000,000
Delaware Charter G & T Co FBO John Jenkins	750,000	-	-	250,000	250,000
Diker Micro-Cap Fund, LP/ Mark Diker	10,500,000	-	-	3,500,000	3,500,000
Delaware Charter G & T Co. FBO Shane T. Petersen	450,000	-	-	150,000	150,000
Delaware Charter G & T Co FBO Douglas Kelsall	750,000	-	-	250,000	250,000
Herbert C. Brosnan Jr	1,050,000	-	-	350,000	350,000
J3E2A2Z LP, an affiliate of Ronald P. Erickson, our CEO	27,328,373	12,328,373	12,328,373	5,000,000	5,000,000
John D.Gibbs	1,750,000	1,000,000	1,000,000	250,000	250,000
Jeb Partners LP/ Jeb Besser	4,500,000	-	-	1,500,000	1,500,000
Special Situations Technology Funds, L.P./ Adam Stettner	47,700,000	-	-	15,900,000	15,900,000
Rapture Investments LP/ Cooper Dubois	15,000,000	-	-	5,000,000	5,000,000
Mark Scott, our CFO	2,568,500	2,268,500	2,268,500	100,000	100,000
Patrick Lin	750,000	-	-	250,000	250,000
SouthShore Capital Partners, LP/ Thomas Turner	1,500,000	-	-	500,000	500,000
David R. Morgan	1,500,000	-	-	500,000	500,000
Millennium Trust Company LLC Cust. FBO John Seabern	3,000,000	-	-	1,000,000	1,000,000
Daniel S. & Patrice M. Perkins	750,000	-	-	250,000	250,000
Michael E. Donnelly (1)	2,129,943	32,603	32,603	500,000	500,000
Delaware Charter G & T Co FBO Steven M. Bathgate (1)	3,654,490	2,286,300	2,286,300	250,000	250,000
Margaret Bathgate (1)	3,025,000	775,000	775,000	750,000	750,000
Viva CO LLC/ Douglas Kelsall and Steven Bathgate (1)	1,250,000	500,000	500,000	250,000	250,000

Liolios Family Trust/ Scott Liolios (1)	1,750,000	-	500,000	250,000	250,000
GVC Capital LLC (1)	4,500,000	-	-	1,500,000	1,500,000
Financial America Securities, Inc. (1)	5,250	-	-	-	-
Matthew Kelsall (1)	250,220	-	-	-	-
Richard Huebner (1)	126,000	-	-	-	-
Anita Dudley (1)	5,000	-	-	-	-
Andrea Kidd (1)	10,000	-	-	-	-
GVC Partners LLC (1)	493,900	-	-	-	-
Delaware Charter G&T Co. FBO: Vicki Barone (1)	839,100	-	-	170,000	170,000
G. Select Securities LLC (2)	2,495,000	-	200,000	-	-
Alan Budd Zuckerman (2)	3,000,000	-	-	1,000,000	1,000,000
Tom Juda & Nancy Juda Living Trust (3)	3,000,000	-	-	1,000,000	1,000,000
Delaware Charter G&T Co. FBO: Rod Cerny (4)	450,000	-	-	150,000	150,000
	183,920,776	21,090,776	21,790,776	52,300,000	52,300,000

*Less than 1% ownership.

(1) GVC Capital LLC purchased 1,500,000 Units for $150,000. The units included 1,500,000 common shares, and 1,500,000 A warrants and 1,500,000 B warrants being offered. In addition GVC Capital earned 5,230,000 Placement Agent Warrants as Placement Agent compensation and these Placement Agent Warrants were allocated to employees of the Placement Agent and other participating FINRA firms, including 2,295,000 allocated to G. Select Securities. GVC Capital LLC is 100% owned by GVC Partners LLC (Holding Company). GVC Partners has four (4) primary shareholders, each owning approximately 24% of the Holding Company. The principal shareholders are Steven Bathgate, Richard Huebner, Vicki Barone, and Greg Fulton. The principal shareholders of GVC Partners disclaim beneficial ownership of the shares allocated to it. Certain individuals affiliated with GVC Capital also purchased units for their own individual accounts.

(2) G. Select Securities LLC, a registered broker-dealer, was allocated 2,295,000 Placement Agent Warrants by GVC Capital. Alan Budd Zuckerman, an affiliate of G. Select Securities, purchased 1,000,000 Units for $100,000 for his individual account.

(3) Affiliated directly or indirectly with Concept Capital Markets LLC, a registered broker-dealer.

(4) Affiliated directly or indirectly with Smith Hayes Advisors, Inc., a registered broker-dealer.

PLAN OF DISTRIBUTION

We are registering shares of common stock that have been issued by us to forty-one investors pursuant to a Private Placement with Special Situations which closed June 14, 2013 in order to permit the resale of these shares of common stock as required under the terms of the Purchase Agreement and the related Registration Rights Agreement between the Company and the investors. We will not receive any of the proceeds from the sale of these shares of common stock by the selling stockholders. Under the terms of the Registration Rights Agreement, we have agreed to pay all fees and expenses incident to our obligation to register these shares of common stock.

The Company is paying the fees and expenses because the proceeds from the Private Placement were made available to the Company at a critical time when there was not sufficient time for the Company to offer the securities through an offering registered with the SEC. Although the investors understand that they may have to hold the securities acquired in the Private Placement indefinitely and it is the Company's understanding that this is the investors' intent, it was important to many of them that should liquidity be needed, they would have the ability to sell these securities. Accordingly, the investors required registration of the resale of their shares under the Registration Rights Agreement.

The Company is not aware of any selling shareholder having any specific or current plans to sell the securities they acquired, including GVC Capital who provided broker-dealer services with regard to the Private Placement and received securities as compensation for such services.

The Company's affiliates have represented that they will not sell any of their stock unless and until that stock would also be eligible for sale under Rule 144 subject to the limitations on sale by affiliates under that Rule.

Although the broker-dealers who provided placement agent services with respect to the Private Placement (i.e., GVC Capital), were not functioning as an "underwriter" in the traditional sense of buying the securities from the Company with the intent of immediately selling the securities (e.g., as in a "firmly underwritten" public offering) and although they are holding the securities they acquired in connection with the Private Placement indefinitely as an investment, as broker-dealers who in the course of their business will at some point likely be selling these securities (either under this registration statement or under an applicable exemption to registration such as Rule 144 under the Securities Act of 1933), these selling shareholders may be deemed underwriters within the meaning of the Securities Act of 1933 with respect to these securities. To the extent that they are acting as "underwriters" it may be said that if and when they do sell their Company securities that are covered by this registration statement, they may be considered to be offering their securities on behalf of the Company even though the Company will not be receiving any proceeds from such sales.

The selling stockholders may decide not to sell any of their respective shares of common stock, or may sell all or a portion of the shares of common stock beneficially owned by them. The selling stockholders will act independently of us in making decisions with respect to the timing, manner and size of any sale of shares, and may sell the shares directly or through one or more broker-dealers or agents. To the extent that any of the selling stockholders employ broker-dealers or other agents in connection with the sale of their respective shares of stock, such selling stockholders will pay any commissions, discounts or other amounts due to such broker-dealers or agents. The selling stockholders have not entered into any agreement, arrangement or understanding with any particular broker-dealer or market maker with respect to the sale or distribution of the shares of common stock offered hereby.

The selling stockholders, which as used herein includes donees, pledgees, transferees or other successors-in-interest selling shares of common stock or interests in shares of common stock received after the date of this prospectus from a selling stockholder as a gift, pledge, partnership distribution or other transfer, may, from time to time, sell, transfer or otherwise dispose of any or all of their shares of common stock or interests in shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These dispositions may be at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market price, at varying prices determined at the time of sale, or at negotiated prices.

The selling stockholders may use any one or more of the following methods when disposing of shares or interests therein:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent, but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales effected after the date the registration statement of which this Prospectus is a part is declared effective by the SEC;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;
- broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted by applicable law.

The selling stockholders may, from time to time, pledge or grant a security interest in some or all of the shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock, from time to time, under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus. The selling stockholders also may transfer the shares of common stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

In connection with the sale of our common stock or interests therein, the selling stockholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the common stock in the course of hedging the positions they assume. The selling stockholders may also sell shares of our common stock short and deliver these securities to close out their short positions, or loan or pledge the common stock to broker-dealers that in turn may sell these securities. The selling stockholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus as supplemented or amended to reflect such transaction.

The aggregate proceeds to the selling stockholders from the sale of the common stock offered by them will be the purchase price of the common stock less discounts or commissions, if any. Each of the selling stockholders reserves the right to accept and, together with their agents from time to time, to reject, in whole or in part, any proposed purchase of common stock to be made directly or through agents. We will not receive any of the proceeds from these stock sales by the selling stockholders. However, upon any exercise by the holders of the Series A and Series B Warrants as well as the placement agent warrants by payment of cash, the Company will receive the exercise price of such Warrants.

The selling stockholders also may resell all or a portion of the shares in open market transactions in reliance upon Rule 144 underthe Securities Act of 1933, provided that they meet the criteria and conform to the requirements of that rule.

To the extent required, the shares of our common stock to be sold, the names of the selling stockholders, the respective purchase prices and public offering prices, the names of any agents, dealer or underwriter, any applicable commissions or discounts with respect to a particular offer will be set forth in an accompanying prospectus supplement or, if appropriate, a post-effective amendment to the registration statement that includes this prospectus.

In order to comply with the securities laws of some states, if applicable, the common stock may be sold in these jurisdictions only through registered or licensed brokers or dealers. In addition, in some states the common stock may not be sold unless it has been registered or qualified for sale or an exemption from registration or qualification requirements is available and is complied with.

We have advised the selling stockholders that the anti-manipulation rules of Regulation M under the Exchange Act may apply to sales of shares in the market and to the activities of the selling stockholders and their affiliates. In addition, to the extent applicable we will make copies of this prospectus as it may be supplemented or amended from time to time available to the selling stockholders for the purpose of satisfying the prospectus delivery requirements of the Securities Act. The selling stockholders may indemnify any broker-dealer that participates in transactions involving the sale of the shares against certain liabilities, including liabilities arising under the Securities Act.

We have agreed to indemnify the selling stockholders against liabilities, including liabilities under the Securities Act and state securities laws, arising out of or based upon (i) any untrue statement or omission of any material fact contained in this prospectus and registration statement, including any amendment or supplement thereof, (ii) any blue sky application filed by the Company in any state in order to qualify the shares covered by this prospectus under the securities laws of such state; (iii) the omission in any blue sky application of a material fact required or necessary to make any statement therein not misleading; (iv) any violation by the Company of any rule or regulation under the Securities Act relating to the registration of the shares covered by this prospectus; or (v) any failure by the Company to register or qualify the shares covered by this prospectus in any state where the Company has affirmatively undertaken such registration or qualification on a selling stockholder's behalf; provided, however, that the Company will not be liable to the extent any liability arises out of or is based upon an untrue statement or omission made or furnished by any selling stockholder for use in this prospectus and registration statement.

We also have agreed with the selling stockholders to keep the registration statement of which this prospectus constitutes a part effective until the earlier of (1) the date on which all of the shares covered by this prospectus have been sold, or (2) the date on which all of the shares may be sold without restriction pursuant to Rule 144 of the Securities Act.

LEGAL MATTERS

Fifth Avenue Law Group PLLC has rendered an opinion regarding the legality of the issuance of the shares of common stock being registered in this prospectus. In the past, we have paid the law firm of Fifth Avenue Law Group PLLC for a portion of its services with our common stock. As of the filing of this Registration Statement, Fifth Avenue Law Group PLLC holds 1,066,667 shares of our common stock (which constitutes approximately 0.6% of the Registrant's total issued and outstanding common stock) with a market value of approximately $85,333.

INTERESTS OF NAMED EXPERTS AND COUNSEL

No expert or counsel named in this prospectus as having prepared or certified any part of this prospectus or having given an opinion upon the validity of the securities being registered or upon other legal matters in connection with the registration or offering of the common stock was employed on a contingency basis, or had (except as disclosed in the preceding section entitled Legal Matters), or is to receive in connection with the filing, a substantial interest, direct or indirect, in the Company or any of its subsidiaries. Nor was any such person connected with the Company or any of its subsidiaries as a promoter, managing or principal underwriter, voting trustee, director, officer, or employee.

The financial statements included in this prospectus and registration statement for the fiscal year ended September 30, 2012 have been audited by PMB Helin Donovan, LLP, the Company's independent registered public accounting firm, and are included in reliance upon such report given upon the authority of said firm as experts in auditing and accounting.

The financial statements included in this prospectus and registration statement for the fiscal year ended September 30, 2011 have been audited by Madsen & Associates CPA's, Inc., the Company's previous independent registered public accounting firm, and are included in reliance upon such report given upon the authority of said firm as experts in auditing and accounting.

BUSINESS

The Company and our Business

We were incorporated under the laws of the State of Nevada on October 8, 1998 with authorized common stock of 200,000,000 shares at $0.001 par value. On September 13, 2002, 50,000,000 shares of preferred stock with a par value of $0.001 were authorized by the shareholders. There are no preferred shares issued and the terms have not been determined. Our executive offices are located in Seattle, Washington.

The following summarizes our plans for our ChromaID™ technology. Based on our expenditures on this technology, the management effort and the Sumitomo Precision Products Co., Ltd relationship, we expect our ChromaID™ technology to provide the majority of net revenues in future years from product sales, licenses, royalties and other revenue streams as discussed in the Business section. TransTech currently provides the majority of our net revenues. There is no government regulation of our business at this time.

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.

There is no current requirement for FDA or other government approval for the current applications of our ChromaID technology. Over time, as the Company explores the application of its ChromaID technology for medical diagnostics and other applications, the Company expects that there will be requirements for FDA and other government approvals before applications using the technology in medical and other regulated fields can enter the marketplace.

Our research and development expenses are as follows:

Nine months ended June 30, 2013- $720,022
Year ended September 30, 2012- $176,944
Year ended September 30, 2011- $133,941

We employ two individuals, utilize contractors at the RATLab and other suppliers for our research and development.

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 Sumitomo, 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 or Amended Agreement with Sumitomo. The Amended Agreement extends the Joint Development Agreement from March 31, 2013 to December 31, 2013. The extension provides for continuing work between Sumitomo and Visualant focused upon advancing the ChromaID technology and market research aimed at identifying the most significant markets for the ChromaID technology. The parties have identified a commercial version of the ChromaID scanner as Version 7. The market research will assist in refining the qualities of Version 7 for the marketplace. Meanwhile, the current version of the technology, identified as Version 6D, is being introduced to the marketplace as a part of our ChromaID F12 Lab Kit during the three months ended December 31, 2013.

Sumitomo 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. Sumitomo also paid the Company an initial payment of $1 million in accordance for an exclusive License Agreement which covers Japan, China, Taiwan, Korea and the entirety of Southeast Asia (Burma, Indonesia, Thailand, Cambodia, Laos, Vietnam, Singapore and the Philippines). A running royalty for the license granted under the License Agreement will be negotiated at the completion of the Joint Development Agreement. The Sumitomo License fee was recorded as revenue over the life the Joint Development Agreement and was fully recorded as of May 31, 2013.

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

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.

We expect to start shipping our first ChromaID product, the ChromaID F12 Lab Kit, sometime during the last calendar quarter of 2013, after we complete final assembly and testing. This Lab Kit will include the following:

- ChromaID F12 Scanner. A small device made with electronic, optical, and software parts, which shines 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 Sumitomo 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 withSumitomo. Our Business Development team is pursuing other license opportunities with customers in our target markets.

Our Acquisition of Visualant Related Assets of the RATLab LLC

On June 7, 2011, we closed the acquisition of all Visualant related assets of the RATLab namely the rights to the medical field of use of the Chroma ID technology . The RATLab is a Seattle based research and development laboratory created by Dr. Tom Furness, founder and Director of the HITLab International, with labs at Seattle, University of Canterbury in New Zealand, and the University of Tasmania in Australia. With this acquisition, we consolidated all intellectual property relating to the ChromaID technology, except for environmental field of use which was held by Javelin LLC and which was acquired separately (see below). We acquired these assets of the RATLab for (i) 1,000,000 shares of our common stock at closing valued at $0.20 per share, the price during the negotiation of this agreement; (ii) payment of $250,000; and (iii) payment of the outstanding promissory note owing to Mr. Furness in the amount of $65,000 with accrued interest of $24,675.

On October 23, 2008, the Company and RATLab entered into definitive agreements which provide for a non-commercial non-exclusive license of the Company's technology to RATLab for the purpose of continuing research and development with a license back to the Company for enhancements that are developed. Further, an exclusive license was entered into between the Company and RATLab for selected fields of use.

Our Acquisition of Environmental Field of Use Rights from Javelin LLC

On July 31, 2012, we closed the acquisition of all rights to the ChromaID technology in the environmental field of use from Javelin LLC. We acquired these assets of Javelin for (i) 1,250,000 shares of our common stock valued at $0.13 per share, the price during the negotiation of the acquisition agreement; and (ii) $100,000 in cash, with $20,000 payable at closing and $80,000 to be paid in four equal installments over a period of eight months, all of which have now been paid. In addition the Company entered into a business development agreement with Javelin LLC which will pay them a fee equal to ten percent of the gross margin revenues received from sales of ChromaID through their business development efforts. To date, Javelin has not earned any fees from business development efforts; however the business development agreement remains in effect.

Our Acquisition of TransTech Systems, Inc.

Our wholly owned subsidiary, TransTech Systems, Inc., based in Aurora, Oregon, is a distributor of products, including systems solutions, components and consumables, for employee and government identification, document authentication, access control, and radio frequency identification. TransTech provides these products and services, along with marketing and business development assistance to a growing channel of value-added resellers and system integrators throughout North America.

TransTech provides its channel partners pre-and post-sales support in the industry. Technical Services covers training and installation support, in-warranty repair, out of warranty repair, and spares programs. Our Customer Service team, provides full sales, configuration, and logistics services. An increasing number of manufacturers are turning to TransTech Systems for channel development and introduction of their products to our market space.

We closed the acquisition of TransTech on June 8, 2010. We acquired our 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 payment of the purchase price for the TransTech stock.

On June 8, 2010 in connection with the acquisition of TransTech, we 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 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.

Kiosk printers for the self service industry – The self service industry is expanding from ATM's and grocery store check-out lines to fully integrated systems for paying bills, depositing cash or checks, and using financial services. TransTech provides Kiosk card printers. The mechanical functions of the printers are the same as a standard desktop card printer, but typically do not have the fancy housing and may come with much higher volume feeder capacities.

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.TransTech buys, packages and distributes products from these vendors after issuing purchase orders. Our products do not have any limit on availability, subject to proper payment of outstanding invoices.

Distribution Methods

Distribution is fragmented in the security and authentication marketplace. There are large companies who increasingly sell directly to customers via the Internet and smaller regional and national distributors who sell to these same customers and provide value added services and support. Often called value added resellers or VARs, distributors such as TransTech work hard to maintain their customer relationships through the provision of outstanding service and support.

The Visualant technology will be primarily sold as IP, licensing and component parts of third party solutions and products. The sales and business development efforts are therefore focused on developing business relationships with those potential customers who have a need for faster, more accurate and lower cost discovery, authentication and verification of surfaces or substances via the spectral pattern creation, recording and storage capabilities provided by the Visualant ChromaID technology. These applications may be in the industrial, commercial or government security sector but the end user products most likely will be produced by a third party incorporating the Visualant scan head component as a part of the overall product.

We should be able to leverage our TransTech channel of distribution and obtain a speed to market advantage. At the same time, where appropriate, Visualant will utilize broad global channels of distribution for its Spectral Pattern Matching technology. We also expect to enter into joint ventures with co-development partners who may have their own channels of distribution.

Competition

While we have not seen any direct competition to the patented ChromaID technology and are not aware of any direct competitors using technology with the same or similar capabilities as the Visualant Spectral Pattern Matching technology in the security and authentication marketplace, there are several indirect competitors in the form of other methods for determining the authenticity of products and people. These competitive products include the use of RFID chips, holograms, iris scans, fingerprints and other means of determining whether a person or product is authentic.

There are competitors who do use spectroscopy and IR light to sense and validate various substances. While these methods are not identical to Chroma ID technology, they are functional, but at a relatively higher price. The FDA recently developed an internal product for checking on illegal drugs, and companies like Thermo Scientific and Centice are using Ramen light scattering technologies to analyze various substances confirming that the market is interested the light identification solutions. The previously mentioned products, however, are large and expensive, costing over $10,000 for each product. Many companies compete in the security and authentication marketplace with various solutions, many of which perform with excellence. We believe that we can provide an accurate, cost effective component which will add value to customers looking for additional inexpensive redundancies to solve their security and authentication problems.

TransTech faces direct competition from OEMs and manufacturers selling directly to end users/customers and from other distributors of both the same products as TransTech distributes and competing products.

Summary Financial Results

Summary of Recent Business Operations for the Nine Months Ended June 30, 2013

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 Sumitomo and sales of $5,667,000 at TransTech. Net revenue for the nine months ended June 30, 2012 reflected $84,000 from Sumitomo and sales of $5,442,000 at TransTech. Sumitomo paid the Company an initial payment of $1 million under a License Agreement dated May 31, 2012 providing Sumitomo with an exclusive license of our technology in identified Asian territories. This license revenue was fully recognized by May 31, 2013. The TransTech increase primarily resulted from the release of new products, including radio frequency and asset tracking and kiosk printer products.

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 Sumitomo license revenue, offset by a reduction TransTech gross margin from 17.1% to 15.2% related to the release of new products, including radio frequency and asset tracking and kiosk printer products. New products have lower margins during the product launch and until sales increase.

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 expenditures for personnel and suppliers related to the commercialization of Visualant's ChromaID technology and the expenses incurred for the Joint Development Agreement with Sumitomo.

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 legal expenses ($303,000), salaries ($163,000), business development expenses ($80,000), and stock based compensation expenses ($177,000). The increase in legal expense related to increased patent and trademark expenses and corporate legal expense related to financing transactions, the Gemini and Ascendiant transactions and work related to the James Gingo Employment Agreement. The increase in salaries related to the addition of personnel and salary increases for the CEO and CFO. Business development expenses include cash and share issuances to develop markets and license agreements. During the nine months June 30, 2012, we recorded non-cash expenses of (i) depreciation and amortization of $303,000; (ii) issuance of shares for services of $255,000; and (iii) stock based compensation of $227,000.

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, including (i) depreciation and amortization of $303,000; (ii) issuance of shares for services of $255,000; (iii) stock based compensation of $227,000; (iv) loss on derivative liability- warrants of $1,449,000; and (v) loss on purchase of warrant and additional investment right of $1,150,000.

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

Summary of Recent Business Operations for the Year Ended September 30, 2012

Net revenue for the year ended September 30, 2012 decreased $1,212,000 to $7,924,000 as compared to $9,136,000 for the year ended September 30, 2011. The reduction was due to a large sale by TransTech to an aerospace company in the year ended September 30, 2011, which was not repeated in the year ended September 30, 2012.

Gross margin was $334,000 for our license revenue and $1,246,000 from TransTech for a total of $1,580,000 as compared to $1,566,000 for the year ended September 30, 2011. The gross margin was 19.9% for the year ended September 30, 2012 as compared to 17.7% for the year ended September 30, 2011. The increase relates to the Sumitomo license revenue, offset by a reduction TransTech gross margin from 17.1% to 16.4% related to product mix. The TransTech gross margin was negatively impacted by the reduction in the large sale by TransTech to an aerospace company and somewhat lower margins on remaining product lines due to competition.

Research and development expenses for the year ended September 30, 2013 increased $43,000 to $177,000 as compared to $134,000 for the year ended September 30, 2012. The increase was due to expenditures for personnel related to the commercialization of Visualant's ChromaID technology and the expenses incurred for the Joint Development Agreement with Sumitomo.

Selling, general and administrative expenses for the year ended September 30, 2012 decreased $67,000 to $3,625,000 as compared to $3,691,000 for the year ended September 30, 2011. We recorded $195,000 in expenses related to the Sumitomo transactions during the year ended September 30, 2012. During the year ended September 30, 2012, we recorded non-cash expenses of $1,196,000 consisting of (i) depreciation and amortization of $356,000; (ii) issuance of shares for services of $327,000 and (iii) stock based compensation of $266,000.

Net loss for the year ended September 30, 2012 was $2,726,000 as compared to a net loss of $2,396,000 for the year ended September 30, 2011. The net loss included non-cash expenses of $1,302,000, including (i) depreciation and amortization of $356,000; (ii) issuance of shares for services of $327,000; (iii) stock based compensation of $266,000; (iv) loss on purchase of warrant of $500,000; (v) offset by the gain of extinguishment of debt of $394,000.

Going Concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. We 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.

We anticipate that we will record losses from operations for the foreseeable future. As of June 30, 2013, our accumulated deficit was $19,378,609. We have 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.

Our continuation 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.

Material Financing Transactions

Purchase Agreement with Special Situations and forty other Accredited Investors which closed June 14, 2013

On June 10, 2013, we entered into a Purchase Agreement, Warrants and Registration Rights 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 that 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, and the investors obtained voting agreements from certain stockholders regarding an increase in the number of authorized shares of stock. Since we had an insufficient number of authorized shares of common stock to permit the exercise of all of the Series A and Series B Warrants at the time of closing, 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, which was held on August 9, 2013. At the stockholders' special meeting, the stockholders approved an increase in the number of authorized shares of common stock of the Company from 200,000,000 shares to 500,000,000 shares.

We also agreed to file a registration statement on Form S-1 to register the resale of the 52,300,000 shares of common stock issued in the transaction plus a portion of the shares underlying the Series A Warrants, and to use commercially reasonable efforts to have the registration statement declared effective as soon as practicable. The Company must pay damages if the registration statement is not declared effective within one hundred and twenty days of the June 14, 2013 closing of the transaction. In addition, we agreed to file a subsequent registration statement on Form S-1 to register the resale of all remaining shares underlying the Series A and Series B Warrants within five business days of the special meeting of the stockholders of Visualant approving the increase in the number of authorized shares of common stock of the Company.

In connection with and as a condition to the closing of the Transaction, the Investors obtained voting agreements from existing stockholders holding an aggregate of 38,359,633 shares of our common stock. The voting agreements required those stockholders to vote their shares in favor of an increase in the number of the Company's authorized shares of common stock from 200,000,000 to 500,000,000 at the upcoming special meeting of stockholders. At the special meeting of stockholders held on August 9, 2013, 69.9% of our stockholders approved an increase in the number of authorized shares of common stock from 200,000,000 to 500,000,000 and authorized an amendment to our articles of incorporation to reflect this change in share authorization. The voting agreements obtained by the Investors were not utilized at the special stockholders meeting since there were a sufficient number of stockholders present at the meeting, either in person or by proxy, who voted in favor of the increase in our authorized shares of common stock.

Equity Line of Credit Transaction with Ascendiant dated June 17, 2011

On June 17, 2011, we entered into a Securities Purchase Agreement with Ascendiant, pursuant to which Ascendiant agreed to purchase up to $3,000,000 worth of shares of our common stock from time to time over a 24-month period, provided that certain conditions were met. The financing arrangement entered into by the Company and Ascendiant is commonly referred to as an "equity line of credit" or an "equity drawdown facility."

Under the terms of the Securities Purchase Agreement, Ascendiant was not obligated to purchase shares of our common stock unless and until certain conditions were met, including but not limited to the SEC declaring effective a Registration Statement (the "Registration Statement") on Form S-1 and the Company maintaining an Effective Registration Statement which registered Ascendiant's resale of any shares purchased by it under the equity drawdown facility. The customary terms and conditions associated with Ascendiant's registration rights are set forth in a Registration Rights Agreement that was also entered into by the parties on June 17, 2011.

Once the registration was declared effective, we had the right to sell and issue to Ascendiant, and Ascendiant had the obligation to purchase from us, up to $3,000,000 worth of shares of the Company's common stock over a 24-month period beginning on such date (the "Commitment Period"). We were entitled to sell such shares from time to time during the Commitment Period by delivering a draw down notice to Ascendiant. In such draw down notices, the Company was required to specify the dollar amount of shares that it intended to sell to Ascendiant, which was spread over a five-trading-day pricing period. For each draw, the Company was required to deliver the shares sold to Ascendiant by the second trading day following the pricing period. Ascendiant was entitled to liquidated damages in connection with certain delays in the delivery of its shares.

The Securities Purchase Agreement also provided for the following terms and conditions:

- Purchase Price - 90% of our volume-weighted average price ("VWAP") on each trading day during the five-trading-day pricing period, unless the lowest VWAP or closing bid price ("Market Price") on the trading day before settlement was lower, in which case the Purchase Price shall be the Market Price less $.01.

- Threshold Price – We may specify a price below which we will not sell shares during the applicable five-trading-day pricing period. If the VWAP falls below the threshold price on any day(s) during the pricing period, such day(s) will be removed from the pricing period (and Ascendiant's investment amount will be reduced by 1/5 for each such day).

- Maximum Draw - 20% of our total trading volume for the 10-trading-day period immediately preceding the applicable draw down, times the average VWAP during such period (but in no event more than $100,000).

- Minimum Draw - None.

- Minimum Time Between Draw Down Pricing Periods - Three trading days.

- Minimum Use of Facility – We were not obligated to sell any shares of our common stock to Ascendiant during the Commitment Period.

- Commitment and Legal Fees – Commitment fees of 5% ($150,000), payable in shares of our common stock based on the following schedule: $75,000 worth of restricted shares to be delivered at initial closing, $25,000 worth of shares if and when the S-1 is declared effective, and $25,000 worth of shares at 30 and 60 days). Legal fees were $7,500. We issued 1,490,943 shares for these commitment and legal fees.

- Indemnification - Ascendiant is entitled to customary indemnification from us for any losses or liabilities it suffers as a result of any breach by us of any provisions of the Securities Purchase Agreement, or as a result of any lawsuit brought by any of our stockholders (except stockholders who are officers, directors or principal stockholders of the Company).

- Conditions to Ascendiant's Obligation to Purchase Shares - Trading in our common stock must not be suspended by the SEC or other applicable trading market; we must not have experienced a material adverse effect; all liquidated damages and other amounts owing to Ascendiant must be paid in full; the Registration Statement must be effective with respect to Ascendiant's resale of all shares purchased under the equity drawdown facility; there must be a sufficient number of authorized but unissued shares of our common stock; and the issuance must not cause Ascendiant to own more than 9.99% of the then outstanding shares of our common stock.

- Termination - The Securities Purchase Agreement would terminate if our common stock was not listed on one of several specified trading markets (which include the NYSE AMEX, OTC Bulletin Board and Pink Sheets, among others); if we filed for protection from its creditors; or if the Registration Statement was not declared effective by the SEC by the date nine months following the date of the Securities Purchase Agreement. We had the right to terminate the Securities Purchase Agreement with five days' notice two years from the Registration Statement being declared effective or August 29, 2013.

The Securities Purchase Agreement also contained certain representations and warranties of the Company and Ascendiant, including customary investment-related representations provided by Ascendiant, as well as acknowledgements by Ascendiant that it has reviewed certain disclosures of the Company (including the periodic reports that we have filed with the SEC) and that our issuance of the shares has not been registered with the SEC or qualified under any state securities laws. We provided customary representations regarding, among other things, its organization, capital structure, subsidiaries, disclosure reports, absence of certain legal or governmental proceedings, financial statements, tax matters, insurance matters, real property and other assets, and compliance with applicable laws and regulations. Our representations and warranties are qualified in their entirety (to the extent applicable) by our disclosures in the reports it files with the SEC. We also delivered confidential disclosure schedules qualifying certain of its representations and warranties in connection with executing and delivering the Securities Purchase Agreement.

The shares issued by the Company to Ascendiant under the Securities Purchase Agreement were issued in private placements in reliance upon the exemption from the registration requirements set forth in the Securities Act provided for in Section 4(2) of the Securities Act, and the rules promulgated by the SEC thereunder.

We issued to Ascendiant 6,358,933 shares for $483,141 or $.076 per shares under the Securities Purchase Agreement excluding the commitment and legal fees.

Our equity line of credit with Ascendiant expired on August 29, 2013.

Agreements with Gemini Master Fund, Ltd. and Ascendiant Capital Partners, LLC dated May 19, 2011

On May 19, 2011, we entered into a Securities Purchase Agreement or Agreement with Gemini and Ascendiant, pursuant to which we issued $1.2 million in principal amount of 10% convertible debentures (the "Original Debentures"), which were due May 1, 2012. The purchase price for the debentures was 83.3% of the face amount, resulting in our receiving $1.0 million, less legal fees, placement agent fees and expenses. Under the terms of the Agreement, the debentures, including the amount of accrued interest thereon, were convertible at the option of the holder into shares of the Company's common stock at a conversion price equal to the lesser of (i) $0.50 per share, or (ii) 70% of the average of the three lowest prices during the 20 trading days preceding the conversion date, subject to a floor conversion price of $0.35 per share, provided that the Company pays to the holder a compensatory amount in cash to adjust for the difference between the conversion price and $0.35 per share. The warrants for 2.4 million shares are exercisable at a price of $0.50 per share for five years. The Agreement also provided for an additional $1.0 million investment option by the Investors to purchase an additional $1.2 million in aggregate principal amount of debentures on or before the one-year anniversary date of the Agreement. The conversion price of these additional debentures is equal to the lesser of (i) $1.00 per share, or (ii) 70% of the average of the three lowest prices during the 20 trading days preceding the conversion date, subject to a floor conversion price of $0.70 per share subject to adjustment.

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

The due date of the Original Debentures was extended to September 30, 2012 pursuant to a First Amendment to the Agreement on March 12, 2012, and further extended to September 30, 2013 pursuant to a Second Amendment to the Agreement on August 16, 2012. The Agreement included an additional investment right granted to Gemini and Ascendiant, pursuant to which the Gemini and Ascendiant had the right at any time until September 30, 2013, to purchase up to $1.2 million in principal amount of Additional Debentures on the same terms and conditions as the Original Debentures, except that the conversion price on the Additional Debentures was expected to have a higher floor. The conversion price on both the Original Debentures and the Additional Debentures were subject to a potential downward adjustment for any equity sales subsequent to the date of issuance. In conjunction with the purchase of the Additional Debentures, Gemini and Ascendiant also had the right to purchase additional warrants.

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

Ascendiant also had a warrant for the purchase of up to 600,000 shares of our common stock at an original exercise price of $.35 per share, which exercise price was subject to adjustment and which had been adjusted downward as of April 26, 2013, the date it was exercised by Ascendiant.

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

On January 30, 2013, the Company and Gemini and Ascendiant entered into the following agreements dated January 23, 2013 but made effective as of the date of their execution by the parties. We entered into these agreements to eliminate the potential dilution. This decision was made as part of the funding transaction with accredited investors that closed on June 14, 2013.

(1) Warrant Purchase Agreement between the Company and Ascendiant pursuant to which we agreed to repurchase the Ascendiant Warrant for a purchase price of $300,000, which amount was due in full on March 31, 2013. No portion of the purchase price was paid by the due date and Ascendiant was issued a total of 4,564,068 shares of common stock on April 26, 2013 as a result of Ascendiant's cashless exercise of the Ascendiant Warrant. On April 26, 2013, we entered into an Option Agreement with Ascendiant pursuant to which we had the option to purchase from Ascendiant 4,000,000 of the 4,564,068 shares of common stock of the Company acquired by Ascendiant upon exercise of its warrant for a total purchase price of $300,000. If purchased by us, the 4,000,000 shares were expected to be retired to treasury. The option was required to be exercised and payment for the shares made on or before May 31, 2013. On May 31, 2013, we exercised our option to purchase 4,000,000 Option Shares from Ascendiant and paid to Ascendiant the $300,000 purchase price. Ascendiant delivered only 2,284,525 of the 4,000,000 Option Shares purchased by the Company and had failed to deliver the remaining 1,715,475 Option Shares. On June 17, 2013, we filed a complaint (the "Complaint") against Ascendiant Capital Partners, LLC ("Ascendiant") in the California Superior Court, County of Orange (Case No. 30-2013-00656770-CU-BC-CJC) for breach of contract, seeking damages, specific performance and injunctive relief against Ascendiant. On September 24, 2013, the California Superior Court granted Visualant's motion, finding that Visualant was likely to prevail on the merits of its claim against Ascendiant. The Court ordered Ascendiant to deliver 1,715,475 Option Shares to the Company by 4:00PM, September 27, 2013. The delivery occurred on September 27, 2013. The Company expects to pursue its damage claim.

(2) Amendment to Warrant Purchase Agreement between the Company and Gemini dated January 23, 2013 extending the due date for payment of the balance of the purchase price, including accrued interest thereon, from November 30, 2012 to March 31, 2013. We accrued interest at 18% on the $250,000 balance due to Gemini. We were in default on our payment obligation to Gemini, which entitled Gemini to exercise its warrant, potentially resulting in substantial additional dilution to our shareholders. On May 31, 2013, we paid $250,000 plus interest of $35,175 under the Amendment to Warrant Purchase Agreement with Gemini, in exchange for which we acquired the warrant from Gemini and cancelled it.

(3) AIR Termination Agreement between the Company and Gemini (which had previously acquired Ascendiant's AIR right in a private transaction between Gemini and Ascendiant) dated January 23, 2013 pursuant to which we acquired all additional investment rights or AIR of Gemini and Ascendiant under the Securities Purchase Agreement dated May 19, 2011 for the sum of $850,000, to be paid pursuant to the terms of a promissory note executed by the Company for the principal amount of $850,000. The promissory note was payable in two installments of $425,000 each, together with accrued interest thereon at the rate of 5% per annum, due on June 30, 2013 and September 30, 2013. If the payments were not made, we owed 120% of the balance due plus interest. On June 26, 2013, we acquired all additional investment rights between the Company and Gemini under the AIR Agreement with the payment of $850,000 and interest of $17,349.

Security Purchase Agreement with Seaside Advisors LLC dated December 23, 2010

On December 23, 2010, we entered into a Securities Purchase Agreement with Seaside pursuant to which Seaside agreed to purchase restricted shares of our common stock from time to time over a 12-month period, provided that certain conditions were met.

Under the terms of the agreement with Seaside, we agreed to sell and issue to Seaside each month for a 12-month period commencing on the closing date, restricted shares of our common stock at a price equal to the lower of (i) 60% of the average trading price of the company's stock during the 10 trading days immediately preceding each monthly closing date, or (ii) 70% of the average trading price for the trading day immediately preceding each monthly closing date. Visualant's agreement to sell shares each month during said 12 month period was subject to certain conditions and limitations. With respect to each subsequent closing, Visualant was not obligated to sell any of its common stock to Seaside at a price lower than $0.25 per share, and Seaside's beneficial ownership of our common stock was not to exceed 9.9%. Seaside was not permitted to short sale our common stock.

Visualant paid Seaside's legal fees and expenses in the amount of $25,000 for the initial closing, and agreed to pay $2,500 for each subsequent closing. Visualant also agreed to pay 7.0% in finder's fees (to be paid in connection with each draw down) and issue 10,113 common stock warrants exercisable at $0.21395 per share.

As of September 30, 2011, we sold to Seaside 2,529,314 shares at a purchase price of $0.302 per share, or an aggregate price of $763,650. In addition, we issued warrants to brokers for the purchase of 177,050 shares of common shares at the purchase price of $0.302 per share. The Securities Purchase Agreement expired December 23, 2011.

Employees

As of October 4 , 2013 we had sixteen full-time and two part-time employees. Our senior management is located in the Seattle, Washington office.

DESCRIPTION OF PROPERTY

Corporate Offices

Our executive office is located at 500 Union Street, Suite 420, Seattle, Washington, USA, 98101. On August 1, 2012, we entered into a lease which expires August 31, 2014. The monthly lease rate was $1,944 for the year ending August 31, 2013 and $2,028 for the year ending August 31, 2014. On June 14, 2013, we 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. TransTech leases a total of approximately 9,750 square feet of office and warehouse space for its administrative offices, product inventory and shipping operations, at a monthly rental of $4,292. The lease was extended from March 2011 for an additional five year term at a monthly rental of $4,751. There are two additional five year renewals with a set accelerating increase of 10% per 5 year term.

SELECTED FINANCIAL DATA

The following table summarizes the financial data for our business. You should read this summary financial data in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated Financial Statements and related notes, all included elsewhere in this prospectus.

We have derived the statements of operations data for the fiscal years ended September 30, 2012 and 2011 from our audited consolidated financial statements and related notes included elsewhere in this prospectus. We have derived the statements of operations data for the fiscal years ended September 30, 2010, 2009 and 2008 from our audited consolidated financial statements not included in this prospectus. We have derived the statements of operations data for the nine months ended June 30, 2013 and 2012 and the balance sheet data as of June 30, 2013 from our unaudited interim condensed consolidated financial statements and related notes included elsewhere in this prospectus. Our historical results are not necessarily indicative of the results that may be expected in the future.

(dollars in thousands)

	Nine Months Ended	Years Ended September 30,				
	June 30, 2013	2012	2011	2010	2009	2008
(in thousands, except for share and per share data)						
STATEMENT OF OPERATIONS DATA:						
Revenue	$ 6,334	$ 7,924	$ 9,136	$ 2,543	$ -	$ -
Net loss	(5,463)	(2,726)	(2,396)	(1,147)	(951)	(945)
Net loss applicable to Visualant, Inc. common shareholders	(5,448)	(2,732)	(2,410)	(1,149)	(951)	(945)
Net loss per share	(0.05)	(0.04)	(0.06)	(0.04)	(0.03)	(0.05)
Weighted average number of shares	108,181,494	65,557,376	42,682,795	30,728,036	28,003,021	18,029,095
BALANCE SHEET DATA:						
Total assets	5,592	5,320	4,313	4,144	12	2
Stockholder's (deficiency) equity	(1,782)	171	(1,610)	(1,900)	(1,366)	(2,135)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking statements in this prospectus 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 and in Management's Discussion and Analysis of Financial Condition and Results of Operations as well as those discussed elsewhere in this prospectus. Readers are urged not to place undue reliance on these forward-looking statements which 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 the prospectus.

Summary of Recent Business Operations for the Nine Months Ended June 30, 2013

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 Sumitomo and sales of $5,667,000 at TransTech. Net revenue for the nine months ended June 30, 2012 reflected $84,000 from Sumitomo and sales of $5,442,000 at TransTech. Sumitomo paid the Company an initial payment of $1 million under a License Agreement dated May 31, 2012 providing Sumitomo with an exclusive license of our technology in identified Asian territories. This license revenue was fully recognized by May 31, 2013. The TransTech increase primarily resulted from the release of new products, including radio frequency and asset tracking and kiosk printer products.

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 Sumitomo license revenue, offset by a reduction TransTech gross margin from 17.1% to 15.2% related to the release of new products, including radio frequency and asset tracking and kiosk printer products. New products have lower margins during the product launch and until sales increase.

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 expenditures for personnel and suppliers related to the commercialization of Visualant's ChromaID technology and the expenses incurred for the Joint Development Agreement with Sumitomo.

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 legal expenses ($303,000), salaries ($163,000), business development expenses ($80,000), and stock based compensation expenses ($177,000). The increase in legal expense related to increased patent and trademark expenses and corporate legal expense related to financing transactions, the Gemini and Ascendiant transactions and work related to the James Gingo Employment Agreement. The increase in salaries related to the addition of personnel and salary increases for the CEO and CFO. Business development expenses include cash and share issuances to develop markets and license agreements. During the nine months June 30, 2012, we recorded non-cash expenses of (i) depreciation and amortization of $303,000; (ii) issuance of shares for services of $255,000; and (iii) stock based compensation of $227,000.

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, including (i) depreciation and amortization of $303,000; (ii) issuance of shares for services of $255,000; (iii) stock based compensation of $227,000; (iv) loss on derivative liability- warrants of $1,449,000; and (v) loss on purchase of warrant and additional investment right of $1,150,000.

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

Summary of Recent Business Operations for the Year Ended September 30, 2012

Net revenue for the year ended September 30, 2012 decreased $1,212,000 to $7,924,000 as compared to $9,136,000 for the year ended September 30, 2011. The reduction was due to a large sale by TransTech to an aerospace company in the year ended September 30, 2011, which was not repeated in the year ended September 30, 2012.

Gross margin was $334,000 for our license revenue and $1,246,000 from TransTech for a total of $1,580,000 as compared to $1,566,000 for the year ended September 30, 2011. The gross margin was 19.9% for the year ended September 30, 2012 as compared to 17.7% for the year ended September 30, 2011. The increase relates to the Sumitomo license revenue, offset by a reduction TransTech gross margin from 17.1% to 16.4% related to product mix. The TransTech gross margin was negatively impacted by the reduction in the large sale by TransTech to an aerospace company and somewhat lower margins on remaining product lines due to competition.

Research and development expenses for the year ended September 30, 2013 increased $43,000 to $177,000 as compared to $134,000 for the year ended September 30, 2012. The increase was due to expenditures for personnel related to the commercialization of Visualant's ChromaID technology and the expenses incurred for the Joint Development Agreement with Sumitomo.

Selling, general and administrative expenses for the year ended September 30, 2012 decreased $67,000 to $3,625,000 as compared to $3,691,000 for the year ended September 30, 2011. We recorded $195,000 in expenses related to the Sumitomo transactions during the year ended September 30, 2012. During the year ended September 30, 2012, we recorded non-cash expenses of $1,196,000 consisting of (i) depreciation and amortization of $356,000; (ii) issuance of shares for services of $327,000 and (iii) stock based compensation of $266,000 .

Net loss for the year ended September 30, 2012 was $2,726,000 as compared to a net loss of $2,396,000 for the year ended September 30, 2011. The net loss included non-cash expenses of $1,302,000, including (i) depreciation and amortization of $356,000; (ii) issuance of shares for services of $327,000; (iii) stock based compensation of $266,000; (iv) loss on purchase of warrant of $500,000; (v) offset by the gain of extinguishment of debt of $394,000.

Summary of Recent Business Operations for the Year Ended September 30, 2011

Net revenue for the year ended September 30, 2011 increased $6,593,000 to $9,136,000 as compared to $2,543,000 for the year ended September 30, 2010.

Gross margin was $0 for our license revenue and $1,566,000 from TransTech for a total of $1,566,000 as compared to $447,000 for the year ended September 30, 2010. The gross margin was 17.1% for the year ended September 30, 2011 as compared to 17.6% for the year ended September 30, 2010. The TransTech gross margin decrease was related to product mix.

Research and development expenses for the year ended September 30, 2011 increased $43,000 to $134,000 as compared to $91,000 for the year ended September 30, 2010. The increase was due to expenditures for the development of Visualant's ChromaID technology.

Selling, general and administrative expenses for the year ended September 30, 2011 increased $2,315,000 to $3,690,000 as compared to $1,377,000 for the year ended September 30, 2011. Visualant expenses increased $1,213,000 related to non-cash expenses of $1,204,000, including (i) depreciation and amortization of $385,000; (ii) issuance of shares and warrants for services of $660,000; and (iii) stock based compensation of $151,000 and other business development and investor relation expenditures to expand the business. TransTech expenses increased $1,102,000 related to owning TransTech for a full year.

Net loss for the year ended September 30, 2011 was $2,396,000 as compared to a net loss of $1,147,000 for the year ended September 30, 2010. The net loss included non-cash expenses of $1,204,000 and other business development and investor relation expenditures to expand the business. Business development and investor relation expenditures include cash and issuances to develop markets, license agreements and an investor base for the Company.

The net loss included non-cash expenses of $1,204,000, including (i) depreciation and amortization of $385,000; (ii) issuance of shares and warrants for services of $660,000; and (iii) stock based compensation of $151,000.

We closed the acquisition of TransTech of Aurora, OR on June 8, 2010 and recorded the results from June 8, 2010 to September 30, 2011.

Liquidity and Capital Resources

Summary

We have 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 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 Scanner 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.

We expect losses to continue as we commercialize our ChromaID™ technology. Our cash used in operations for the nine months ended June 30, 2013 was $(2,487,000).

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) Ascendiant 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 entered into the agreements with Gemini and Ascendiant dated January 23, 2013 but made effective as of the date of their execution by the parties to eliminate the potential dilution. This decision was made as part of the funding transaction with accredited investors that closed on June 14, 2013.

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.

As part of the transaction with accredited investors which closed June 14, 2013, the Company issued to the investors Series A Warrants for 52,300,00 common shares at $0.15 per share and Series B Warrants for 52,300,000 common shares at $0.20 per share. If fully exercised, the warrants would provide the following liquidity (before fees) to fund the Company's operations:

Series A Warrants - up to $7,845,000 and
Series B Warrants - up to $10,460,000.

We expect to consider other funding options if the warrants are not exercised or if we experience any delays in the commercialization of our ChromaID™ technology.

Summary of Financings

We have previously 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).

The financing transactions and any related revisions are reviewed in the Business section of this prospectus. We have not had any material capital commitments.

We finance TransTech operations from operations and a Secured Credit Facility with BFI Finance Corp. 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% (currently 4.5%). The eligible borrowing is based on 80% of eligible trade accounts receivable, not to exceed $700,000 (currently $671,000). The Company is repaying the remaining $78,000 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 Visualant, including all assets of Visualant. Visualant believes any default would be satisfied by the assets of TransTech. Availability under this Secured Credit ranges from $0 to $100,000 ($46,000 currently) on a daily basis. The remaining balance (currently $749,000) must be repaid by the time the secured credit facility expires on December 12, 2013, unless the Company is able to extend this.

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.

The following summarizes our liquidity and current and prior financings:

	Nine Months Ended June 30, 2013	Year Ending, September 30, 2012	September 30, 2011	September 30, 2010
Analysis of Cash Flow-				
Cash flow (used in) operations	$ (2,487,000)	$ (58,000)	$ (1,312,000)	$ (441,000)
Cash flow (used in) provided by investing activities	(11,000)	(100,000)	(108,000)	54,000
Cash flow provided by financing activities	3,067,000	1,207,000	1,428,000	466,000
Net change in cash	$ 569,000	$ 1,049,000	$ 8,000	$ 79,000
Cash	$ 1,710,000	$ 1,141,000	$ 92,000	$ 84,000
Net working capital (deficit)	164,000	(2,362,000)	(3,202,000)	(2,667,000)
Long term debt	3,000	4,000	1,015,000	1,676,000

Investor/ Lendor	Nine Months Ended June 30, 2013	Year Ending, September 30, 2012	September 30, 2011	September 30, 2010
Shares of Common Stock-				
Coach Capital LLC Convertible Debenture and warrant exercise	-	-	2,500,000	-
Seaside	-	-	2,529,000	-
Gemini Convertible Debentures	14,032,000	6,725,000	312,000	-
Ascendiant Convertible Debentures	5,739,000	3,373,000	-	-
Ascendiant Equity Line of Credit	993,000	5,357,000	1,500,000	-
Sumitomo Precision Products Co, Ltd.	-	17,308,000	-	-
Special Situations and 40 other Accredited Purchase Agreement	52,300,000	-	-	-
Other	-	-	961,000	-
Total shares issued from financings	73,064,000	32,763,000	7,802,000	-
Proceeds from Financings-				
Coach Capital LLC Convertible Debenture and warrant exercise	$ -	$ -	$ 125,000	$ 250,000
Seaside	-	-	761,000	-
Gemini Convertible Debentures	102,000	20,000	900,000	-
Ascendiant Convertible Debentures	23,000	19,000	300,000	-
Ascendiant Equity Line of Credit	100,000	377,000	182,000	-
Sumitomo Precision Products Co, Ltd.	-	2,250,000	-	-
Special Situations and 40 other Accredited Purchase Agreement	5,230,000	-	-	-
Other	-	-	156,000	50,000
Total proceeds from financings	$ 5,455,000	$ 2,666,000	$ 2,424,000	$ 300,000
TransTech Secured Credit Facility with BFI Finance Corp.	$ 110,000	$ 62,000	$ (137,000)	$ 188,000

As of June 30, 2013

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.

On June 10, 2013, we entered into a Purchase Agreement, Warrants and Registration Rights 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, 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, and the investors obtained voting agreements from certain stockholders regarding an increase in the number of authorized shares of stock. 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) Ascendiant 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. This decision was made as part of the funding transaction with accredited investors that closed on June 14, 2013.

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.

As of September 30, 2012

We had cash of $1.1 million, a net working capital deficit of approximately $2.4 million and total indebtedness of $1.6 million as of September 30, 2012.

We issued 17,308,000 shares to Sumitomo for $2,250,000 related to their equity investment which closed May 31, 2012.
We issued 10,098,000 shares related to financing transactions with Gemini and Ascendiant that we previously discussed.
We issued 5,357,000 shares to shares to Ascendiant and received $377,000 under the equity line of credit that we previously discussed.

As of September 30, 2011

We had cash of $92,000, a net working capital deficit of approximately $3.2 million and total indebtedness of $2.6 million as of September 30, 2011.

We issued 2,500,000 shares to Coach Capital related to the financing transaction previously discussed.
We issued 2,529,000 shares to Seaside for $761,000 related to the financing transaction previously discussed.
We issued 312,000 shares to Gemini and received $1,200,000 from Gemini and Ascendiant in the financing transaction that we previously discussed.
We issued 1,500,000 shares and received $182,000 under the equity line of credit that we previously discussed.

Recent and Expected Losses

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

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to interest rate risks with our Secured Credit Facility at BFI Business Finance. The Company does not trade in hedging instruments or other than trading instruments and is exposed to interest rate risks. We believe that the impact of a 10% increase or decline in interest rates would not be material to our financial condition and results of operations.

LEGAL PROCEEDINGS

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

MANAGEMENT

Our directors and executive officers, their ages, their respective offices and positions, and their respective dates of election or hire are as follows:

Business Experience Descriptions

Name	Age	Positions and Offices Held	Since
Directors-			
Ronald P. Erickson	69	Chief Executive Officer and President, Management Director	April 24, 2003
Jon Pepper	62	Independent Director	April 19, 2006
Marco Hegyi	55	Chairman of the Board, Independent Director	February 14, 2008
Ichiro Takesako	54	Management Director	December 28, 2012
Executive Officers-			
Mark Scott	60	Chief Financial Officer and Secretary	May 1, 2010
Richard Mander, Ph.D.	53	Vice President, Product Management and Technology	June 26, 2012
Todd Martin Sames	59	Vice President of Business Development	September 5, 2012
Jeffrey Kruse	55	President of TransTech Systems, Inc.	July 17, 2013

Mr. Erickson is also an Executive Officer.

Our Management Directors

RONALD P. ERICKSON has been a director and officer of the Company since April 24, 2003. He was appointed to the positions of CEO and President on November 10, 2009. Previously, Mr. Erickson was appointed President and Chief Executive Officer of the Company on September 29, 2003, and resigned from these positions on August 31, 2004. Mr. Erickson was Chairman of the Board from August 31, 2004 until May 2011.

A senior executive with more than 30 years of experience in the high technology, telecommunications, micro-computer, and digital media industries, Mr. Erickson was the founder of Visualant. He is formerly Chairman, CEO and Co-Founder of Blue Frog Media, a mobile media and entertainment company; Chairman and CEO of eCharge Corporation, an Internet based transaction procession company, Chairman, CEO and Co-founder of GlobalTel Resources, a provider of telecommunications services; Chairman, Interim President and CEO of Egghead Software, Inc. the large software reseller where he was an original investor; Chairman and CEO of NBI, Inc.; and Co-founder of MicroRim, Inc. the database software developer. Earlier, Mr. Erickson practiced law in Seattle and worked in public policy in Washington, DC and New York, NY. Additionally, Mr. Erickson has been an angel investor and board member of a number of public and private technology companies. In addition to his business activities Mr. Erickson serves on the Board of Trustees of Central Washington University where he received his BA degree. He also holds a MA from the University of Wyoming and a JD from the University of California, Davis. He is licensed to practice law in the State of Washington.

Mr. Erickson is our founder and was appointed as a Director because of his extensive experience in developing technology companies.

ICHIRO TAKESAKO has served as a director since December 28, 2012. Mr. Takesako has held executive positions with Sumitomo Precision Products Co., Ltd orSumitomo since 1983. Mr. Takesako graduated from Waseda University, Tokyo, Japan where he majored in Social Science and graduated with a Degree of Bachelor of Social Science.

In the past five years, Mr. Takesako has held the following executive position inSumitomo and its affiliates:

June 2008:	appointed as General Manager of Sales and Marketing Department of Micro Technology Division
April 2009:	appointed as General Manager of Overseas Business Department of Micro Technology Division, in charge of M&A activity of certain business segment and assets of Aviza Technology, Inc.
July 2010:	appointed as Executive Director of Sumitomo Process Technology Systems, 100% owned subsidiary of Sumitomo stationed in Newport, Wales
August 2011:	appointed as General Manager, Corporate Strategic Planning Group
April 2013:	appointed as General Manager of Business Development Department

Mr. Takesako was appointed as a Director based on his position withSumitomo and Sumitomo's significant partnership with the Company.

Our Independent Directors

JON PEPPER has served as an independent director since April 19, 2006. Mr. Pepper founded Pepcom in 1980. Mr. Pepper continues as the founding partner of Pepcom, an industry leader at producing press-only technology showcase events around the country. Prior to that Pepper started the DigitalFocus newsletter, a ground-breaking newsletter on digital imaging that was distributed to leading influencers worldwide. Pepper has been closely involved with the high technology revolution since the beginning of the personal computer era. He was formerly a well-regarded journalist and columnist; his work on technology subjects appeared in The New York Times, Fortune, PC Magazine, Men's Journal, Working Woman, PC Week, Popular Science and many other well-known publications. Pepper was educated at Union College in Schenectady, New York and the Royal Academy of Fine Arts in Copenhagen.

Mr. Pepper was appointed as a Director because of his marketing skills with technology companies.

MARCO HEGYI has served as an independent director since February 14, 2008 and as Chairman of the Board since May 2011. Mr. Hegyi has been a principal with the Chasm Group since 2006, where he has provided business-consulting services. As a management consultant, Mr. Hegyi has applied his extensive technology industry experience to help early-stage companies. Over the last four years he has focused on business planning, operational management and financial supervision.

Prior to working as a consultant in 2006, Mr. Hegyi served as Senior Director of Global Product Management at Yahoo!. Prior to Yahoo!, Mr. Hegyi was at Microsoft leading program management for Microsoft Windows and Office beta releases aimed at software developers from 2001 to 2006. While at Microsoft, he formed new software-as-a-service concepts and created operating programs to extend the depth and breadth of the company's unparalleled developer eco-system, including managing offshore, outsource teams in China and India, and being the named inventor of a filed Microsoft patent for a business process in service delivery.

During Mr. Hegyi's career he has served as President and CEO of private and public companies, Chairman and director of boards, finance, compensation and audit committee chair, chief operating officer, vice-president of sales and marketing, senior director of product management, and he began his career as a systems software engineer. His patents issued to date include *Configuring and allocating software product technical services*, United States US 7904875, issued March 8, 2011; *Systems and Methods for Processing Eggs*, United States US 8455026, issued June 4, 2013; and, *Systems and Methods for Processing Eggs*, United States US 8455030, issued June 4, 2013.

Mr. Hegyi earned a Bachelor of Science degree in Information and Computer Sciences from the University of California, Irvine, and has completed advanced studies in innovation marketing, advanced management, and strategy at Harvard Business School, Stanford University, UCLA Anderson Graduate School of Management, and MIT Sloan School of Management.

Mr. Hegyi was asked to join the Visualant board because of his background in successfully commercializing innovative technologies. His specific experience in marketing, engineering and administration, in both early-stage and established companies, have also provided assistance to the company.

Other Executive Officers

MARK SCOTT has significant financial, capital market and relations experience in public microcap gold, silver and technology companies. Mr. Scott currently serves as (i) Chief Financial Officer, Secretary and Treasurer of Visualant, Inc., a position he has held since May 2010 (ii) Chief Financial Officer, Secretary and Treasurer of WestMountain Gold since February 28, 2011 and as a consultant from December 2010; (iii) Chief Financial Officer of Sonora Resources Corp., a consulting position he has held since June 2011; and (iv) Chief Financial Officer of U.S. Rare Earths, Inc. a consulting position he has held since December 2011.

Mr. Scott previously served as Chief Financial Officer and Secretary of IA Global, Inc. from October 2003 to June 2011. Previously, he held executive financial positions with Digital Lightwave; Network Access Solutions; and Teltronics, Inc. He has also held senior financial positions at Protel, Inc., Crystals International, Inc., Ranks Hovis McDougall, LLP and Brittania Sportswear, and worked at Arthur Andersen. Mr. Scott is also a certified public accountant and received a Bachelor of Arts in Accounting from the University of Washington.

RICHARD MANDER, Ph.D. joined the Company as Vice President of Product Management and Technology on June 26, 2012. He is known as an inspiring leader with a track record of building innovative and high quality consumer electronic products.

Mr. Mander previously served as Vice President of Product Management and Senior Director of Operations Engineering at Contour from November 2009 to June 2012. Previously, he was CEO of Carousel Information Management Solutions from August 2008 to February 2010. He has also held senior roles at HumanWare, Navman, Zanzara, and Apple. Mr. Mander earned a Ph.D. in Educational Psychology from Stanford University, M.A. from the University of Auckland, and B.A. from University of Canterbury.

TODD MARTIN SAMES joined the Company as Vice President, Business Development on September 5, 2012. Mr. Sames is responsible for driving new licensing agreements for the company's technology with a wide-range of original device manufacturers.

Mr. Sames brings over 25 years of technology sales and management experience to the expanding Visualant team. From 2010 to 2012, Mr. Sames held a Director position at INX, where he ultimately led in the creation of a new Business Unit. The project resulted in a successful new line of video conferencing, telecommunication, and security solutions for Cisco Systems. From 2007 to 2010, Mr. Sames held a Regional Management position at BT Conferencing, Video.

Mr. Sames has also established partnerships with other well-known companies such as Polycom, LifeSize, and TANDBERG. During his tenure conducting corporate sales at Egghead Software, Todd closed and managed Fortune 1000 accounts with Disney, Unocal, Lockheed and General Electric in addition to several other companies.

JEFFREY KRUSE became President of TransTech Systems in July of 2013. He joined TransTech Systems in October 2002 as their General Manager.

Mr. Kruse served as the Vice President of Business Development for Tiscor, Inc. from May 2000 to October 2002. In 2000 he also served as a Principal Consultant for Computer Task Group, Inc. From 1998 to 2000 Mr. Kruse was Vice President of Marketing for Logibro, Inc. He had joined Logibro as the Executive Vice President of their US subsidiary, Tech 7 Systems, serving in this position from 1997 to 1998. Previous to Tech 7, Mr. Kruse held the position of Executive Vice President of Intelligent Controls, Inc. from 1985 to 1997. Prior employment includes various positions in finance and operations. Mr. Kruse has an MBA from the University of Puget Sound and a BA from Whitworth University.

Family Relationships

As of October 4 , 2013, there are no family relationships among our directors and executive officers.

Involvement in Certain Legal Proceedings

None of our directors or executive officers has, during the past ten years:

- Had any petition under the federal bankruptcy laws or any state insolvency law filed by or against, or had a receiver, fiscal agent, or similar officer appointed by a court for the business or property of such person, or any partnership in which he was a general partner at or within two years before the time of such filing, or any corporation or business association of which he was an executive officer at or within two years before the time of such filing;
- Been convicted in a criminal proceeding or a named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses);
- Been the subject of any order, judgment, or decree, not subsequently reversed, suspended, or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining him from, or otherwise limiting, the following activities:
    - Acting as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, any other person regulated by the Commodity Futures Trading Commission, or an associated person of any of the foregoing, or as an investment adviser, underwriter, broker or dealer in securities, or as an affiliated person, director or employee of any investment company, bank, savings and loan association or insurance company, or engaging in or continuing any conduct or practice in connection with such activity;
    - Engaging in any type of business practice; or
    - Engaging in any activity in connection with the purchase or sale of any security or commodity or in connection with any violation of federal or state securities laws or federal commodities laws;
- Been the subject of any order, judgment, or decree, not subsequently reversed, suspended, or vacated, of any federal or state authority barring, suspending, or otherwise limiting for more than 60 days the right of such person to engage in any activity described in (i) above, or to be associated with persons engaged in any such activity;
- Been found by a court of competent jurisdiction in a civil action or by the SEC to have violated any federal or state securities law, where the judgment in such civil action or finding by the SEC has not been subsequently reversed, suspended, or vacated; or
- Been found by a court of competent jurisdiction in a civil action or by the Commodity Futures Trading Commission to have violated any federal commodities law, where the judgment in such civil action or finding by the Commodity Futures Trading Commission has not been subsequently reversed, suspended, or vacated.

Committees of the Board of Directors

The Board has three standing committees to facilitate and assist the Board in the execution of its responsibilities. The committees are currently the Audit Committee, the Nominations and Governance Committee, and the Compensation Committee. The Committees were formed July 22, 2010. The Audit and Compensation Committees are comprised solely of non-employee, independent directors. The Nominations and Governance Committee has one management director, Ronald Erickson, as Chairman. Charters for each committee are available on our website at www.visualant.net. The table below shows current membership for each of the standing Board committees.

Audit	Compensation	Nominating
Marco Hegyi (Chairman)	Marco Hegyi (Chairman)	Ron Erickson (Chairman)
Jon Pepper	Jon Pepper	Marco Hegyi
		Jon Pepper

Director Independence

The Board has affirmatively determined that each of Messrs. Pepper and Hegyi is an independent director. For purposes of making that determination, the Board used NASDAQ's Listing Rules even though we are not currently listed on NASDAQ. We expect to appoint an independent Audit Committee Chairman during 2013.

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee during the fiscal year ended September 30, 2012 served as an officer, former officer, or employee of the Company or participated in a related party transaction that would be required to be disclosed in this prospectus. Further, during this period, no executive officer of the Company served as:

- a member of the Compensation Committee or equivalent of any other entity, one of whose executive officers served as one of our directors or was an immediate family member of a director, or served on our Compensation Committee; or
- a director of any other entity, one of whose executive officers or their immediate family member served on our Compensation Committee.

Code of Conduct and Ethics

We have adopted conduct and ethics standards titled the Code of Conduct and Ethics or Code of Conduct, which are available atwww.visualant.net under the Investors tab. These standards were adopted by the Board to promote our transparency and integrity. The standards apply to the Board, executives and employees. Waivers of the requirements of the Code of Conduct or associated polices with respect to members of the Board or executive officers are subject to approval of the full Board.

Our Code of Conduct includes the following:

- promotes honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest;

- promotes the full, fair, accurate, timely and understandable disclosure of our financial results in accordance with applicable disclosure standards, including, where appropriate, standards of materiality;

- promotes compliance with applicable SEC and governmental laws, rules and regulations;

- deters wrongdoing; and

- requires prompt internal reporting of breaches of, and accountability for adherence to, the Code of Conduct.

On an annual basis, each director and executive officer is obligated to complete a Director and Officer Questionnaire which requires disclosure of any transactions with us in which the director or executive officer, or any member of his or her immediate family, have a direct or indirect material interest. Pursuant to the Code of Conduct, the Audit Committee and the Board are charged with resolving any conflict of interest involving management, the Board and employees on an ongoing basis.

EXECUTIVE COMPENSATION

REMUNERATION OF EXECUTIVE OFFICERS

The following table provides information concerning remuneration of the chief executive officer, the chief financial officer and another named executive officer for the fiscal years ended September, 2013, 2012 and 2011.

Summary Compensation Table

Name	Principal Position		Salary ($)	Bonus ($)	Stock Awards ($) (7)	Non-Equity Incentive Plan Compensation ($)	Option Awards ($) (7)	Other Compensation ($)	Total ($)
Salary-									
Ronald P. Erickson (1)	Chief Executive Officer	9/30/2013	$ 180,000	$ -	$ 120,000	$ -	$ 130,000	$ -	$ 430,000
		9/30/2012	$ 160,000	$ -	$ -	$ -	$ -	$ -	$ 160,000
		9/30/2011	$ 62,500	$ -	$ -	$ -	$ -	$ -	$ 62,500
	Chief Financial								
Mark Scott (2)	Officer	9/30/2013	$ 120,000	$ -	$ 20,000	$ -	$ 130,000	$ -	$ 270,000
	Secretary	9/30/2012	$ 104,000	$ -	$ -	$ -	$ -	$ -	$ 104,000
		9/30/2011	$ 74,000	$ -	$ -	$ -	$ -	$ -	$ 74,000
	Chief Executive								
James Gingo (3)	Officer,	9/30/2013	$ 137,789	$ -	$ -	$ -	$ -	$ 9,914	$ 147,703
	TransTech								
	Systems, Inc.	9/30/2012	$ 200,016	$ -	$ -	$ -	$ -	$ 8,001	$ 208,017
		9/30/2011	$ 200,016	$ -	$ -	$ -	$ -	$ 8,001	$ 208,017
	Vice President of								
Richard Mander,	Product								
Ph.D. (4)	Management	9/30/2013	$ 150,000	$ -	$ -	$ -	$ 180,000	$ 12,000	$ 342,000
	and Technology	9/30/2012	$ 40,615	$ -	$ -	$ -	$ -	$ 3,000	$ 43,615
		9/30/2011	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	Vice President of								
Todd Martin	Business								
Sames (5)	Development	9/30/2013	$ 120,000	$ -	$ -	$ -	$ 130,000	$ -	$ 250,000
		9/30/2012	$ 10,000	$ -	$ -	$ -	$ -	$ -	$ 10,000
		9/30/2011	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	President of								
	TransTech								
Jeffrey Kruse (6)	Systems, Inc.	9/30/2013	$ 40,500	$ -	$ -	$ -	$ 80,000	$ 1,620	$ 122,120
		9/30/2012	$ -	$ -	$ -	$ -	$ -	$ -	$ -
		9/30/2011	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(1) During the year ended September 30, 2011, Mr. Erickson was paid a monthly salary of $12,500 from May 1, 2011. , Mr. Erickson accrued a monthly salary of $12,500 from October 1, 2011 to May 31, 2012 and $15,000 from June 1, 2012 to September 30, 2013. As of September 30, 2012, Mr. Erickson had accrued but unpaid salary of $73,600, which was paid during the year ended September 30, 2013. This accrual was based on the tight cash flow of the Company and agreed to by Mr. Erickson, but there was no formal deferral agreement. There was no accrued interest paid on the $73,600. The 2013 stock award amount for Mr. Erickson reflects 1,100,000 shares of restricted common stock issued by us on February 13, 2103. The restricted common stock was issued at the grant date market value of $0.10 per share. The 2013 stock option grant amount for Mr. Erickson reflects 1,000,000 shares issued by us on March 21, 2013. The grant was issued at the grant date market value of $0.13 per share and vested by June 6, 2013.

(2) During the year ended September 30, 2011, Mr. Scott was paid a monthly salary of $2,000 from October 1, 2010 to January 31, 2011 and $8,000 from February 1, 2011 to September 30, 2011. Mr. Scott was paid a monthly salary of $8,000 from October 1, 2011 to May 31, 2012 and $10,000 from June 1, 2012 to September 30, 2013. The 2013 stock award amount for Mr. Scott reflects 200,000 shares of restricted common stock issued by us on February 13, 2103. The restricted common stock was issued at the grant date market value of $0.10 per share. The 2013 stock option grant amount for Mr. Scott reflects 1,000,000 shares issued by us on March 21, 2013. The grant was issued at the grant date market value of $0.13 per share and vested by June 6, 2013.

(3) During the years ended September 30, 2011, 2012 and until his Employment Agreement expired June 8, 2013, Mr. Gingo was paid a monthly salary of $16,667. Mr. Mr. Gingo no longer serves as a director of the Company, and is no longer an employee, officer or director of TransTech. Mr. Gingo was provided perquisites and other personal benefits, including medical insurance and a 401k plan.

(4) Mr. Mander was paid a monthly salary of $12,500 from June 26, 2012 to September 30, 2013. Mr. Mander is paid $1,000 per month for medical expenses.

(5) Mr. Sames was paid a monthly salary of $10,000 from September 5, 2012 to September 30, 2013.

(6) Mr. Kruse was appointed as President of TransTech, a Named Executive Officer, during July 2013. Mr. Kruse was paid at the monthly rate of $13,500 from July 2013 to September 30, 2013.Mr. Kruse was provided a 401k plan.

(7) These amounts reflect the grant date market value as required by Regulation S-K Item 402(r)(2), computed in accordance with FASB ASC Topic 718.

Grants of Stock Based Awards in Fiscal Year Then Ended September 30, 2013

The Compensation Committee approved the following performance-based incentive compensation to the Named Executive Officers during 2012:

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards; Number of Shares of Stock or Units	All Other Option Awards; Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	(#)	(#)	($/Sh)	
Ronald P. Erickson		$ -	$ -	$ -	-	-	-	1,200,000	1,000,000	$ 0.130	$ 250,000
Mark Scott		$ -	$ -	$ -	-	-	-	200,000	1,000,000	$ 0.130	$ 150,000
James Gingo		$ -	$ -	$ -	-	-	-	-	-	$ -	$ -
Richard Mander, Ph.D.		$ -	$ -	$ -	-	-	-	-	1,500,000	$ 0.120	$ 180,000
Todd Martin Sames		$ -	$ -	$ -	-	-	-	-	1,000,000	$ 0.130	$ 130,000
Jeffrey Kruse		$ -	$ -	$ -	-	-	-	-	800,000	$ 0.100	$ 80,000

Outstanding Equity Awards as of Fiscal Year Then Ended September 30, 2013

	Option Awards (1)					Stock Awards			
Name	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexerciseable (#)	Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Market or Payout Value of Unearned Shares, Units, or Other Rights That Have Not Vested ($)
Ronald P. Erickson	3,000,000	-	-	$ 0.15	5/9/2020	-	$ -	-	$ -
	1,000,000	-	-	$ 0.13	6/5/2022	-	$ -	-	$ -
Mark Scott	1,000,000	-	-	$ 0.13	6/5/2022	-	$ -	-	$ -
James Gingo	-	-	-	-	-	-	-	-	$ -
Richard Mander, Ph.D.	1,000,000	-	-	$ 0.13	6/25/2017	-	$ -	-	$ -
	500,000	-	-	$ 0.10	8/26/2018	-	$ -	-	$ -
Todd Martin Sames	1,000,000	-	-	$ 0.13	9/4/2017	-	$ -	-	$ -
Jeffrey Kruse	300,000	-	-	$ 0.09	6/7/2020	-	$ -	-	$ -
	100,000	-	-	$ 0.12	11/28/2014	-	$ -	-	$ -
	800,000	-	-	$ 0.10	8/26/2018	-	$ -	-	$ -

Option Exercises and Stock Vested

Our Named Executive Officers did not exercise any stock options during the years ended September, 2013, 2012 and 2011 .

Pension Benefits

We do not provide any pension benefits.

Nonqualified Deferred Compensation

We do not have a nonqualified deferral program.

Employment Agreements

We do not have employment agreements with our Named Executive Officers.

Potential Payments Upon Termination or Change in Control

We do not have any potential payments upon termination or change in control with our Names Executive Officers.

Director Summary Compensation Table

The table below summarizes the compensation paid by us to non-employee directors during the year ended September 30, 2013 .

Name	Stock Awards (1)	Option Awards (1)	Other Compensation (2)	Total
Marco Hegyi	$ 40,000	$ -	$ 30,000	$ 70,000
Dr. Masahiro Kawahata (3)	-	65,000	-	65,000
Jon Pepper	20,000	-	-	20,000
Yoshitami Arai (3)	-	65,000	-	65,000
James Gingo (3)	-	-	-	-
Ichiro Takesako (3)	-	-	-	-
Total	$ 60,000	$ 130,000	$ 30,000	$ 220,000

(1) These amounts reflect the grant date fair value as required by Regulation S-K Item 402, computed in accordance with FASB ASC Topic 718. The stock awards (Marco Hegyi- 400,000 shares, Pepper- 200,000 shares) were issued at the fair value of $0.10 per share date grant market value on February 13, 2013. The stock option awards were granted (Kawahata- 500,000 shares and Arai- 500,000 shares) at the date grant market value of $0.13 per share. The stock option grants vested immediately and expire in ten years.

(2) Reflects fees paid to Marco Hegyi, Chairman of the Board for marketing consulting during 2013.

(3) On December 28, 2012, the Board of Directors ratified the resignation of Dr. Masahiro Kawahata as an independent director effective as of November 30, 2012. On December 28, 2012, the Board ratified the resignation of Yoshitami Arai as an independent director effective as of December 26, 2012. Mr. Gingo's Employment Agreement expired June 8, 2013.

Compensation Paid to Board Members

Our independent non-employee directors are not compensated in cash. The only compensation has been in the form of stock awards (see Director Summary Compensation Table just above). There is no stock compensation plan for independent non-employee directors.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the ownership of our common stock as of October 4 , 2013 by:

- each director and nominee for director;
- each person known by us to own beneficially 5% or more of our common stock;
- each officer named in the summary compensation table elsewhere in this report; and
- all directors and executive officers as a group.

The amounts and percentages of common stock beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a "beneficial owner" of a security if that person has or shares voting power," which includes the power to vote or to direct the voting of such security, or "investment power," which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has the right to acquire beneficial ownership within 60 days. Under these rules more than one person may be deemed a beneficial owner of the same securities and a person may be deemed to be a beneficial owner of securities as to which such person has no economic interest.

Unless otherwise indicated below, each beneficial owner named in the table has sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable. The address of each beneficial owner of more than 5% of common stock is as follows:

	Shares Beneficially Owned	
	Amount	Percentage
Directors and Officers-		
Ronald P. Erickson (1)	27,328,373	9.9%
Mark Scott (2)	2,568,500	*
Marco Hegyi	2,675,000	*
Jon Pepper	1,650,000	*
Richard Mander	430,556	*
Todd Sames	461,111	*
Jeffrey Kruse	532,856	*
Sumitomo Precision Products Co., Ltd./ Ichiro Takesako	17,307,693	6.3%
Total Directors and Officers (8 in total)	52,954,089	16.2%

* Less than 1%.

(1) Reflects the shares beneficially owned by Ronald Erickson, including stock option grants totaling 4,000,000 shares that Mr. Erickson has the right to acquire in sixty days, and also Series A and B Warrants totaling 10,000,000 shares that are registered in this offering.

(2) Reflects 1,268,500 shares of common shares beneficially owned and stock option grants totaling 1,000,000 shares that Mr. Scott has the right to acquire in sixty days , and also includes 100,000 shares and Series A and B Warrants totaling 200,000 shares that are registered in this offering.

	Shares Beneficially Owned	
	Number	Percentage
Greater Than 5% Ownership		
Ronald P. Erickson (1)	27,328,373	9.9%
500 Union Street , Suite 420		
Seattle, WA 98101		
Sumitomo Precision Products Co., Ltd./ Ichiro Takesako (2)	17,307,693	6.3%
1-10 Fuso-cho		
Amagasaki		
Hyogo 660-0891 Japan		
Special Situations Technology Funds, L.P./ Adam Stettner (3)	47,700,000	17.3%
527 Madison Avenue		
Suite 2600		
New York, NY 10022		

(1) Reflects the shares beneficially owned by Ronald Erickson, including stock option grants totaling 4,000,000 shares that Mr. Erickson has the right to acquire in sixty days, and also Series A and B Warrants totaling 10,000,000 shares that are registered in this offering.

(2) Reflects the shares beneficially owned by Sumitomo Precision Products Co., Ltd as stated in a Schedule 13D filed with the SEC on June 23, 2012, and which has subsequently confirmed the ownership.

(3) This total includes 15,900,000 shares and Series A and B Warrants totaling 31,800,000 shares that are registered in this offering to Special Situations Technology Funds, L.P.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Certain Relationship- Joint Development Agreement with Sumitomo Precision Products Co., Ltd.

On May 31, 2012, we entered into a Joint Research and Product Development Agreement with Sumitomo, 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 or Amended Agreement with Sumitomo. The Amended Agreement extends the Joint Development Agreement from March 31, 2013 to December 31, 2013 . The extension was necessary to achieve redefined objectives related to the commercialization of our ChromaID™ technology. The major remaining work is to complete a marketing study to define V7 of the ChromaID™ technology.

Sumitomo 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. Sumitomo also paid the Company an initial payment of $1 million in accordance for an exclusive License Agreement which covers Japan, China, Taiwan, Korea and the entirety of Southeast Asia (Burma, Indonesia, Thailand, Cambodia, Laos, Vietnam, Singapore and the Philippines). A running royalty for the license granted under the License Agreement will be negotiated at the completion of the Joint Development Agreement. The Sumitomo License fee was recorded as revenue over the life the Joint Development Agreement and was fully recorded as of May 31, 2013.

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

We have recorded $100,000 in accounts payable- related parties as of March 31, 2013 for amounts due Sumitomo under the Joint Development Agreement for a one-time payment which was due March 31, 2013. As of October 4 , 2013, we owe Sumitomo $33,000 and have paid $67,000. There is no interest due on this payment. We received three demonstration units and related technology for this payment.

Certain Relationship- Purchase Agreement with Special Situations and forty other Accredited Investors

On June 10, 2013, we entered into a Purchase Agreement, Warrants and Registration Rights 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, 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, and the investors obtained voting agreements from certain stockholders regarding an increase in the number of authorized shares of stock. Since we had an insufficient number of authorized shares of common stock to permit the exercise of all of the Series A and Series B Warrants at the time the transaction closed, 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 (which was held on August 9, 2013). We also agreed to file a registration statement on Form S-1 to register the resale of all shares issued in the transaction plus a portion of the shares underlying the Series A Warrants, and to use commercially reasonable efforts to have the registration statement declared effective as soon as practicable. We must pay damages if the registration statement is not declared effective within one hundred and twenty days of the June 14, 2013 closing of the transaction. In addition, we agreed to file a subsequent registration statement on Form S-1 to register the resale of all remaining shares underlying the Series A and Series B Warrants within five business days of the special meeting of the stockholders of Visualant. Inc. approving the increase in the number of authorized shares, which was held on August 9, 2013.

We paid legal fees and expenses in the amount of $35,000 to a law firm forSpecial Situations in connection with the transaction. We also paid sales commission and expenses of $466,600 to GVC Capital and issued 5,230,000 placement agent warrants exercisable at $0.10 per share, 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.

In connection with and as a condition of the Private Placement, the investors obtained voting agreements from existing stockholders holding an aggregate of 38,359,633 shares of our common stock requiring those stockholders to vote their shares in favor of an increase in the number of our authorized shares of common stock from 200,000,000 to no less than 500,000,000 at a Special Shareholder Meeting.

Related Party Transactions with James Gingo

We acquired a 100% interest in TransTech by issuing a Promissory Note or Note on June 8, 2010 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. We paid the final note payment of $1,000,000 and interest of $30,397 on June 12, 2013. Mr. Gingo's Employment Agreement expired June 8, 2013. He resigned from the Board of Directors effective June 21, 2013, and is no longer employed by the Company or TransTech. Prior to June 21, 2013, Mr. Gingo guaranteed the Secured Credit Facility with BFI Finance Corp. The balance due under this Secured Credit Facility was $678,259 as of March 31, 2013. We have recorded accrued expenses- related parties of $0 and $5,849 for accrued interest as of June 30, 2013 and September 30, 2012, respectively.

TransTech is located at 12142 NE Sky Lane, Suite 130, Aurora, OR 97002. TransTech leases a total of approximately 9,750 square feet of office and warehouse space for its administrative offices, product inventory and shipping operations, at a monthly rental of $4,292. The lease was extended from March 2011 for an additional five year term at a monthly rental of $4,751. There are two additional five year renewals with a set accelerating increase of 10% per 5 year term. The original lease dated in 2006 predated our acquisition of TransTech Systems on June 8, 2010. However, Mr. James Gingo was a member in G & L Business Group LLC, the lessor for this lease. On February 28, 2009, the members in the 2006 lease dissolved the G & L Business Group LLC and TransTech Systems leased the property directly from Little Properties LLC, an entity in which Mr. Gingo has no current ownership interest.

Related Party Transactions with Ronald P. Erickson

An affiliate of Mr. Erickson, our Chief Executive Officer, Juliz I Limited Partnership, loaned the Company operating funds during fiscal 2009. The Demand Notes totaled $34,630 and accrued interest at 8% per annum. We paid the Demand Notes plus accrued interest of $9,708 during the year ended September 30, 2012.

Additionally, Mr. Erickson incurred expenses on behalf of the Company for a total of $24,322 during the 2009 fiscal year. The balance was converted into a Demand Note as of September 30, 2009 and accrued interest at 8% per annum. We paid the Demand Note plus accrued interest of $5,294 during the year ended September 30, 2012.

We have recorded accounts payable- related parties as of $0 and $73,600 for payroll or expenses as of June 30, 2013 andSeptember 30, 2012, respectively.

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 prior to June 30, 2013.

Related Party Transactions with Bradley Sparks

On November 12, 2009, Mr. Sparks resigned as our Chief Executive Officer and President. He held these positions since November 2006. Mr. Sparks accrued, but was not paid, compensation of $20,000 per month. In addition, Mr. Sparks entered into (i) a demand note dated February 27, 2007 for $50,000 plus loan fees of $750. Interest accrued on the note at a rate of 18% per annum, with a penalty interest rate of 30%; and (ii) a demand note dated September 30, 2009 for $22,478. Interest accrued at 8% per annum, with a default interest rate of 12%.

On September 6, 2012, Mr. Sparks resigned from the Board of Directors. In addition, we signed a Settlement and Release Agreement or Sparks Agreement with Mr. Sparks, The Sparks Agreement required (i) payment of $50,750 (paid) and issuance of 513,696 shares of our common stock for full payment on a note and related accrued interest of $66,780; (ii) payment of $39,635 to Mr. Sparks for a note, accrued interest and other unpaid expenses (paid); and (iii) issuance of 4,000,000 restricted shares of our common stock to Mr. Spark for unpaid compensation in the amount of $721,333. The above is in full settlement of all outstanding liabilities due to Mr. Sparks.

Mr. Sparks is the cousin of Ronald Erickson, our Chief Executive Officer.

Related Party Transactions with Dr. Masahiro Kawahata and Yoshitami Arai

We paid $195,000 for fees to Dr. Kawahata and Mr. Arai, two former Directors, as a finder fee for their services in closing the Sumitomo transactions. We paid $60,000 on June 25, 2012 and $135,000 on July 25, 2012. On December 28, 2012, the Board of Directors ratified the resignation of Dr. Masahiro Kawahata as an independent director effective as of November 30, 2012. On December 28, 2012, the Board ratified the resignation of Yoshitami Arai as an independent director effective as of December 26, 2012.

Related Party Transaction with Mark Scott

Mr. Mark Scott, our Chief Financial Offer, invested $10,000 in the Private Placement which closed June 14, 2013.

DESCRIPTION OF SECURITIES

Common Stock

Our common stock is $.001 par value, 500,000,000 shares authorized and as of October 4 , 2013, we had165,263,674 issued and outstanding, held by 140 shareholders of record. The number of stockholders, including beneficial owners holding shares through nominee names is approximately 1,375. Each share of Common Stock entitles its holder to one vote on each matter submitted to the shareholders for a vote, and no cumulative voting for directors is permitted. Stockholders do not have any preemptive rights to acquire additional securities issued by the Company. As of October 4, 2013, we had 113,507,050 shares of common stock reserved for issuance upon exercise of outstanding warrants.

American Stock Transfer and Trust Company is the transfer agent and registrar for our Common Stock.

Preferred Stock

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.

Stock Incentive Plan

On April 29, 2011, the 2011 Stock Incentive Plan was approved at the Annual Stockholder Meeting. We were authorized to issue options for, and have reserved for issuance, up to 7,000,000 shares of common stock under the 2011 Stock Incentive Plan. On March 21, 2013, we were authorized to issue options for up to 14,000,000 shares under the 2011 Stock Incentive Plan at the Annual Stockholder Meeting.

Change in Control Provisions

Our articles of incorporation provide for a maximum of nine directors, and the size of the Board cannot be increased by more than three directors in any calendar year. There is no provision for classification or staggered terms for the members of the Board of Directors.

Our articles of incorporation also provide that except to the extent the provisions of Nevada General Corporation Law require a greater voting requirement, any action, including the amendment of the Company's articles or bylaws, the approval of a plan of merger or share exchange, the sale, lease, exchange or other disposition of all or substantially all of the Company's property other than in the usual and regular course of business, shall be authorized if approved by a simple majority of stockholders, and if a separate voting group is required or entitled to vote thereon, by a simple majority of all the votes entitled to be cast by that voting group.

Our bylaws provide that only the Chief Executive Officer or a majority of the Board of Directors may call a special meeting. The bylaws do not permit the stockholders of the Company to call a special meeting of the stockholders for any purpose.

Amendment of Bylaws

Our Board of Directors has the authority to amend our bylaws; however, the stockholders, under the provisions of our articles of incorporation as well as our bylaws, have the concurrent power to amend the bylaws.

Market Price of and Dividends on Common Equity and Related Stockholder Matters

Our common stock trades on OTCQB Exchange under the symbol "VSUL". The following table sets forth the range of the high and low sale prices of the common stock for the periods indicated:

Quarter Ended	High	Low
December 31, 2012	$ 0.20	$ 0.08
March 31, 2013	$ 0.15	$ 0.07
June 30, 2013	$ 0.15	$ 0.08
September 30, 2013	$ 0.10	$ 0.06
December 31, 2011	$ 0.13	$ 0.05
March 31, 2012	$ 0.12	$ 0.05
June 30, 2012	$ 0.16	$ 0.08
September 30, 2012	$ 0.18	$ 0.07
December 31, 2010	$ 0.74	$ 0.23
March 31, 2011	$ 0.70	$ 0.33
June 30, 2011	$ 0.57	$ 0.21
September 30, 2011	$ 0.24	$ 0.08

As of October 3 , 2013, the closing price of our common stock was $0.10 per share. As of October 4 , 2013, there were 165,263,674 shares of common stock outstanding.

Holders

As of October 4 , 2013, we had 140 stockholders of record of our common stock based upon the stockholder list provided by our transfer agent. The number of stockholders, including the beneficial owners' shares through nominee names, is approximately 1,375.

Transfer Agent

Our transfer agent is American Stock Transfer & Trust Company located at 6201 15th Avenue, Brooklyn, New York 11219, and their telephone number is (800) 937-5449.

Dividends

We have never paid any cash dividends and intend, 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.

Other Information

The description of our capital stock does not purport to be complete and is qualified in all respects by reference to our (i)Amended and Restated Articles of Incorporation, filed as Exhibit 3.2 to our Amended Form S1 filed on September 13, 2013; (ii) Amended and Restated Bylaws dated August 10, 2012 and filed August 17, 2012; and (iii) Form of Purchase Agreement, Warrants, and Registration Rights Agreement dated June 10, 2013 by and between Visualant, Inc. and Special Situations Technology Funds and forty accredited investors.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There are not and have not been any disagreements between us and our accountants on any matter of accounting principles, practices, or financial statement disclosure during our two most recent fiscal years and subsequent interim period.

Dismissal of Madsen & Associates CPA's, Inc.

On September 26, 2012, we dismissed Madsen & Associates CPA's, Inc. as our independent registered public accounting firm. The decision to change accountants was approved by our Audit Committee.

The Madsen reports on our consolidated financial statements for the past two fiscal years did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles, except that the audit report of Madsen on our financial statements for fiscal years 2010 and 2011 contained an explanatory paragraph which noted that there was substantial doubt about our ability to continue as a going concern.

During our fiscal years ended December 31, 2010 and 2011 and through September 26, 2012, (i) there were no disagreements with Madsen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to Madsen's satisfaction, would have caused Madsen to make reference to the subject matter of such disagreements in its reports on our consolidated financial statements for such years, and (ii) there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K other than: At September 30, 2010, we reported no material weakness in internal control over financial reporting. At September 30, 2011 and during the interim periods through June 30, 2012, we reported a material weakness in internal control. While we have an audit committee, the financial expert is not independent and attended 50% of the committee meetings. We are currently reviewing the financial expert situation.

Engagement of PMB Helin Donovan LLP

On September 26, 2012 we, upon the Audit Committee's approval, engaged the services of PMB Helin Donovan LLP as our new independent registered public accounting firm to audit our consolidated financial statements as of September 30, 2012 and for the year then ended. PMB performed no prior work on our financial statements. PMB has performed reviews of the unaudited consolidated quarterly financial statements included in our quarterly reports on Form 10-Q going forward.

DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Under Nevada law, a corporation may include in its articles of incorporation ("Articles") a provision that eliminates or limits the personal liability of a director to the corporation or its stockholders for monetary damages as a result of any act or failure to act in his capacity as a director, except that no such provision may eliminate or limit the liability of a director (a) for any breach of his fiduciary duty as a director, (b) for acts or omissions not in good faith or that involve intentional misconduct, fraud or a knowing violation of law, (c) for conduct violating the Nevada General Corporation Law, or (d) for any transaction from which the director will personally receive a benefit in money, property or services to which the director is not legally entitled.

Section 78.7502 of the Nevada Revised Statues or NRS provides, in general, that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, except an action by or in the right of the corporation, by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with the action, suit or proceeding if the person acted in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the conduct was unlawful.

NRS Section 78.4502 also provides, in general, that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses, including amounts paid in settlement and attorneys' fees actually and reasonably incurred by the person in connection with the defense or settlement of the action or suit if the person acted in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the corporation; provided, however, that indemnification may not be made for any claim, issue or matter as to which such a person has been adjudged by a court of competent jurisdiction, after exhaustion of all appeals therefrom, to be liable to the corporation or for amounts paid in settlement to the corporation, unless and only to the extent that the court in which the action or suit was brought or other court of competent jurisdiction determines upon application that in view of all the circumstances of the case, the person is fairly and reasonably entitled to indemnity for such expenses as the court deems proper.

Any indemnification pursuant to the above provisions may be made by the corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances. The determination must be made: (a) by the stockholders; (b) by the Board of Directors by majority vote of a quorum consisting of directors who were not parties to the action, suit or proceeding; (c) if a majority vote of a quorum consisting of directors who were not parties to the action, suit or proceeding so orders, by independent legal counsel in a written opinion; or (d) if a quorum consisting of directors who were not parties to the action, suit or proceeding cannot be obtained, by independent legal counsel in a written opinion.

Under Article X of the Company's Amended and Restated Articles of Incorporation, the personal liability of all its directors is eliminated to the fullest extent allowed by Nevada law. In addition, a director shall not be personally liable to the corporation or its stockholders for monetary damages for conduct as a director, except for liability (a) for acts or omissions that involve intentional misconduct or a knowing violation of law; (b) for conducting violating the Nevada General Corporation Law; or (c) for any transaction from which the director will personally receive a benefit in money, property or services to which the director is not legally entitled.

Article XI of the Articles of Incorporation also provides for indemnification of the Company's directors and officers, and authorizes the Company to purchase and maintain insurance or make other financial arrangements on behalf of any director, officer, agent or employee of the corporation, for any liability asserted against him and for expenses incurred by him in his capacity as a director, officer, employee or agent, arising out of his status as such, whether or not the corporation has the authority to indemnify him against such liability and expenses.

The Company currently has a directors' and officers' liability insurance policy in place pursuant to which its directors and officers are insured against certain liabilities, including certain liabilities under the Securities Act of 1933, as amended or Securities A and the Securities and Exchange Act of 1934, as amended or Exchange Act.

Insofar as indemnification for liabilities arising out of the Securities Act may be permitted to directors, officers or persons controlling the Company pursuant to the provisions described above, we have been informed that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

ADDITIONAL INFORMATION

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended. Reports filed with the SEC pursuant to the Exchange Act, including proxy statements, annual and quarterly reports, and other reports filed by us can be inspected and copied at the public reference facilities maintained by the SEC at the Headquarters Office, 100 F. Street N.E., Room 1580, Washington, D.C. 20549. The reader may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The reader can request copies of these documents upon payment of a duplicating fee by writing to the SEC. Our filings are also available on the SEC's internet site at http://www.sec.gov.

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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	3,303,822	2,750,848
EQUIPMENT, NET	442,270	469,001
OTHER ASSETS		
Intangible assets, net	855,689	1,110,111
Goodwill	983,645	983,645
Other assets	6,161	6,161
TOTAL ASSETS	$ 5,591,587	$ 5,319,766
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	7,324,038	5,113,328
LONG TERM LIABILITIES:		
Long term debt	2,455	4,015
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	(1,781,515)	170,616
Noncontrolling interest	46,609	31,807
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY	$ 5,591,587	$ 5,319,766

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:		
Debenture 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 Sumitomo with an exclusive license of the ChromaID™ technology in identified Asian territories.Sumitomo 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 been issued five patents by the United States Office of Patents and Trademarks. See page F-8 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.

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

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 Level 1	Level 2	Level 3	Carrying 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 Sumitomo 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.

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.

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 Sumitomo, 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 Sumitomo. 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.

Sumitomo 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 Sumitomo License fee was recorded as revenue over the life the Joint Development Agreement and was fully recorded as of May 31, 2013.

Sumitomo 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.

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)
		$ 425,522	$ 16,748	$ 442,270

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		$ 855,689	$ 1,110,111

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.

13. CONVERTIBLE NOTES PAYABLE

Agreements with Gemini Master Fund, Ltd. and Ascendiant 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 Ascendiant 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 Felsinger	-	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:

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

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	$ 685,556

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, Ascendiant 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 Ascendiant 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.

0n November 28, 2012, Ascendiant 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.

On January 24, 2013, Ascendiant converted $50,000 of principal and $8,438 of accrued interest into 1,168,767 shares of common stock a$.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 $50,959 of accrued interest into 7,019,178 shares of common stock a$.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, Ascendiant was issued a total of 4,564,068 shares of common stock as a result of Ascendiant's cashless exercise of a warrant ("Ascendiant Warrant"). On January 23, 2013, the Company had agreed to repurchase the Ascendiant 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 Ascendiant to exercise the Ascendiant 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 Ascendiant dated April 26, 2013, pursuant to which we had the option to purchase from Ascendiant 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 Ascendiant and paid to Ascendiant the $300,000 purchase price. To date, Ascendiant 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.

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
Exerciseable 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 Exerciseable	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.

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 Exerciseable	Number Exerciseable	Weighted Average Exercise Price Exerciseable
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.

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 andloans 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 Offer, 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 Ascendiant and paid to Ascendiant the $300,000 purchase price. To date, Ascendiant 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 Ascendiant Capital Partners, LLC ("Ascendiant") 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 Ascendiant. In its Complaint, the Company alleged that Ascendiant 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 Ascendiant to transfer the remaining 1,715,475 Option Shares to Visualant or, in the alternative, enjoining Ascendiant from transferring, selling, or otherwise encumbering the Option Shares. The Compliant 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.

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.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Visualant, Inc.:

We have audited the accompanying balance sheets of Visualant, Inc. (the "Company") as of September 30, 2012 and the related statements of operations, stockholders' equity (deficit), and cash flows for the year ended September 30, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Visualant, Inc. as of September 30, 2012, and the results of its operations and its cash flows for the year ended September 30, 2012, in conformity with generally accepted accounting principles in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has sustained a net loss from operations and has an accumulated deficit since inception. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in this regard are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

PMB Helin Donovan, LLP

/s/ PMB Helin Donovan, LLP

November 10, 2012
Seattle, Washington

MADSEN & ASSOCIATES CPA'S, INC.
Certified Public Accountants and Business Consultants

684 East Vine St. #3
Murray, Utah 84107
Telephone 801-268-2632

Board of Directors
Visualant, Incorporated and Subsidiaries
Seattle, Washington

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying balance sheets of Visualant, Incorporated and subsidiaries as of September 30, 2011 and the related statements of operations, stockholders' equity, and cash flows for the year ended September 30, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Visualant, Incorporated and subsidiaries as of September 30, 2011 and the results of operations, and cash flows the year September 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

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

s/s Madsen & Associates CPA's, Inc.
Madsen & Associates CPA's, Inc., Salt Lake City, Utah,
November 29, 2011

VISUALANT, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2012	September 30, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,141,165	$ 92,313
Accounts receivable, net of allowance of $16,750 and $16,750, respectively	1,012,697	823,724
Prepaid expenses	222,978	283,204
Inventories	344,692	454,588
Refundable tax assets	29,316	9,080
Total current assets	2,750,848	1,662,909
EQUIPMENT, NET	469,001	522,668
OTHER ASSETS		
Intangible assets, net	1,110,111	1,143,090
Goodwill	983,645	983,645
Other assets	6,161	1,091
TOTAL ASSETS	$ 5,319,766	$ 4,313,403
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable - trade	$ 1,593,861	$ 1,206,100
Accounts payable - related parties	73,737	8,093
Accrued expenses	391,311	155,267
Accrued expenses - related parties	5,849	783,732
Deferred revenue	666,667	-
Convertible notes payable	750,000	1,175,000
Note payable - current portion of long term debt	1,631,903	1,537,191
Total current liabilities	5,113,328	4,865,383
LONG TERM LIABILITIES:		
Long term debt	4,015	1,014,582
STOCKHOLDERS' EQUITY (DEFICIT):		
Preferred stock - $0.001 par value, 50,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock - $0.001 par value, 200,000,000 shares authorized, 90,992,954 and 49,065,669 shares issued and outstanding at 9/30/12 and 9/30/11, respectively	90,993	49,066
Additional paid in capital	13,995,554	9,524,577
Accumulated deficit	(13,915,931)	(11,184,033)
Total stockholders' equity (deficit)	170,616	(1,610,390)
Noncontrolling interest	31,807	43,828
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 5,319,766	$ 4,313,403

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

VISUALANT, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended,	
	September 30, 2012	September 30, 2011
REVENUE	$ 7,923,976	$ 9,136,216
COST OF SALES	6,344,247	7,570,006
GROSS PROFIT	1,579,729	1,566,209
RESEARCH AND DEVELOPMENT EXPENSES	176,944	133,941
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,624,711	3,691,760
OPERATING LOSS	(2,221,926)	(2,259,491)
OTHER INCOME (EXPENSE):		
Interest expense	(463,735)	(212,571)
Loss on purchase of outstanding warrants	(500,000)	-
Gain on extinguishment of debt	394,057	-
Other income	36,597	67,458
Total other expense	(533,081)	(145,113)
LOSS BEFORE INCOME TAXES	(2,755,007)	(2,404,604)
Income taxes - current benefit	(29,315)	(9,080)
NET LOSS	(2,725,692)	(2,395,524)
NONCONTROLLING INTEREST	6,206	14,231
NET LOSS ATTRIBUTABLE TO VISUALANT, INC. AND SUBSIDIARIES COMMON SHAREHOLDERS	$ (2,731,898)	$ (2,409,756)
Basic and diluted loss per common share attributable to Visualant, Inc. and subsidiaries common shareholders-		
Basic and diluted loss per share	$ (0.04)	$ (0.06)
Weighted average shares of common stock outstanding- basic and diluted	65,557,376	42,682,795

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

VISUALANT, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount			
Balance as of September 30, 2010	38,229,374	$ 38,229	$ 6,835,647	$ (8,774,277)	$ (1,900,401)
Stock compensation expense - employee options	-	-	23,586	-	23,586
Stock compensation expense - non-employee options	-	-	129,641	-	129,641
Issuance of common stock for services	1,289,692	1,290	589,014	-	590,304
Issuance of common stock for RATLab LLC acquisition	1,000,000	1,000	199,000	-	200,000
Issuance of common stock	4,862,462	4,861	1,063,387	-	1,068,248
Issuance of common stock for debenture conversion	2,885,730	2,886	422,115	-	425,001
Issuance of common stock for accrued liabilities	798,411	799	262,188	-	262,987
Net loss	-	-	-	(2,409,756)	(2,409,756)
Comprehensive loss					(2,409,756)
Balance as of September 30, 2011	49,065,669	49,066	9,524,577	(11,184,033)	(1,610,390)
Stock compensation expense - employee options	-	-	27,746	-	27,746
Stock compensation expense - non-employee options	-	-	238,426	-	238,426
Issuance of common stock for services	3,400,000	3,400	323,100	-	326,500
Issuance of common stock	22,664,705	22,664	2,604,005	-	2,626,669
Issuance of common stock for debenture conversion	9,273,795	9,276	415,724	-	425,000
Issuance of common stock for accrued liabilities	825,089	823	37,870	-	38,693
Issuance of common stock for debt extinguishment	4,513,696	4,514	446,856		451,370
Issuance of common stock for asset purchase	1,250,000	1,250	161,250		162,500
Beneficial conversion feature	-	-	216,000	-	216,000
Net loss	-	-	-	(2,731,898)	(2,731,898)
Comprehensive loss					(2,731,898)
Balance as of September 30, 2012	90,992,954	$ 90,993	$ 13,995,554	$ (13,915,931)	$ 170,616

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

VISUALANT, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended,	
	September 30, 2012	September 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (2,731,898)	$ (2,409,756)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation and amortization	356,348	384,919
Issuance of capital stock for services and expenses	326,500	660,251
Issuance of capital stock for accrued liabilities	38,693	-
Stock based compensation	266,172	151,118
Amortization of debt discount	-	11,153
Beneficial conversion feature	216,000	-
Gain on sale of assets	(7,690)	(3,911)
Gain on extinguishment of debt	(394,057)	-
Loss on repurchase of outstanding warrants	500,000	-
Changes in operating assets and liabilities:		
Accounts receivable	(188,973)	59,844
Prepaid expenses	60,226	(251,833)
Inventory	109,896	168,182
Other assets	(5,070)	-
Accounts payable - trade and accrued expenses	749,248	(81,758)
Deferred revenue	666,667	-
Income tax receivable	(20,236)	(500)
CASH (USED IN) OPERATING ACTIVITIES	(58,174)	(1,312,291)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(109,167)	(121,060)
Proceeds from sale of equipment	9,058	13,377
Purchase of investments-deposit	-	50
NET CASH (USED IN) INVESTING ACTIVITIES:	(100,109)	(107,633)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on line of credit	62,098	(136,957)
Repayment of debt	(956,935)	(650,000)
Proceeds from the issuance of common stock	2,626,669	943,233
Repayments of capital leases	(12,676)	(23,221)
Proceeds from the issuance of convertible debt	-	1,300,000
Purchase of outstanding warrants	(500,000)	-
Change in noncontrolling interest	(12,021)	(4,755)
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,207,135	1,428,300
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,048,852	8,376
CASH AND CASH EQUIVALENTS, beginning of period	92,313	83,937
CASH AND CASH EQUIVALENTS, end of period	$ 1,141,165	$ 92,313
Supplemental disclosures of cash flow information:		
Interest paid	$ 135,828	$ 164,503
Taxes paid	$ -	$ 3,041
Non-cash investing and financing activities:		
Debenture converted to common stock	$ 425,000	$ 425,000
Issuance of common stock for acquisition	$ -	$ 200,000
Issuance of common stock for conversion of liabilities	$ -	$ 262,987
Issuance of note payable for acquisition	$ -	$ 100,000
Acquisition of leased equipment	$ 597	$ -
Issuance of common stock for asset purchase	$ 162,500	$ -
Issuance of common stock for debt extinguishment	$ 451,370	$ -

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 200,000,000 shares at $0.001 par value. On September 13, 2002, 50,000,000 shares of preferred stock with a par value of $0.001 were authorized by the shareholders. There are no preferred shares issued and the terms have not been determined. The Company's executive offices are located in Seattle, Washington.

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

The Company entered into a one year Joint Development Agreement on May 31, 2012 with Sumitomo Precision Products Co., Ltd. ("Sumitomo"), which focuses on the commercialization of the Spectral Pattern Matching technology and a License Agreement providing Sumitomo with an exclusive license of the Spectral Pattern Matching technology in identified Asian territories.

Sumitomo is publicly traded on the Tokyo and Osaka Stock Exchanges and has operations in Japan, United States, China, United Kingdom, Canada and other parts of the world.

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

2. GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred net losses of $2,725,692 and $2,395,525 for the years ended September 30, 2012 and 2011, respectively. The Company's current liabilities exceeded its current assets by approximately $2.4 million as of September 30, 2012. Our net cash used in operating activities was $58,174 for the year ended September 30, 2012.

As of September 30, 2012, the Company had $1,141,165 in cash. The Company needs to obtain additional financing to implement its business plan and service our debt repayments. However, there can be no assurance that financing or additional funding will be available to the Company on favorable terms or at all. If the Company raises additional capital through the sale of equity or convertible debt securities, the issuance of such securities may result in dilution to existing stockholders.

The Company anticipates that it will record losses from operations for the foreseeable future. As of September 30, 2012, our accumulated deficit was $13.9 million. The Company has limited capital resources, and operations to date have been funded with the proceeds from private equity and debt financings. These conditions raise substantial doubt about our ability to continue as a going concern. The audit report prepared by our independent registered public accounting firm relating to our financial statements for the year ended September 30, 2012 includes an explanatory paragraph expressing the substantial doubt about our ability to continue as a going concern.

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

3. SIGNIFICANT ACCOUNTING POLICIES: ADOPTION OF ACCOUNTING STANDARDS

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

CASH AND CASH EQUIVALENTS - The Company classifies highly liquid temporary investments with an original maturity of three months or less when purchased as cash equivalents. The Company maintains cash balances at various financial institutions. Balances at US banks are insured by the Federal Deposit Insurance Corporation up to $250,000. Beginning December 31, 2010 and through December 31, 2012, all noninterest-bearing transaction accounts are fully insured, regardless of the balance of the account, at all FDIC-insured institutions. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risk for cash on deposit. As of September 30, 2012, the Company had no uninsured cash.

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS - Accounts receivable consists 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 September 30, 2012 and 2011.

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

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

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

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

FAIR VALUE MEASUREMENTS- Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy contains three levels as follows:

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

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

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

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

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

REVENUE RECOGNITION – TransTech revenue is derived from other products and services. Revenue is considered realized when the services have been provided to the customer, the work has been accepted by the customer and collectability is reasonably assured. Furthermore, if an actual measurement of revenue cannot be determined, we defer all revenue recognition until such time that an actual measurement can be determined. If during the course of a contract management determines that losses are expected to be incurred, such costs are charged to operations in the period such losses are determined. Revenues are deferred when cash has been received from the customer but the revenue has not been earned. The Sumitomo License fee is being recorded as revenue over the life the Joint Development Agreement discussed below. The Company recorded deferred revenue of $666,667 and $0 as of September 30, 2012 and 2011, respectively.

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

INCOME TAXES - Income tax benefit is based on reported loss before income taxes. Deferred income taxes reflect the effect of temporary differences between asset and liability amounts that are recognized for financial reporting purposes and the amounts that are recognized for income tax purposes. These deferred taxes are measured by applying currently enacted tax laws where that company operates out of. The Company recognizes refundable and deferred assets to the extent that management has determined their realization. As of September 30, 2012 and September 30, 2011, the Company had refundable tax assets related to TransTech of $29,316 and $9,080, 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 September 30, 2012, there were options outstanding for the purchase of 5,920,000 common shares, warrants for the purchase of 3,369,050 common shares, and an undetermined number shares of common stock related to convertible debt, which could potentially dilute future earnings per share. As of September 30, 2011, there were options outstanding for the purchase of 6,920,000 common shares, warrants for the purchase of 4,569,050 common shares, an undetermined number shares of common stock related to convertible debt, which could potentially dilute future earnings per share.

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements applicable to the Company are summarized below.

On May 12, 2011, the FASB issued ASU 2011-04, *Fair Value Measurement,* which requires measurement uncertainty disclosure in the form of a sensitivity analysis of unobservable inputs to reasonable alternative amounts for all Level 3 recurring fair value measurements. ASU 2011-04 became effective for interim and annual periods beginning on or after December 15, 2011. The Company adopted this guidance in the third quarter of Fiscal 2012. The adoption of this guidance requires additional disclosures, but did not have any impact on the Company's consolidated results of operations, financial position, or cash flows.

On June 16, 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income,* which revised the manner in which entities present comprehensive income in their financial statements. ASU 2011-05 is effective for fiscal years beginning after December 15, 2011 (our Fiscal 2013). The Company does not believe that the adoption of this will have a significant impact on its consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment,* which simplified the manner in which entities test goodwill for impairment. After assessment of certain qualitative factors, if it is determined to be more likely than not that the fair value of a reporting unit is less than its carrying amount, entities must perform a quantitative analysis of the goodwill impairment test. Otherwise, the quantitative test becomes optional. ASU 2011-08 is effective for fiscal years beginning after December 15, 2011 (our Fiscal 2013). The Company does not believe that the adoption of this will have a significant impact on its consolidated financial statements.

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

4. DEVELOPMENT OF SPECTRUM PATTERN MATCHING TECHNOLOGY

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

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

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

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

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

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

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

On June 7, 2011, the Company closed the acquisition of all Visualant related assets of the RATLab LLC ("RATLab"). The RATLab is a Seattle based research and development laboratory created by Dr. Tom Furness, founder and Director of the HITLab International, with labs at Seattle, University of Canterbury in New Zealand, and the University of Tasmania in Australia. With this acquisition, the Company consolidated all intellectual property relating to the Spectral Pattern Matching technology except for environmental field of use. The Company acquired the Visualant related assets of the RATLab for (i) 1,000,000 shares of our common stock at closing valued at $0.20 per share, the price during the negotiation of this agreement; (ii) $250,000 (paid); and (iii) payment of the outstanding promissory note owing to Mr. Furness in the amount of $65,000 with accrued interest of $24,675 (paid).

On July 31, 2012, the Company closed the acquisition of the environmental field of use of itsSpectral Pattern Matching technology from Javelin LLC ("Javelin"). The Company acquired the Visualant related assets of Javelin for (i) 1,250,000 shares of our common stock at closing valued at thirteen ($0.13) per share, the price during the negotiation of this agreement; and (ii) $100,000, with $20,000 payable at closing and $80,000 to be paid in four equal installments over a period of eight months. In addition, Company entered into a Business Development Agreement which will pay Javelin ten percent (10%) on the gross margin received by Visualant from license agreements and joint venture developments sourced by Javelin.

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

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

Sumitomo 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. Sumitomo also paid the Company an initial payment of $1 million in accordance with the terms of the License Agreement filed by the Company with its Form 8-K filed June 4, 2012. A running royalty for the license granted under the License Agreement will be negotiated at the completion of the Joint Development Agreement.

Sumitomo is publicly traded on the Tokyo and Osaka Stock Exchanges and has operations in Japan, United States, China, United Kingdom, Canada and other parts of the world.

6. ACQUISITION OF TRANSTECH

The Company closed the acquisition of TransTech of Aurora, Oregon on June 8, 2010. On this date, the Company entered into a Stock Purchase, Security and Stock Pledge Agreements which are included as Exhibits to the Form 10-Q filed with the SEC on August 12, 2010.

TransTech, founded in 1994, is a distributor of access control and authentication systems serving the security and law enforcement markets. With recorded revenues of $7.6 million in 2012, TransTech has a respected national reputation for outstanding product knowledge, sales and service excellence.

This acquisition is expected to accelerate market entry and penetration through the acquisition of well-operated and positioned distributors of security and authentication systems like TransTech, thus creating a natural distribution channel for products featuring the company's proprietary Spectral Pattern Matching technology.

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

On June 8, 2010, 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.

7. ACCOUNTS RECEIVABLE/CUSTOMER CONCENTRATION

Accounts receivable were $1,012,697 and $823,724, net of allowance, as of September 30, 2012 and 2011, respectively. The Company had no customers in excess of 10% of our consolidated revenues for the year ended September 30, 2012. The Company had no customers with accounts receivable in excess of 10% as of September 30, 2012. The Company does expect to have customers with consolidated revenues or accounts receivable balances of 10% of total accounts receivable in the foreseeable future.

8. INVENTORIES

Inventories were $344,692 and $454,588 as of September 30, 2012 and 2011, 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 September 30, 2012 and 2011.

9. FIXED ASSETS

Fixed assets, net of accumulated depreciation, was $469,001 and $522,668 as of September 30, 2012 and 2011, respectively. Accumulated depreciation was $606,509 and $554,884 as of September 30, 2012 and 2011, respectively. Total depreciation expense, was $60,869 and $79,355 for the years ended September 30, 2012 and 2011, respectively. All equipment is used for selling, general and administrative purposes and accordingly all depreciation is classified in selling, general and administrative expenses.

Property and equipment as of September 30, 2012 was comprised of the following:

	Estimated Useful Lives	September 30, 2012		
		Purchased	Capital Leases	Total
Machinery and equipment	2-10 years	$ 119,331	$ 87,039	$ 206,370
Leasehold improvements	5-20 years	603,612	-	$ 603,612
Furniture and fixtures	3-10 years	55,307	101,260	$ 156,567
Software and websites	3- 7 years	64,112	44,849	$ 108,961
Less: accumulated depreciation		(400,516)	(205,993)	$ (606,509)
		$ 441,846	$ 27,155	$ 469,001

Property and equipment as of September 30, 2011 was comprised of the following:

	Estimated Useful Lives	September 30, 2011		
		Purchased	Capital Leases	Total
Machinery and equipment	3-10 years	$ 134,616	$ 87,039	$ 221,655
Leasehold improvements	20 years	600,000	-	$ 600,000
Furniture and fixtures	3-10 years	45,676	101,260	$ 146,936
Software and websites	3- 7 years	64,112	44,849	$ 108,961
Less: accumulated depreciation		(374,021)	(180,863)	$ (554,884)
		$ 470,383	$ 52,285	$ 522,668

10. INTANGIBLE ASSETS

Intangible assets as of September 30, and 2012 and 2011 consisted of the following:

	Estimated Useful Lives	September 30, 2012	September 30, 2011
Customer contracts	5 years	$ 983,645	$ 983,645
Technology	5 years	712,500	$ 450,000
Less: accumulated amortization		(586,034)	(290,555)
Intangible assets, net		$ 1,110,111	$ 1,143,090

Total amortization expense was $295,479 and $224,979 for the year ended September 30, 2012 and 2011, respectively.

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

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

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

11. ACCOUNTS PAYABLE

Accounts payable were $1,593,861 and $1,206,100 as of September 30, 2012 and 2011, 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 (30.1%, 13.7%, and 12.4%) with accounts payable in excess of 10% of its accounts payable as of September 30, 2012. The Company does expect to have vendors with accounts payable balances of 10% of total accounts payable in the foreseeable future.

12. CONVERTIBLE NOTES PAYABLE

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

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

As of September 30, 2012, Gemini has $600,000 and Ascendiant has $150,000 remaining in principal amount of Original Debentures outstanding plus accrued interest thereon that is convertible into common shares. Ascendiant also has a warrant for the purchase of up to 600,000 shares of our common stock at an original exercise price of $.35 per share, which exercise price is subject to adjustment and which has been adjusted downward as of the date hereof. See Exhibit 10.6 filed herewith. In addition, the additional investment and participation rights as defined in the Agreement granted to the Investors were extended from September 30, 2012 to September 30, 2013.

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

The Company filed a registration statement on Form S-1, which was declared effective on August 29, 2011, to register 15,340,361 shares of its common stock, including (i) up to 5,400,000 shares of our common stock for Gemini issuable on conversion and the exercise of a warrant issued to Gemini and (ii) up to 1,992,000 shares of our common stock for Ascendiant issuable on conversion of debt and the exercise of a warrant issued to Ascendiant. As of September 30, 2012, 7,036,975 shares of the Company's common stock have been issued to Gemini upon conversion of $300,000 of the convertible debentures and interest of $20,780 at an average of $0.05 per share. As of September 30, 2012, 3,373,425 shares of the Company's common stock have been issued to Ascendiant upon conversion of $150,000 of the convertible debentures and interest of $18,671 at an average of $0.05 per share.

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

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

13. NOTES PAYABLE, CAPITALIZED LEASES AND LONG TERM DEBT

Notes payable, capitalized leases and long term debt as of September 30, 2012 and 2011 consisted of the following:

	September 30, 2012	September 30, 2011
BFI Finance Corp Secured Credit Facility	$ 568,475	$ 506,377
TransTech capitalized leases, net of capitalized interest	17,943	31,216
Related party notes payable-		
James Gingo Promissory Note	1,000,000	1,650,000
RATLab LLC	-	150,000
Bradley E. Sparks	-	73,228
Lynn Felsinger	49,500	82,000
Ronald P. Erickson and affiliated parties	-	58,952
Total debt	1,635,918	2,551,773
Less current portion of long term debt	(1,631,903)	(1,537,191)
Long term debt	$ 4,015	$ 1,014,582

BFI Finance Corp Secured Credit Facility

On December 9, 2008 TransTech entered into a $1,000,000 secured credit facility with BFI Finance Corp to fund its operations. The rate is prime interest + 2.5%, with a floor for prime interest of 5.5%. On June 12, 2012, the secured credit facility was renewed for 6 months, with a floor for Prime of 4.5%. The eligible borrowing is based on 80% of eligible trade accounts receivable, not to exceed $700,000, and 35% of inventory value, not to exceed $300,000, for a total cap of $1,000,000. As of September 30, 2012, the outstanding balance under this facility was $568,475. The secured credit facility is guaranteed by James Gingo, the President of TransTech.

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

Capitalized Leases

TransTech has capitalized leases for equipment. The leases have a remaining lease term of 9-34 months. The aggregate future minimum lease payments under capital leases, to the extent the leases have early cancellation options and excluding escalation charges, are as follows:

Years Ended September 30,	Total
2013	$ 13,928
2014	3,332
2015	683
2016	-
2017	-
Total	17,943
Less current portion of capitalized leases	(13,928)
Long term capital leases	$ 4,015

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

Related Party Notes Payable

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

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

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

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

On April 30, 2009, accounts payable owed to Lynn Felsinger, a consultant, totaling $82,000 were converted into a demand note. As of September 30, 2012, the outstanding note payable totaled $49,500.

An affiliate of Mr. Erickson, our Chief Executive Officer, Juliz I Limited Partnership, loaned the Company operating funds during fiscal 2009. The Company repaid the loan during the year ended September 30, 2012.

Additionally, Mr. Erickson incurred expenses on behalf of the Company for a total of $24,322 during the 2009 fiscal year. This balance was converted into a loan as of September 30, 2009. The Company repaid the loan during the year ended September 30, 2012.

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

Years Ended September 30,	Total
2013	$ 1,631,903
2014	3,332
2015	683
2016	-
2017	-
Total	$ 1,635,918

14. EQUITY

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, 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.

The Company had the following equity transactions during the year ended September 30, 2011:

On November 17, 2010, the Company issued 20,000 shares of restricted shares of the Company's common stock to Robert Jones for advisory services. The shares were valued at $0.24 per share, the closing price on November 17, 2010.

On December 23, 2010, the Company entered into a Securities Purchase Agreement ("Agreement") with Seaside pursuant to which Seaside agreed to purchase restricted shares of the Company's common stock from time to time over a 12-month period, provided that certain conditions are met.

Under the terms of the Agreement, the Company agreed to sell and issue to Seaside each month for a 12-month period commencing on the closing date, restricted shares of the Company's common stock at a price equal to the lower of (i) 60% of the average trading price of the company's stock during the 10 trading days immediately preceding each monthly closing date, or (ii) 70% of the average trading price for the trading day immediately preceding each monthly closing date. Visualant's agreement to sell shares each month during said 12 month period is subject to certain conditions and limitations. With respect to each subsequent closing, Visualant will not be obligated to sell any of its common stock to Seaside at a price lower than $0.25 per share, and Seaside's beneficial ownership of the Company's common stock will not exceed 9.9%. Seaside is not permitted to short sale the Company's common stock.

Visualant paid Seaside's legal fees and expenses in the amount of $25,000 for the initial closing, and agreed to pay $2,500 for each subsequent closing. Visualant also has agreed to pay 7.0% in finder's fees (to be paid in connection with each draw down) and issue 10,113 common stock warrants exercisable at $0.21395 per share.

The Agreement may be terminated by Seaside upon written notice to the Company, if at any time prior to the final subsequent closing the Company consummates a financing to which Seaside is not a party.

The Agreement also contains certain representations and warranties of Visualant and Seaside, including customary investment-related representations provided by Seaside, as well as acknowledgements by Seaside that it has reviewed certain disclosures of the Company (including the periodic reports that the Company has filed with the SEC) and that the Company's issuance of the shares has not been registered with the SEC or qualified under any state securities laws. Visualant provided customary representations regarding, among other things, its organization, capital structure, subsidiaries, disclosure reports, absence of certain legal or governmental proceedings, financial statements, tax matters, insurance matters, real property and other assets, and compliance with applicable laws and regulations. Seaside's representations and warranties are qualified in their entirety (to the extent applicable) by the Company's disclosures in the reports it files with the SEC. Visualant also delivered confidential disclosure schedules qualifying certain of its representations and warranties in connection with executing and delivering the Agreement.

As of September 30, 2011, the Company sold to Seaside 2,529,314 shares at a purchase price of $0.302 per share, or an aggregate price of $763,650. In addition, the Company issued warrants to brokers for the purchase of 177,050 shares of common shares at the purchase price of $0.302 per share.

On January 27, 2011, the Company issued 275,000 restricted shares of the Company's common stock to directors for services provided during 2010. The shares were valued at $0.448 per share, the closing price for the thirty days prior to January 27, 2011.

On January 27, 2011, the Company entered into a Contract for Corporate Advisory Services with Core consulting Group. Under the agreement dated December 6, 2010, the Company issued 381,500 of restricted shares of the Company's common stock at $0.45 per share, the closing price on December 6, 2010. On April 27, 2011, the Company issued an additional 381,500 of restricted shares of our common stock at $0.45 per share, the closing price on December 6, 2010.

On January 27, 2011, Monahan & Biagi, PLLC converted $136,726 of accrued legal bills into 341,815 shares of our common stock at $0.40 per share, the closing price on January 22, 2011, the date the conversion was requested.

On February 14 and 17, 2011, Asher converted $50,000 of convertible debentures into173,378 shares of common stock at $0.2884 per share.

On February 23, 2011, Masahiro Kawahata, a director converted $90,906 of accrued expenses into 211,409 shares of the Company common stock at $0.43 per share, the closing price on February 23, 2011, the date the conversion was requested.

On February 23, 2011, the Company issued a warrant for the purchase of 1,000,000 shares of our common stock to Coach for advisory services. The warrant was issued at $0.25 per share. The warrant expires February 22, 2014 and is callable if registered and with five closing trading prices of the Company's common stock over $0.75 per share.

On February 23, 2011, the Company issued a warrant for the purchase of 500,000 shares of our common stock to the Sterling Group for advisory services. The warrant was issued at $0.50 per share. The warrant expires February 22, 2014 and is callable if registered and with five closing trading prices of our common stock over $0.75 per share.

On April 1, 2011, Coach converted $250,000 and interest of $28,758 into 1,858,387 shares of common stock.

On April 1, 2011, the Company entered into a Consulting Agreement with Cerillion N4 Partners. Under the agreement, the Company issued 4,000 shares at $0.52 per share, the price on March 31, 2011.

On April 1, 2011, the Company entered into an Agreement with InvestorIdeas.com. Under the agreement, the Company issued 57,692 shares at $0.52 per share, the price on March 31, 2011.

On April 1, 2011, the Company entered into an Agreement with National Securities Corporation. Under the agreement, the Company issued 60,000 shares at $0.52 per share, the price on March 31, 2011.

On April 1, 2011, the Company entered into an Agreement with Aquiline Group, Inc. Under the agreement, the Company issued 75,000 shares at $0.52 per share, the price on March 31, 2011.

On May 31, 2011, Coach exercised its warrant and received 833,333 shares of common stock. On December 7, 2009, the Company closed $250,000 of financing from Coach pursuant to a Convertible Promissory Note. In addition, Coach received warrants to purchase 833,333 shares of the Company's common stock at $0.15 per share. The warrant expired 3 years from the date of issuance.

On May 18, 2011, the Company entered into an Agreement with Mr. Gima. Under the agreement, we issued 10,000 shares at 0.52 per share.

On May 20, 24 and 26, 2011, Asher converted $50,000 of convertible debentures into 296,130 shares of common stock at $0.169 per share.

On June 7, 2011, the Company closed the acquisition of all Visualant related assets of the RATLab LLC by agreeing to issue 1,000,000 of our common stock valued at $0.20 per share, the price during the negotiation of this agreement.

On June 17, 2011, the Company entered into a Securities Purchase Agreement with Ascendiant, pursuant to which Ascendiant agreed to purchase up to $3,000,000 worth of shares of the Company's common stock from time to time over a 24-month period, provided that certain conditions are met. The financing arrangement entered into by the Company and Ascendiant is commonly referred to as an "equity line of credit" or an "equity drawdown facility."

As of September 30, 2012, the Company has issued to Ascendiant 5,365,884 shares for $383,141 or $.071 per shares under the Securities Purchase Agreement dated June 17, 2011. In addition, the Company issued to Ascendiant during 2011 and 2012 a total of 1,490,943 shares for $193,370 or $.131 per shares under the Securities Purchase Agreement excluding the commitment and legal fees.

On June 17, 2011, the Company extended its April 1, 2011 Agreement with Aquiline Group, Inc. Under the agreement, the Company issued 25,000 shares at $0.52 per share, the price on March 31, 2011.

On July 14, 17 and 20, 2011 Asher converted $50,000 into 491,506 shares of common stock at $.102 per share.

On August 23, 2011, the Company filed an amended Registration Statement on Form S-1 for 15,340,361 shares of common stock. The Registration Statement primarily registers shares for Seaside, Gemini, Ascendiant, Coach and Sterling Group and was declared effective by the SEC on August 29, 2011.

The Company had the following equity transactions during the year ended September 30, 2012:

On October 5, 2011, the Company entered into a Financial Consultant Agreement ("Agreement") with D. Weckstein and Co, Inc. ("Weckstein") The Agreement expires July 31, 2016. Under the Agreement, Weckstein was awarded 1,000,000 shares of common stock on November 7, 2011. The shares were valued at $0.07 per share, the closing price on November 7, 2011. In addition, the Company paid $10,000 to Weckstein

On December 15, 2011, the Company issued 100,000 shares of restricted common stock to Todd Weaver for product development work. The shares were valued at $0.12 per share, the closing price on November 29, 2011, and do not have registration rights.

On February 7, 2012, the Company issued 1,000,000 restricted shares to Coventry Capital LLC related to an Advisory Agreement. The shares were valued at $.10 per share.

On February 24, 2012, the Company issued 400,000 shares of common stock to five directors for services provided during 2011. The shares were issued under the 2011 Stock Incentive Plan.

On April 1, 2011, the Company entered into an Investor Banking Agreement with National Securities Corporation. On March 12, 2012, the Company issued warrants for up to 204,000, 366,000 and 30,000 shares of common stock to National Securities Corporation, Steven Freifeld and Vince Calicchia, respectively. The warrants are exercisable at $.10 per share and expire March 11, 2015.

On April 2, 2012, the Company filed a Registration Statement on Form S-1 for 7,600,000 shares of common stock. The Registration Statement primarily registered shares for Ascendiant, Coventry Capital LLC and National Securities Corporation and affiliates and was declared effective by the SEC on April 18, 2012.

On May 16, 2012 the Company issued 150,000 shares of restricted common stock to Manna Advisory Services, LLC for services. The shares were valued at $0.10 per share. The shares do not have registration rights.

On May 31, 2012, the Company executed a Stock Purchase Agreement with Sumitomo whereby Sumitomo 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. The shares do not have registration rights.

On July 31, 2012, the Company closed the acquisition of the environmental field of use of its Spectral Pattern Matching technology from Javelin LLC or Javelin. The Company acquired the Visualant related assets of Javelin for (i) 1,250,000 shares of our common stock at closing valued at thirteen ($0.13) per share, the price during the negotiation of this agreement; and (ii) $100,000, with $20,000 payable at closing and $80,000 to be paid in four equal installments over a period of eight months.

On September 6, 2012, the Company signed a Settlement and Release Agreement ("Sparks Agreement") with Mr. Sparks, the former CEO and Director and a cousin of Ronald Erickson. The Sparks Agreement required (i) payment of $50,750 (paid) and issuance of 513,696 shares of our common stock for full payment on a note and related accrued interest of $66,780; (ii) payment of $39,635 to Mr. Sparks for a note, accrued interest and other liabilities (paid); and (iii) issuance of 4,000,000 restricted shares of our common stock to Mr. Spark for unpaid compensation in the amount of $721,333. The above is full settlement of all outstanding liabilities due to Mr. Sparks.

On September 18, 2012 the Company issued 500,000 shares of restricted common stock to NVPR, LLC for services. The shares were valued at $0.13 per share. The shares do not have registration rights.

On September 28, 2012 the Company issued 250,000 shares of restricted common stock to Clayton McKeekin for services. The shares were valued at $0.13 per share. The shares do not have registration rights.

As of September 30, 2012, 7,036,975 shares of the Company's common stock have been issued to Gemini upon conversion of $300,000 of the convertible debentures and interest of $20,780 at an average of $0.05 per share.

As of September 30, 2012, 3,373,425 shares of the Company's common stock have been issued to Ascendiant upon conversion of $150,000 of the convertible debentures and interest of $18,671 at an average of $0.05 per share.

On October 22, 2012, the Company filed an Amended Registration Statement on Form S-1 for 7,600,000 shares of common stock. The Registration Statement primarily registered shares for Ascendiant, Coventry Capital LLC and National Securities Corporation and affiliates and was declared effective by the SEC on October 25, 2012.

Warrants, and any potential adjustments, are discussed in this Footnote and Footnote 12, Convertible Notes Payable.

A summary of the warrants issued as of September 30, 2012 were as follows:

	September 30, 2012	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	4,569,050	0.410
Issued	600,000	0.100
Exercised	-	-
Forfeited	-	-
Expired	(1800000)	(0.500)
Outstanding at end of period	3,369,050	0.307
Exerciseable at end of period	3,369,050	

A summary of the status of the warrants outstanding as of September 30, 2012 is presented below:

			September 30, 2012		
Number of Warrants	Weighted Average Remaining Life	Weighted Average Exercise Price		Shares Exerciseable	Weighted Average Exercise Price
600,000	2.50	$	0.100	600,000	$ 0.100
1,359,073	1.26		0.20-0.29	1,359,073	0.20-0.29
117,977	1.55		0.30-0.39	117,977	0.30-0.39
500,000	1.38		0.40-0.49	500,000	0.40-0.49
792,000	3.63		0.500	792,000	0.500
3,369,050	2.27	$	0.307	3,369,050	$ 0.307

The significant weighted average assumptions relating to the valuation of the Company's warrants for the year ended September 30, 2012 were as follows:

Assumptions	
Dividend yield	0 %
Expected life	3
Expected volatility	143 %
Risk free interest rate	2 %

At September 30, 2012, vested warrants totaling 3,369,050 shares had an aggregate intrinsic value of $572,739.

15. 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 has 6,100,000 options to purchase common stock available to issue under the 2011 Stock Incentive Plan.

Determining Fair Value Under ASC 505

The Company records compensation expense associated with stock options and other equity-based compensation using the Black-Scholes-Merton option valuation model for estimating fair value of stock options granted under our plan. The Company amortizes the fair value of stock options on a ratable basis over the requisite service periods, which are generally the vesting periods. The expected life of awards granted represents the period of time that they are expected to be outstanding. The Company estimates the volatility of our common stock based on the historical volatility of its own common stock over the most recent period corresponding with the estimated expected life of the award. The Company bases the risk-free interest rate used in the Black Scholes-Merton option valuation model on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term equal to the expected life of the award. The Company has not paid any cash dividends on our common stock and does not anticipate paying any cash dividends in the foreseeable future. Consequently, the Company uses an expected dividend yield of zero in the Black-Scholes-Merton option valuation model and adjusts share-based compensation for changes to the estimate of expected equity award forfeitures based on actual forfeiture experience. The effect of adjusting the forfeiture rate is recognized in the period the forfeiture estimate is changed.

Stock Option Activity

On November 9, 2011, Bradley E. Sparks forfeited a grant to purchase 1,000,000 shares of common stock at $0.75 per share.

On November 29, 2011, Jeff Kruse and Steve Waddle, employees of TransTech, were each granted an option to purchase 100,000 shares of common stock at $0.12 per share. The grants vest quarterly over three years and expire November 28, 2014.

On February 15, 2012, Marco Hegyi forfeited a grant to purchase 2,000,000 shares of common stock at $0.50 per share.

On February 24, 2012, the Company issued 400,000 shares of common stock to five directors for services provided during 2011. The shares were issued under the 2011 Stock Incentive Plan.

On February 24, 2012, Marco Hegyi, our Chairman of the Board, was granted an option to purchase 1,900,000 shares of common stock at $0.10 per share. The grant vests 750,000 shares on February 24, 2012 and 250,000 shares per quarter. The grant vests upon a change in control and expires February 23, 2022.

On May 11, 2012, the Company issued a stock option grant for 100,000 shares of common stock to a consultant at $0.15 per share. The stock option grant vested immediately.

On May 11, 2012, a consultant forfeited a stock option grant for 100,000 shares of common stock at $.15 per share.

During 2012, the Company agreed to grant, subject to shareholder approval at the 2013 annual shareholder meeting, of an increase in the number of shares available under the Company's Stock Incentive Plan, stock option grants totaling 5,000,000 shares of common stock to five directors and three employees for services provided during 2012. The shares were granted under the 2011 Stock Incentive Plan.

There are currently 5,920,000 options to purchase common stock at $0.131 per share outstanding at September 30, 2012 under the 2011 Stock Incentive Plan. The Company recorded $266,172 and $153,227 of compensation expense, net of related tax effects, relative to stock options for the year ended September 30, 2012 and 2011 in accordance with ASC 505. Net loss per share (basic and diluted) associated with this expense was approximately ($0.00). As of September 30, 2012, there is approximately $96,180 of total unrecognized costs related to employee granted stock options that are not vested. These costs are expected to be recognized over a period of approximately two years.

Stock option activity for the years ended September 30, 2012 and 2011 are summarized as follows:

	Options	Weighted Average Exercise Price	$
Outstanding as of September 30, 2010	4,735,000	$ 0.289	$ 1,366,250
Granted	2,320,000	0.339	785,800
Exercised	-	-	-
Forfeitures	(135,000)	(0.750)	(101,250)
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

The following table summarizes information about stock options outstanding and exercisable at September 30, 2012:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life In Years	Weighted Average Exercise Price Exerciseable	Number Exerciseable	Weighted Average Exercise Price Exerciseable
0.090	500,000	7.75 years	$ 0.090	375,000	$ 0.090
0.100	1,900,000	9.50 years	0.100	1,250,000	0.100
0.120	200,000	2.25 years	0.120	50,000	0.120
0.150	100,000	2.75 years	0.150	100,000	0.150
0.150	3,000,000	7.75 years	0.150	3,000,000	0.150
0.240	220,000	3.25 years	0.240	128,333	0.240
	5,920,000	7.86 years	$ 0.131	4,903,333	$ 0.141

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

16. OTHER SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

See Note 13 for discussion of notes payable issued to the Company's former CEO and President during the quarter ended March 31, 2007. Other than the note payable, related interest and payroll related accruals, all amounts are recorded in the related party accounts payable balance. As of the filing date, Mr. Erickson beneficially owns 5,423,773 shares of common stock.

Mr. Sparks resigned from the Board of Directors effective September 6, 2012. On September 6, 2012, the Company entered into a Settlement and Release Agreement with Mr. Sparks pursuant to which the Company agreed to (i) pay to Mr. Sparks the sum of $50,750 and issue 513,696 shares of the Company's common stock as satisfaction in full of amounts owed pursuant to a note issued in 2007 and related accrued interest; and (ii) pay to Mr. Sparks the sum of $39,635 and issue 4,000,000 shares of the Company's common stock as satisfaction in full of amounts owed to pursuant to a note issued in 2009, related accrued interest, and other liabilities, including accrued compensation of $721,333. The full Settlement and Release Agreement was filed as Exhibit 10.1 to Form 8-K/A1 filed by the Company on September 12, 2012.

The Company paid $195,000 for fees to Dr. Kawahata and Mr. Arai, two Directors, as a finder fee for their services in closing the Sumitomo transactions. The Company paid $60,000 on June 25, 2012 and $135,000 on July 25, 2012.

17. COMMITMENTS, CONTINGENCIES AND LEGAL PROCEEDINGS

LEGAL PROCEEDINGS

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

EMPLOYMENT AGREEMENTS

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

Agreement with James Gingo

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

LEASES

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

Corporate Offices

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

TransTech Facilities

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

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

Years Ended September 30,	Total
2013	$ 78,396
2014	81,348
2015	57,012
2016	23,755
2017	-
Beyond	-
Total	$ 240,511

NOTE 18. INCOME TAXES

The Company has incurred losses since inception, which have generated net operating loss carryforwards. The net operating loss carryforwards arise from United States sources.

Pretax losses arising from United States operations were approximately $1,522,000 for the year ended September 30, 2012. Pretax losses arising from United States operations were approximately $2,534,000 for the year ended September 30, 2011.

The Company has non- US net operating loss carryforwards of approximately $11,877,200, which expire in 2019-2030 and US of approximately $11,877,200 which expire in 2019-2030. Because it is not more likely than not that sufficient tax earnings will be generated to utilize the net operating loss carryforwards, a corresponding valuation allowance of approximately $1,164,000 and $1,151,000 was established as of September 30, 2012 and 2011, respectively. Additionally, under the Tax Reform Act of 1986, the amounts of, and benefits from, net operating losses may be limited in certain circumstances, including a change in control.

Section 382 of the Internal Revenue Code generally imposes an annual limitation on the amount of net operating loss carryforwards that may be used to offset taxable income when a corporation has undergone significant changes in its stock ownership. There can be no assurance that the Company will be able to utilize any net operating loss carryforwards in the future.

For the year ended September 30, 2012, the Company's effective tax rate differs from the federal statutory rate principally due to net operating losses and warrants issued for services.

The principal components of the Company's deferred tax assets at September 30, 2012 are as follows:

	2012	2011
U.S. operations loss carry forward at statutory rate of 42.6%	$ (1,163,832)	$ (1,151,090)
Less Valuation Allowance	1,163,832	1,151,090
Net Deferred Tax Assets	-	-
Change in Valuation allowance	$ -	$ -

A reconciliation of the United States Federal Statutory rate to the Company's effective tax rate for the period ended September 30, 2012 and 2011 is as follows:

	2012	2011
Federal Statutory Rate	-42.6%	-42.6%
Increase in Income Taxes Resulting from:		
Change in Valuation allowance	42.6%	42.6%
Effective Tax Rate	0.0%	0.0%

The Company evaluated subsequent events, for the purpose of adjustment or disclosure, up through the date the financial statements were issued.

19. SUBSEQUENT EVENTS

The Company evaluated subsequent events, for the purpose of adjustment or disclosure, up through the date the financial statements were issued.

As of November 13, 2012, 4,512,603 shares of the Company's common stock have been issued to Ascendiant upon conversion of $200,000 of the convertible debentures and interest of $25,630 at an average of $0.05 per share.

As of November 13, 2012, the Company has issued to Ascendiant 6,358,933 shares for $483,141 or $.076 per shares under the Securities Purchase Agreement dated June 17, 2011.

REPORT ON MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

Management assessed the corporation's system of internal control over financial reporting as of September 30, 2012, in relation to criteria for effective internal control over financial reporting as described in "Internal Control--Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concludes that, as of September 30, 2012, its system of internal control over financial reporting is not effective based on the criteria of the "Internal Control--Integrated Framework".

/s/ Ronald P. Erickson
Ronald P. Erickson
Chief Executive Officer

/s/ Mark Scott
Mark Scott
Chief Financial Officer

Seattle, WA
November 13, 2012

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

The expenses payable by us in connection with the issuance and distribution of the securities being registered other than underwriting discounts and commissions, if any are set forth below. Each item listed is estimated as follows:

Securities and Exchange Commission registration fee	$	3,300
Accounting fees and expenses		2,500
Legal fees and expenses		15,000
Registrar and transfer agent fees and expenses		2,000
Miscellaneous		3,200
Total expenses	$	26,000

Item 14. Indemnification of Directors and Officers

Under Nevada law, a corporation may include in its articles of incorporation ("Articles") a provision that eliminates or limits the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duties as a director, but no such provision may eliminate or limit the liability of a director (a) for any breach of his fiduciary duty as a director, (b) for acts or omissions not in good faith or that involve intentional misconduct, fraud or a knowing violation of law, (c) for conduct violating the Nevada General Corporation Law, or (d) for any transaction from which the director will personally receive a benefit in money, property or services to which the director is not legally entitled.

Section 78.7502 of the Nevada Revised Statues or NRS provides, in general, that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, except an action by or in the right of the corporation, by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with the action, suit or proceeding if the person acted in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the conduct was unlawful.

NRS Section 78.4502 also provides, in general, that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses, including amounts paid in settlement and attorneys' fees actually and reasonably incurred by the person in connection with the defense or settlement of the action or suit if the person acted in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the corporation; provided, however, that indemnification may not be made for any claim, issue or matter as to which such a person has been adjudged by a court of competent jurisdiction, after exhaustion of all appeals therefrom, to be liable to the corporation or for amounts paid in settlement to the corporation, unless and only to the extent that the court in which the action or suit was brought or other court of competent jurisdiction determines upon application that in view of all the circumstances of the case, the person is fairly and reasonably entitled to indemnity for such expenses as the court deems proper.

Any indemnification pursuant to the above provisions may be made by the corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances. The determination must be made: (a) by the stockholders; (b) by the Board of Directors by majority vote of a quorum consisting of directors who were not parties to the action, suit or proceeding; (c) if a majority vote of a quorum consisting of directors who were not parties to the action, suit or proceeding so orders, by independent legal counsel in a written opinion; or (d) if a quorum consisting of directors who were not parties to the action, suit or proceeding cannot be obtained, by independent legal counsel in a written opinion.

Under Article X of the Company's Amended and Restated Articles of Incorporation, the personal liability of all its directors is eliminated to the fullest extent allowed by Nevada law. In addition, a director shall not be personally liable to the corporation or its stockholders for monetary damages for conduct as a director, except for liability (a) for acts or omissions that involve intentional misconduct or a knowing violation of law; (b) for conducting violating the Nevada General Corporation Law; or (c) for any transaction from which the director will personally receive a benefit in money, property or services to which the director is not legally entitled.

Article XI of the Articles of Incorporation also provides for indemnification of the Company's directors and officers, and authorizes the Company to purchase and maintain insurance or make other financial arrangements on behalf of any director, officer, agent or employee of the corporation, for any liability asserted against him and for expenses incurred by him in his capacity as a director, officer, employee or agent, arising out of his status as such, whether or not the corporation has the authority to indemnify him against such liability and expenses.

The Company has a directors' and officers' liability insurance policy in place pursuant to which its directors and officers are insured against certain liabilities, including certain liabilities under the Securities Act of 1933, as amended and the Securities and Exchange Act of 1934, as amended.

Item 15. Recent Sales of Unregistered Securities

Unless otherwise indicated, all of the following sales or issuances 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 transactions 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.

We have compensated consultants and service providers with restricted common stock during the development of our technology and when our capital resources were not adequate to provide payment in cash.

All of the following transactions were to accredited investors (with the exception of a few issuances which are noted below). All issuances to accredited and non-accredited investors were structured to comply with the requirements of the safe harbor afforded by Rule 506 of Regulation D, including limiting the number of non-accredited investors to no more than 35.

We had the following equity transactions during the year ended September 30, 2011:

On November 17, 2010, we issued 20,000 shares of restricted shares of our common stock to Robert Jones for investor relation services. The shares were valued at $0.24 per share, the closing price on November 17, 2010.

On December 23, 2010, we entered into a Securities Purchase Agreement or Agreement with Seaside Advisors LLC or Seaside pursuant to which Seaside agreed to purchase restricted shares of our common stock from time to time, provided that certain conditions were met. Under the terms of the Agreement, we agreed to sell and issue to Seaside each month for a 12-month period commencing on the closing date, restricted shares of our common stock at a price equal to the lower of (i) 60% of the average trading price of our common stock during the 10 trading days immediately preceding each monthly closing date, or (ii) 70% of the average trading price for the trading day immediately preceding each monthly closing date. Our agreement to sell shares each month during said 12 month period was subject to certain conditions and limitations. We paid Seaside's legal fees and expenses in the amount of $25,000 for the initial closing, and agreed to pay $2,500 for each subsequent closing.

As of September 30, 2011, we sold to Seaside 2,529,314 shares at a purchase price of $0.302 per share, or an aggregate price of $763,650. In addition, we issued warrants to brokers on the transaction for the purchase of 177,051 (John O'Brien, John Lane and Scott Ashbury) shares of common shares at the purchase price of $0.302 per share.

On January 27, 2011, we issued 275,000 restricted shares of our common stock for service on the Company's Board of Directors to directors (50,000 shares each to Yoshitami Arai, Dr. Masahiro Kawahata, Marco Hegyi, Jon Pepper and Bradley Sparks and 25,000 to Paul Bonderson) for board services provided during 2010. The shares were valued at $0.448 per share, the closing price for the thirty days prior to January 27, 2011.

On January 27, 2011, we entered into a Contract for corporate advisory services for investor relation activities with Core Consulting Group, Inc. Under the agreement dated December 6, 2010, we issued 381,500 of restricted shares of our common stock at $0.45 per share, the closing price on December 6, 2010. On April 27, 2011, we issued an additional 381,500 of restricted shares of our common stock at $0.45 per share, the closing price on December 6, 2010.

On January 27, 2011, Monahan & Biagi, PLLC, a party affiliated with James Biagi, our corporate counsel, converted $136,726 of accrued legal bills into 341,815 shares of our common stock at $0.40 per share, the closing price on January 22, 2011, the date of the conversion.

On February 14 and 17, 2011, Asher Enterprises, Inc. converted $50,000 of convertible debentures into 173,378 shares of common stock at $0.2884 per share.

On February 23, 2011, Dr. Masahiro Kawahata, a director converted $90,906 of accrued expenses related to the development of our technology and the development of our Japanese market into 211,409 shares of the Company common stock at $0.43 per share, the closing price on February 23, 2011, the date the conversion was requested.

On February 23, 2011, we issued a warrant for the purchase of 1,000,000 shares of our common stock to Coach Capital LLC for financial advisory services. The warrant was issued at $0.25 per share. The warrant expires February 22, 2014 and is callable if registered and with five closing trading prices of the Company's common stock over $0.75 per share.

On February 23, 2011, we issued a warrant for the purchase of 500,000 shares of our common stock to the Sterling Group for financial advisory services related to funding and acquisition activities. The warrant was issued at $0.50 per share. The warrant expires February 22, 2014 and is callable if registered and with five closing trading prices of our common stock over $0.75 per share.

On April 1, 2011, Coach Capital LLC converted $250,000 and interest of $28,758 into 1,858,387 shares of common stock at $0.15 per share.

On April 1, 2011, we entered into a Consulting Agreement with Cerillion N4 Partners for grant writing consulting. Under the agreement, we issued 4,000 shares at $0.52 per share, the price on March 31, 2011.

On April 1, 2011, we entered into an Agreement with InvestorIdeas.com for investor relation services. Under the agreement, we issued 57,692 shares at $0.52 per share, the price on March 31, 2011.

On April 1, 2011, we entered into an Agreement with National Securities Corporation for investment banking services. Under the agreement, we issued 60,000 shares at $0.52 per share, the price on March 31, 2011.

On April 1, 2011, we entered into an Agreement with Aquiline Group, Inc. for investor relation services. Under the agreement, we issued 75,000 shares at $0.52 per share, the price on March 31, 2011.

On May 31, 2011, Coach Capital LLC or Coach exercised its warrant described below and were issued 833,333 shares of common stock. On December 7, 2009, the Company closed $250,000 of financing from Coach pursuant to a Convertible Promissory Note and received warrants to purchase 833,333 shares of our common stock at $0.15 per share.

On May 18, 2011, we entered into an Agreement with Lance Gima for the development of forensic applications for our technology. Under the agreement, we issued 10,000 shares at $0.52 per share. It is the Company's understanding that Mr. Gima was not an accredited investor. However, he was involved in the Company's business, and the Company believed that he had such knowledge and experience in financial and business matters that he was capable of evaluating the merits and risks of an investment in the Company.

On May 20, 24 and 26, 2011, Asher Enterprises, Inc. converted $50,000 of convertible debentures into 296,130 shares of common stock at $0.169 per share.

On June 7, 2011, we closed the acquisition of all Visualant related assets of the RATLab LLC by issuing 1,000,000 of our common stock valued at $0.20 per share, the price during the negotiation of this agreement.

On June 17, 2011, we entered into a Securities Purchase Agreement with Ascendiant Capital Partners LLC or Ascendiant, pursuant to which Ascendiant agreed to purchase up to $3,000,000 worth of shares of our common stock from time to time over a 24-month period, provided that certain conditions were met. The financing arrangement entered into by the Company and Ascendiant is commonly referred to as an "equity line of credit" or an "equity drawdown facility."

As of September 30, 2011, we issued to Ascendiant 774,599 shares for $66,991 or $.086 per share under the Securities Purchase Agreement dated June 17, 2011. In addition, we issued to Ascendiant during 2011 a total of 1,490,943 shares for $193,370 or $.131 per share under the Securities Purchase Agreement for commitment and legal fees.

On June 17, 2011, we extended our April 1, 2011 Agreement with Aquiline Group, Inc. for investor relation services. Under the agreement, we issued 25,000 shares at $0.52 per share, the price on March 31, 2011.

On July 14, 17 and 20, 2011, Asher Enterprises, Inc. converted $50,000 into 491,506 shares of common stock at $.102 per share.

We had the following equity transactions during the year ended September 30, 2012:

On October 5, 2011, we entered into a Financial Consultant Agreement or Agreement with D. Weckstein and Co, Inc. ("Weckstein") for financial consulting and investment banking services. The Agreement expires July 31, 2016. Under the Agreement, Weckstein was awarded 1,000,000 shares of our common stock on November 7, 2011. The shares were valued at $0.07 per share, the closing price on November 7, 2011. In addition, we paid $10,000 to Weckstein.

On December 15, 2011, we issued 100,000 shares of restricted common stock to Todd Weaver for product development work. The shares were valued at $0.12 per share, the closing price on November 29, 2011, and do not have registration rights. It is the Company's understanding that Mr. Weaver was not an accredited investor. However, he was involved in the Company's business, and the Company believed that he had such knowledge and experience in financial and business matters that he was capable of evaluating the merits and risks of an investment in the Company.

On February 7, 2012, we issued 1,000,000 restricted shares to Coventry Capital LLC related to an Advisory Agreement forfinancial advisory services. The shares were valued at $.10 per share.

On February 24, 2012, we issued 400,000 shares of common stock to five directors (100,000 shares for Yoshitami Arai and Dr. Masahiro Kawahata, 75,000 shares for Jon Pepper and Paul Bonderson and 50,000 shares for Bradley Sparks) for services provided on the Board of Directors of the Company during 2011. The shares were issued under the 2011 Stock Incentive Plan.

On April 1, 2011, we entered into an Investor Banking Agreement with National Securities Corporation for investment banking services. On March 12, 2012, we issued warrants for up to 204,000, 366,000 and 30,000 shares of common stock to National Securities Corporation, Steven Freifeld and Vince Calicchia, respectively. The warrants are exercisable at $.10 per share and expire March 11, 2015.

On May 16, 2012, we 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 shares do not have registration rights.

On May 31, 2012, we executed a Stock Purchase Agreement with Sumitomo whereby Sumitomo 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. The shares do not have registration rights.

On July 31, 2012, we closed the acquisition of the environmental field of use for our Spectral Pattern Matching technology from Javelin LLC or Javelin. The Company acquired the Visualant related assets of Javelin for (i) 1,250,000 shares of our common stock at closing valued at thirteen ($0.13) per share, the price during the negotiation of this agreement; and (ii) $100,000, with $20,000 payable at closing and $80,000 to be paid in four equal installments over a period of eight months (paid).

On September 6, 2012, we signed a Settlement and Release Agreement or Sparks Agreement with Mr. Sparks, the former CEO and Director and a cousin of Ronald Erickson. The Sparks Agreement required (i) payment of $50,750 (paid) and issuance of 513,696 shares of our common stock for full payment on a note and related accrued interest of $66,780; (ii) payment of $39,635 to Mr. Sparks for a note, accrued interest and other liabilities (paid); and (iii) issuance of 4,000,000 restricted shares of our common stock to Mr. Spark for unpaid compensation in the amount of $721,333. The above is full settlement of all outstanding liabilities due to Mr. Sparks.

On September 18, 2012, we issued 500,000 shares of restricted common stock to NVPR, LLC for public relation services. The shares were valued at $0.13 per share. The shares do not have registration rights.

On September 28, 2012 we issued 250,000 shares of restricted common stock to Clayton McMeekin for investor relation services. The shares were valued at $0.13 per share. The shares do not have registration rights.

As of September 30, 2012, 7,036,975 shares of our common stock have been issued to Gemini upon conversion of $300,000 of the convertible debentures and interest of $20,780 at an average of $0.05 per share. The convertible debenture had a variable conversion price that was based upon the Company's stock price during the 20 trading days prior to the conversion date.

As of September 30, 2012, 3,373,425 shares of our common stock have been issued to Ascendiant upon conversion of $150,000 of the convertible debentures and interest of $18,671 at an average of $0.05 per share. The convertible debenture had a variable conversion price that was based upon the Company's stock price during the 20 trading days prior to the conversion date.

On June 17, 2011, we entered into a Securities Purchase Agreement with Ascendiant Capital Partners LLC or Ascendiant, pursuant to which Ascendiant agreed to purchase up to $3,000,000 worth of shares of our common stock from time to time over a 24-month period, provided that certain conditions were met. The financing arrangement entered into by the Company and Ascendiant is commonly referred to as an "equity line of credit" or an "equity drawdown facility."

As of September 30, 2012, we issued to Ascendiant 5,365,884 shares for $383,141 or $.071 per share under the Securities Purchase Agreement dated June 17, 2011. In addition, the Company issued to Ascendiant during 2011 a total of 1,490,943 shares for $193,370 or $.131 per share under the Securities Purchase Agreement for commitment and legal fees.

The Company had the following equity transactions during the period from October 1, 2012 through August 16, 2013:

On October 8, 2012, Ascendiant 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.

On June 17, 2011, we entered into a Securities Purchase Agreement with Ascendiant Capital Partners LLC or Ascendiant, pursuant to which Ascendiant agreed to purchase up to $3,000,000 worth of shares of our common stock from time to time over a 24-month period, provided that certain conditions were met. The financing arrangement entered into by the Company and Ascendiant is commonly referred to as an "equity line of credit" or an "equity drawdown facility."

As of September 30, 2012, we issued to Ascendiant 6,358,933 shares for $483,141 or $.076 per share under the Securities Purchase Agreement dated June 17, 2011. In addition, the Company issued to Ascendiant during 2011 a total of 1,490,943 shares for $193,370 or $.131 per share under the Securities Purchase Agreement for commitment and legal fees.

On October 26, 2012 we 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. We expensed $19,500 during the nine months ended June 30, 2013. The shares do not have registration rights.

On November 28, 2012, Ascendiant 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.

On January 24, 2013, Gemini converted $300,000 of principal and $50,630 of accrued interest into 7,012,603 shares of common stock a$.050 per share under the Securities Purchase Agreement dated May 19, 2011.

On January 24, 2013, Ascendiant converted $50,000 of principal and $8,438 of accrued interest into 1,168,767 shares of common stock a$.050 per share under the Securities Purchase Agreement dated May 19, 2011.

On January 28, 2013, Gemini converted $300,000 of principal and $50,959 of accrued interest into 7,019,178 shares of common stock a$.050 per share under the Securities Purchase Agreement dated May 19, 2011.

On February 11, 2013, we entered into a Consulting Services Agreement with Integrated Consulting Services for strategic advice on our product roadmap. We issued a warrant for the purchase of 250,000 shares of our common stock. The warrants are exercisable at $.10 per share and expire February 10, 2016. We 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, we agreed to issue an additional warrant for the purchase of 250,000 shares of our common stock on August 12, 2013.

On February 13, 2013, we 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. We expensed $15,000 during the six months ended March 31, 2013.The shares do not have registration rights.

On February 13, 2013, we issued 150,000 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 $15,000 during the nine months ended June 30, 2013. The shares do not have registration rights.

On February 13, 2013, we 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. We expensed $200,000 during the nine months ended June 30, 2013. The shares do not have registration rights.

On March 1, 2013, we 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. We expensed $5,000 during the nine months ended June 30, 2013. The shares do not have registration rights.

On April 26, 2013, Ascendiant was issued a total of 4,565,068 shares of common stock as a result of Ascendiant's cashless exercise of a warrant. The warrant had an adjustable exercise price based on the Company's stock price during the 3 trading days prior to the time of exercise as well as for any subsequent sales of stock or stock equivalents at an effective price less than the then exercise price of the warrant. On January 23, 2013, we agreed to repurchase the Ascendiant 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 Ascendiant to exercise the Ascendiant Warrant on April 26, 2013.

We entered into an Option Agreement with Ascendiant dated April 26, 2013, pursuant to which we had the option to purchase from Ascendiant 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 Ascendiant and paid to Ascendiant the $300,000 purchase price. The option was required to be exercised and payment for the shares made on or before May 31, 2013. On May 31, 2013, we exercised our option to purchase 4,000,000 Option Shares from Ascendiant and paid to Ascendiant the $300,000 purchase price. Ascendiant delivered only 2,284,525 of the 4,000,000 Option Shares purchased by the Company and had failed to deliver the remaining 1,715,475 Option Shares. On June 17, 2013, we filed a complaint (the "Complaint") against Ascendiant Capital Partners, LLC ("Ascendiant") in the California Superior Court, County of Orange (Case No. 30-2013-00656770-CU-BC-CJC) for breach of contract, seeking damages, specific performance and injunctive relief against Ascendiant. On September 24, 2013, the California Superior Court granted Visualant's motion, finding that Visualant was likely to prevail on the merits of its claim against Ascendiant. The Court ordered Ascendiant to deliver 1,715,475 Option Shares to the Company by 4:00PM, September 27, 2013. The delivery occurred on September 27, 2013. The Company expects to pursue its damage claim.

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.

On June 10, 2013, we entered into a Purchase Agreement, Warrants and Registration Rights 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, 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, and the investors obtained voting agreements from certain stockholders regarding an increase in the number of authorized shares of stock. Since we had 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. At a special meeting of stockholders held on August 9, 2013, our stockholders approved of an increase in the authorized shares from 200,000,000 to 500,000,000 and thereafter to amend the articles of the Company to reflect this change in share authorization.

We 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.

On September 4, 2013, we issued 300,000 shares to the Liolios Group related to public relation services. We expensed $60,000 during the year ended September 30, 2013. The shares have piggyback registration rights. In addition, we issued a warrant for 200,000 shares of common stock to Liolios related to public relation services. The warrants vested on September 4, 2013, is exercisable at $.20 per share and expires on September 3, 2016. We valued the warrant at $0.20 per share and expensed $40,000 during the year ended September 30, 2013. The warrant has piggyback registration rights.

We issued a warrant to Genesis Select Corporation related to a Strategic Consulting Services Agreement dated September 15, 2013 for 200,000 shares of common stock . The warrants vested on September 15, 2013, is exercisable at $.20 per share and expires on September 14, 2016. We valued the warrant at $0.20 per share and expensed $40,000 during the year ended September 30, 2013. The warrant does not have piggyback registration rights.

Item 16. Exhibits

See the Exhibit Index immediately below the signature page to this Registration Statement.

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC pursuant to Rule 424(b), if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:

(i) If the registrant is relying on Rule 430B:

(A) Each prospectus filed by the registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(B) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) for the purpose of providing the information required by section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. *Provided, however*, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date; or

(ii) If the registrant is subject to Rule 430C, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. *Provided, however*, that no statement made in a registration statement or prospectus that is part of the registrationstatement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(5) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities: The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Seattle, State of Washington, on October 4 , 2013.

VISUALANT, INC.

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

Each person whose signature appears below hereby constitutes and appoints Ronald P. Erickson or Mark Scott, his true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any or all amendments (including, without limitation, post-effective amendments) to this registration statement and any subsequent registration statement filed by the registrant pursuant to Rule 462 (b) of the Securities Act of 1933, as amended, which relates to this registration statement, and to file the same, with all exhibits thereto, and all documents in connection herewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or his or their substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement and power of attorney has been signed on this 4th day of October, 2013 by the persons and in the capacities indicated below.

SIGNATURES	TITLE	DATE
/s/ Ronald P. Erickson Ronald P. Erickson	Chief Executive Officer, President and Director (Principal Executive Officer)	October 4 , 2013
/s/ Mark Scott Mark Scott	Chief Financial Officer and Secretary (Principal Financial/Accounting Officer)	October 4 , 2013
/s/ Marco Hegyi Marco Hegyi	Chairman of the Board, Independent Director	October 4 , 2013
/s/ Jon Pepper Jon Pepper	Independent Director	October 4 , 2013
/s/ Ichiro Takesako Ichiro Takesako	Management Director	October 4 2013

NO.	EXHIBIT DESCRIPTION
3.1	Amended and Restated Bylaws. Filed as an exhibit to the Company's Form 8-K dated August 10, 2012 and filed with the SEC on August 17, 2012, and incorporated by reference.
3.2	Amended and Restated Articles of Incorporation dated December 28, 2012. Filed as an exhibit to the Company's Form 8-KA dated March 21, 2013 and filed with the SEC on September 10, 2013, and incorporated by reference. Also filed herewith.
3.3	Certificate and Amendment to Articles of Incorporation for Visualant, Inc. dated August 12, 2013. Filed as an exhibit to the Company's Form 8-K dated August 12, 2013 and filed with the SEC on August 14, 2013, and incorporated by reference. Also filed herewith.
4.1	Visualant, Inc. 2011 Stock Incentive Plan filed as an exhibit to the Company's Definitive Proxy Statement on Schedule 14A filed on January 31, 2011, File No. 000-30262-11560322, and incorporated herein by reference.
5.1	Opinion of Fifth Avenue Law Group, PLLC. Filed herewith.

10.1	Stock Purchase Agreement dated June 8, 2010 by and between Visualant, Inc. and TransTech Systems, Inc. Filed as an Exhibit Form 10-Q filed on August 12, 2010, and incorporated herein by reference.
10.2	Promissory Note dated June 8, 2010 by and between Visualant, Inc. and James M. Gingo. Filed as an Exhibit toForm 10-Q filed on August 12, 2010, and incorporated herein by reference.
10.3	Stock Pledge Agreement dated June 8, 2010 by and between Visualant, Inc., James M. Gingo and Brownstein, Rask, Sweeney, Kerr, Grim, Grim, DeSylvia and Hay, LLP. Filed as an Exhibit to Form 10-Q filed on August 12, 2010, and incorporated by reference.
10.4	Security Agreement dated June 8, 2010 by TransTech Systems, Inc. Filed herewith. Filed as an Exhibit to Form 10-Q filed on August 12, 2010, and incorporated by reference.
10.5	Employment Agreement dated June 8, 2010 by and between Visualant, Inc. and James Gingo. Filed as an to Form 10-Q filed on August 12, 2010, and incorporated by reference.
10.6	Securities Purchase Agreement dated December 23, 2010 by and between Visualant, Inc. and Seaside 88 Advisors LLC. Filed as an Exhibit to the Company's Form 10-Q dated December 31, 2010 and filed on February 11, 2011, and incorporated by reference.
10.7	Amendment 2 to Securities Purchase Agreement by and between Visualant, Inc. and Seaside 88 Advisors, LLC. Filedas an Exhibit to the Company's Form 8-K dated April 22, 2011 and filed with the SEC on April 27, 2011, and incorporated by reference.
10.8	Securities Purchase Agreement dated May 19, 2011 by and between Visualant, Inc. and Gemini Master Fund Ltd and Ascendiant Capital Partners, LLC. Filed as an Exhibit to the Company's Registration Statement on Form S-1 dated and filed June 28, 2011, and incorporated by reference.
10.9	Registration Rights Agreement dated May 19, 2011 by and between Visualant, Inc. and Gemini Master Fund Ltd and Ascendiant Capital Partners, LLC. Filed as an Exhibit to the Company's Registration Statement on Form S-1 dated and filed June 28, 2011, and incorporated by reference.
10.10	Convertible Debenture dated May 19, 2011 by and between Visualant, Inc. and Gemini Master Fund Ltd. Filed as an Exhibit to the Company's Registration Statement on Form S-1 dated and filed June 28, 2011, and incorporated by reference.
10.11	Convertible Debenture dated May 19, 2011 by and between Visualant, Inc. and Ascendiant Capital Partners, LLC. Filed as an Exhibit to the Company's Registration Statement on Form S-1 dated and filed June 28, 2011, and incorporated by reference.
10.12	Warrant dated May 19, 2011 by and between Visualant, Inc. and Gemini Master Fund Ltd. Filed as an Exhibit to the Company's Registration Statement on Form S-1 dated and filed June 28, 2011, and incorporated by reference.
10.13	Warrant dated May 19, 2011 by and between Visualant, Inc. and Ascendiant Capital Partners, LLC. Filed as an Exhibit to the Company's Registration Statement on Form S-1 dated and filed June 28, 2011, and incorporated by reference.
10.14	Warrant dated May 19, 2011 by and between Visualant, Inc. and Ascendiant Capital Markets LLC. Filed as an Exhibit to the Company's Registration Statement on Form S-1 dated and filed June 28, 2011, and incorporated by reference.
10.15	Asset Purchase Agreement dated June 7, 2011 by and between Visualant, Inc. and the RATLab LLC and filed as an Exhibit to the company's Form 8-K with the SEC on June 10, 1011, and incorporated by reference.
10.16	Securities Purchase Agreement dated June 17, 2011 by and between Visualant, Inc. and Ascendiant Capital Partners, LLC. Filed as an Exhibit to the Company's Registration Statement on Form S-1 dated and filed June 28, 2011, and incorporated by reference.
10.17	Registration Rights Agreement dated June 17, 2011 by and between Visualant, Inc. and Ascendiant Capital Partners, LLC. Filed as an Exhibit to the Company's Registration Statement on Form S-1 dated and filed June 28, 2011, and incorporated by reference.
10.18	Financial Consulting Agreement effective October 5, 2011 by and between Visualant, Inc. and D. Weckstein &Co. Inc. Filed as an Exhibit to the Company's Amended Registration Statement on Form S-1 dated and filed August 16, 2013, and incorporated by reference.

10.19	Advisory Agreement dated February 7, 2012 by and between Visualant, Inc. and Coventry Capital LLC. Filed as an Exhibit to the Company's Registration Statement on Form S-1 dated April 2, 2012 and filed with the SEC on April 3, 2012, and incorporated by reference.
10.20	Extension Agreement dated March 12, 2012 by and between Visualant, Inc. and Gemini Master Fund Ltd and Ascendiant Capital Partners, LLC. Filed as an Exhibit to the Company's Registration Statement on Form S-1 dated April 2, 2012 and filed with the SEC on April 3, 2012, and incorporated by reference.
10.21	Warrant dated March 12, 2012 by and between Visualant, Inc. and National Securities Corporation. Filed herewith April 2, 2012 Filed as an Exhibit to the Company's Registration Statement on Form S-1 dated April 2, 2012 and filed with the SEC on April 3, 2012, and incorporated by reference.
10.22	Warrant dated March 12, 2012 by and between Visualant, Inc. and Steven Freifeld. Filed as an Exhibit to the Company's Registration Statement on Form S-1 dated April 2, 2012 and filed with the SEC on April 3, 2012, and incorporated by reference.
10.23	License Agreement dated May 31, 2012 by and between Visualant, Inc. and Sumitomo Precision Products Co., Ltd. Filedas an exhibit to the Company's Form 8-K dated May 31, 2012 and filed with the SEC on June 4, 2012, and incorporated by reference.
10.24	Joint Research and Product Development Agreement dated May 31, 2012 by and between Visualant, Inc. and Sumitomo Precision Products Co., Ltd. Filed herewith.
10.25	Stock Purchase Agreement dated May 31, 2012 by and between Visualant, Inc. and Sumitomo Precision Products Co., Ltd. Filed as an exhibit to the Company's Form 8-K dated May 31, 2012 and filed with the SEC on June 4, 2012, and incorporated by reference.
10.26	Asset Purchase Agreement dated July 31, 2012 by and between Visualant, Inc. and the Javelin LLC and filed with the SEC on August 22, 2012, and incorporated by reference.
10.27	Warrant Purchase Agreement dated January 23, 2013 by and between Visualant, Inc. and Ascendiant Capital Partners LLC. Filed as an exhibit to the Company's Form 8-K dated January 30, 2013 and filed with the SEC on January 30, 2013, and incorporated by reference.
10.28	Amendment to Warrant Purchase Agreement dated January 23, 2013 by and between Visualant, Inc. and Gemini Master Fund Ltd. Filed as an exhibit to the Company's Form 8-K dated January 30, 2013 and filed with the SEC on January 30, 2013, and incorporated by reference.
10.29	AIR Termination Agreement dated January 23, 2013 by and between Visualant, Inc. and Gemini Master Fund Ltd. Filed as an exhibit to the Company's Form 8-K dated January 30, 2013 and filed with the SEC on January 30, 2013, and incorporated by reference.
10.30	$850,000 Term Note of Visualant, Inc. dated January 23, 2013. Filed as an exhibit to the Company's Form 8-K datedJanuary 30, 2013 and filed with the SEC on January 30, 2013, and incorporated by reference.
10.31	Amendment to Joint Research and Product Development Agreement dated March 29, 2013 by and between Visualant,Inc. and Sumitomo Precision Products Co., Ltd. Filed as an Exhibit to the Company's Amended Registration Statement on Form S-1 dated and filed September 16, 2013, and incorporated by reference.
10.32	Option Agreement dated April 26, 2013 by and between Visualant, Inc. and Ascendiant Capital Partners LLC. Filed as an exhibit to the Company's Form 8-K dated April 26, 2013 and filed with the SEC on May 1, 2013, and incorporated by reference.
10.33	Form of Purchase Agreement by and between Visualant, Inc. and investors. Filed herewith.
10.34	Form of Warrant A and B by and between Visualant, Inc. and investors. Filed as an exhibit to the Company's Form 8-K datedJune 14, 2013 and filed with the SEC on June 18, 2013, and incorporated by reference.
10.35	Form of Registration Rights Agreement by and between Visualant, Inc. and investors. Filed as an exhibit to the Company's Form 8-K dated June 14, 2013 and filed with the SEC on June 18, 2013, and incorporated by reference.

10.36	Form of Voting Agreement by and between Visualant, Inc. and investors. Filed as an exhibit to the Company's Form 8-K dated June 14, 2013 and filed with the SEC on June 18, 2013, and incorporated by reference.
10.37	Amendment No. 1 to Lease dated June 14, 2013 by and between Visualant, Inc. and Logan Building LLC.Filed as an Exhibit to the Company's Amended Registration Statement on Form S-1 dated and filed August 16, 2013, and incorporated by reference.
10.38	Amendment to Lease dated March 3, 2006 by and between TransTech Systems, Inc. and Little Properties LLC.Filed as an Exhibit to the Company's Amended Registration Statement on Form S-1 dated and filed August 16, 2013, and incorporated by reference.
10.39	Settlement and Release Agreement dated September 6, 2012 by and between Visualant, Inc. and Bradley E. Sparks. Filed as an Exhibit to the Company's Form 8K filed with the SEC on September 11, 2012, and incorporated by reference.
10.40	Demand Promissory Note dated May 31, 2013 by and between Visualant, Inc. and J3E2A2Z LP, an entity affiliatedwith Ronald P. Erickson, our Chief Executive Officer. Filed as an Exhibit to the Company's Amended Registration Statement on Form S-1 dated and filed August 16, 2013, and incorporated by reference.
10.41	Lease dated July 11, 2012 by and between Visualant, Inc. and Harbor Properties Inc. Filed as an Exhibit to the Company's Amended Registration Statement on Form S-1 dated and filed September 16, 2013, and incorporated by reference.
10.42	Exercise of Lease Letter dated May 24, 2011 by TransTech Systems, Inc. to Little Properties LLC. Filed as an Exhibit to the Company's Amended Registration Statement on Form S-1 dated and filed September 16, 2013, and incorporated by reference.
10.43	Security Agreement dated June 12, 2013 by and between Visualant, Inc. and BFI Business Finance, filed as an exhibitto the Company's Form 10Q dated June 30, 2013 and filed August 15, 2013, and incorporated by reference.
10.44	Business Development Fee Agreement dated July 31, 2012 by and between Visualant, Inc. and the Javelin LLC andfiled with the SEC on August 22, 2012, and incorporated by reference.
10.45	General Continuing Guaranty dated June 12, 2013 by and between TransTech Systems Inc., Visualant, Inc. and BFIBusiness Finance. Filed herewith.
10.46	Loan and Security Agreement dated December 9, 2008 by and between TransTech Systems Inc. and BFI BusinessFinance. Filed herewith.
10.47	First Modification to Loan and Security Agreement dated March 11, 2009 by and between TransTech Systems Inc. andBFI Business Finance. Filed herewith.
10.48	Second Modification to Loan and Security Agreement dated December 16, 2009 by and between TransTech SystemsInc. and BFI Business Finance. Filed herewith.
10.49	Third Modification to Loan and Security Agreement dated June 12, 2013 by and between TransTech SystemsInc. and BFI Business Finance. Filed herewith.
10.50	Form of Placement Agent Warrant by and between Visualant, Inc. and placement agents. Filed herewith.
14.1	Code of Conduct and Ethics dated November 30, 2012. Filed as an exhibit to the Company's Form 8-K dated December 28, 2012 and filed with the SEC on January 3, 2013, and incorporated by reference.
21.1	Subsidiaries of the Registrant. Filed as an exhibit to the Company's Form 10-K dated September 30, 2012 and filed with the SEC on November 13, 2012, and incorporated by reference.
23.1	Consent of PMB Helin Donovan, LLP. Filed herewith.
23.2	Consent of Madsen & Associates CPA's, Inc. Filed herewith.
24.1	Power of Attorney (included on the signature page of this registration statement).
99.1	Audit Committee Charter dated November 30, 2012. Filed as an exhibit to the Company's Form 8-K dated December 28, 2012 and filed with the SEC on January 3, 2013, and incorporated by reference.
99.2	Compensation Committee Charter dated November 30, 2012. Filed as an exhibit to the Company's Form 8-K dated December 28, 2012 and filed with the SEC on January 3, 2013, and incorporated by reference.
99.3	Nominations and Governance Committee Charter dated November 30, 2012. Filed as an exhibit to the Company's Form 8-K dated December 28, 2012 and filed with the SEC on January 3, 2013, and incorporated by reference.

Exhibit 5.1

701 Fifth Avenue
Suite 2800
Seattle, WA 98104
206.587.5700
206.587.5710 (fax)
www.fifthavenue-law.com

October 4, 2013

Visualant, Inc.
500 Union Street, Suite 420
Seattle, WA 98101

RE: Registration Statement on Form S-1

Gentlemen:

We have acted as counsel to Visualant, Inc. (the "Company") in connection with the Registration Statement on Form S-1, File No. 333-189788, filed with the U.S. Securities and Exchange Commission (the "Commission") on July 3, 2013 and amended on August 16, 2013 (the "First Registration Statement"), and the Registration Statement on Form S-1, File No. 333-190685 filed with the Commission on August 16, 2013 (the "Second Registration Statement").

The First Registration Statement and the Second Registration Statement have been combined into one registration statement (the "Registration Statement"), which was amended by the Registration Statement on Form S-1/A, Amendment No. 2, File No. 333-189788, filed with the Commission on September 16, 2013, and amended further by the Registration Statement on Form S-1/A, Amendment No. 3, File No. 333-189788 filed with the Commission on October 4, 2013 covering: (a) 52,300,000 shares of common stock issued to Special Situations Technology Funds, L.P. and forty other accredited investors (collectively, the "Investors") pursuant to a private placement undertaken by the Company, which offering closed on June 14, 2013; (b) 52,300,000 shares of common stock issuable upon the exercise of five-year Series A Warrants (the "Series A Warrants") issued to the Investors at $0.15 per share as part of the aforesaid private placement; (c) 52,300,000 shares of common stock issuable upon the exercise of five-year Series B Warrants (the "Series B Warrants") issued to the Investors at $0.20 per share as part of the aforesaid private placement; and (d) 5,230,000 shares of common stock issuable upon the exercise of five-year placement agent warrants (the "Placement Agent Warrants") issued to GVC Capital LLC or affiliated parties (collectively, "GVC") at $0.10 per share as part of the aforesaid private placement. All 162,130,000 of the aforesaid shares of common stock (collectively, the "Shares") are being registered in connection with the proposed sale of the Shares by the Investors and GVC (the "Selling Stockholders") listed in the Registration Statement.

In connection with this opinion, we have assumed that the Shares that are issuable upon exercise of the Series A Warrants, the Series B Warrants, and the Placement Agent Warrants will be issued in the manner described in the Registration Statement and the prospectus relating thereto.

In connection with this opinion we have reviewed the proceedings of the Board of Directors of the Company relating to the registration and issuance of the Shares, the Company's Amended and Restated Articles of Incorporation dated March 21, 2013 as filed with the Nevada Secretary of State on April 30, 2013, the amendment to the Company's Articles of Incorporation as filed with the Nevada Secretary of State on August 12, 2013, the Bylaws of the Company and all amendments thereto, and such other documents and matters as we have deemed necessary as a basis for this opinion.

Based upon the foregoing, we are of the opinion that:

(a) The 52,300,000 Shares issued to the Investors in the private placement are duly authorized, validly issued, fully paid and nonassessable;

(b) The 52,300,000 Shares, when issued upon exercise of the Company's Series A Warrants granted to the Investors, will be legally issued, fully paid, and nonassessable;

(c) The 52,300,000 Shares, when issued upon exercise of the Company's Series B Warrants granted to the Investors, will be legally issued, fully paid, and nonassessable; and

(d) The 5,230,000 Shares, when issued upon exercise of the Company's Placement Agent Warrants granted to GVC, will be legally issued, fully paid, and nonassessable.

We do not find it necessary for the purposes of this opinion to cover, and accordingly we express no opinion as to, the application of the securities or blue sky laws of the various states as to the issuance and sale of the Shares.

We consent to the use of this opinion as an exhibit to the Registration Statement filed with the Commission in connection with the registration of the Shares and to the reference to our firm in the Registration Statement.

Very truly yours,

/s/ Fifth Avenue Law Group, PLLC

Fifth Avenue Law Group, Pllc

JOINT RESEARCH AND PRODUCT DEVELOPMENT AGREEMENT

This Joint Research and Product Development Agreement is entered into effective May 31, 2012 (the "Effective Date"), between Sumitomo Precision Products Co., Ltd., a Japanese corporation having a place of business at 1-10 Fuso-cho, Amagasaki, Hyogo 660-0891 Japan, (hereinafter "SPP"), and Visualant, Incorporated a corporation under the laws of the State of Nevada having a business address of 500 Union Street, Suite 406, Seattle, Washington, 98101, and subsidiaries and affiliates (hereinafter "VISUALANT").

WITNESSETH:

WHEREAS, VISUALANT has previously developed spectral signature related technology which employs spectral pattern matching (hereinafter "SPM technology") which has a large variety of potential uses such as security, authentication, and quality control, portions of which SPM technology are protected by U.S. patents, pending U.S. and Japanese patent applications, portions of which SPM technology are protected by copyright, and portions of which SPM technology are the trade secrets of VISUALANT;

WHEREAS, VISUALANT has previously disclosed proprietary information regarding the SPM technology to SPP under a confidentiality agreement dated 16-June-2011, appended hereto as Attachment A;

WHEREAS, SPP has expertise in product design, product production and product commercialization;

WHEREAS, SPP and VISUALANT desire to cooperate with one another in development and testing of marketable Scan Head prototypes based on the SPM technology;

WHEREAS, SPP and VISUALANT desire to cooperate with one another in joint marketing study to identify an early adoption application for the SPM technology including but not limited to searching for a candidate for marketing partner; and

WHEREAS, SPP and VISUALANT anticipate developing additional commercially valuable technology related to the SPM technology, Scan Head prototypes and joint marketing study;

NOW, THEREFORE, in consideration of the mutual promises herein contained, SPP and VISUALANT hereby agree as follows:

Initials: ___
Date: ____

Article 1

Definitions

1.1 "Agreement" means this Joint Research and Product Development Agreement.

1.2 "Party" means any of the entities named in this Agreement, including their wholly owned subsidiaries.

1.3 "Parties" means all of the entities named in this Agreement, including their wholly owned subsidiaries.

1.4 "Third Party" or "Third Parties" means any entity not named in this Agreement.

1.5 "Confidential Information" means information or material proprietary to either Party or designated as Confidential Information by either Party and not generally known to the public, which information or material was developed by the Party in performance of this Agreement or of which the Party obtained knowledge of, was exposed to, or gained access to as a result of the Party's relationship with the other Party to this Agreement. Confidential Information shall include, but not be limited to, the following types of information and other information of a similar nature whether or not reduced to writing: discoveries, inventions whether patentable or not, ideas, concepts, software in various stages of development, designs, drawings, specifications, algorithms, formulae, techniques, models, data, source code, object code, documentation, diagrams, flowcharts, research, analysis, development, processes, procedures, "know-how," engineering techniques, marketing techniques and materials, marketing and development plans, customer name and other information related to customers, price lists, pricing policies, and financial information.

1.6 "Intellectual Property" means technical and other specifications, technical designs or solutions, drawings, diagrams, protocols, schematics, apparatuses, hardware, tools, devices, descriptions, methods, techniques, processes, formulae, specifications, procedures, methods and results, algorithms, software, software code (in any form including source code and object code or executable code), user interfaces, database rights, trade secrets, registered and unregistered trademarks and service marks, know-how, inventions whether patentable or not, utility or design patent applications, utility or design patents, registered or unregistered copyrights, confidential or proprietary information, mask works rights, registered and unregistered design rights, utility models, and any other forms of technology, in each case whether registered or unregistered, throughout the World, as well as business information including, but not limited to, business plans, vendors, supply sources, customers, potential customers and pricing, as well as other Confidential Information.

Initials: ___
Date: ____

1.7 "Background Intellectual Property" means any Intellectual Property conceived of, reduced to practice, invented, developed, authored, created or owned by a Party before the effective date of this Agreement, and which Intellectual Property is useful with respect to the product design, product production and product commercialization of the SPM technology.

1.8 "Resulting Intellectual Property" means any Intellectual Property resulting from work performed under this Agreement by, or at the direction of, either Party which relates to SPM technology, including Intellectual Property conceived of, reduced to practice, invented, developed, authored, created or owned by either Party following the term of this Agreement to the extent that such Intellectual Property is shown to be a direct result of work performed under this Agreement or otherwise acquired in performance of this Agreement.

1.9 "Solely Developed Intellectual Property" means any Resulting Intellectual Property that is conceived of, reduced to practice, invented, developed, authored, created by personnel directly under control of a single Party, or acquired by a single Party.

1.10 "Jointly Developed Intellectual Property" means any Resulting Intellectual Property that is not Solely Developed Intellectual Property.

1.11 "Existing Confidentiality Agreement" means the Confidentiality Agreement between the Parties, executed on 16-JUNE-2011, which is appended hereto as Attachment A.

Article 2

Product and Market Development

2.1 Obligations and Responsibilities

SPP shall perform product development, design, and manufacturability services during the Term of this Agreement (as defined in Section 7.1) to achieve the deliverables set out in sections 2.2(a)-2.2(c). VISUALANT agrees to use its expertise and best efforts in cooperation with SPP to jointly develop and test prototypes according to agreed-upon specifications, the specifications to be developed by the Parties within sixty (60) days of the Effective Date of this Agreement. Specifications may be reasonably modified from time to time for just cause by mutual agreement to be recorded in a memorandum of amendment signed by the Parties hereto. SPP shall only take responsibility for any issues and defaults on agreed acceptance condition, development schedule etc. caused by its product design and manufacturing performances. Any issues and problems caused by the original IP and related information provided by VISUALANT shall be the responsibility of VISUALANT.

Initials: ___
Date: ____

VISUALANT shall perform market development in North America during the Term of this Agreement to achieve the deliverables set out in sections 2.2(a)-2.2(c). SPP agrees to use its expertise and best efforts in cooperation with VISUALANT to jointly develop market and application.

2.2 Deliverables

(a) SPP shall complete design and manufacture of two (2) Scan Head Version 6 prototypes meeting agreed-upon specifications for Version 6, as generally set out in Attachment C and to be further refined, on or before September 30, 2012. VISUALANT shall hire a business development/program manager to obtain the market requirement for Version 6 specifications within thirty (30) days of the Effective Date of this Agreement. VISUALANT shall instruct this business development/program manager to search for potential partnership for each possible application in the North American region by September 30, 2012. One (1) of the Scan Head Version 6 prototypes shall be delivered by SPP to VISUALANT for acceptance testing on or before September 30, 2012. Upon acceptance by VISUALANT of the delivered Scan Head Version 6 prototype, all rights, title, and interest in the delivered Scan Head Version 6 prototype will be owned by VISUALANT, subject to the rights of the Parties pursuant to Article 3 hereof.

(b) SPP shall exhibit one (1) Scan Head Version 6 prototype at JIMA 2012 in Tokyo Japan. VISUALANT shall plan to exhibit one (1) Scan Head Version 6 prototype at applicable tradeshows in the North American region scheduled after October 2012.

(c) SPP shall complete principal design of a Scan Head Version 7 prototype which incorporates an Application Specific Integrated Circuit (ASIC) on or before December 31, 2012.

(d) Upon execution of this Agreement, VISUALANT shall promptly provide to SPP engineering documentation and information related to an existing Scan Head Version 5 prototype (*i.e.*, Cyclops Version 5 Scan Head), including algorithms, source code, hardware drawings, circuit schematics, and parts list to the extent that such exist, and otherwise provide remote technical support to SPP that is necessary or useful to SPP's obligations stated in sections 2.2(a)-2.2(c). Such documentation and information, which is part of the SPM technology, shall be subject to the terms of a separate License Agreement between the Parties executed contemporaneously herewith.

(e) VISUALANT shall specify within sixty (60) days of the Effective Date of this Agreement technical and non-technical criteria to be used by VISUALANT in testing performance of the Scan Head Version 6 prototype.

(f) Upon delivery to it, VISUALANT shall be responsible for promptly inspecting and testing the Scan Head Version 6 prototype, and approving such at its sole discretion, such approval not to be unreasonably withheld. SPP agrees to provide VISUALANT with assistance in providing test equipment and testing the prototypes as reasonably requested by VISUALANT.

Initials: ___
Date: ____

(g) VISUALANT shall issue a purchase order for the Scan Head Version 6 prototype.

(h) See also notes with responsibilities and timeline from collaborative meeting between VISUALANT and SPP attached as Attachment B and C hereto.

(i) See planned deliverables by the Parties to this Agreement attached as Attachment B and C hereto. During the Term, the Parties shall discuss about whether to proceed to the next action phase in accordance with Attachment B. If they agree to proceed, each Party shall engage in discussions for the next action phase with the other Party prior to engaging in any business discussions with third parties. If they do not agree to proceed, each Party is free to discuss proceeding with third parties, subject to the rights of the Parties as set forth in the Agreement.

2.3 Communications

The Parties will hold monthly meetings to review progress, and to agree on direction or changes. The monthly meetings will be attended by at least one representative of each Party who has authority to make binding decisions for the respective Party. Attendance may be either in person, or via telephone or video conferencing. The Parties agree to use their best efforts in communicating with one another, including, but not limited to, providing status reports on the Party's own performance under this Agreement on an at least bi-weekly basis.

2.4 Disclosure of Significant Developments

The Parties shall promptly disclose significant developments with respect to the Resulting Intellectual Property to one another, and in any event upon demand therefor by the other, and disclose to the extent necessary or as reasonably desired by the other Party to allow that other Party to fully appreciate any advantage or significance of such significant developments.

2.5 Costs

Each Party will bear its own costs in development activities under this Agreement, except as otherwise explicitly set out herein or later agreed to by the Parties in writing. In the case of exceptional costs or exceptionally large costs, the Parties may choose to share the costs in any manner the Parties deem equitable.

Initials: ___
Date: ____

2.6 Facilities

It is contemplated that primary development activities will occur at the facilities of the respective Parties. Both parties shall provide at least 1 set of desk and chair in its own office space for usage by a visitor from the other Party.

2.7 Program Management

(a) The Parties shall form the Steering Committee which consists of the chief member from each party, CEO from VISUALANT and Board Director in charge of R&D from SPP, who shall assign the rest of the members from his/her own Party up to 5 people including him/herself. The Steering Committee shall observe the progress of development program according to this Agreement and implement countermeasures to any issues if required. The SPP and VISUALANT Boards recognize the authority of Steering Committee over the issue related to this Agreement. Any recommendation/suggestion and/or instruction for execution of those tasks defined by this Agreement raised by Steering Committee shall be considered by the respective boards.

(b) The Parties shall set the detailed action plan supporting those tasks defined by this Agreement, including schedule and assignment of human resources and responsible parties within fourteen (14) days of the Effective Date of this Agreement. This detailed action plan shall be reviewed by weekly review meeting and Steering Committee which shall be held every other month.

Article 3

Intellectual Property Ownership, Decisions, Costs, Grants

3.1 Ownership of Intellectual Property

Subject to any license granted in the License Agreement between the Parties, all right, title and interest to any Background Intellectual Property remains in and will be solely owned by the respective Party whose personnel under its control conceived of, reduced to practice, invented, developed, authored, or otherwise created the respective Background Intellectual Property.

Subject to any license granted in the License Agreement between the Parties, all right, title an interest to Jointly Developed Intellectual Property vests in and will be jointly owned by the Parties in equal shares, including a right to accounting for any exploitation of the Jointly Developed Intellectual Property.

Subject to any license granted in the License Agreement between the Parties, all right, title and interest to any Solely Developed Intellectual Property vests in and will be solely owned by the respective Party whose personnel under its control conceived of, reduced to practice, invented, developed, authored, or otherwise created the respective Solely Developed Intellectual Property.

Initials: ___
Date: ____

3.2 Decisions With Respect to Securing Resulting Intellectual Property

With respect to Jointly Developed Intellectual Property, the Parties will timely consult each other on substantial decisions regarding securing rights in Jointly Developed Intellectual Property, including, but not limited to, deciding whether to file applications to establish or register such rights, deciding in which countries or regions in which to establish or register such rights, deciding on the scope of those rights, decisions related to the term of such rights, and deciding whether to abandon any such applications, whether to maintain such rights, which includes securing utility and design patent rights, utility model rights, copyrights, and/or trademark or service mark rights. VISUALANT and SPP will with each other's approval, select and manage counsel to secure Jointly Developed Intellectual Property, in accordance with the above noted consultation.

With respect to Solely Developed Intellectual Property, each Party has the absolute right to make all decisions with respect to securing rights to its own Solely Developed Intellectual Property, including, but not limited to, deciding whether to file applications to establish or register such rights, deciding in which countries or regions in which to establish or register such rights, and deciding whether to abandon such any such applications, whether to maintain such rights, including securing utility and design patent rights, utility model rights, copyrights, and/or trademark or service mark rights.

3.3 Costs Associated With Respect to Securing Resulting Intellectual Property

The Parties will equally share all reasonable costs associated with securing rights to Jointly Developed Intellectual Property, including but not limited to filing, prosecuting, or maintaining of any applications for, or grants of, utility or design patents, utility models, copyright registrations or trademark or service mark registrations. Should one Party decide against securing rights, that Party must provide timely notice to the other Party, and will thereafter not be responsible for costs associated with securement of those rights. The other Party may proceed with securing those rights at its own expense and for its own sole benefit, such rights subject to any license granted in the License Agreement between the Parties.

Each Party will bear its own costs associated with securing rights to its own Solely Developed Intellectual Property.

3.4 Cooperation in Securing Rights In Resulting Intellectual Property

Upon request, either during or after termination of this Agreement, each Party will (i) sign and deliver any written assignments and other documents and to its best ability cause those under its control to sign and deliver any written assignments and other documents, (ii) assist in filing and prosecuting patent, utility model, and copyright applications, and (iii) do any other things as may be necessary to perfect rights to the Resulting Intellectual Property, including testifying in any appeal, interference, litigation, or other legal proceeding that may arise during or after the termination of this Agreement.

Initials: ___
Date: ____

3.5 Decisions With Respect to Enforcing Resulting Intellectual Property

With respect to Jointly Developed Intellectual Property, the Parties will timely consult each other on all decisions related to possible or actual infringement or conversion of Jointly Developed Intellectual Property. Should one Party not agree to pursue an enforcement action, the other Party may pursue the enforcement action. The Party that does not agree to pursue the enforcement action agrees to be joined in the enforcement action if required.

With respect to Solely Developed Intellectual Property, each Party has the absolute right to make all decisions with respect to enforcing rights to its own Solely Developed Intellectual Property, including, but not limited to, deciding whether to file any actions including legal or administrative actions against infringers, whether to seek injunctions, whether to seek monetary damages and the amount of such damages, whether to settle any action and the terms of such settlements, whether to dismiss an action with or without prejudice, and whether to grant a license on any terms deemed suitable by the Party and consistent with the License Agreement between the Parties.

3.6 Costs Associated With Respect to Enforcing Resulting Intellectual Property

The Parties will equally share all reasonable costs incurred in enforcing rights to Jointly Developed Intellectual Property against Third Parties, except where one Party does not agree to pursue the enforcement action, in which case the Party that pursues the enforcement action does so solely at its own cost, and has no obligation to account for any proceeds or damages resulting from the enforcement action to the Party that did not agree to pursue the enforcement action.

Each Party will bear its own costs incurred in enforcing rights to its own Solely Developed Intellectual Property against Third Parties.

Article 4

Confidentiality and Nondisclosure Agreement

4.1 Confidentiality

The Existing Confidentiality Agreement is incorporated herein by reference.

Initials: ___
Date: ____

4.2 Injunctive Relief

Each Party acknowledges that the disclosure of the other Party's Confidential Information will give rise to an irreparable injury to the other Party that cannot be adequately compensated in damages. Accordingly, each Party agrees that the other may obtain injunctive relief against disclosure or threatened disclosure of its Confidential Information, in addition to any such remedies that may be available in law or at equity. This provision shall survive the termination of this Agreement under any and all circumstances and does not preclude other remedies including but not necessarily limited to money damages.

Article 5

Representations, Warranties, and Indemnifications

5.1 General Representations and Warranty

Each Party represents and warrants that, as of the Effective Date of this Agreement:

(i) it is a corporation duly organized, validly existing and in good standing under the laws of its respective State or Country; and has the full corporate authority and the legal right to enter into this Agreement;

(ii) this Agreement has been duly authorized by all necessary corporate action on the part of the Party,

(iii) this Agreement does not conflict with, violate, or breach or constitute a default or require any consent under, any contractual obligation or court or administrative order by which the Party is bound,

(iv) it has the full right and authority to grant to any rights or licenses granted to the other Party under this Agreement or the associated License Agreement;

(v) each Party will comply with the requirements of the U.S. Federal Corrupt Practices Act.

5.2 Disclaimer of Product Warranty

EXCEPT AS EXPRESSLY PROVIDED OTHERWISE IN THIS AGREEMENT OR AS STATED IN ANY STANDARD TERMS AND CONDITIONS WHICH MAY ACCOMPANY THE DELIVERY OF THE SCAN HEAD PROTOTYPES, ANY OTHER PRODUCT OR INTELLECTUAL PROPERTY PROVIDED UNDER THIS AGREEMENT IS PROVIDED TO A PARTY " AS IS" AND NEITHER PARTY MAKES ANY REPRESENTATIONS OR WARRANTIES OF ANY KIND, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT OR THOSE ARISING FROM THE COURSE OF PERFORMANCE, OR A COURSE OF DEALING OR TRADE USAGE. NEITHER PARTY SPECIFICALLY MAKES ANY WARRANTY WITH RESPECT TO ANY PROTOTYPE, COMPUTER SOFTWARE, PRODUCT, INTELLECTUAL PROPERTY OR INFORMATION PROVIDED BY IT OR SOLD OR LICENSED HEREUNDER BY THAT PARTY. NEITHER PARTY WARRANTS TO THE OTHER PARTY THAT ANY PROTOTYPE, PRODUCT, SOFTWARE OR INTELLECTUAL PROPERTY PROVIDED OR USED HEREUNDER IS ERROR FREE, WILL OPERATE WITHOUT INTERRUPTION OR PROVIDE SECURE OPERATIONS.

Initials: ___
Date: ____

5.3 Limitation of Liability

IN NO EVENT WILL EITHER PARTY BE LIABLE FOR (A) ANY LOST PROFITS, LOSS OF GOODWILL, LOST SAVINGS, LOST REVENUE, LOST DATA OR ANY INDIRECT, INCIDENTAL, SPECIAL, PUNITIVE, COLLATERAL OR CONSEQUENTIAL DAMAGES, REGARDLESS OF WHETHER SUCH LIABILITY IS BASED ON BREACH OF CONTRACT, TORT, STRICT LIABILITY OR OTHERWISE AND EVEN IF THE OTHER PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH LOSSES OR DAMAGES, OR (B) DAMAGES ARISING OUT OF OR RELATING TO THIS AGREEMENT (IN THE AGGREGATE) EXCEEDING THE AMOUNTS PAID OR PAYABLE TO THE OTHER PARTY UNDER THIS AGREEMENT OR ANY ASSOCIATED LICENSE AGREEMENT DURING THE LAST TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE CLAIM. THESE LIMITATIONS OF LIABILITY SHALL APPLY NOTWITHSTANDING THE FAILURE OF ESSENTIAL PURPOSE OF ANY LIMITED REMEDY HEREIN. THE LIMITATIONS SET FORTH IN THIS SECTION SHALL NOT APPLY WITH RESPECT TO CLAIMS FOR BREACH OF CONFIDENTIALITY OR A PARTY'S INDEMNITY OBLIGATIONS UNDER THIS AGREEMENT.

5.4 Intellectual Property Warranty

Each Party represents and warrants to the other that it is the owner of all rights, title, and interest in and to its Background Intellectual Property, and that it has the right, authority, and legal capacity to enter into this Agreement and grant any rights set forth herein or in the associated License Agreement between the Parties. Each Party agrees that it will not knowingly incorporate any patented, copyrighted, trade secret or other proprietary technology or designs owned by Third Parties, and shall promptly inform the other Party if it knows or has any reason to believe any product or method may constitute an infringement or misappropriation of the patents, copyrights, trade secrets or other proprietary technology or designs owned by Third Parties. Each Party shall use reasonable efforts to investigate information it receives of such Third Party rights when used or proposed for use in the development activities and to advise the other Party of the results of such investigation.

Initials: ___
Date: ____

5.5 No Warranty of Validity; Non-infringement

Nothing in this Agreement shall be construed as (a) a warranty or representation by either Party as to the validity or scope of any Intellectual Property or (b) a warranty or representation that any product obtained through the development, including without limitation any Scan Head prototype will be free from infringement of intellectual property rights held or otherwise controlled by a Third Party.

5.6 Indemnification for Infringement of Third Party Rights

Each Party will indemnify, defend and hold harmless the other Party, its affiliates, directors, officers, employee and agents against any and all loss, damage, action, suit, claim, demand, liability or expense, and reasonable attorney fees and expenses (collectively "Losses") only to the extent such Losses arise out of any third party claim relating to: (i) willful misconduct of the indemnifying Party or those under its direct and immediate control, (ii) the intentional material breach by the indemnifying Party of any of its express representations or warranties in this Agreement, or (iii) the intentional material breach by the indemnifying Party of any of its covenants or obligations in this Agreement.

Article 6

EXPORT RESTRICTIONS AND INFORMATION EXCHANGE

Each Party agrees that it will abide by all export laws, rules and regulations of the United States and Japan, including without limitation, the U.S. International Traffic in Arms Regulations of the US Department of State and the Export Control Act of the US Department of Commerce, in connection with the disclosure, use and export of any item, information or data disclosed hereunder.

If a Party improperly discloses export-restricted information in violation of such laws, rules and regulations in performance of this Agreement, that Party shall indemnify and hold harmless the other Party from all directly applicable and reasonably incurred resulting claims, demands, damages, costs, fines, penalties, attorney's fees and all other expenses.

To the extent permissible under applicable security, export or confidentiality laws, rules, regulations and/or restrictions, the Parties will provide each other with requested information regarding development and demonstrations to provide visibility into potential applications and requirements for products. Each Party will abide by any export control requirements that the other Party identifies in writing as being associated with any such information and will certify that any employees, agents or contractors who have been given access to such information are "Permitted Persons" as defined in the applicable export control laws. Before disclosing any information of the other Party subject to export control, security or confidentiality requirements to its agent or contractor, the disclosing Party shall first notify the other Party of such proposed disclosure and shall provide such information as the non-disclosing Party deems necessary to approve such disclosure, and the disclosing Party shall only provide such information to its agent or contractor on the agreement of such agent or contractor to protect such information to the same extent and in the same manner as the disclosing Party shall protect such information and the agreement of the agent or contractor not to further disclose any such information to any other person.

Initials: ___
Date: ____

Article 7

Term of Agreement

7.1 Term

The term of this Agreement shall commence on the Effective Date and continue through March 31, 2013 (the "Term"), except as set forth herein or if sooner terminated in accordance with provisions herein. The Term may be extended by mutual consent of the Parties.

7.2 Default

In the event that either Party fails to perform in accordance with the objectives and time schedule agreed upon between the parties for the development activities and associated obligations, as such may from time-to-time be revised by the Parties and approved by the Parties, the non-defaulting Party may give notice of its intent to terminate this Agreement for such failure, specifying the act or omission on which the notice is based. If the specified default is not cured to the satisfaction of the non-defaulting Party within ninety (90) days of said notice of intent to terminate, the non-defaulting Party may terminate this Agreement upon giving written notice to the Party in default, and such termination shall be effective immediately upon the giving of said notice of termination. The obligation of the non-defaulting Party to make future payments, if any, and to fund the development, shall cease and any advance monies paid by the non-defaulting Party shall be reimbursed by the defaulting Party.

7.3 Confidentiality Survives After Termination

Upon termination of this Agreement for any reason, including default or material breach thereof, the provisions regarding confidentiality including the Existing Confidentiality Agreement and any subsequent Confidentiality Agreements shall remain in full force and effect for a period of at least five (5) years following the date of termination, unless specified as longer in such Existing or subsequent Confidentiality Agreements.

Initials: ___
Date: ____

7.4 Return of Confidential Information

On termination of this Agreement, each Party shall return to the other Party all Confidential Information disclosed to that Party by the other Party and shall cease and refrain from use or disclosure of said Confidential Information.

Article 8

Miscellaneous Provisions

8.1 No Marketing Obligation

Except as explicitly stated herein, neither Party will be under an obligation whatsoever to recommend, sell, advertise or otherwise market the other Party's products or services to its current or future customers.

8.2 No Publicity Without Consent

Neither Party shall, without the prior written consent of the other Party, which consent shall not be unreasonably withheld or delayed, publicize, issue press releases or make any announcements in relation to this Agreement in a manner which does not conform with such rules as may from time to time be agreed between the Parties. If a Party desires to issue a press release, that Party shall provide a copy of the proposed press release to the other Party and obtain the other Party's written consent prior to the actual release. Other than as required by using the prototypes or other products, neither Party shall directly or indirectly use in commerce the other Party's company name, logo, trademark, service mark or brand name, or the name of any manager, officer or employee thereof, without the other Party's prior written consent.

8.3 No Third Party Rights

No provisions of this Agreement are intended, nor shall be interpreted, to provide or create any Third Party beneficiary rights or any other rights of any kind in any client, customer, affiliate, shareholder, partner of any Party hereto or any other person or entity unless specifically provided otherwise herein, and, except as so provided, all provisions hereof shall be personal solely between the Parties to this Agreement. Except as explicitly agreed in the Agreement, neither Party shall act in any way as the agent of the other Party or attempt to bind the other Party without the other Party's prior written consent to such action.

8.4 Dispute Resolution

In the event of any disagreement with respect to performance under this Agreement, the Parties agree first to discuss the dispute informally. In the event that a resolution is not achieved at the informal level, the Parties shall each designate one member of senior management to negotiate the dispute directly. In the event that such a negotiation is not successful in achieving the resolution of the dispute, the Parties agree to submit the dispute to non-binding arbitration pursuant to the Commercial Rules of the American Arbitration Association. The Parties shall each bear their own costs associated with the Arbitration.

Initials: ___
Date: ____

8.5 Notice

Any notice, request, instruction, or other communication to be given hereunder by any party hereto to any other Party shall be in writing and delivered personally or sent by facsimile, registered or certified mail, postage prepaid, as follows:

If to VISUALANT:

VISUALANT, Inc.
500 UNION ST, STE. 406
SEATTLE, WA 98101
USA
Attention: Ron Erickson, CEO and President
Facsimile: (206) 826-0451

If to SPP:

OFFICE TOWER Y, 8th FLOOR
1-8-11 HARUMI, CHUO-KU
TOKYO, 104-6108 JAPAN
Attention: Ichiro Takesako, General Manager
Facsimile: 81-(0)3-6220-0732

or at such other address for a Party as shall be specified by like written notice. Any notice that is delivered personally in the manner provided herein shall be deemed to have been duly given to the Party to whom it is directed upon actual receipt by such Party (or its agent for notices hereunder). Any notice that is sent by facsimile or addressed and mailed in the manner herein provided shall be conclusively presumed to have been duly given to the Party to which it is sent by facsimile or addressed at the close of business, local time of the recipient, on the third day after the day it is so sent by facsimile or placed in the mail.

8.6 Governing Law

This Agreement shall be construed in accordance with and governed by the laws of the State of Washington, excluding any choice of law rules that direct the application of the laws of another jurisdiction.

Initials: ___
Date: ____

8.7 Jurisdiction and Venue

In the event that non-binding arbitration pursuant to Section 8.4 is unsuccessful, the Parties agree that jurisdiction and venue of any legal action between them shall vest in the United States District Court for the Western District of Washington sitting in Seattle.

8.8 Force Majeure

Neither Party shall be liable for any failure or delay due to fire, flood, or such other unforeseen or catastrophic circumstance beyond that Party's reasonable control, such as epidemic, war, civil disorder, government acts or restrictions, acts of god, or other matters commonly referred to as "*force majeure,*" and its performance shall be suspended during such time period, providing the Party so affected takes diligent action to overcome such *force majeure*.

8.9 Relationship of the Parties

The Parties specifically designate this Agreement as a Joint Research Agreement under 35 U.S.C. 103 (CREATE Act). Nothing contained in this Agreement shall be construed to place SPP and VISUALANT in the relationship of partners, joint ventures, or principal and agent, and neither Party shall have the power to obligate or bind the other in any manner whatsoever.

8.10 Assignability

The Parties may assign its rights and obligations under this Agreement to any subsidiary, successor, parent, assign, or affiliated company. Subject to the foregoing, this Agreement is personal as to the Parties and may not be otherwise assigned in whole or part without the other Party's prior written permission, which shall not be unreasonably withheld, unless assigned as part of a transfer of substantially all of the assets of the Party or line of business of the Party.

8.11 Successors

Subject to the provision of 8.10, this Agreement shall be binding upon and inure to the benefit of the successors, heirs, and permitted assigns of VISUALANT and SPP.

8.12 No Waiver

The failure of either Party to enforce any provision of this Agreement or to terminate this Agreement for the breaching of any covenant or conditions herein shall not operate thereafter as a waiver of that provision or any other provision of this Agreement, or as a waiver of the right to terminate this Agreement except to the extent specifically set forth in this Agreement.

Initials: ___
Date: ____

8.13 Severability

Any provision of this Agreement that in any way contravenes or is unenforceable under any law of a nation or state in which this Agreement is effective shall be deemed separable and not a part of this Agreement and to that extent void, however, all remaining provisions of this Agreement shall be valid and in full force and effect.

8.14 Books and Records

Each Party shall keep and maintain for a period of at least two (2) years, true and complete books and records pertaining to the costs and fees for the services rendered or incurred pursuant to this Agreement in the joint development effort in sufficient detail to enable the other Party to accurately determine payments due and payable, if any, pursuant to this Agreement or the associated License Agreement. Upon the written request of a Party, such books and records shall be made available at a reasonable time during reasonable business hours for inspection by the requesting Party.

8.15 Sole Understanding and Amendment

This Agreement and the associated License Agreement and Existing Confidentiality Agreement set forth the entire agreement and understanding between VISUALANT and SPP as to the subject matter described herein, and supersede and merge all prior discussions, correspondence, negotiations, and agreements between them relating thereto except as otherwise provided herein. This Agreement may be amended only in a writing signed by all Parties hereto.

8.16 Captions

The captions are inserted herein only as a matter of convenience and for reference and in no way define, limit, or describe the scope of this Agreement or the intent of any provisions herein.

8.17 Counterparts

This Agreement may be executed in any number of copies, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument. Where copies are in different languages, the English version shall be controlling.

Initials: ___
Date: ____

IN WITNESS WHEREOF, VISUALANT and SPP have caused this Agreement to be executed on the dates accompanying each signature below.

Sumitomo Precision Products Co., Ltd.

By: /s/ Susumu Kaminaga
Name: Susumu Kaminaga
Title: President

Visualant Incorporated

By: /s/ Ronald P. Erickson
Name: Ronald P. Erickson
Title: President and CEO

Initials: ___
Date: ____

Attachment A to Joint Development Agreement

Non-Disclosure Agreement

This Non-Disclosure Agreement (hereby referred to as "Agreement") has been made and entered into as of June 16, 2011 between Sumitomo Precision Products Co., Ltd. (hereinafter referred to as "Recipient") and VISUALANT Kabushiki Kaisha (hereinafter referred to as "Provider")

Both parties have agreed and entered into this Agreement in order for Recipient to review the possibility of investing in Provider and its related companies or affiliates or other issues (hereinafter referred to as "review").

Terms and Conditions

Article 1 (Confidentiality)

1. Recipient shall keep information confidential it obtains by entering Provider's premises and/or any and all information, materials and goods disclosed, provided or loaned by Provider in the process of review (hereinafter referred to as "Confidential Information") and agree not to disclose, divulge or provide the said to any third party or use for any other purpose than as specified in this Agreement without Provider's permission.

2. Notwithstanding the provisions of the previous paragraph, the obligation of confidentiality stipulated herein shall not be applied to information specified below:

   (1) Information which is publicly known at the time of disclosure or becomes generally available to the public through no fault or negligence of Recipient after receipt from Provider;
   (2) Information which is allowed to be disclosed or provided to a third party subject to prior written permission;
   (3) Information which, prior to disclosure to Recipient, had already been in possession of Recipient or obtained by Recipient from a third party;
   (4) Information which is or has been independently developed by Recipient without use of or reference to disclosed information;
   (5) Information which must be disclosed in compliance with laws and ordinances or a court or government order.

3. Recipient shall limit the disclosure, access to and/or use of Confidential Information to the scope necessary for conducting its internal review of the said and shall not duplicate or photocopy Confidential Information without Provider's prior written permission.

Article 2 (Denial)

Under this Agreement, by disclosing information to Recipient, whether explicit or implicit, Provider shall not confer, grant or transfer Confidential Information and any license based on intellectual property, including, but not limited to, industrial property rights, copyright and trade secrets pertaining to Confidential Information.

Article 3 (Return of Confidential Information and Others)

Recipient shall return immediately any and all information, materials, goods and others (including their copies or reproductions) loaned or supplied by Provider in connection with the review or destroy the said in accordance with instructions given by Provider upon completion of the review.

Initials: ___
Date: ____

Article 4 (Priority of Contract Documents)
In the event of any discrepancy between the content of this Agreement and any other contract documents in terms of wording or interpretation, the provisions stipulated herein shall prevail.

Article 5 (Term of Agreement)
This Agreement shall take effect as of June 16, 2011, the date of the start of the review, regardless of the date of the signing of this Agreement, and remain valid for three (3) years after completion of the review by Provider.

Article 6 (Consultation)
Any question arising out of, or in connection with, this Agreement or any matter not stipulated herein shall be settled amicably each time upon consultation between both parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in duplicate, each party retaining one (1) copy thereof, respectively.

Recipient: /s/ Susumu Kaminaga
Susumu Kaminaga
President
Sumitomo Precision Products Co., Ltd.
1-10, Fuso-cho, Amagasaki-shi 660-0891

Provider: /s/ Masahiro Kawahata
Masahiro Kawahata
Managing Director and Doctor of Engineering
VISUALANT Kabushiki Kaisha
Kamiya-cho MT Bldg. 14F, 4-3-20 Toranomon
Minato-ku, Tokyo 105-0001

Initials: ___
Date: ____

Attachment B to the Joint Development Agreement

Task	Time (Starting 2012)	Responsible Party
Preparation Prior to JDA closing	4/End	Dr. Schowengerdt Dr. Ochi
Kick-off Meeting	5/21	VSUL/SPP (Detailed action plan to be proposed, followed by a monthly review)
Provide Engineering documentation And information related to V5	5/Middle	VSUL
Hiring Business Dev/ Program Manager	ASAP	VSUL
Bill of Materials for New Scan head complete	5/End	SPP
Identify early adapt application In North America	6/End	VSUL
Product Design & Material Provisioning	6/B – 8/B	SPP
System (software Provisioning)	6/B – 8/E	SPP
Proto-type Assembly	8/E – 9/B	SPP
Testing	10/B-10/End	VSUL
JIMA (Japan Instrument And Measurement Association) 2012	10/M	SPP
Review of V6 performance	10/E	VSUL/SPP
Marketing for proposal of V7 design	6/B - 10/E	VSUL
ASIC Version 7 design	12/E	SPP
Next Step Planning	13/3/E	VSUL/SPP
Finding Partnership	13/3/E	SPP(Japan/Asia) VSUL(ROW)

Initials: ___
Date: ____

Attachment C to the Joint Development Agreement

1. Processor and memory integrated into Scan Head
2. Simplified design with minimized parts count
3. Stable performance with respect to at least temperature and luminosity fluctuation
4. Compliance with BLUETOOTH protocol
5. Detachable Scan Head
6. Confirming and revising control algorithm
7. Integrate photodiode in Scan Head
8. Implement Automatic Self Calibration functionality
9. Specific Interface to ASIC
10. Prototype of suitable quality to market to potential customers

Initials: ___
Date: ____

FORM OF PURCHASE AGREEMENT

THIS PURCHASE AGREEMENT ("Agreement") is made as of the ___ day of June, 2013 by and among Visualant, Incorporated, a Nevada corporation (the "Company"), and the Investors set forth on the signature pages affixed hereto (each an "Investor" and collectively the "Investors").

Recitals

A. The Company and the Investors are executing and delivering this Agreement in reliance upon the exemption from securities registration afforded by the provisions of Regulation D ("Regulation D"), as promulgated by the U.S. Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended; and

B. The Investors wish to purchase from the Company, and the Company wishes to sell and issue to the Investors, upon the terms and conditions stated in this Agreement, (i) an aggregate of _____ shares of the Company's Common Stock, par value $0.001 per share (together with any securities into which such shares may be reclassified, whether by merger, charter amendment or otherwise, the "Common Stock"), at purchase price of $0.10 per share, (ii) warrants to purchase an aggregate of _____ shares of Common Stock (subject to adjustment) (the "Series A Warrant Shares") at an exercise price of $0.15 per share (subject to adjustment) in the form attached hereto as Exhibit A (the "Series A Warrants"), and (iii) warrants to purchase an aggregate of _____ shares of Common Stock (subject to adjustment) (the "Series B Warrant Shares" and, together with the Series A Warrant Shares, the "Warrant Shares"), at an exercise price of $0.20 per share (subject to adjustment) in the form attached hereto as Exhibit B (the "Series B Warrants and, together with the Series A Warrants, the "Warrants"); and

C. Contemporaneous with the sale of the Common Stock and Warrants, the parties hereto will execute and deliver a Registration Rights Agreement, in the form attached hereto as Exhibit C (the "Registration Rights Agreement"), pursuant to which the Company will agree to provide certain registration rights under the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder, and applicable state securities laws.

In consideration of the mutual promises made herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1 . Definitions. In addition to those terms defined above and elsewhere in this Agreement, for the purposes of this Agreement, the following terms shall have the meanings set forth below:

"Affiliate" means, with respect to any Person, any other Person which directly or indirectly through one or more intermediaries Controls, is controlled by, or is under common Control with, such Person.

"Business Day" means a day, other than a Saturday or Sunday, on which banks in New York City are open for the general transaction of business.

"Common Stock Equivalents" means any securities of the Company or the Subsidiaries which would entitle the holder thereof to acquire at any time Common Stock, including without limitation, any debt, preferred stock, rights, options, warrants or other instrument that is at any time convertible into or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock.

"Company's Knowledge" means the actual knowledge of the executive officers (as defined in Rule 405 under the 1933 Act) of the Company, after due inquiry.

"Confidential Information" means trade secrets, confidential information and know-how (including but not limited to ideas, formulae, compositions, processes, procedures and techniques, research and development information, computer program code, performance specifications, support documentation, drawings, specifications, designs, business and marketing plans, and customer and supplier lists and related information).

"Control" (including the terms "controlling", "controlled by" or "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"Conversion Shares" means the shares of Common Stock issuable upon conversion of the Convertible Notes.

"Convertible Notes" means up to $5,000,000 in aggregate principal amount of the Company's 7% Convertible Promissory Notes due June 2017, in the form of Exhibit D attached hereto.

"Effective Date" means the date on which the initial Registration Statement is declared effective by the SEC.

"Effectiveness Deadline" means the date on which the initial Registration Statement is required to be declared effective by the SEC under the terms of the Registration Rights Agreement.

"Intellectual Property" means all of the following: (i) patents, patent applications, patent disclosures and inventions (whether or not patentable and whether or not reduced to practice); (ii) trademarks, service marks, trade dress, trade names, corporate names, logos, slogans and Internet domain names, together with all goodwill associated with each of the foregoing; (iii) copyrights and copyrightable works; (iv) registrations, applications and renewals for any of the foregoing; and (v) proprietary computer software (including but not limited to data, data bases and documentation).

"Material Adverse Effect" means a material adverse effect on (i) the assets, liabilities, results of operations, condition (financial or otherwise), business, or prospects of the Company and its Subsidiaries taken as a whole, or (ii) the ability of the Company to perform its obligations under the Transaction Documents.

"Material Contract" means any contract, instrument or other agreement to which the Company or any Subsidiary is a party or by which it is bound which is material to the business of the Company and its Subsidiaries, taken as a whole, including those that have been filed or were required to have been filed as an exhibit to the SEC Filings pursuant to Item 601(b)(4) or Item 601(b)(10) of Regulation S-K.

"Person" means an individual, corporation, partnership, limited liability company, trust, business trust, association, joint stock company, joint venture, sole proprietorship, unincorporated organization, governmental authority or any other form of entity not specifically listed herein.

"Proposal" has the meaning set forth in Section 7.9.

"Purchase Price" means _____ Dollars ($_____).

"Registration Statement" has the meaning set forth in the Registration Rights Agreement.

"Recapitalization Transactions" means the repurchases of securities of the Company set forth onSchedule 1.

"Required Investors" means (i) prior to Closing the Investors who, together with their Affiliates, have agreed to purchase a majority of the Securities to be sold hereunder and (ii) from and after the Closing the Investors beneficially owning (calculated in accordance with Rule 13d-3 under the 1934 Act without giving effect to any limitation on exercise of the Warrants set forth therein) a majority of the Shares and the Warrant Shares.

"SEC Filings" has the meaning set forth in Section 4.6.

"Securities" means the Shares, the Warrants and the Warrant Shares.

"Share Increase" has the meaning set forth in Section 7.9.

"Share Increase Date" has the meaning set forth in Section 7.9.

"Shares" means the shares of Common Stock being purchased by the Investors hereunder.

"Stockholder Meeting Deadline" has the meaning set forth in Section 7.9.

"Subsidiary" of any Person means another Person, an amount of the voting securities, other voting ownership or voting partnership interests of which is sufficient to elect at least a majority of its Board of Directors or other governing body (or, if there are no such voting interests, 50% or more of the equity interests of which) is owned directly or indirectly by such first Person.

"Transaction Documents" means this Agreement, the Warrants, the Registration Rights Agreement and the Voting Agreements.

"Voting Agreement" means the Voting Agreement in the form attached hereto asExhibit D.

"Warrant Shares" means the shares of Common Stock issuable upon the exercise of the Warrants.

"1933 Act" means the Securities Act of 1933, as amended, or any successor statute, and the rules and regulations promulgated thereunder.

"1934 Act" means the Securities Exchange Act of 1934, as amended, or any successor statute, and the rules and regulations promulgated thereunder.

2. Purchase and Sale of the Shares and Warrants. Subject to the terms and conditions of this Agreement, on the Closing Date, each of the Investors shall severally, and not jointly, purchase, and the Company shall sell and issue to the Investors, the Shares and Warrants in the respective amounts set forth opposite the Investors' names on the signature pages attached hereto in exchange for the Purchase Price as specified in Section 3 below.

3. Closing. Unless other arrangements have been made with a particular Investor, upon confirmation that the other conditions to closing specified herein have been satisfied or duly waived by the Investors, the Company shall deliver to Lowenstein Sandler PC, in trust, a certificate or certificates, registered in such name or names as the Investors may designate, representing the Shares and Warrants, with instructions that such certificates are to be held for release to the Investors only upon payment in full of the Purchase Price to the Company by all the Investors. Unless other arrangements have been made with a particular Investor, upon such receipt by Lowenstein Sandler PC of the certificates, each Investor shall promptly, but no more than one Business Day thereafter, cause a wire transfer in same day funds to be sent to the account of the Company as instructed in writing by the Company, in an amount representing such Investor's pro rata portion of the Purchase Price as set forth on the signature pages to this Agreement. On the date (the "Closing Date") the Company receives the Purchase Price, the certificates evidencing the Shares and Warrants shall be released to the Investors (the "Closing"). The Closing of the purchase and sale of the Shares and Warrants shall take place at the offices of Lowenstein Sandler PC, 1251 Avenue of the Americas, 18th Floor, New York, New York 10020, or at such other location and on such other date as the Company and the Investors shall mutually agree.

4 . Representations and Warranties of the Company. The Company hereby represents and warrants to the Investors that, except as set forth in the schedules delivered herewith (collectively, the "Disclosure Schedules"):

4. 1 Organization, Good Standing and Qualification. Each of the Company and its Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has all requisite corporate power and authority to carry on its business as now conducted and to own or lease its properties. Each of the Company and its Subsidiaries is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property makes such qualification or leasing necessary unless the failure to so qualify has not had and could not reasonably be expected to have a Material Adverse Effect. The Company's Subsidiaries are listed on Schedule 4.1 hereto.

4.2 Authorization. The Company has full power and authority and, except for approval of the Proposal by its stockholders as contemplated in Section 7.9 and the filing of an amendment to the Company's Certificate of Incorporation to effect the Share Increase Amendment, has taken all requisite action on the part of the Company, its officers, directors and stockholders necessary for (i) the authorization, execution and delivery of the Transaction Documents, (ii) the authorization of the performance of all obligations of the Company hereunder or thereunder, and (iii) the authorization, issuance (or reservation for issuance) and delivery of the Securities. The Transaction Documents constitute the legal, valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability, relating to or affecting creditors' rights generally and to general equitable principles. The Company has the full power and authority to effect the Recapitalization Transactions.

4 . 3 Capitalization. Schedule 4.3 sets forth as of the date hereof (a) the authorized capital stock of the Company; (b) the number of shares of capital stock issued and outstanding; (c) the number of shares of capital stock issuable pursuant to the Company's stock plans; and (d) the number of shares of capital stock issuable and reserved for issuance pursuant to securities (other than the Shares and the Warrants) exercisable for, or convertible into or exchangeable for any shares of capital stock of the Company. All of the issued and outstanding shares of the Company's capital stock have been duly authorized and validly issued and are fully paid, nonassessable and free of pre-emptive rights and were issued in full compliance with applicable state and federal securities law and any rights of third parties. Except as described on Schedule 4.3, all of the issued and outstanding shares of capital stock of each Subsidiary have been duly authorized and validly issued and are fully paid, nonassessable and free of pre-emptive rights, were issued in full compliance with applicable state and federal securities law and any rights of third parties and are owned by the Company, beneficially and of record, subject to no lien, encumbrance or other adverse claim. Except as described on Schedule 4.3, no Person is entitled to pre-emptive or similar statutory or contractual rights with respect to any securities of the Company. Except for the Convertible Notes and except as described on Schedule 4.3, there are no outstanding warrants, options, convertible securities or other rights, agreements or arrangements of any character under which the Company or any of its Subsidiaries is or may be obligated to issue any equity securities of any kind and except for the Convertible Notes and except as contemplated by this Agreement, neither the Company nor any of its Subsidiaries is currently in negotiations for the issuance of any equity securities of any kind. Except as described on Schedule 4.3 and except for the Registration Rights Agreement and the Voting Agreements, there are no voting agreements, buy-sell agreements, option or right of first purchase agreements or other agreements of any kind among the Company and any of the securityholders of the Company relating to the securities of the Company held by them. Except as described on Schedule 4.3 and except as provided in the Registration Rights Agreement, no Person has the right to require the Company to register any securities of the Company under the 1933 Act, whether on a demand basis or in connection with the registration of securities of the Company for its own account or for the account of any other Person.

Except as described on Schedule 4.3, the issuance and sale of the Securities hereunder will not obligate the Company to issue shares of Common Stock or other securities to any other Person (other than the Investors) and will not result in the adjustment of the exercise, conversion, exchange or reset price of any outstanding security.

Except as described on Schedule 4.3, the Company does not have outstanding stockholder purchase rights or "poison pill" or any similar arrangement in effect giving any Person the right to purchase any equity interest in the Company upon the occurrence of certain events.

4.4 Valid Issuance. The Shares have been duly and validly authorized and, when issued and paid for pursuant to this Agreement, will be validly issued, fully paid and nonassessable, and shall be free and clear of all encumbrances and restrictions (other than those created by the Investors), except for restrictions on transfer set forth in the Transaction Documents or imposed by applicable securities laws. The Warrants have been duly and validly authorized. Upon the due exercise of the Series A Warrants, the Series A Warrant Shares will be validly issued, fully paid and non-assessable free and clear of all encumbrances and restrictions, except for restrictions on transfer set forth in the Transaction Documents or imposed by applicable securities laws and except for those created by the Investors. The Company has reserved a sufficient number of shares of Common Stock for issuance upon the exercise of the Series A Warrants. From and after the Share Increase Date, upon the due exercise of the Series B Warrants, the Series B Warrant Shares will be validly issued, fully paid and non-assessable free and clear of all encumbrances and restrictions, except for restrictions on transfer set forth in the Transaction Documents or imposed by applicable securities laws and except for those created by the Investors. From and after the Share Increase Date, the Company will reserve a sufficient number of shares of Common Stock for issuance upon the exercise of the Series B Warrants.

4.5 Consents. Except for approval of the Proposal by its stockholders as contemplated in Section 7.9 and the filing of an amendment to the Company's Certificate of Incorporation to effect the Share Increase Amendment, the execution, delivery and performance by the Company of the Transaction Documents and the offer, issuance and sale of the Securities require no consent of, action by or in respect of, or filing with, any Person, governmental body, agency, or official other than filings that have been made pursuant to applicable state securities laws and post-sale filings pursuant to applicable state and federal securities laws which the Company undertakes to file within the applicable time periods. Subject to the accuracy of the representations and warranties of each Investor set forth in Section 5 hereof, the Company has taken all action necessary to exempt (i) the issuance and sale of the Securities, (ii) the issuance of the Warrant Shares upon due exercise of the Warrants, and (iii) the other transactions contemplated by the Transaction Documents from the provisions of any stockholder rights plan or other "poison pill" arrangement, any anti-takeover, business combination or control share law or statute binding on the Company or to which the Company or any of its assets and properties may be subject and any provision of the Company's Certificate of Incorporation or Bylaws that is or could reasonably be expected to become applicable to the Investors as a result of the transactions contemplated hereby, including without limitation, the issuance of the Securities and the ownership, disposition or voting of the Securities by the Investors or the exercise of any right granted to the Investors pursuant to this Agreement or the other Transaction Documents.

4 . 6 Delivery of SEC Filings; Business. The Company has made available to the Investors through the EDGAR system, true and complete copies of the Company's most recent Annual Report on Form 10-K for the fiscal year ended September 30, 2012 (the "10-K"), and all other reports filed by the Company pursuant to the 1934 Act since the filing of the 10-K and prior to the date hereof (collectively, the "SEC Filings"). The SEC Filings are the only filings required of the Company pursuant to the 1934 Act for such period. The Company and its Subsidiaries are engaged in all material respects only in the business described in the SEC Filings and the SEC Filings contain a complete and accurate description in all material respects of the business of the Company and its Subsidiaries, taken as a whole.

4.7 Use of Proceeds. The net proceeds of the sale of the Shares and the Warrants hereunder shall be used by the Company to effect the Recapitalization Transactions and for working capital and general corporate purposes.

4.8 No Material Adverse Change. Since September 30, 2012, except for the issuance of the Convertible Notes, except as contemplated by the Recapitalization Transactions and except as identified and described in the SEC Filings or as described on Schedule 4.8, there has not been:

(i) any change in the consolidated assets, liabilities, financial condition or operating results of the Company from that reflected in the financial statements included in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, except for changes in the ordinary course of business which have not had and could not reasonably be expected to have a Material Adverse Effect, individually or in the aggregate;

(ii) any declaration or payment of any dividend, or any authorization or payment of any distribution, on any of the capital stock of the Company, or any redemption or repurchase of any securities of the Company;

(iii) any material damage, destruction or loss, whether or not covered by insurance to any assets or properties of the Company or its Subsidiaries;

(iv) any waiver, not in the ordinary course of business, by the Company or any Subsidiary of a material right or of a material debt owed to it;

(v) any satisfaction or discharge of any lien, claim or encumbrance or payment of any obligation by the Company or a Subsidiary, except in the ordinary course of business and which is not material to the assets, properties, financial condition, operating results or business of the Company and its Subsidiaries taken as a whole (as such business is presently conducted and as it is proposed to be conducted);

(vi) any change or amendment to the Company's Certificate of Incorporation or Bylaws, or material change to any material contract or arrangement by which the Company or any Subsidiary is bound or to which any of their respective assets or properties is subject;

(vii) any material labor difficulties or labor union organizing activities with respect to employees of the Company or any Subsidiary;

(viii) any material transaction entered into by the Company or a Subsidiary other than in the ordinary course of business;

(ix) the loss of the services of any key employee, or material change in the composition or duties of the senior management of the Company or any Subsidiary;

(x) the loss or threatened loss of any customer which has had or could reasonably be expected to have a Material Adverse Effect; or

(xi) any other event or condition of any character that has had or could reasonably be expected to have a Material Adverse Effect.

4.9 SEC Filings; S-3 Eligibility.

(a) At the time of filing thereof, the SEC Filings complied as to form in all material respects with the requirements of the 1934 Act and did not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

(b) Each registration statement and any amendment thereto filed by the Company since January 1, 2010 pursuant to the 1933 Act and the rules and regulations thereunder, as of the date such statement or amendment became effective, complied as to form in all material respects with the 1933 Act and did not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein not misleading; and each prospectus filed pursuant to Rule 424(b) under the 1933 Act, as of its issue date and as of the closing of any sale of securities pursuant thereto did not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

(c) The Company is not currently eligible to use Form S-3 to register the Registrable Securities (as such term is defined in the Registration Rights Agreement) for sale or other disposition by the Investors as contemplated by the Registration Rights Agreement.

4.10 No Conflict, Breach, Violation or Default. Subject to the approval of the Proposal by its stockholders as contemplated in Section 7.9 and the filing of an amendment to the Company's Certificate of Incorporation to effect the Share Increase Amendment the execution, delivery and performance of the Transaction Documents by the Company, the issuance and sale of the Securities and effecting the Recapitalization Transactions will not (i) conflict with or result in a breach or violation of (a) any of the terms and provisions of, or constitute a default under the Company's Certificate of Incorporation or the Company's Bylaws, both as in effect on the date hereof (true and complete copies of which have been made available to the Investors through the EDGAR system), or (b) any statute, rule, regulation or order of any governmental agency or body or any court, domestic or foreign, having jurisdiction over the Company, any Subsidiary or any of their respective assets or properties, or (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, result in the creation of any lien, encumbrance or other adverse claim upon any of the properties or assets of the Company or any Subsidiary or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any Material Contract.

4.11 Tax Matters. The Company and each Subsidiary has timely prepared and filed all tax returns required to have been filed by the Company or such Subsidiary with all appropriate governmental agencies and timely paid all taxes shown thereon or otherwise owed by it. The charges, accruals and reserves on the books of the Company in respect of taxes for all fiscal periods are adequate in all material respects, and there are no material unpaid assessments against the Company or any Subsidiary nor, to the Company's Knowledge, any basis for the assessment of any additional taxes, penalties or interest for any fiscal period or audits by any federal, state or local taxing authority except for any assessment which is not material to the Company and its Subsidiaries, taken as a whole. All taxes and other assessments and levies that the Company or any Subsidiary is required to withhold or to collect for payment have been duly withheld and collected and paid to the proper governmental entity or third party when due. There are no tax liens or claims pending or, to the Company's Knowledge, threatened against the Company or any Subsidiary or any of their respective assets or property. Except as described on Schedule 4.11, there are no outstanding tax sharing agreements or other such arrangements between the Company and any Subsidiary or other corporation or entity.

4.12 Title to Properties. Except as disclosed in the SEC Filings or as described in Schedule 4.12, the Company and each Subsidiary has good and marketable title to all real properties and all other properties and assets owned by it, in each case free from liens, encumbrances and defects that would materially affect the value thereof or materially interfere with the use made or currently planned to be made thereof by them; and except as disclosed in the SEC Filings, the Company and each Subsidiary holds any leased real or personal property under valid and enforceable leases with no exceptions that would materially interfere with the use made or currently planned to be made thereof by them.

4 . 1 3 Certificates, Authorities and Permits. The Company and each Subsidiary possess adequate certificates, authorities or permits issued by appropriate governmental agencies or bodies necessary to conduct the business now operated by it, and neither the Company nor any Subsidiary has received any notice of proceedings relating to the revocation or modification of any such certificate, authority or permit that, if determined adversely to the Company or such Subsidiary, could reasonably be expected to have a Material Adverse Effect, individually or in the aggregate.

4.14 Labor Matters.

(a) Except as set forth on Schedule 4.14, the Company is not a party to or bound by any collective bargaining agreements or other agreements with labor organizations. The Company has not violated in any material respect any laws, regulations, orders or contract terms, affecting the collective bargaining rights of employees, labor organizations or any laws, regulations or orders affecting employment discrimination, equal opportunity employment, or employees' health, safety, welfare, wages and hours.

(b) (i) There are no labor disputes existing, or to the Company's Knowledge, threatened, involving strikes, slow-downs, work stoppages, job actions, disputes, lockouts or any other disruptions of or by the Company's employees, (ii) there are no unfair labor practices or petitions for election pending or, to the Company's Knowledge, threatened before the National Labor Relations Board or any other federal, state or local labor commission relating to the Company's employees, (iii) no demand for recognition or certification heretofore made by any labor organization or group of employees is pending with respect to the Company and (iv) to the Company's Knowledge, the Company enjoys good labor and employee relations with its employees and labor organizations.

(c) The Company is, and at all times has been, in compliance in all material respects with all applicable laws respecting employment (including laws relating to classification of employees and independent contractors) and employment practices, terms and conditions of employment, wages and hours, and immigration and naturalization. There are no claims pending against the Company before the Equal Employment Opportunity Commission or any other administrative body or in any court asserting any violation of Title VII of the Civil Rights Act of 1964, the Age Discrimination Act of 1967, 42 U.S.C. §§ 1981 or 1983 or any other federal, state or local Law, statute or ordinance barring discrimination in employment.

(d) Except as disclosed in the SEC Filings or as described on Schedule 4.14, the Company is not a party to, or bound by, any employment or other contract or agreement that contains any severance, termination pay or change of control liability or obligation, including, without limitation, any "excess parachute payment," as defined in Section 280G(b) of the Internal Revenue Code.

(e) Except as specified in Schedule 4.14, each of the Company's employees is a Person who is either a United States citizen or a permanent resident entitled to work in the United States. To the Company's Knowledge, the Company has no liability for the improper classification by the Company of such employees as independent contractors or leased employees prior to the Closing.

4.15 Intellectual Property.

(a) All Intellectual Property of the Company and its Subsidiaries is currently in compliance with all legal requirements (including timely filings, proofs and payments of fees) and is valid and enforceable. No Intellectual Property of the Company or its Subsidiaries which is necessary for the conduct of Company's and each of its Subsidiaries' respective businesses as currently conducted or as currently proposed to be conducted has been or is now involved in any cancellation, dispute or litigation, and, to the Company's Knowledge, no such action is threatened. No patent of the Company or its Subsidiaries has been or is now involved in any interference, reissue, re-examination or opposition proceeding.

(b) All of the licenses and sublicenses and consent, royalty or other agreements concerning Intellectual Property which are necessary for the conduct of the Company's and each of its Subsidiaries' respective businesses as currently conducted or as currently proposed to be conducted to which the Company or any Subsidiary is a party or by which any of their assets are bound (other than generally commercially available, non-custom, off-the-shelf software application programs having a retail acquisition price of less than $10,000 per license) (collectively, "License Agreements") are valid and binding obligations of the Company or its Subsidiaries that are parties thereto and, to the Company's Knowledge, the other parties thereto, enforceable in accordance with their terms, except to the extent that enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar laws affecting the enforcement of creditors' rights generally, and there exists no event or condition which will result in a material violation or breach of or constitute (with or without due notice or lapse of time or both) a default by the Company or any of its Subsidiaries under any such License Agreement.

(c) The Company and its Subsidiaries own or have the valid right to use all of the Intellectual Property that is necessary for the conduct of the Company's and each of its Subsidiaries' respective businesses as currently conducted or as currently proposed to be conducted and for the ownership, maintenance and operation of the Company's and its Subsidiaries' properties and assets, free and clear of all liens, encumbrances, adverse claims or obligations to license all such owned Intellectual Property and Confidential Information, other than licenses entered into in the ordinary course of the Company's and its Subsidiaries' businesses. The Company and its Subsidiaries have a valid and enforceable right to use all third party Intellectual Property and Confidential Information used or held for use in the respective businesses of the Company and its Subsidiaries.

(d) To the Company's Knowledge, the conduct of the Company's and its Subsidiaries' businesses as currently conducted does not infringe or otherwise impair or conflict with (collectively, "Infringe") any Intellectual Property rights of any third party or any confidentiality obligation owed to a third party, and, to the Company's Knowledge, the Intellectual Property and Confidential Information of the Company and its Subsidiaries which are necessary for the conduct of Company's and each of its Subsidiaries' respective businesses as currently conducted or as currently proposed to be conducted are not being Infringed by any third party. There is no litigation or order pending or outstanding or, to the Company's Knowledge, threatened or imminent, that seeks to limit or challenge or that concerns the ownership, use, validity or enforceability of any Intellectual Property or Confidential Information of the Company and its Subsidiaries and the Company's and its Subsidiaries' use of any Intellectual Property or Confidential Information owned by a third party, and, to the Company's Knowledge, there is no valid basis for the same.

(e) The consummation of the transactions contemplated hereby and by the other Transaction Documents will not result in the alteration, loss, impairment of or restriction on the Company's or any of its Subsidiaries' ownership or right to use any of the Intellectual Property or Confidential Information which is necessary for the conduct of Company's and each of its Subsidiaries' respective businesses as currently conducted or as currently proposed to be conducted.

(f) The Company and its Subsidiaries have taken reasonable steps to protect the Company's and its Subsidiaries' rights in their Intellectual Property and Confidential Information. Each employee, consultant and contractor who has had access to Confidential Information which is necessary for the conduct of Company's and each of its Subsidiaries' respective businesses as currently conducted or as currently proposed to be conducted has executed an agreement to maintain the confidentiality of such Confidential Information and has executed appropriate agreements that are substantially consistent with the Company's standard forms thereof. Except under confidentiality obligations, there has been no material disclosure of any of the Company's or its Subsidiaries' Confidential Information to any third party.

4.16 Environmental Matters. Neither the Company nor any Subsidiary is in violation of any statute, rule, regulation, decision or order of any governmental agency or body or any court, domestic or foreign, relating to the use, disposal or release of hazardous or toxic substances or relating to the protection or restoration of the environment or human exposure to hazardous or toxic substances (collectively, "Environmental Laws"), owns or operates any real property contaminated with any substance that is subject to any Environmental Laws, is liable for any off-site disposal or contamination pursuant to any Environmental Laws, or is subject to any claim relating to any Environmental Laws, which violation, contamination, liability or claim has had or could reasonably be expected to have a Material Adverse Effect, individually or in the aggregate; and there is no pending or, to the Company's Knowledge, threatened investigation that might lead to such a claim.

4.17 Litigation. Except as described on Schedule 4.17, there are no pending actions, suits or proceedings against or affecting the Company, its Subsidiaries or any of its or their properties; and to the Company's Knowledge, no such actions, suits or proceedings are threatened or contemplated. Neither the Company nor any Subsidiary, nor any director or officer thereof, is or since January 1, 2008 has been the subject of any action involving a claim of violation of or liability under federal or state securities laws or a claim of breach of fiduciary duty. There has not been, and to the Company's Knowledge, there is not pending or contemplated, any investigation by the SEC involving the Company or any current or former director or officer of the Company. The SEC has not issued any stop order or other order suspending the effectiveness of any registration statement filed by the Company or any Subsidiary under the 1933 Act or the 1934 Act.

4.18 Financial Statements. The financial statements included in each SEC Filing comply in all material respects with applicable accounting requirements and the rules and regulations of the SEC with respect thereto as in effect at the time of filing (or to the extent corrected by a subsequent restatement) and present fairly, in all material respects, the consolidated financial position of the Company as of the dates shown and its consolidated results of operations and cash flows for the periods shown, and such financial statements have been prepared in conformity with United States generally accepted accounting principles applied on a consistent basis ("GAAP") (except as may be disclosed therein or in the notes thereto, and, in the case of quarterly financial statements, as permitted by Form 10-Q under the 1934 Act). Except for the Convertible Notes and except as set forth in the financial statements of the Company included in the SEC Filings filed prior to the date hereof or as described on Schedule 4.18, neither the Company nor any of its Subsidiaries has incurred any liabilities, contingent or otherwise, except those incurred in the ordinary course of business, consistent (as to amount and nature) with past practices since the date of such financial statements, none of which, individually or in the aggregate, have had or could reasonably be expected to have a Material Adverse Effect.

4.19 Insurance Coverage. The Company and each Subsidiary maintains in full force and effect insurance coverage that is customary for comparably situated companies for the business being conducted and properties owned or leased by the Company and each Subsidiary, and the Company reasonably believes such insurance coverage to be adequate against all liabilities, claims and risks against which it is customary for comparably situated companies to insure.

4.20 Registration of Common Stock. The Common Stock is registered pursuant to Section 12(g) of the 1934 Act and is quoted on OTCQB maintained by OTC Markets Group Inc. (the "OTCQB"), and the Company has taken no action designed to, or likely to have the effect of, terminating the registration of the Common Stock under the 1934 Act or removal from quotation of the Common Stock from the OTCQB, nor has the Company received any notification that the SEC, the OTCQB or the Financial Industry Regulatory Authority, Inc. is contemplating terminating such registration or quotation.

4.21 Brokers and Finders. No Person will have, as a result of the transactions contemplated by the Transaction Documents, any valid right, interest or claim against or upon the Company, any Subsidiary or an Investor for any commission, fee or other compensation pursuant to any agreement, arrangement or understanding entered into by or on behalf of the Company, other than as described in Schedule 4.21.

4.22 No Directed Selling Efforts or General Solicitation. Neither the Company nor any Person acting on its behalf has conducted any general solicitation or general advertising (as those terms are used in Regulation D) in connection with the offer or sale of any of the Securities.

4.23 No Integrated Offering. Neither the Company nor any of its Affiliates, nor any Person acting on its or their behalf has, directly or indirectly, made any offers or sales of any Company security or solicited any offers to buy any security, including, without limitation, the Convertible Notes, under circumstances that would adversely affect reliance by the Company on Section 4(2) for the exemption from registration for the transactions contemplated hereby or would require registration of the Securities under the 1933 Act.

4.24 Private Placement. The offer and sale of the Securities to the Investors as contemplated hereby is exempt from the registration requirements of the 1933 Act.

4.25 Questionable Payments. Neither the Company nor any of its Subsidiaries nor, to the Company's Knowledge, any of their respective current or former stockholders, directors, officers, employees, agents or other Persons acting on behalf of the Company or any Subsidiary, has on behalf of the Company or any Subsidiary or in connection with their respective businesses: (a) used any corporate funds for unlawful contributions, gifts, entertainment or other unlawful expenses relating to political activity; (b) made any direct or indirect unlawful payments to any governmental officials or employees from corporate funds; (c) established or maintained any unlawful or unrecorded fund of corporate monies or other assets; (d) made any false or fictitious entries on the books and records of the Company or any Subsidiary; or (e) made any unlawful bribe, rebate, payoff, influence payment, kickback or other unlawful payment of any nature.

4.26 Transactions with Affiliates. Except as disclosed in the SEC Filings or as disclosed on Schedule 4.26, none of the officers or directors of the Company and, to the Company's Knowledge, none of the employees of the Company is presently a party to any transaction with the Company or any Subsidiary (other than as holders of stock options and/or warrants, and for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the Company's Knowledge, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner.

4.27 Internal Controls. The Company is in material compliance with the provisions of the Sarbanes-Oxley Act of 2002 currently applicable to the Company. The Company and the Subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The Company has established disclosure controls and procedures (as defined in 1934 Act Rules 13a-15(e) and 15d-15(e)) for the Company and designed such disclosure controls and procedures to ensure that material information relating to the Company, including the Subsidiaries, is made known to the certifying officers by others within those entities, particularly during the period in which the Company's most recently filed periodic report under the 1934 Act, as the case may be, is being prepared. The Company's certifying officers have evaluated the effectiveness of the Company's controls and procedures as of the end of the period covered by the most recently filed periodic report under the 1934 Act (such date, the "Evaluation Date"). The Company presented in its most recently filed periodic report under the 1934 Act the conclusions of the certifying officers about the effectiveness of the disclosure controls and procedures based on their evaluations as of the Evaluation Date. Since the Evaluation Date, there have been no significant changes in the Company's internal controls (as such term is defined in Item 308 of Regulation S-K) or, to the Company's Knowledge, in other factors that could significantly affect the Company's internal controls. The Company maintains and will continue to maintain a standard system of accounting established and administered in accordance with GAAP and the applicable requirements of the 1934 Act.

4.28 Disclosures. Neither the Company nor any Person acting on its behalf has provided the Investors or their agents or counsel with any information that constitutes or might constitute material, non-public information, other than the terms of the transactions contemplated hereby. The written materials delivered to the Investors in connection with the transactions contemplated by the Transaction Documents do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

4.29 Investment Company. The Company is not required to be registered as, and is not an Affiliate of, and immediately following the Closing will not be required to register as, an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

4.30 Solvency. Based on the financial condition of the Company as of the Closing Date after giving effect to (i) the receipt by the Company of the proceeds from the sale of the Shares and Warrants hereunder, (ii) the receipt by the Company of the proceeds from the issuance of the Convertible Notes, and (iii) the Recapitalization Transactions, the Company's fair saleable value of its assets exceeds the amount that will be required to be paid on or in respect of the Company's existing debts and other liabilities (including known contingent liabilities) as they mature; (ii) the Company's assets do not constitute unreasonably small capital to carry on its business for the current fiscal year as now conducted and as proposed to be conducted including its capital needs taking into account the particular capital requirements of the business conducted by the Company, and projected capital requirements and capital availability thereof; and (iii) the current cash flow of the Company, together with the proceeds the Company would receive, were it to liquidate all of its assets, after taking into account all anticipated uses of the cash, would be sufficient to pay all amounts on or in respect of its debt when such amounts are required to be paid. The Company does not intend to incur debts beyond its ability to pay such debts as they mature (taking into account the timing and amounts of cash to be payable on or in respect of its debt). The Company has no knowledge of any facts or circumstances which lead it to believe that it will file for reorganization or liquidation under the bankruptcy or reorganization laws of any jurisdiction within one year from the Closing Date.

5. Representations and Warranties of the Investors. Each of the Investors hereby severally, and not jointly, represents and warrants to the Company that:

5.1 Organization and Existence. Such Investor is a validly existing corporation, limited partnership or limited liability company and has all requisite corporate, partnership or limited liability company power and authority to invest in the Securities pursuant to this Agreement.

5.2 Authorization. The execution, delivery and performance by such Investor of the Transaction Documents to which such Investor is a party have been duly authorized and each will constitute the valid and legally binding obligation of such Investor, enforceable against such Investor in accordance with their respective terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability, relating to or affecting creditors' rights generally.

5.3 Purchase Entirely for Own Account. The Securities to be received by such Investor hereunder will be acquired for such Investor's own account, not as nominee or agent, and not with a view to the resale or distribution of any part thereof in violation of the 1933 Act, and such Investor has no present intention of selling, granting any participation in, or otherwise distributing the same in violation of the 1933 Act without prejudice, however, to such Investor's right at all times to sell or otherwise dispose of all or any part of such Securities in compliance with applicable federal and state securities laws. Nothing contained herein shall be deemed a representation or warranty by such Investor to hold the Securities for any period of time. Such Investor is not a broker-dealer registered with the SEC under the 1934 Act or an entity engaged in a business that would require it to be so registered.

5.4 Investment Experience. Such Investor acknowledges that it can bear the economic risk and complete loss of its investment in the Securities and has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of the investment contemplated hereby.

5.5 Disclosure of Information. Such Investor has had an opportunity to receive all information related to the Company requested by it and to ask questions of and receive answers from the Company regarding the Company, its business and the terms and conditions of the offering of the Securities. Such Investor acknowledges receipt of copies of the SEC Filings. Neither such inquiries nor any other due diligence investigation conducted by such Investor shall modify, limit or otherwise affect such Investor's right to rely on the Company's representations and warranties contained in this Agreement.

5.6 Restricted Securities. Such Investor understands that the Securities are characterized as "restricted securities" under the U.S. federal securities laws inasmuch as they are being acquired from the Company in a transaction not involving a public offering and that under such laws and applicable regulations such securities may be resold without registration under the 1933 Act only in certain limited circumstances.

5.7 Legends. It is understood that, except as provided below, certificates evidencing the Securities may bear the following or any similar legend:

(a) "The securities represented hereby have not been registered with the Securities and Exchange Commission or the securities commission of any state in reliance upon an exemption from registration under the Securities Act of 1933, as amended, and, accordingly, may not be transferred unless (i) such securities have been registered for sale pursuant to the Securities Act of 1933, as amended, (ii) such securities may be sold pursuant to Rule 144, or (iii) the Company has received an opinion of counsel reasonably satisfactory to it that such transfer may lawfully be made without registration under the Securities Act of 1933, as amended."

(b) If required by the authorities of any state in connection with the issuance of sale of the Securities, the legend required by such state authority.

5.8 Accredited Investor. Such Investor is an accredited investor as defined in Rule 501(a) of Regulation D, as amended, under the 1933 Act, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

5.9 No General Solicitation. Such Investor did not learn of the investment in the Securities as a result of any general solicitation or general advertising.

5.10 Brokers and Finders. No Person will have, as a result of the transactions contemplated by the Transaction Documents, any valid right, interest or claim against or upon the Company, any Subsidiary or an Investor for any commission, fee or other compensation pursuant to any agreement, arrangement or understanding entered into by or on behalf of such Investor.

5.11 Prohibited Transactions. Since the earlier of (a) such time as such Investor was first contacted by the Company or any other Person acting on behalf of the Company regarding the transactions contemplated hereby or (b) thirty (30) days prior to the date hereof, neither such Investor nor any Affiliate of such Investor which (x) had knowledge of the transactions contemplated hereby, (y) has or shares discretion relating to such Investor's investments or trading or information concerning such Investor's investments, including in respect of the Securities, or (z) is subject to such Investor's review or input concerning such Affiliate's investments or trading (collectively, "Trading Affiliates") has, directly or indirectly, effected or agreed to effect any short sale, whether or not against the box, established any "put equivalent position" (as defined in Rule 16a-1(h) under the 1934 Act) with respect to the Common Stock, granted any other right (including, without limitation, any put or call option) with respect to the Common Stock or with respect to any security that includes, relates to or derived any significant part of its value from the Common Stock or otherwise sought to hedge its position in the Securities (each, a "Prohibited Transaction"). Prior to the earliest to occur of (i) the termination of this Agreement, (ii) the Effective Date or (iii) the Effectiveness Deadline, such Investor shall not, and shall cause its Trading Affiliates not to, engage, directly or indirectly, in a Prohibited Transaction. Such Investor acknowledges that the representations, warranties and covenants contained in this Section 5.11 are being made for the benefit of the Investors as well as the Company and that each of the other Investors shall have an independent right to assert any claims against such Investor arising out of any breach or violation of the provisions of this Section 5.11.

6. Conditions to Closing.

6 . 1 Conditions to the Investors' Obligations. The obligation of each Investor to purchase the Shares and the Warrants at the Closing is subject to the fulfillment to such Investor's satisfaction, on or prior to the Closing Date, of the following conditions, any of which may be waived by such Investor (as to itself only):

(a) The representations and warranties made by the Company in Section 4 hereof qualified as to materiality shall be true and correct at all times prior to and on the Closing Date, except to the extent any such representation or warranty expressly speaks as of an earlier date, in which case such representation or warranty shall be true and correct as of such earlier date, and, the representations and warranties made by the Company in Section 4 hereof not qualified as to materiality shall be true and correct in all material respects at all times prior to and on the Closing Date, except to the extent any such representation or warranty expressly speaks as of an earlier date, in which case such representation or warranty shall be true and correct in all material respects as of such earlier date. The Company shall have performed in all material respects all obligations and covenants herein required to be performed by it on or prior to the Closing Date.

(b) The Company shall have obtained any and all consents, permits, approvals, registrations and waivers necessary or appropriate for consummation of the purchase and sale of the Securities and the consummation of the other transactions contemplated by the Transaction Documents, all of which shall be in full force and effect.

(c) The Company shall have executed and delivered the Registration Rights Agreement and the Voting Agreements.

(d) The Company shall have received gross proceeds from the sale of the Convertible Notes and the Shares and Warrants as contemplated hereby of at least _____ Dollars ($_____).

(e) No judgment, writ, order, injunction, award or decree of or by any court, or judge, justice or magistrate, including any bankruptcy court or judge, or any order of or by any governmental authority, shall have been issued, and no action or proceeding shall have been instituted by any governmental authority, enjoining or preventing the consummation of the transactions contemplated hereby or in the other Transaction Documents.

(f) The Company shall have delivered a Certificate, executed on behalf of the Company by its Chief Executive Officer or its Chief Financial Officer, dated as ofthe Closing Date, certifying to the fulfillment of the conditions specified in subsections (a), (b), (e) and (i) of this Section 6.1.

(g) The Company shall have delivered a Certificate, executed on behalf of the Company by its Secretary, dated as of the Closing Date, certifying the resolutions adopted by the Board of Directors of the Company approving the transactions contemplated by this Agreement and the other Transaction Documents and the issuance of the Securities, certifying the current versions of the Certificate of Incorporation and Bylaws of the Company and certifying as to the signatures and authority of persons signing the Transaction Documents and related documents on behalf of the Company.

(h) The Investors shall have received an opinion from Fifth Avenue Law Group PLLC, the Company's counsel, dated as of the Closing Date, in form and substance reasonably acceptable to the Investors and addressing such legal matters as the Investors may reasonably request.

(i) No stop order or suspension of trading shall have been imposed by OTCQB, the SEC or any other governmental or regulatory body with respect to public trading in the Common Stock.

(j) The Persons set forth in Schedule 6.1 shall have executed and delivered Voting Agreements.

6 . 2 Conditions to Obligations of the Company. The Company's obligation to sell and issue the Shares and the Warrants at the Closing is subject to the fulfillment to the satisfaction of the Company on or prior to the Closing Date of the following conditions, any of which may be waived by the Company:

(a) The representations and warranties made by the Investors in Section 5 hereof, other than the representations and warranties contained in Sections 5.3, 5.4, 5.5, 5.6, 5.7, 5.8 and 5.9 (the “Investment Representations”), shall be true and correct in all material respects when made, and shall be true and correct in all material respects on the Closing Date with the same force and effect as if they had been made on and as of said date. The Investment Representations shall be true and correct in all respects when made, and shall be true and correct in all respects on the Closing Date with the same force and effect as if they had been made on and as of said date. The Investors shall have performed in all material respects all obligations and covenants herein required to be performed by them on or prior to the Closing Date.

(b) The Investors shall have executed and delivered the Registration Rights Agreement.

(c) The Investors shall have delivered the Purchase Price to the Company.

6.3 Termination of Obligations to Effect Closing; Effects.

(a) The obligations of the Company, on the one hand, and the Investors, on the other hand, to effect the Closing shall terminate as follows:

(i) Upon the mutual written consent of the Company and the Investors;

(ii) By the Company if any of the conditions set forth in Section 6.2 shall have become incapable of fulfillment, and shall not have been waived by the Company;

(iii) By an Investor (with respect to itself only) if any of the conditions set forth in Section 6.1 shall have become incapable of fulfillment, and shall not have been waived by the Investor; or

(iv) By either the Company or any Investor (with respect to itself only) if the Closing has not occurred on or prior to June 15, 2013;

provided, however, that, except in the case of clause (i) above, the party seeking to terminate its obligation to effect the Closing shall not then be in breach of any of its representations, warranties, covenants or agreements contained in this Agreement or the other Transaction Documents if such breach has resulted in the circumstances giving rise to such party's seeking to terminate its obligation to effect the Closing.

(b) In the event of termination by the Company or any Investor of its obligations to effect the Closing pursuant to this Section 6.3, written notice thereof shall forthwith be given to the other Investors by the Company and the other Investors shall have the right to terminate their obligations to effect the Closing upon written notice to the Company and the other Investors. Nothing in this Section 6.3 shall be deemed to release any party from any liability for any breach by such party of the terms and provisions of this Agreement or the other Transaction Documents or to impair the right of any party to compel specific performance by any other party of its obligations under this Agreement or the other Transaction Documents.

7. Covenants and Agreements of the Company.

7 . 1 Reservation of Common Stock. The Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of providing for the exercise of the Series A Warrants, such number of shares of Common Stock as shall from time to time equal the number of shares sufficient to permit the exercise of the Series A Warrants issued pursuant to this Agreement in accordance with their respective terms. From and after the Share Increase Date, the Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of providing for the exercise of the Series B Warrants, such number of shares of Common Stock as shall from time to time equal the number of shares sufficient to permit the exercise of the Series B Warrants issued pursuant to this Agreement in accordance with their respective terms.

7.2 Reports. The Company will furnish to the Investors and/or their assignees such information relating to the Company and its Subsidiaries as from time to time may reasonably be requested by the Investors and/or their assignees; provided, however, that the Company shall not disclose material nonpublic information to the Investors, or to advisors to or representatives of the Investors, unless prior to disclosure of such information the Company identifies such information as being material nonpublic information and provides the Investors, such advisors and representatives with the opportunity to accept or refuse to accept such material nonpublic information for review and any Investor wishing to obtain such information enters into an appropriate confidentiality agreement with the Company with respect thereto.

7.3 No Conflicting Agreements. The Company will not take any action, enter into any agreement or make any commitment that would conflict or interfere in any material respect with the Company's obligations to the Investors under the Transaction Documents.

7.4 Insurance. The Company shall not materially reduce the insurance coverages described in Section 4.19.

7.5 Compliance with Laws. The Company will comply in all material respects with all applicable laws, rules, regulations, orders and decrees of all governmental authorities.

7.6 Listing of Underlying Shares and Related Matters. If the Company applies to have its Common Stock or other securities traded on any stock exchange or market, it shall include in such application the Shares and the Warrant Shares and will take such other action as is necessary to cause such Common Stock to be so listed. The Company will use commercially reasonable efforts to continue the listing and trading of its Common Stock on such exchange or market and, in accordance, therewith, will use commercially reasonable efforts to comply in all respects with the Company's reporting, filing and other obligations under the bylaws or rules of such exchange or market, as applicable.

7.7 Termination of Covenants. The provisions of Sections 7.2 through 7.5 shall terminate and be of no further force and effect on the date on which the Company's obligations under the Registration Rights Agreement to register or maintain the effectiveness of any registration covering the Registrable Securities (as such term is defined in the Registration Rights Agreement) shall terminate.

7.8 Removal of Legends. In connection with any sale or disposition of the Securities by an Investor pursuant to Rule 144 or pursuant to any other exemption under the 1933 Act such that the purchaser acquires freely tradable shares and upon compliance by the Investor with the requirements of this Agreement, the Company shall or, in the case of Common Stock, shall cause the transfer agent for the Common Stock (the "Transfer Agent") to issue replacement certificates representing the Securities sold or disposed of without restrictive legends. Upon the earlier of (i) registration for resale pursuant to the Registration Rights Agreement or (ii) the Shares becoming freely tradable by a non-affiliate pursuant to Rule 144 the Company shall (A) deliver to the Transfer Agent irrevocable instructions that the Transfer Agent shall reissue a certificate representing shares of Common Stock without legends upon receipt by such Transfer Agent of the legended certificates for such shares, together with either (1) a customary representation by the Investor that Rule 144 applies to the shares of Common Stock represented thereby or (2) a statement by the Investor that such Investor has sold the shares of Common Stock represented thereby in accordance with the Plan of Distribution contained in the Registration Statement, and (B) cause its counsel to deliver to the Transfer Agent one or more blanket opinions to the effect that the removal of such legends in such circumstances may be effected under the 1933 Act. From and after the earlier of such dates, upon an Investor's written request, the Company shall promptly cause certificates evidencing the Investor's Securities to be replaced with certificates which do not bear such restrictive legends, and Warrant Shares subsequently issued upon due exercise of the Warrants shall not bear such restrictive legends provided the provisions of either clause (i) or clause (ii) above, as applicable, are satisfied with respect to such Warrant Shares. When the Company is required to cause an unlegended certificate to replace a previously issued legended certificate, if: (1) the unlegended certificate is not delivered to an Investor within three (3) Business Days of submission by that Investor of a legended certificate and supporting documentation to the Transfer Agent as provided above and (2) prior to the time such unlegended certificate is received by the Investor, the Investor, or any third party on behalf of such Investor or for the Investor's account, purchases (in an open market transaction or otherwise) shares of Common Stock to deliver in satisfaction of a sale by the Investor of shares represented by such certificate (a "Buy-In"), then the Company shall pay in cash to the Investor (for costs incurred either directly by such Investor or on behalf of a third party) the amount by which the total purchase price paid for Common Stock as a result of the Buy-In (including brokerage commissions, if any) exceeds the proceeds received by such Investor as a result of the sale to which such Buy-In relates. The Investor shall provide the Company written notice indicating the amounts payable to the Investor in respect of the Buy-In.

7.9 Proxy Statement; Stockholders Meeting. (a) Promptly following the execution and delivery of this Agreement the Company shall take all action necessary to call a meeting of its stockholders (the "Stockholders Meeting"), which shall occur not later than the 60th day after the Closing (the "Stockholders Meeting Deadline"), for the purpose of seeking approval of the Company's stockholders (the "Stockholder Approval") for an increase in the number of shares of authorized Common Stock (the "Share Increase") from 200,000,000 to no less than 500,000,000 shares (the "Proposal"). In connection therewith, the Company will promptly prepare and file with the SEC proxy materials (including a proxy statement and form of proxy) for use at the Stockholders Meeting and, after receiving and promptly responding to any comments of the SEC thereon, shall promptly mail such proxy materials to the stockholders of the Company. Each Investor shall promptly furnish in writing to the Company such information relating to such Investor and its investment in the Company as the Company may reasonably request for inclusion in the Proxy Statement. The Company will comply with Section 14(a) of the 1934 Act and the rules promulgated thereunder in relation to any proxy statement (as amended or supplemented, the "Proxy Statement") and any form of proxy to be sent to the stockholders of the Company in connection with the Stockholders Meeting, and the Proxy Statement shall not, on the date that the Proxy Statement (or any amendment thereof or supplement thereto) is first mailed to stockholders or at the time of the Stockholders Meeting, contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein not false or misleading, or omit to state any material fact necessary to correct any statement in any earlier communication with respect to the solicitation of proxies or the Stockholders Meeting which has become false or misleading. If the Company should discover at any time prior to the Stockholders Meeting, any event relating to the Company or any of its Subsidiaries or any of their respective Affiliates, officers or directors that is required to be set forth in a supplement or amendment to the Proxy Statement, in addition to the Company's obligations under the 1934 Act, the Company will promptly inform the Investors thereof.

(b) Subject to their fiduciary obligations under applicable law (as determined in good faith by the Company's Board of Directors after consultation with the Company's outside counsel), the Company's Board of Directors shall recommend to the Company's stockholders that the stockholders vote in favor of the Proposal (the "Company Board Recommendation") and take all commercially reasonable action (including, without limitation, the hiring of a proxy solicitation firm of nationally recognized standing) to solicit the approval of the stockholders for the Proposal unless the Board of Directors shall have modified, amended or withdrawn the Company Board Recommendation pursuant to the provisions of the immediately succeeding sentence. The Company covenants that the Board of Directors of the Company shall not modify, amend or withdraw the Company Board Recommendation unless the Board of Directors (after consultation with the Company's outside counsel) shall determine in the good faith exercise of its business judgment that maintaining the Company Board Recommendation would violate its fiduciary duty to the Company's stockholders. Whether or not the Company's Board of Directors modifies, amends or withdraws the Company Board Recommendation pursuant to the immediately preceding sentence, the Company shall in accordance with applicable law and the provisions of its Certificate of Incorporation and Bylaws, (i) take all action necessary to convene the Stockholders Meeting as promptly as practicable, but no later than the Stockholders Meeting Deadline, to consider and vote upon the approval of the Proposal and (ii) submit the Proposal at the Stockholders Meeting to the stockholders of the Company for their approval.

(c) No later than two (2) Business Days after receipt of the Stockholder Approval, the Company shall file with the Secretary of State of Nevada an amendment to its Certificate of Incorporation to effect the Share Increase (the date on which the Share Increase is effective is hereinafter referred to as the "Share Increase Date").

(d) If (i) the Stockholders Meeting is not held and completed on or before the Stockholder Meeting Deadline or (ii) the Share Increase Date has not occurred on or before the earlier of two (2) Business Days after (A) receipt of the Stockholder Approval or (B) after the Stockholder Meeting Deadline (each, an "Event" and the date on which such Event first occurs, the "Event Date"), the Company will make pro rata payments to each Investor, as liquidated damages and not as a penalty, in an amount equal to 1.5% of the aggregate amount invested by such Investor for each 30-day period or pro rata for any portion thereof following the Event Date until the related Event is cured. Such payments shall constitute the Investors' exclusive monetary remedy for such events, but shall not affect the right of the Investors to seek injunctive relief. Such payments shall be made to each Investor in cash no later than three (3) Business Days after the end of each 30-day period.

7.10 Subsequent Equity Sales.

(a) From the date hereof until ninety (90) days after the Closing Date, without the consent of the Required Investors, neither the Company nor any Subsidiary shall issue shares of Common Stock or Common Stock Equivalents. Notwithstanding the foregoing, the provisions of this Section 7.10(a) shall not apply to (i) the issuance of the Convertible Notes and the Conversion Shares, provided that the terms of the Convertible Notes are not amended after the Subscription Date to increase the number of shares of Common Stock issuable thereunder or to lower the conversion price thereof, (ii) the issuance of Common Stock or Common Stock Equivalents upon the conversion or exercise of any securities of the Company or a Subsidiary outstanding immediately prior to the date hereof, provided such securities are not amended after the Subscription Date to increase the number of shares of Common Stock issuable thereunder or to lower the exercise or conversion price thereof, (iii) the issuance of any Common Stock or Common Stock Equivalents pursuant to any Company equity incentive plan approved by the Company's stockholders and in place as of the date hereof, and (iv) the Securities.

(b) From the date hereof until the earlier of (i) three years from the Closing Date or (ii) such time as no Investor holds any of the Securities, the Company shall be prohibited from effecting or entering into an agreement to effect any "Variable Rate Transaction". The term "Variable Rate Transaction" shall mean a transaction in which the Company issues or sells (i) any debt or equity securities that are convertible into, exchangeable or exercisable for, or include the right to receive additional shares of Common Stock either (A) at a conversion, exercise or exchange rate or other price that is based upon and/or varies with the trading prices of or quotations for the shares of Common Stock at any time after the initial issuance of such debt or equity securities, or (B) with a conversion, exercise or exchange price that is subject to being reset at some future date after the initial issuance of such debt or equity security or upon the occurrence of specified or contingent events directly or indirectly related to the business of the Company or the market for the Common Stock or (ii) enters into any agreement, including, but not limited to, an equity line of credit, whereby the Company may sell securities at a future determined price. For the avoidance of doubt, the issuance of a security which is subject to customary anti-dilution protections, including where the conversion, exercise or exchange price is subject to adjustment as a result of stock splits, reverse stock splits and other similar recapitalization or reclassification events, shall not be deemed to be a "Variable Rate Transaction."

(c) The Company shall not, and shall use its commercially reasonable efforts to ensure that no Affiliate of the Company shall, sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security (as defined in Section 2 of the 1933 Act) that will be integrated with the offer or sale of the Securities in a manner that would require the registration under the 1933 Act of the sale of the Securities to the Investors, or that will be integrated with the offer or sale of the Securities for purposes of the rules and regulations of any trading market such that it would require stockholder approval prior to the closing of such other transaction unless stockholder approval is obtained before the closing of such subsequent transaction.

7.11 Equal Treatment of Investors. No consideration shall be offered or paid to any Person to amend or consent to a waiver or modification of any provision of any of the Transaction Documents unless the same consideration is also offered to all of the parties to the Transaction Documents. For clarification purposes, this provision constitutes a separate right granted to each Investor by the Company and negotiated separately by each Investor, and is intended for the Company to treat the Investors as a class and shall not in any way be construed as the Investors acting in concert or as a group with respect to the purchase, disposition or voting of Securities or otherwise.

7.12 Recapitalization Transactions. The Company shall consummate the Recapitalization Transactions as promptly as practicable after the Closing and in no event more than thirty (30) days following the Closing.

8. Survival and Indemnification.

8.1 Survival. The representations, warranties, covenants and agreements contained in this Agreement shall survive the Closing of the transactions contemplated by this Agreement.

8.2 Indemnification. The Company agrees to indemnify and hold harmless each Investor and its Affiliates and their respective directors, officers, trustees, members, managers, employees and agents, and their respective successors and assigns, from and against any and all losses, claims, damages, liabilities and expenses (including without limitation reasonable attorney fees and disbursements and other expenses incurred in connection with investigating, preparing or defending any action, claim or proceeding, pending or threatened and the costs of enforcement thereof) (collectively, "Losses") to which such Person may become subject as a result of any breach of representation, warranty, covenant or agreement made by or to be performed on the part of the Company under the Transaction Documents, and will reimburse any such Person for all such amounts as they are incurred by such Person.

8.3 Conduct of Indemnification Proceedings. Any person entitled to indemnification hereunder shall (i) give prompt notice to the indemnifying party of any claim with respect to which it seeks indemnification and (ii) permit such indemnifying party to assume the defense of such claim with counsel reasonably satisfactory to the indemnified party; provided that any person entitled to indemnification hereunder shall have the right to employ separate counsel and to participate in the defense of such claim, but the fees and expenses of such counsel shall be at the expense of such person unless (a) the indemnifying party has agreed to pay such fees or expenses, or (b) the indemnifying party shall have failed to assume the defense of such claim and employ counsel reasonably satisfactory to such person or (c) in the reasonable judgment of any such person, based upon written advice of its counsel, a conflict of interest exists between such person and the indemnifying party with respect to such claims (in which case, if the person notifies the indemnifying party in writing that such person elects to employ separate counsel at the expense of the indemnifying party, the indemnifying party shall not have the right to assume the defense of such claim on behalf of such person); and provided, further, that the failure of any indemnified party to give notice as provided herein shall not relieve the indemnifying party of its obligations hereunder, except to the extent that such failure to give notice shall materially adversely affect the indemnifying party in the defense of any such claim or litigation. It is understood that the indemnifying party shall not, in connection with any proceeding in the same jurisdiction, be liable for fees or expenses of more than one separate firm of attorneys at any time for all such indemnified parties. No indemnifying party will, except with the consent of the indemnified party, consent to entry of any judgment or enter into any settlement that does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect of such claim or litigation.

9. Miscellaneous.

9.1 Successors and Assigns. This Agreement may not be assigned by a party hereto without the prior written consent of the Company or the Investors, as applicable, provided, however, that an Investor may assign its rights and delegate its duties hereunder in whole or in part to an Affiliate or to a third party acquiring some or all of its Securities in a transaction complying with applicable securities laws without the prior written consent of the Company or the other Investors. The provisions of this Agreement shall inure to the benefit of and be binding upon the respective permitted successors and assigns of the parties. Without limiting the generality of the foregoing, in the event that the Company is a party to a merger, consolidation, share exchange or similar business combination transaction in which the Common Stock is converted into the equity securities of another Person, from and after the effective time of such transaction, such Person shall, by virtue of such transaction, be deemed to have assumed the obligations of the Company hereunder, the term "Company" shall be deemed to refer to such Person and the term "Shares" shall be deemed to refer to the securities received by the Investors in connection with such transaction. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

9.2 Counterparts; Faxes. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement may also be executed via facsimile, which shall be deemed an original.

9.3 Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

9.4 Notices. Unless otherwise provided, any notice required or permitted under this Agreement shall be given in writing and shall be deemed effectively given as hereinafter described (i) if given by personal delivery, then such notice shall be deemed given upon such delivery, (ii) if given by telex or telecopier, then such notice shall be deemed given upon receipt of confirmation of complete transmittal, (iii) if given by mail, then such notice shall be deemed given upon the earlier of (A) receipt of such notice by the recipient or (B) three days after such notice is deposited in first class mail, postage prepaid, and (iv) if given by an internationally recognized overnight air courier, then such notice shall be deemed given one Business Day after delivery to such carrier. All notices shall be addressed to the party to be notified at the address as follows, or at such other address as such party may designate by ten days' advance written notice to the other party:

If to the Company:

Visualant, Incorporated
500 Union Street, Suite 420
Seattle, Washington 98101
Attention: Ronald P. Erickson
Fax: (206) 826-0451

With a copy to:

Fifth Avenue Law Group PLLC
701 Fifth Avenue, Suite 2800
Seattle, WA 98104
Attention: James F. Biagi, Jr.
Fax: (206) 587-5710

If to the Investors:

to the addresses set forth on the signature pages hereto.

9.5 Expenses. The parties hereto shall pay their own costs and expenses in connection herewith, except that the Company shall pay the reasonable fees and expenses of Lowenstein Sandler PC not to exceed $40,000, regardless of whether the transactions contemplated hereby are consummated; it being understood that Lowenstein Sandler PC has only rendered legal advice to the Special Situations Funds participating in this transaction and not to the Company or any other Investor in connection with the transactions contemplated hereby, and that each of the Company and each Investor has relied for such matters on the advice of its own respective counsel. Such expenses shall be paid upon demand. The Company shall reimburse the Investors upon demand for all reasonable out-of-pocket expenses incurred by the Investors, including without limitation reimbursement of attorneys' fees and disbursements, in connection with any amendment, modification or waiver of this Agreement or the other Transaction Documents. In the event that legal proceedings are commenced by any party to this Agreement against another party to this Agreement in connection with this Agreement or the other Transaction Documents, the party or parties which do not prevail in such proceedings shall severally, but not jointly, pay their pro rata share of the reasonable attorneys' fees and other reasonable out-of-pocket costs and expenses incurred by the prevailing party in such proceedings.

9.6 Amendments and Waivers. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the Required Investors. Any amendment or waiver effected in accordance with this paragraph shall be binding upon each holder of any Securities purchased under this Agreement at the time outstanding, each future holder of all such Securities, and the Company.

9.7 Publicity. Except as set forth below, no public release or announcement concerning the transactions contemplated hereby shall be issued by the Company or the Investors without the prior consent of the Company (in the case of a release or announcement by the Investors) or the Investors (in the case of a release or announcement by the Company) (which consents shall not be unreasonably withheld), except as such release or announcement may be required by law or the applicable rules or regulations of any securities exchange or securities market, in which case the Company or the Investors, as the case may be, shall allow the Investors or the Company, as applicable, to the extent reasonably practicable in the circumstances, reasonable time to comment on such release or announcement in advance of such issuance. By 8:30 a.m. (New York City time) on the trading day immediately following the Closing Date, the Company shall issue a press release disclosing the consummation of the transactions contemplated by this Agreement. No later than the fourth trading day following the Closing Date, the Company will file a Current Report on Form 8-K attaching the press release described in the foregoing sentence as well as copies of the Transaction Documents. In addition, the Company will make such other filings and notices in the manner and time required by the SEC or OTCQB.

9.8 Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof but shall be interpreted as if it were written so as to be enforceable to the maximum extent permitted by applicable law, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by applicable law, the parties hereby waive any provision of law which renders any provision hereof prohibited or unenforceable in any respect.

9.9 Entire Agreement. This Agreement, including the Exhibits and the Disclosure Schedules, and the other Transaction Documents constitute the entire agreement among the parties hereof with respect to the subject matter hereof and thereof and supersede all prior agreements and understandings, both oral and written, between the parties with respect to the subject matter hereof and thereof.

9.10 Further Assurances. The parties shall execute and deliver all such further instruments and documents and take all such other actions as may reasonably be required to carry out the transactions contemplated hereby and to evidence the fulfillment of the agreements herein contained.

9.11 Governing Law; Consent to Jurisdiction; Waiver of Jury Trial. This Agreement shall be governed by, and construed in accordance with, the internal laws of the State of New York without regard to the choice of law principles thereof. Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the courts of the State of New York located in New York County and the United States District Court for the Southern District of New York for the purpose of any suit, action, proceeding or judgment relating to or arising out of this Agreement and the transactions contemplated hereby. Service of process in connection with any such suit, action or proceeding may be served on each party hereto anywhere in the world by the same methods as are specified for the giving of notices under this Agreement. Each of the parties hereto irrevocably consents to the jurisdiction of any such court in any such suit, action or proceeding and to the laying of venue in such court. Each party hereto irrevocably waives any objection to the laying of venue of any such suit, action or proceeding brought in such courts and irrevocably waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum. **EACH OF THE PARTIES HERETO WAIVES ANY RIGHT TO REQUEST A TRIAL BY JURY IN ANY LITIGATION WITH RESPECT TO THIS AGREEMENT AND REPRESENTS THAT COUNSEL HAS BEEN CONSULTED SPECIFICALLY AS TO THIS WAIVER.**

9.12 Independent Nature of Investors' Obligations and Rights. The obligations of each Investor under any Transaction Document are several and not joint with the obligations of any other Investor, and no Investor shall be responsible in any way for the performance of the obligations of any other Investor under any Transaction Document. The decision of each Investor to purchase Securities pursuant to the Transaction Documents has been made by such Investor independently of any other Investor. Nothing contained herein or in any Transaction Document, and no action taken by any Investor pursuant thereto, shall be deemed to constitute the Investors as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Investors are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by the Transaction Documents. Each Investor acknowledges that no other Investor has acted as agent for such Investor in connection with making its investment hereunder and that no Investor will be acting as agent of such Investor in connection with monitoring its investment in the Securities or enforcing its rights under the Transaction Documents. Each Investor shall be entitled to independently protect and enforce its rights, including, without limitation, the rights arising out of this Agreement or out of the other Transaction Documents, and it shall not be necessary for any other Investor to be joined as an additional party in any proceeding for such purpose. The Company acknowledges that each of the Investors has been provided with the same Transaction Documents for the purpose of closing a transaction with multiple Investors and not because it was required or requested to do so by any Investor.

[signature page follows]

IN WITNESS WHEREOF, the parties have executed this Agreement or caused their duly authorized officers to execute this Agreement as of the date first above written.

The Company: VISUALANT, INCCORPORATED

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

The Investors:

INVESTOR

By: _____

Name:

Title:

Aggregate Purchase Price: $
Number of Shares:
Number of Series A Warrants:
Number of Series B Warrants:

Address for Notice:

with a copy to:

Schedule 1 – Recapitalization Transactions

Gemini Master Fund, Ltd. AIR Termination Agreement

Under the AIR Termination Agreement between the Company and Gemini, the Company acquired all additional investment rights ("AIR") of Gemini and Ascendiant under the Securities Purchase Agreement for the sum of $850,000, to be paid pursuant to the terms of a promissory note executed by the Company for the principal amount of $850,000. The promissory note is payable in two installments of $425,000 each, together with accrued interest thereon at the rate of 5% per annum, due on June 30, 2013 and September 30, 2013. If the payments are not made, the Company will owe 120% of the unpaid balance due plus interest. See 4.8.

Mr. Gingo Note

As of May 1, 2013, the principal balance on the Note is $1,000,000 and is due in full, together with accrued interest thereon on the earlier of (i) June 8, 2013, or (ii) the closing of $7,500,000 or more in aggregate financing (whether debt, equity or some combination thereof) by the Company. See 4.3.

Mr. Erickson Loans, Advances or Guarantees

An entity which Mr. Ronald Erickson has a beneficial interest loaned or advanced the Company $400,000 through June 10, 2013. Mr. Erickson has rolled this $400,000 into the PPM. In addition, on May 31, 2013, an entity which Mr. Ronald Erickson has a beneficial interest loaned the Company $585,000 plus interest to acquire the Gemini warrant and the 4,000,000 shares from Ascendiant. This amount is to be paid to the entity which Mr. Ronald Erickson has a beneficial interest at closing. See 4.26.

COMPANY'S DISCLOSURE SCHEDULES TO PURCHASE AGREEMENT

This Disclosure Schedule relates to certain matters concerning the disclosures required by and the transactions contemplated by that certain Purchase Agreement dated June 10, 2013 (the "Purchase Agreement"), by and among Visualant, Incorporated (the "Company"), and those Investors who are signatories to the Purchase Agreement. All capitalized terms used herein and not defined herein are used as defined in the Purchase Agreement.

Any disclosure made in any section of this Disclosure Schedule is deemed to be given with respect to the section in which it appears, any other section expressly cross-referenced therein, and to the extent a reasonable person would understand from the face of such disclosure that such disclosure also applies to another section of the Disclosure Schedule, then such other section.

The inclusion of any item in this Disclosure Schedule that relates to a disclosure item at a threshold less than the provisions in a representation or warranty, or that is otherwise disclosed more comprehensively than is necessary to comply with the minimum requirements of a representation and warranty, shall not be deemed to expand the scope of required disclosure.

To the extent that this Disclosure Schedule contains exceptions to the representations and warranties set forth in the Purchase Agreement, their inclusion in this Disclosure Schedule shall not be deemed an admission by the Company that such item is material to the business, affairs, prospects, operations, properties, assets or condition of the Company.

DISCLOSURE SCHEDULE

Schedule 4.1 – Subsidiaries

TransTech Systems, Inc., an Oregon corporation, which is a wholly owned subsidiary of the Company.

DISCLOSURE SCHEDULE

Schedule 4.3 – Capitalization

Visualant, Inc.

(a) Authorized Capital: 200,000,000 shares of common stock with a par value of $0.001 per share, and 50,000,000 shares of preferred stock with a par value of $0.001 per share.

(b) As of May 31, 2013, there were 116,662,674 shares of common stock issued and outstanding. No preferred shares have been issued and no series of preferred shares has been designated.

(c) The Company has reserved for issuance under its Stock Incentive Plan 14,000,000 shares of common stock, of which options to purchase 11,905,000 shares have been granted.

(d) The number of shares of capital stock issuable and reserved for issuance pursuant to securities exercisable for, or convertible into or exchangeable for any shares of capital stock of the Company is as follows:

(i) A warrant issued to Sterling Group for 300,000 shares of common stock with an exercise price of $0.20 per share;

(ii) A warrant issued to John O'Brien for 5,056 shares of common stock with an exercise price of $0.21395 per share;

(iii) A warrant issued to John Lane for 5,057 shares of common stock with an exercise price of $0.21395 per share;

(iv) A warrant issued to Sterling Group for 500,000 shares of common stock with an exercise price of $0.43 per share;

(v) A warrant issued to John O'Brien for 24,480 shares of common stock with an exercise price of $0.28 per share;

(vi) A warrant issued to John Lane for 24,480 shares of common stock with an exercise price of $0.28 per share;

(vii) A warrant issued to Coach Capital LLC for 1,000,000 shares of common stock with an exercise price of $0.25 per share;

(viii) A warrant issued to John Lane for 34,489 shares of common stock with an exercise price of $0.33168 per share;

(ix) A warrant issued to John O'Brien for 34,489 shares of common stock with an exercise price of $0.33168 per share;

(x) A warrant issued to John O'Brien for 20,000 shares of common stock with an exercise price of $0.2997 per share;

(xi) A warrant issued to John Lane for 24,500 shares of common stock with an exercise price of $0.2997 per share;

(xii) A warrant issued to Scott Ashbury for 4,500 shares of common stock with an exercise price of $0.2997 per share;

(xiii) A warrant issued to National Security Corp. for 204,000 shares of common stock with an exercise price of $0.10 per share;

(xiv) A warrant issued to Steven Freifeld for 366,000 shares of common stock with an exercise price of $0.10 per share;

(xv) A warrant issued to Vince Calicchia for 30,000 shares of common stock with an exercise price of $0.10 per share;

(xvi) A warrant issued to Howard Nellor for 250,000 shares of common stock with an exercise price of $0.10 per share;

(xvii) A warrant to be issued to Integrated Consulting Services (Howard Nellor) for 250,000 shares of common stock with an exercise price of $0.10 per share on August 11, 2013;

(xviii) A Warrant for 1,800,000 shares of common stock, subject to adjustment, was acquired from Gemini Master Fund, Ltd. (the "Gemini Warrant") on May 31, 2013 with the final payment of $250,000 plus interest; and,

(xix) The Company has an equity line of credit with Ascendiant Capital Partners LLC with available credit of $2,516,859. The Company has no current intention to utilize this line of credit which expires August 29, 2013.

TransTech Systems, Inc.

As part of the Company's acquisition of 100% of the stock of TransTech Systems, Inc., the Company issued a Promissory Note on June 8, 2010 ("Note") to James Gingo, the President of TransTech, for the principal amount of $2,300,000, plus interest thereon at the rate of 3.5% per annum. The Note is secured by a security interest in all of the stock and assets of TransTech. In the event of the Company's default under the Note, Mr. Gingo is entitled to, among other things: (a) to register any or all of the TransTech stock in his name, and (b) to sell or otherwise dispose of the TransTech stock.

As of May 1, 2013, the principal balance on the Note is $1,000,000 and is due in full, together with accrued interest thereon on the earlier of (i) June 8, 2013, or (ii) the closing of $7,500,000 or more in aggregate financing (whether debt, equity or some combination thereof) by the Company.

Options: As of April 30, 2013, options to purchase a total of 205,000 shares of common stock of TransTech Systems, Inc. have been issued to various employees and/or consultants of TransTech, all of which have an exercise price of $0.24 per share.

Other Outstanding Purchase Rights

The Company has a current Reg. S or D offering outstanding for Asian investors pursuant to which the Company is offering up to USD $5,000,000 of 7% Convertible Debentures having a four year maturity, which debentures are convertible into common stock of the Company at $0.10 per share.

DISCLOSURE SCHEDULE

4.8 – No Material Adverse Change

(i) Ronald P. Erickson and/or entities in which Mr. Erickson has a beneficial interest have made advances and loans to the Corporation in the total principal amount of Nine Hundred Sixty Thousand Dollars (USD $960,000) on or before the date hereof (the "Loans"). In addition, Mr. Erickson and/or entities in which Mr. Erickson has a beneficial interest also have unreimbursed expenses, unpaid salary and/or are owed interest on the outstanding principal amount of the Loans totaling in the aggregate approximately Sixty-Five thousand Dollars (USD $65,000).

(ii) Ascendiant Capital Partners LLC ("Ascendiant") was issued a total of 4,564,068 shares of common stock of the Company on April 26, 2013 as a result of Ascendiant's cashless exercise of the Warrant issued to Ascendiant on May 19, 2011. On April 26, 2013, the Company entered into an Option Agreement with Ascendiant pursuant to which the Company has the option to purchase from Ascendiant 4,000,000 of those shares for a total purchase price of $300,000. The Company exercised the Option by paying $300,000 on May 31, 2013. To date, Ascendiant has not returned the full 4,000,000 shares for retirement to treasury.

(iii) The Amendment to Warrant Purchase Agreement between the Company and Gemini extended the due date for payment of the balance of the purchase price, including accrued interest thereon, from November 30, 2012 to March 31, 2013. The Company is currently accruing interest at 18% on the $250,000 balance due to Gemini. (Also see Disclosure Schedule 4.3(d)(xviii)).

(iv) Under the AIR Termination Agreement between the Company and Gemini, the Company acquired all additional investment rights ("AIR") of Gemini and Ascendiant under the Securities Purchase Agreement for the sum of $850,000, to be paid pursuant to the terms of a promissory note executed by the Company for the principal amount of $850,000. The promissory note is payable in two installments of $425,000 each, together with accrued interest thereon at the rate of 5% per annum, due on June 30, 2013 and September 30, 2013. If the payments are not made, the Company will owe 120% of the unpaid balance due plus interest.

(v) The Company's Amended and Restated Articles of Incorporation were filed with the Nevada Secretary of State on April 30, 2013.

DISCLOSURE SCHEDULE

4.12 – Title to Assets

Liens on Transtech Systems, Inc. Stock and Assets

As part of the Company's acquisition of 100% of the stock of TransTech Systems, Inc., the Company issued a Promissory Note on June 8, 2010 ("Note") to James Gingo, the President of TransTech, for the principal amount of $2,300,000, plus interest thereon at the rate of 3.5% per annum. The Note is secured by a security interest in all of the stock and assets of TransTech. In the event of the Company's default under the Note, Mr. Gingo is entitled to, among other things: (a) to register any or all of the TransTech stock in his name, and (b) to sell or otherwise dispose of the TransTech stock.

As of May 1, 2013, the principal balance on the Note is $1,000,000 and is due in full, together with accrued interest thereon on the earlier of (i) June 8, 2013, or (ii) the closing of $7,500,000 or more in aggregate financing (whether debt, equity or some combination thereof) by the Company.

BFI Finance Corp Secured Credit Facility

On December 9, 2008 TransTech entered into a $1,000,000 secured credit facility with BFI Finance Corp to fund its operations. The interest rate is prime + 2.5%, with a floor for prime interest of 5.5%. On December 12, 2012, the secured credit facility was renewed for 6 months, with a floor for Prime of 4.5%. The eligible borrowing is based on 80% of eligible trade accounts receivable, not to exceed $700,000, and 35% of inventory value, not to exceed $300,000, for a total cap of $1,000,000. As of March 31, 2013, the outstanding balance under this facility was $678,259. The secured credit facility is guaranteed by James Gingo, the President of TransTech through June 7, 2013. The Company is working to replace the personal guarantee with a corporate guarantee and to extend the term.

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

DISCLOSURE SCHEDULE

4.14 – Labor Matters

None other than as disclosed in the Company's SEC Filings.

DISCLOSURE SCHEDULE

4.17 – Litigation

None.

DISCLOSURE SCHEDULE

4.18 – Financial Statements

None other than as set forth in the financial statements of the Company included in its SEC Filings.

DISCLOSURE SCHEDULE

4.21 – Brokers and Finders

The following brokers and finders are entitled to receive fees as a result of the transactions contemplated by the Transaction Documents:

The Company agrees to pay the Placement Agent a $10,000 non-refundable retainer which shall be credited against accountable out of pocket expenses and legal fees, a 2% non-accountable expense allowance and a sales commission of 8% of the gross proceeds of the Offering (reduced to 4% for management and company referred investors) and a 4% solicitation fee upon exercise of the investor warrants. The Placement Agent may reallow a portion of the commission to participating selling agents.

In addition, the Company shall sell to the Placement Agent, for a total of $100, warrants to purchase shares of Common Stock ("Placement Agent's Warrants"). For each 10 Units sold, the Placement Agent will receive warrants to purchase two (2) shares, one of which will be exercisable at $0.10 per share and one of which will be exercisable at $0.15 per share, however the $0.15 Placement Agent Warrants shall issue only upon the exercise of the warrants by the Unit holders and then only ratably based upon the number of warrants exercised. The Placement Agent's Warrants will be exercisable until five years after the Final Closing. The Placement Agent's Warrants will contain a "cashless exercise" provision, piggy-back registration rights, and customary anti-dilution provisions (for stock splits and stock dividends). The Company shall set aside and at all times have available a sufficient number of shares of its common stock to be issued upon the exercise of the Placement Agent's Warrants.

DISCLOSURE SCHEDULE

4.26 – Transactions with Affiliates

Ronald P. Erickson and/or entities in which Mr. Erickson has a beneficial interest have made advances and loans to the Corporation in the total principal amount of Nine Hundred Sixty Thousand Dollars (USD $960,000) on or before the date hereof (the "Loans"). In addition, Mr. Erickson and/or entities in which Mr. Erickson has a beneficial interest also have unreimbursed expenses, unpaid salary and/or are owed interest on the outstanding principal amount of the Loans totaling in the aggregate approximately Sixty-Five Thousand Dollars (USD $65,000).

THIS NOTE AND THE SECURITIES ISSUABLE UPON THE CONVERSION HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED, OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT REGISTRATION IS NOT REQUIRED UNDER SUCH ACT OR UNLESS SOLD PURSUANT TO RULE 144 UNDER SUCH ACT.

Visualant, Inc.

AMENDED CONVERTIBLE PROMISSORY NOTE

April __, 2013 **USD $_____**

Visualant, Inc., a Nevada corporation (the "**Company**"), for value received, promises to pay to the order of _____, an _____ (the "**Holder**"), the principal sum of _____ U.S. Dollars ($_____) ("**Principal**"), plus accrued interest thereon, pursuant to the terms and conditions set forth herein.

The following is a statement of the rights of the Holder and the conditions to which this Note is subject, and to which the Holder, by the acceptance of this Note, agrees:

1. Definitions. As used in this Convertible Promissory Note ("**Note**"), the following terms, unless the context otherwise requires, have the following meanings:

1.1 "**Company**" means Visualant, Inc. and includes any corporation, partnership, limited liability company or other entity that succeeds to or assumes the obligations of the Company under this Note.

1.2 "**Holder**" means any person who is the registered holder of this Note.

2. Issuance of Principal, Interest & Conversion.

2.1 The unpaid Principal of this Note shall bear simple interest at the rate of seven percent (7%) per annum. Interest on this Note shall be computed on the basis of a three hundred sixty-five (365) day year and actual days elapsed.

2.2 The unpaid Principal of this Note and any accrued and unpaid interest thereon ("**Debt**") shall be immediately due and payable by the Company upon the earlier of (i) four years from the date of issuance of this Note (the "**Maturity Date**"), or (ii) conversion of the unpaid Principal of this Note (including all accrued and unpaid interest thereon), in whole but not in part, into shares of the Company's common stock at any time on or before the Maturity Date at a conversion price of ten cents (USD $0.10) per share (the "**Conversion Price**") in accordance with the terms of the April 15, 2013 Private Placement Memorandum;*provided, however,* that in no event shall the Holder be entitled to convert this Note until after the Company has effected an increase in the number of its authorized shares of common stock to 500,000,000 shares or more. The Company may repay this Note in full at any time without penalty or premium. The Company may, at its option, call the Note and require the conversion of all unpaid Principal and accrued interest on the Note if the shares of Company common stock into which this Note is convertible are registered, and the common stock of the Company closes above forty cents (USD $0.40) for five (5) consecutive trading days.

2.3 In the event of conversion, the Holder will surrender the original of this Note for conversion at the principal office of the Company at the time of such conversion. Holder agrees to execute all necessary documents in connection with the conversion of this Note, including a definitive stock purchase agreement. If upon such conversion of this Note a fraction of a share would result, then the Company will round up to the nearest whole share.

3. Issuance of Consideration on Conversion. As soon as practicable after receipt of the original Note and related documents for conversion pursuant to Section 2, but in no event later than five (5) business days therefrom, the Company at its expense will cause to be issued in the name of, and delivered to, the Holder, a certificate or certificates for the number of shares of common stock to which the Holder will be entitled on such conversion (bearing such legends as may be required by applicable state and federal securities laws in the opinion of legal counsel for the Company), together with any other securities and property, if any, to which the Holder is entitled on such conversion under the terms of this Note.

4. Adjustment Provisions. The number and character of shares of common stock issuable upon conversion of this Note and the Conversion Price therefor, are subject to adjustment upon occurrence of the following events:

4.1 **Adjustment for Stock Splits, Stock Dividends, Recapitalizations, etc**. The Conversion Price of this Note and the number of shares of common stock issuable upon conversion of this Note shall each be proportionally adjusted to reflect any stock dividend, stock split, reverse stock split, reclassification, recapitalization or other similar event affecting the number of outstanding shares of common stock.

4.2 **Adjustment for Reorganization, Consolidation, Merger**. In the event (a) of any reorganization of the Company, (b) the Company consolidates with or merges into another entity, (c) the Company sells all or substantially all of its assets to another entity and then distributes the proceeds to its shareholders, or (d) the Company issues or otherwise sells securities representing more than 50% of the voting power of the Company in a single transaction or series of related transactions immediately after giving effect to such transaction or series of related transaction (each of such events shall be referred to herein as a **"Liquidation Event"**), then, and in each such case, the Holder, upon the conversion of this Note at any time after the consummation of any Liquidation Event, shall be entitled to receive, in lieu of the common stock or other securities and property receivable upon the conversion of this Note prior to such consummation, the stock or other securities or property to which the Holder would have been entitled upon the consummation of such Liquidation Event if the Holder had converted this Note immediately prior thereto, all subject to further adjustment as provided in this Note, and the successor or purchasing entity in a Liquidation Event (if other than the Company) shall duly execute and deliver to the Holder a supplement hereto acknowledging such entity's obligations under this Note.

4.3 **No Change Necessary**. The form of this Note need not be changed because of any adjustment in the Conversion Price or in the number of shares of common stock issuable upon its conversion.

5. Representations and Acknowledgments of the Holder. The Holder hereby represents, warrants, acknowledges and agrees that:

5.1 **Investment**. The Holder is acquiring this Note and the securities issuable upon conversion of this Note (together, the "**Securities**") for the Holder's own account, and not directly or indirectly for the account of any other person. The Holder is acquiring the Securities for investment and not with a view to distribution or resale thereof except in compliance with Securities Act of 1933 (the "**Act**") and any applicable state law regulating securities.

5.2 **Access to Information**. The Holder has had the opportunity to ask questions of, and to receive answers from, appropriate executive officers of the Company with respect to the terms and conditions of the transactions contemplated hereby and with respect to the business, affairs, financial condition and results of operations of the Company. The Holder has had access to the Company's SEC filings and such financial and other information as is necessary in order for the Holder to make a fully informed decision as to investment in the Company, and has had the opportunity to obtain any additional information necessary to verify any of such information to which the Holder has had access.

5.3 **Accredited Investor**. The Holder is an "accredited investor" within the meaning of Regulation D of the rules and regulations promulgated under the Act and has such business or financial expertise as to be able to protect the Holder's own interests in connection with the purchase of the Securities.

5.4 **Speculative Investment**. The Holder's investment in the Company represented by the Securities is highly speculative in nature and is subject to a high degree of risk of loss in whole or in part; the amount of such investment is within the Holder's risk capital means and is not so great in relation to the Holder's total financial resources as would jeopardize the financial condition of the Holder in the event such investment were lost in whole or in part.

5.5 **Unregistered Securities**.

(a) The Holder must bear the economic risk of investment for an indefinite period of time because the Securities have not been registered under the Act and therefore cannot and will not be sold unless they are subsequently registered under the Act or an exemption from such registration is available. The Company has made no representations or covenants whatsoever as to whether any exemption from the Act, including, without limitation, any exemption for limited sales in routine brokers' transactions pursuant to Rule 144 under the Act, will become available.

(b) Transfer of the Securities has not been registered or qualified under any applicable state law regulating securities and therefore the Securities cannot and will not be sold unless they are subsequently registered or qualified under any such state law or an exemption therefrom is available. The Company has made no representations or covenants whatsoever as to whether any exemption from any such state law is or will become available.

6. Registration Rights.

6.1 Subject to the various provisions of this Section 6, including the restrictions and limitations set forth in Section 6.3 below, if at any time the Company proposes to register any of its Common Stock under the Act in connection with the public offering of such securities solely for cash on a form that would also permit the registration of the Common Stock issuable upon conversion of this Note, the Company shall promptly give Holder written notice of such intention, and the Company, subject to the provisions of this Section 6, shall use its best efforts to cause to be registered under the Act all of the shares of common stock issuable upon conversion of this Note.

6.2 In connection with any offering involving an underwriting of shares being issued by the Company as described in Paragraph 6.1 above, the Company shall not be required under Paragraph 6.1 hereof to include the shares into which Holder's Note is then convertible in such underwriting unless Holder accepts the terms of the underwriting as agreed upon between the Company and the underwriters selected by it, and then only in such quantity as will not, in the written opinion of the underwriters, jeopardize the success of the offering by the Company. If the total number of shares into which this Note is convertible are to be included in such offering and such total number is an amount of securities that the underwriters state in their written opinion jeopardizes the success of the offering, the Company shall only be required to include in the offering so many of the shares as the underwriters opine (in writing) will not jeopardize the success of the offering, subject to the following provisions and exceptions:

(a) Except as provided in Paragraph 6.2(b) below, all limitations on the number of shares to be included in the applicable underwriting shall be *pro rata* with respect to the number of shares reserved for issuance pursuant to a conversion of all outstanding Notes having the same rights as the Holder of this Note. If Holder disapproves of the terms of any such underwriting, it may elect to withdraw therefrom by written notice to the Company and the underwriter, and any shares excluded or withdrawn from such underwriting shall be withdrawn from registration.

(b) (i) If Directors and Officers of the Company elect to include any shares of Common Stock held by them in any registration effected by the Company as described in Paragraph 6.1 hereof, then such shares, subject to the underwriter's opinion and percentage limitations described herein, shall be considered entitled to "piggyback registration" rights under Section 6.2 hereof, and (ii) if the underwriter for an underwriting contemplated under Section 6.1 hereof determines that marketing factors permit the registration of securities other than those offered for the Company's account in such underwriting ("Piggybacked Securities"), the registration rights granted elsewhere herein to the Holder shall apply to such number of the registrable securities requested to be registered by such Directors and Officers.

(c) In connection with the preparation and filing of the Registration Statement, the Company agrees to (i) use its best efforts to cause such Registration Statement to become and remain effective until the Termination Date; (ii) prepare and file with the SEC such amendments and supplements to such Registration Statement as may be necessary to keep such Registration Statement effective until the Termination Date; (iii) furnish to the Holder such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act of 1933, as amended (the "Act"), and such other documents as Holder may reasonably request in order to facilitate the disposition of the shares of Common Stock; and (iv) use its best efforts to register and qualify the shares of Common Stock covered by such Registration Statement under such other securities or Blue Sky laws of such jurisdictions as shall be identified by the Note holders for the distribution of the securities covered by the Registration Statement.

(d) All expenses incurred in connection with the registration, offering and distribution of the shares of Common Stock underlying this Note, including fees and disbursements of counsel, shall be borne by the Company, including, without limitation, Securities and Exchange Commission filing fees, Blue Sky filing fees, printing costs, accounting fees costs, transfer agent fees, and any other miscellaneous costs and disbursements. Each Holder participating in the Registration shall be liable for any and all underwriting discounts, brokerage commissions or other fees or expenses incurred in connection with the sale or other disposition by Holder of the shares of Common Stock covered by the Registration Statement.

(e) To the extent permitted by law, Holder will indemnify and hold harmless the Company, and its directors, officers, employees, agents and representatives, as well as its controlling persons (within the meaning of the Act) against any losses, claims, damages, liabilities, or expenses, including without limitation, attorney's fees and disbursements, which arise out of or are based upon any violation by Holder of the Act or under the Securities Exchange Act of 1934, or any rule or regulation promulgated thereunder applicable to Holder, or arise out of or are based upon any untrue statement or omission of Holder in the Subscription Agreement between the Company and Holder, or arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, but only to the extent that such untrue statement or alleged untrue statement or omission, or alleged omission was made in such Registration Statement in reliance upon and in conformity with information furnished by Holder in writing, expressly for use in connection with such Registration Statement.

(f) To the extent permitted by law, the Company will indemnify and hold harmless Holder, including its officers, directors, employees, agents, and representatives, against any losses, claims, damages, liabilities, or expenses, including without limitation attorney's fees and disbursements, to which Holder may become subject under the Act to the extent that such losses, claims, damages or liabilities arise out of or are based upon any violation by the Company of the Act or under the Securities Exchange Act of 1934, or any rule or regulation promulgated thereunder applicable to the Company, or arise out of or are based upon any untrue or alleged untrue statement of any material fact contained in the Registration Statement, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or arise out of any violation by the Company of any rule or regulation promulgated under the Act applicable to the Company and relating to action or inaction required of the Company in connection with such Registration Statement; provided, however, that the indemnity agreement contained in this paragraph shall not apply to any loss, damage or liability to the extent that same arises out of or is based upon an untrue statement or omission made in connection with such Registration Statement in reliance upon and in conformity with information furnished in writing expressly for use in connection with such Registration Statement by Holder.

(g) Holder undertakes to comply with all applicable laws governing the distribution of securities in connection with Holder's sale of Common Stock of the Company acquired pursuant to the conversion of this Note, including, without limitation, Regulation M under the Securities Exchange Act of 1934, and to notify the Company of any changes in Holder's plan of distribution, including the determination of the public offering price and any dealer concession or discount so that the Company can sticker or amend the Registration Statement as the Company deems appropriate in its sole discretion.

6.3 Notwithstanding the provisions of Sections 6.1 and 6.2 above, the Holder of this Note: (a) shall not be entitled to any "piggyback registration" rights with respect to any registration by the Company of any or all of the registrable securities issued to investors in the Company's May 2013 Unit Offering (consisting of common stock and warrants) of up to USD $7,500,000 (the "May Unit Offering"), and (b) shall not be entitled to have any of the shares of common stock into which the Holder's Note may be converted included in any Registration Statement of the Company until such time as all of the registrable securities in the May Unit Offering have either been registered or no longer constitute registrable securities.

7. Miscellaneous.

7.1 **Waiver and Amendment**. Any provision of this Note may be amended, waived or modified only upon the written consent of the Company and the Holder.

7.2 **Restrictions on Transfer**. This Note may only be transferred in compliance with applicable state and federal laws. All rights and obligations of the Company and the Holder will be binding upon and benefit the successors, assigns, heirs, and administrators of the parties.

7.3 **Company Representation**. The Company represents to the Holder that the Company is a corporation duly organized, validly existing, authorized to exercise all its corporate powers, rights and privileges, and in good standing in the State of Nevada and has the corporate power and corporate authority to own and operate its properties and to carry on its business as now conducted; all corporate action on the part of the Company, its officers, directors, and shareholders necessary for the authorization, execution, delivery, and performance of all obligations under this Note have been taken; this Note constitutes a legally binding and valid obligation of the Company enforceable in accordance with its terms, except to the extent that such enforcement may be subject to applicable bankruptcy, insolvency, reorganization, arrangement, moratorium, fraudulent conveyance or other laws or court decisions relating to or affecting the rights of creditors generally, and such enforcement may be limited by equitable principles of general applicability.

7.4 **Governing Law**. This Note will be governed by the laws of the State of Nevada.

7.5 **Notices**. Any notices, consents, waivers or other communications required or permitted to be given under the terms hereof must be in writing and will be deemed to have been delivered: (i) upon receipt, when delivered personally; (ii) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party) or electronic mail; or (iii) one (1) trading day after deposit with a nationally recognized overnight delivery service, in each case properly addressed to the party to receive the same.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this Note to be issued as of the date first above written.

Visualant, Inc.
a Nevada corporation

By: /s/ Ron Erickson
Ron Erickson
Chief Executive Officer

Agreed and Accepted by the Holder:

By: _____

Exhibit 10.45

GENERAL CONTINUING GUARANTY

June 12, 2013

BFI Business Finance
851 East Hamilton Avenue, 2nd Floor
Campbell, California 95008

To: BFI Business Finance

For good and valuable consideration, and in order to induce **BFI Business Finance**, a California corporation ("Lender"), to extend and/or continue to extend financial accommodations to **TransTech Systems, Inc., a(n) Oregon corporation** ("Borrower"), pursuant to the terms and conditions of that certain **Loan and Security Agreement** and/or promissory note (individually and collectively, the "Agreement"), **dated December 9, 2008**, evidencing and otherwise relating to a loan by Lender to Borrower in the **original principal amount of One Million and 00/100 Dollars ($1,000,000.00)** (the "Loan"), or pursuant to any other present or future agreement between Lender and Borrower, and in consideration thereof, and in consideration of any loans, advances, or financial accommodations heretofore or hereafter granted by Lender to or for the account of Borrower, whether pursuant to the Agreement, or otherwise, **VISUALANT, INCORPORATED , a(n) Nevada corporation** ("Guarantor"), whose address is **500 Union Street, Suite 420, Seattle, Washington 98101**, hereby, jointly and severally, guarantees, promises and undertakes as follows:

1. Guarantor unconditionally, absolutely and irrevocably guarantees and promises to pay to Lender, or order, on demand, in lawful money of the United States, any and all indebtedness and/or obligations of Borrower to Lender and the payment to Lender of all sums which may be presently due and owing and of all sums which shall in the future become due and owing to Lender from Borrower whether under the Agreement or otherwise. The terms "indebtedness" and "obligations" (hereinafter collectively referred to as the "Obligations") are used herein in their most comprehensive sense and include, without limitation, the Loan and any and all advances, debts, obligations, and liabilities of Borrower, heretofore, now, or hereafter made, incurred, or created, whether voluntarily or involuntarily, and however arising, including, without limitation, a) indebtedness owing by Borrower to third parties who have granted Lender a security interest in the accounts, chattel paper and/or general intangibles of said third party; b) any and all attorneys' fees, expenses, costs, premiums, charges and/or interest owed by Borrower to Lender, whether under the Agreement, or otherwise, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, whether Borrower may be liable individually or jointly with others, whether recovery upon such indebtedness may be or hereafter becomes barred by any statute of limitations or whether such indebtedness may be or hereafter becomes otherwise unenforceable, and includes Borrower's prompt, full and faithful performance, observance and discharge or each and every term, condition, agreement, representation, warranty undertaking and provision to be performed by Borrower under the Agreement; c) any and all obligations or liabilities of Borrower to Lender arising out of any other agreement by Borrower including without limitation any agreement to indemnify Lender for environmental liability or to clean up hazardous waste; d) any and all indebtedness, obligations or liabilities for which Borrower would otherwise be liable to Lender were it not for the invalidity, irregularity or unenforceability of them by reason of any bankruptcy, insolvency or other law or order of any kind, including from and after the filing by or against Borrower of a bankruptcy petition, whether an involuntary or voluntary bankruptcy case, and all attorneys' fees related thereto; and e) any and all amendments, modifications, renewals and/or extensions of any of the above, including without limit amendments, modifications, renewals and/or extensions which are evidenced by new or additional instruments, documents or agreements.

2. This General Continuing Guaranty, together with all addenda, exhibits and schedules hereto, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated, or replaced, (this "Guaranty") is a continuing guaranty that shall remain effective until all of the Obligations and all of the indebtedness and obligations evidenced by the Agreement have been fully and finally paid and are not longer subject to Borrower as a debtor-in-possession, and/or any trustee or receiver in bankruptcy, seeking to set aside such payments or seek to recoup the amount of such payments, or any part thereof or disgorgement on the part of the Lender, and relates to any Obligations, including those which arise under successive transactions which shall either continue the Obligations from time to time or renew them after they have been satisfied until this Guaranty has been expressly terminated in writing by Lender. Any such termination f) shall be applicable only with respect to Obligations incurred at least thirty (30) days after written notice to Lender specifying such termination, g) shall be effective only with respect to transactions having their inception after the effective date of termination, and h) shall not affect the Loan or any rights or obligations arising out of transactions having their inception prior to such date. No termination shall be effective until such time as Lender is no longer committed or otherwise obligated to make the Loan or any other loans or advances, or to grant any credit whatsoever to Borrower. In the absence of any termination of this Guaranty, Guarantor agrees that nothing shall discharge or satisfy its obligations created hereunder except for the full payment and performance of the Obligations with interest.

3. Guarantor agrees that it is directly and primarily liable to Lender, that the obligations hereunder are independent of the obligations of Borrower, and that a separate action or actions may be brought and prosecuted against Guarantor irrespective of whether Borrower or any other party liable for the Obligations, whether directly or as a guarantor, is joined in any such action or actions. Guarantor agrees that any releases which may be given by Lender to Borrower or any other guarantor or endorser shall not release it from this Guaranty.

4. In the event that any bankruptcy, insolvency, receivership or similar proceeding is instituted by or against Guarantor and/or Borrower or in the event that either Guarantor or Borrower become insolvent, make an assignment for the benefit of creditors, or attempt to effect a composition with creditors, or if there be any default under the Agreement (whether declared or not), then, at Lender's election, without notice or demand, the obligations of Guarantor created hereunder shall become due, payable and enforceable against Guarantor whether or not the Obligations are then due and payable.

5. Guarantor agrees to indemnify Lender and hold Lender harmless against all obligations, demands, claims, liens, damages, actions, suits, judgments, costs and expenses, including, without limitation, attorneys' fees (including, without limitation, estimated legal fees imputed to in-house counsel and staff), and legal costs, and liabilities, by whomsoever asserted and against all losses in any way suffered, incurred, or paid by Lender as a result of or in any way arising out of, following, or consequential to transactions with Borrower whether under the Agreement, or otherwise, and also agrees that this Guaranty shall not be impaired by any modification, supplement, extension, or amendment of any contract or agreement to which Lender and Borrower may hereafter agree, nor by any modification, release, or other alteration of any of the Obligations hereby guaranteed or of any security therefor, nor by any agreements or arrangements whatsoever with Borrower or anyone else.

6. Guarantor hereby authorizes Lender, without notice or demand and without affecting its liability hereunder, from time to time to: 2) renew, compromise, extend, accelerate, or otherwise change the interest rate, time for payment, or the other terms of any of the Obligations guaranteed hereby, and exchange, enforce, waive, and release any security therefor; 3) apply such security and direct the order or manner of sale thereof as Lender in its discretion may determine; 4) 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 Guarantor during the term of this Guaranty and hereby authorizes Lender to run such credit and other reports from time to time as Lender deems appropriate; 5) release or substitute any one or more endorser(s) or guarantor(s); and 6) assign, without notice, this Guaranty in whole or in part and/or Lender's rights hereunder to anyone at any time. Guarantor agrees that Lender may do any or all of the foregoing in such manner, upon such terms, and at such times as Lender, in its discretion, deems advisable, without, in any way or respect, impairing, affecting, reducing or releasing Guarantor from its undertakings hereunder and Guarantor hereby consents to each and all of the foregoing acts, events and/or occurrences. Guarantor hereby agrees to be bound by any terms and conditions set forth in the Agreement, which are specifically applicable to Guarantor.

7. Guarantor hereby waives any right to assert against Lender as a defense, counterclaim, set-off or crossclaim, any defense (legal or equitable), set-off, counterclaim, and/or claim which Guarantor may now or at any time hereafter have against Borrower and/or any other party liable to Lender in any way or manner.

8. Guarantor hereby waives all defenses, counterclaims and/off-sets of any kind or nature, arising directly or indirectly from the present or future lack of perfection, sufficiency, validity and/or enforceability of the Agreement, or any security interest.

9. Guarantor hereby waives any defense arising by reason of any claim or defense based upon an election of remedies by Lender, which, in any manner impairs, affects, reduces, releases, destroys and/or extinguishes Guarantor's subrogation rights, rights to proceed against Borrower for reimbursement, and/or any rights of Guarantor to proceed against Borrower or against any other person or security, including, but not limited to, any defense based upon an election of remedies by Lender under any law of any applicable state or of the United States. Guarantor waives all presentments, demands for performance, notices of non-performance, protests, notices of protest, notices of dishonor, notices of default, notices of acceptance of this Guaranty, and notices of the existence, creation, or incurring of new or additional indebtedness, and all other notices or formalities to which Guarantor may be entitled. Guarantor waives any right to a jury trial in any action hereunder or arising out of Lender's transactions with Borrower. Guarantor also hereby waives any right of subrogation it may have or assert, or any other right of reimbursement from Borrower or any other party, unless Lender expressly consents to Guarantor's assertion of such rights.

10. Guarantor waives all presentments, demands for performance, notices of non-performance, protests, notices of protest, notices of dishonor, notices of default, notices of intent to accelerate or demand payment of any kind, diligence in collecting any Obligations, notices of acceptance of this Guaranty, notices of the existence, creation, or incurring of new or additional indebtedness, notices respecting the terms, time and place of any public or private sale of personal property security held from Borrower or any other person, and all other notices or formalities to which Guarantor may be entitled. Each Guarantor hereby waives any claim, right or remedy now existing or hereafter acquired against the Borrower, which claims arise from the performance of such Guarantor's obligations under the respective guaranties, including without limitation, any right of subrogation, reimbursement, exoneration, contribution, indemnification or participation in any claim, right or remedy against Borrower for any security which Lender now has or hereafter acquires, whether or not such claim, right or remedy arises in equity, under contract, by statute, under common law or otherwise. Lender may modify the terms of any Obligations, compromise, extend, increase, accelerate, renew or forbear to enforce payment of any or all Obligations, or permit Borrower to incur additional Obligations, all without notice to Guarantor and without affecting in any manner the unconditional obligation of Guarantor under this Guaranty. Guarantor further waives any and all other notices to which Guarantor might otherwise be entitled. Guarantor acknowledges and agrees that the liabilities created by this Guaranty are direct and are not conditioned upon pursuit by Lender of any remedy Lender may have against Borrower or any other person or any security. No invalidity, irregularity or unenforceability of any part or all of the Obligations or any documents evidencing the same, by reason of any bankruptcy, insolvency or other law or order of any kind or for any other reason, and no defense or setoff available at any time to Borrower, shall impair, affect or be a defense or setoff to the obligations of Guarantor under this Guaranty.

11. Any and all present and future debts and obligations of Borrower to Guarantor are hereby postponed in favor of and subordinated to the full payment and performance of all present and future debts and obligations of Borrower to Lender. All monies or other property of Guarantor at any time in Lender's possession may be held by Lender as security for any and all obligations of Guarantor to Lender no matter how or when arising, whether absolute or contingent, whether due or to become due, and whether under this Guaranty or otherwise. Guarantor also agrees that Lender's books and records showing the account between Lender and Borrower shall be admissible in any action or proceeding and shall be binding upon Guarantor for the purpose of establishing the terms set forth therein and shall constitute prima facie proof thereof.

12. Based solely on its own independent investigation and not upon any information provided by Lender, Guarantor acknowledges that it is presently informed of the financial condition of Borrower and of all other circumstances which a diligent inquiry would reveal and which bear upon the risk of nonpayment of the Obligations. Guarantor hereby covenants that it will continue to keep itself informed of Borrower's financial condition and of all other circumstances which bear upon the risk of nonpayment. Absent a written request for such information by Guarantor to Lender, Guarantor hereby waives its rights, if any, to require the disclosure of, and Lender is relieved of any obligation or duty to disclose to Guarantor, any information which Lender may now or hereafter acquire concerning such condition or circumstances. Guarantor agrees that it is not relying upon nor expecting Lender to disclose to Guarantor 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 co-guarantor of the Obligations, the occurrence of any default with respect to the Obligations, or otherwise, notwithstanding any effect these facts may have upon Guarantor's risk under this Guaranty or Guarantor's rights against Borrower. Guarantor knowingly accepts the full range of risk encompassed in this Guaranty, which risk includes without limit the possibility that Borrower may incur Obligations to Lender after the financial condition of Borrower, or its ability to pay its debts as they mature, has deteriorated.

13. Notwithstanding any prior revocation, termination, surrender or discharge of this Guaranty (or of any lien, pledge or security interest securing this Guaranty) in whole or part, and of all liens, pledges and security interests securing this Guaranty, this Guaranty shall continue in full force and effect until Borrower's Obligations are fully paid, performed and discharged and Lender gives Guarantor written notice of that fact. Borrower's Obligations shall not be considered fully paid, performed and discharged unless and until all payments by Borrower to Lender are no longer subject to any right on the part of any person whomsoever including but not limited to Borrower, Borrower as a debtor-in-possession, and/or any trustee or receiver in bankruptcy, to set aside such payments or seek to recoup the amount of such payments, or any part thereof. In the event that any such payments by Borrower to Lender are set aside after the making thereof, in whole or in part, or settled without litigation, to the extent of such settlement, all of which is within Lender's discretion, Guarantor shall be liable for the full amount Lender is required to repay plus costs, interest, attorneys' fees and any and all expenses which Lender paid or incurred in connection therewith. The foregoing shall include, by way of example and not by way of limitation, all rights to recover preferences voidable under the United States Bankruptcy Code and any liability imposed, or sought to be imposed, against Lender relating to the environmental condition of, or the presence of hazardous or toxic substances on, in or about, any property given as collateral to Lender by Borrower. For purposes of this Guaranty, "environmental condition" includes, without limitation, conditions existing with respect to the surface or ground water, drinking water supply, land surface or subsurface and the air; and "hazardous or toxic substances" shall include all substances now or subsequently determined by any federal, state or local authority to be hazardous or toxic, or otherwise regulated by any of these authorities.

14. This Guaranty shall be binding upon the successors and assigns of Guarantor and shall inure to the benefit of Lender's successors and assigns. However, Borrower and Guarantor may not assign this Guaranty or any rights hereunder without Lender’s prior written consent and any prohibited assignment shall be absolutely void. Neither an unconsented assignment nor an assignment consented to by Lender shall release Guarantor of any Obligation or indebtedness hereunder. Lender reserves the right to sell, assign, transfer, negotiate, or grant participations in all or any part of, or any interest in, Lender’s rights and benefits under this Guaranty and each of the related documents executed herewith or hereafter with Guarantor acknowledging and agreeing to same, and with Guarantor further acknowledging and agreeing that all of its Obligations owing to Lender under this Guaranty and any related documents executed herewith or hereafter shall be owing to such purchaser, assignee, transferee, participant or other successor party. In connection therewith, Lender may disclose all documents and information which Lender now has or may hereafter acquire relating to Guarantor or the business of Guarantor, or any Collateral required hereunder. Any waiver of any rights under this Guaranty or under any other agreement, instrument, or paper signed by Guarantor is neither valid nor effective unless made in writing and signed by Lender. No delay or omission on the part of the Lender in exercising any right shall operate as a waiver thereof or of any other right. If Guarantor is a natural person, the death of Guarantor shall not terminate this Guaranty. If Guarantor is a partnership or an unincorporated association, Guarantor's rights and liability shall not be affected by any changes in the name of the entity or its membership.

15. All notices, demands and other communications which Guarantor or Lender may desire, or may be required, to give to the other shall be in writing and shall be sent via registered or certified mail, nationally recognized overnight courier, or personally delivered and shall be addressed to the party at the addresses set forth in the preamble of this Guaranty. Any such notice, demand or communication shall be deemed given when received if personally delivered or sent by overnight courier, or deposited in the United States mail, postage prepaid, if sent by registered or certified mail. The address of either Guarantor or Lender may be changed by notice given in accordance with this paragraph.

16. This is an integrated agreement and is the sole and final agreement with respect to the subject matter hereof, and supersedes all prior negotiations and agreements. No modification of this Guaranty shall be effective for any purpose unless it is in writing and executed by an officer of Lender authorized to do so.

17. Guarantor agrees to pay all attorneys' fees and all other costs and out-of-pocket expenses (including, without limitation, estimated legal fees imputed to in-house counsel and staff) which may be incurred by Lender in the enforcement of this Guaranty or in any way arising out of, following, or consequential to the enforcement of Borrower's Obligations, whether under this Guaranty, the Agreement, or otherwise, including without limitation the prosecution or defense of 7) motions or actions for relief from any stay under the Bankruptcy Code, 8) motions to deny dischargeability of any debt under the Bankruptcy Code, 9) motions to grant or deny use of cash collateral or extend financing, 10) motions to challenge or assert preference liability motions or fraudulent transfer liability motions, and 11) all other motions brought by Borrower, Guarantor, Lender or third parties in any way relating to Lender's rights with respect to such Borrower, Guarantor, or third party and/or affecting any collateral securing any obligation owed to Lender by Borrower, Guarantor, or any third party, or probate proceedings.

18. In all cases where the word "Guarantor" is used in this Guaranty, it shall mean and apply equally to each of and all of the individuals and/or entities which have executed this Guaranty. If any Obligation is guaranteed by two or more guarantors, the obligation of Guarantor shall be several and also joint, each with all and also each with any one or more of the others, and may be enforced at the option of Lender against each severally, any two or more jointly, or some severally and some jointly. The term "Borrower" includes any debtor-in-possession or trustee in bankruptcy which succeeds to the interests of Borrower.

19. This Guaranty or other guaranty related documents may be signed in any number of counterparts, each of which shall be an original, with the same effect as if all signatures were upon the same instrument. This Guaranty or other guaranty related documents, or a signature page thereto intended to be attached to a copy of this Guaranty or other guaranty related documents, signed and transmitted by facsimile machine, telecopier or other electronic means (including via transmittal of a “pdf” file) shall be deemed and treated as an original document. The signature of any person thereon, for purposes hereof, is to be considered as an original signature, and the document transmitted is to be considered to have the same binding effect as an original signature on an original document. At the request of any party hereto, any facsimile, telecopy or other electronic document is to be re-executed in original form by the persons who executed the facsimile, telecopy of other electronic document. No party hereto may raise the use of a facsimile machine, telecopier, or other electronic means or the fact that any signature was transmitted through the use of a facsimile machine, telecopier, or other electronic means as a defense to the enforcement of this Guaranty or other guaranty related documents.

20. All acts and transactions hereunder and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of Oregon, without regard to choice of law principles. The parties hereby agree that (a) this Actions or proceedings arising in connection with this Guaranty shall be tried 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 with appropriate jurisdiction in which Lender shall initiate legal or equitable proceedings and which has subject matter jurisdiction. Guarantor hereby waives the right to object to such venue or to assert that such venue is not convenient. Guaranty is entered into and that Guarantor’s performance to Lender occurs at Campbell, California; and (b) all actions or proceedings arising in connection with this Guaranty and/or the Agreement shall be tried and litigated only in the State and Federal courts located in the County of Santa Clara, State of California 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 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.

GUARANTOR ACKNOWLEDGES THAT THE RIGHT TO TRIAL BY JURY IS A CONSTITUTIONAL RIGHT, BUT THAT IT MAY BE WAIVED. AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF THEIR CHOICE, GUARANTOR AND LENDER KNOWINGLY AND VOLUNTARILY, AND FOR THEIR MUTUAL BENEFIT, WAIVE ANY RIGHT TO TRIAL BY JURY IN THE EVENT OF LITIGATION REGARDING THE PERFORMANCE OR ENFORCEMENT OF, OR IN ANY WAY RELATED TO, THIS GUARANTY OR THE OBLIGATIONS.

GUARANTOR ACKNOWLEDGES THAT GUARANTOR HAS HAD THE OPPORTUNITY TO READ AND REVIEW WITH GUARANTOR'S COUNSEL THIS GUARANTY AND GUARANTOR ACKNOWLEDGES HAVING READ AND UNDERSTOOD THE MEANING AND EFFECT OF THIS DOCUMENT BEFORE SIGNING IT.

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

IN WITNESS WHEREOF, the undersigned has/have executed this Guaranty as of the date set forth above.

VISUALANT, INCORPORATED

/s/ Mark Scott

By: Mark E. Scott
Title: Secretary

LOAN AND SECURITY AGREEMENT
(Accounts Receivable & Inventory Line of Credit)

This **Loan and Security Agreement (Accounts Receivable & Inventory Line of Credit)**, is entered into as of **December 9, 2008**, by and between **BFI Business Finance**, a California corporation ("Lender"), with its headquarters' office located at **851 East Hamilton Avenue, 2 nd Floor, Campbell, California 95008** and **TransTech Systems, Inc.** ("Borrower"), a(n) **Oregon corporation**, with its headquarters at its Chief Executive Office as defined herein.

RECITALS

A. Borrower has requested Lender to make loans to Borrower for business purposes.

B. Lender is willing to make such loans to Borrower, on the terms and conditions set forth in this Agreement, and Borrower agrees to make the payments required by this Agreement and to comply with the other terms and conditions of this Agreement.

AGREEMENT

For good and valuable consideration, receipt of which is hereby acknowledged, the parties agree as set forth below.

1. Definitions and Construction.

1.1. Definitions. As used in this Agreement, the following terms shall have the following definitions:

"Accounting Period" has the meaning given in Section 9.4 hereof.

"Account Debtor" means a person obligated on an Account, Chattel Paper, or General Intangible.

"Accounts" means all currently existing and hereafter arising accounts as defined in the Code, as such definition may be changed 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.

"Addendum" means that certain **Addendum A** or **Addendum B** hereto, if applicable.

"Additional Locations" means that or those physical locations, other than Borrower's Chief Executive Office, including but not limited to additional business offices, warehouses, other storage facilities, both public and non-public, or the like, where Borrower operates its business and/or stores collateral, more specifically set forth below.
----------n/a----------

"Advance(s)" has the meaning given in Section 2.1.1 hereof.

"Administrative Fee" has the meaning given in Section 2.2.10 hereof.

"Affiliate" means, when used with respect to any Person, any other Person which, directly or indirectly, controls or is controlled by or is under common control with such Person. For purposes of this definition, "control" (including the correlative meanings of the terms "controlled by" and "under common control with"), with respect to any Person, shall mean possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

"Agreement" means this Loan and Security Agreement (Accounts Receivable & Inventory Line of Credit) together with all addenda, exhibits and schedules hereto, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated, or replaced.

"Allowable Amount" means the lesser of the Borrowing Base and the Maximum Amount.

"A/R Borrowing Base" has the meaning set forth in the definition of Borrowing Base.

"Audit Fees" has the meaning set forth in Section 2.2.12 hereof.

"Authenticate" has the meaning given in the Code, as such definition may be amended from time to time, which means to sign, execute, or otherwise adopt a symbol, or encrypt or similarly process a record in whole or in part, with the present intention of the authenticating person to identify the person and adopt or accept a record.

Authorized Officer" means any officer or employee of Borrower as set forth in that certain Signature Authorization of even date herewith, as it may be amended from time to time.

"Average Daily Balance" means the average of the Daily Balance, which shall be calculated for purposes of calculating interest that no payment made by check or other means, including without limitation wire transfer, ACH transfer, credit card payment or any other means shall be deemed to be made until **three (- 3 -) Business Days** after receipt by Lender of such payments to allow for clearance thereof, as provided in Section 3.4 hereof; provided however, that all payments when received shall be given provisional credit for purposes of determining availability of Advances under the Agreement.

"Bankruptcy Code" means Title 11 of the United States Code, as amended and any successor statute.

"Basic Term" has the meaning set forth in Section 6.1 hereof.

"Borrower" has the meaning set forth in the preamble to this Agreement, individually and collectively.

"Borrower's Books" means all of Borrower's books and records including without limitation ledgers, records indicating, summarizing, or evidencing Borrower's properties or assets (including, without limitation, the Collateral) or liabilities, all information relating to Borrower'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.

"Borrower's Credit Policy" means that written credit policy that has been provided by Borrower to Lender prior to the Closing Date, which Lender acknowledges to be acceptable to Lender as of the date hereof.

"Borrowing Base" means the sum of the following:

(a.) **eighty percent (80 %)** of the Net Face Amount of Prime Accounts, but in any event not in an aggregate amount in excess of the Maximum Account Advance (the "A/R Borrowing Base"); plus

(b.) **----------n/a----------percent (----------n/a---------%)** of the Current Market Cost of raw materials that constitute Eligible Inventory; plus **thirty-five percent (35%)** of the Current Market Cost of finished goods that constitute Eligible Inventory, but in any event not in an aggregate amount in excess of the Maximum Inventory Advance (the "Inventory Borrowing Base").

"Business Day" means any day that is not a Saturday, Sunday, or other day on which California state or national banks are authorized or required to be closed.

"CERCLA" has the meaning given in the definition of Environmental Laws.

"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 record or records that evidence both (a.) 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" means Borrower's sole place of business (if it has only one), chief executive office (if it has more than one place of business) or residence (if an individual) which is located at **12142 NE Sky Lane, Suite 130, Aurora, Oregon 97002-8730**.

"Clearance Days" has the meaning given in Section 3.4 hereof.

"Closing Date" means the date of the initial advance hereunder.

"Code" or "UCC" means the ORS Chapter 79, the Oregon Uniform Commercial Code, or any successor statute in effect in the state of California, as amended and/or re-numbered from time to time, which is also known as the UCC.

"Collateral" means all of the personal property and Trade Fixtures now owned or hereafter acquired by Borrower 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, Software, and all rights in and to domain names in whatever form, and all derivative URLs; (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 Borrower; (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.

Notwithstanding any contrary term of this Agreement, Collateral shall not include any waste or other materials that have been or may be designated as toxic or hazardous.

Collateral Account" has the meaning give in Section 3.8.2 hereof.

"Collateral Control Account" has the meaning given in Section 3.8.3 hereof.

"Collateral State" has the meaning given in Section 9.14 hereof.

"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, 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.

"Cumulative Minimum Annual Interest Payment" has the meaning given in Section 2.2.2 hereof.

"Current Market Cost" means, as determined by Lender in good faith, the lower of (a.) cost of Inventory, computed on a first-in-first-out basis in accordance with GAAP; or (b.) market value of Inventory.

"Daily Balance" means the principal amount of any Obligations owed at the end of a given day.

"Deemed Prime Rate" has the meaning given in the definition of Prime Rate.

"Default Rate" has the meaning given in Section 2.2.4 hereof.

"Delinquent Accounts" means Accounts that remain uncollected for more than ninety (90) days from the invoice date.

"Deposits" means the Good Faith Deposit and the Documentation Fee/Legal Deposit as further described in Section 2.2.11 hereof and any other deposit that Lender may require on a case by case basis.

"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.

"Dilution Rate" means the percentage rate at which Borrower's Prime Accounts are subject to reduction due to credits, returns, and allowances.

"Documentation Fee/Legal Deposit" has the meaning set forth in Section 2.2.11.2 hereof.

"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.

"Eligible Inventory" means Inventory that meets all of the following criteria:

(a.) Inventory acceptable to Lender, in its Sole Discretion, for lending purposes;

(b.) Inventory held for sale or lease in the ordinary course of Borrower's business;

(c.) Inventory located at Borrower's Chief Executive Office or Additional Locations; provided, however, that if any such location is owned by a party other than Borrower, Lender shall have obtained from the owner thereof an agreement relative to Lender's rights with respect to such Inventory, in form and content satisfactory to Lender;

(d.) Inventory in which Lender has a first priority, perfected Security Interest under the laws of the United States or a state;

(e.) Inventory not subject to a Security Interest, lien, or other encumbrance in favor of any other Person, except for Permitted Liens;

(f.) Inventory of good and merchantable quality that is free from defect and that is not slow moving, obsolete, returned, perishable, or manufactured under a license agreement unless the licensor (if other than Borrower) has entered into an agreement in form and content reasonably acceptable to Lender;

(g.) Inventory owned and in the lawful possession of Borrower;

(h.) Inventory which does not consist of packaging and shipping materials; and

(i.) Inventory that does not consist of supplies used or consumed in Borrower's business or work-in-process.

General criteria for Eligible Inventory may be established and revised from time to time by Lender in good faith. Any Inventory that is not Eligible Inventory shall nevertheless be part of the Collateral.

Environmental Laws" means all federal, state, local and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or other governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or hazardous substances or wastes into the environment, including ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals, or industrial, toxic or hazardous substances or wastes or the clean-up or other remediation thereof, including without limitation 42 U.S.C. §9601 (14), of the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), as amended by the Superfund Amendments and Reauthorization Act of 1986 set forth at 42 U.S.C. §9601 et seq. ("SARA"), or the Resource Conservation and Recovery Act of 1976 set forth at 42 U.S.C. §9601 et seq. ("RCRA") and all successor statutes and amendments thereto.

"EPA" means the United States Environmental Protection Agency.

"Equipment" means all of Borrower'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.

"ERISA" has the meaning given in Section 9.20 hereof.

"Event of Default" or "Material Event of Default" means those events described in Section 11 hereof.

"FEIN" has the meaning given in Section 8.1.15 hereof.

"Financial Assets" has the meaning given in the Code, as such definitions 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.

"GAAP" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and pronouncements of the Financial Accounting Standards Board (or any successor authority) that are applicable as of the date of determination.

"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.

"Good Faith Deposit" has the meaning set forth in Section 2.2.11.1 hereof.

"Guarantor" means, individually and collectively, **James M. Gingo**.

"Guaranty" means that (a.) certain General Continuing Guaranty or those certain General Continuing Guaranties signed by Guarantor concurrently with the execution of this Agreement and the Loan Documents and/or the Term Loan Documents, as amended from time to time hereafter; (b.) such additional Guaranties as may be executed by third parties in the future; or (c.) such additional Guaranties as may be signed in favor of Lender hereafter.

"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" means all of the following:

(a.) all indebtedness for borrowed money (whether by loan or the issuance and sale of debt securities);

(b.) that portion of obligations with respect to capital leases that is properly classified as a liability on a balance sheet in conformity with GAAP;

(c.) acceptances, bonds, indentures, notes payable, and drafts accepted representing extensions of credit whether or not representing obligations for borrowed money;

(d.) any obligation owed for all or any part of the deferred purchase price of property or services if the purchase price is due more than six (6) months from the date the obligation is incurred or is evidenced by a note or similar written instrument;

(e.) all indebtedness secured by any lien on any property or asset owned or held by Borrower regardless of whether the indebtedness secured thereby shall have been assumed by Borrower or is nonrecourse to the credit of Borrower;

(f.) contingent obligations to the extent such obligations are no longer contingent but become absolute and remain unpaid;

(g.) all obligations, contingent or otherwise, relative to the face amount of any letter of credit, letter of credit guaranties, bankers acceptances, interest rate swaps, controlled disbursement accounts, or other financial products;

(h.) any unfunded obligation of Borrower or any of its subsidiaries to a Multiemployer Plan required to be accrued by GAAP; and

(i.) obligations of Borrower guaranteeing or intended to guarantee (whether guaranteed, endorsed, co-made, discounted, or sold with recourse to Borrower), any indebtedness, lease, dividend, letter of credit, or other obligation of any other Person.

"Insolvency Proceeding" means any case, proceeding, or matter commenced by or against any Person under any provision of the Bankruptcy Code or under any other bankruptcy or insolvency law, including, without limitation, assignments for the benefit of creditors, formal or informal moratoria, compositions, extensions generally with its creditors, or proceedings seeking reorganization, arrangement, or other similar relief.

"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 Borrower 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 Borrower'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.

"Inventory Appraisal Fee" has the meaning set forth in Section 2.2.13 hereof.

"Inventory Borrowing Base" has the meaning set forth in the definition of Borrowing Base.

"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.

"IRC" means the Internal Revenue Code of 1986, Title 26 of the United States Code, as amended and/or re-numbered, including any successor statute, and the regulations thereunder.

"Lender" has the meaning set forth in the preamble to this Agreement.

"Lender Expenses" includes, without limitation, all of the following:

(a.) reasonable costs or expenses (including without limitation taxes, photocopying, notarization, telecommunication, insurance premiums, and postage) paid by Lender in connection with Lender's transactions with Borrower;

(b.) reasonable costs and expenses required to be paid by Borrower under any of the Loan Documents that are paid or advanced by Lender in connection with Lender's transactions with Borrower;

(c.) reasonable documentation, filing, recording, publication, appraisal (including periodic Collateral appraisals) and search fees assessed, paid, or incurred by Lender in connection with Lender's transactions with Borrower;

(d.) reasonable costs and expenses incurred by Lender in the disbursement of funds to Borrower (by wire transfer or otherwise);

(e.) reasonable charges paid or incurred by Lender in connection with Lender's transactions with Borrower, resulting from the dishonor of checks in connection with Lender's transactions with Borrower; costs and expenses paid or incurred by Lender to correct any default or enforce any provision of the Loan Documents, or in gaining possession of, maintaining, handling, preserving, storing, shipping, selling, preparing for sale, or advertising to sell the Collateral or any portion thereof, irrespective of whether a sale is consummated;

(f.) reasonable costs and expenses paid or incurred by Lender in examining Borrower's Books;

(g.) reasonable legal fees and expenses paid or incurred by Lender in connection with the due diligence, negotiation and preparation of this Agreement, the Loan Documents executed in connection herewith and other documents executed in connection herewith now and in the future (whether for legal services and expenses from outside counsel or from in-house counsel); and

(h.) reasonable costs and expenses of third party claims or any other suit paid or incurred by Lender in enforcing or defending the Loan Documents and adjusting or settling disputes and claims with Account Debtors with respect to Borrower's Accounts; and Lender's reasonable attorneys' fees and expenses (whether for legal services incurred by and expenses from outside counsel and/or from in-house counsel and staff) incurred in advising, structuring, drafting, reviewing, administering, amending, terminating, or enforcing this Agreement or the other Loan Documents (including reasonable attorneys' fees and expenses incurred in such adjusted or settled disputes and claims, and in connection with a "workout," a "restructuring," or an Insolvency Proceeding concerning Borrower or any Guarantor of the Obligations, irrespective of whether suit is brought). The attorneys' fees incurred by Lender in any Insolvency Proceeding shall include, without limitation, those incurred in connection with debtor-in-possession financing, motions for relief from automatic stay, and actions to determine dischargeability, and defending, or concerning the Loan Documents.

"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 Documents" means collectively, this 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.

"Loan Fee" has the meaning given in Section 2.2.9 hereof.

"Material Adverse Change" means a material adverse change in any one or more of the following:

(a.) Borrower's, any subsidiary's, or any Guarantor's assets, operations, business, or financial condition, or business; (b.) Borrower's ability to pay and perform the Obligations when due; (c.) any property in which Lender holds a Security Interest; (d.) the perfection or priority of any such Security Interest; or (e.) Lender's rights and remedies under any Loan Documents.

"Maximum Account Advance" means the sum of **One Million and 00/100 Dollars ($1,000,000.00)**.

"Maximum Amount" means the sum of **One Million and 00/100 Dollars ($1,000,000.00)**.

"Maximum Inventory Advance" means the lesser of the sum of **three hundred thousand and 00/100 Dollars ($300,000.00)** or **fifty percent (50 %)** of the A/R Borrowing Base.

"Minimum Monthly Interest Payment" has the meaning given in Section 2.2.3 hereof.

"Net Face Amount" means, with respect to an Account, the gross face amount of such Account less all trade discounts or other deductions to which the Account Debtor is entitled.

"Obligations" means (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 under the Loan Documents; and (c.) all present and future obligations owing by Borrower 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 is a debtor, (each, a "Insolvency Proceeding"), including but not limited to Lender Expenses and any obligations arising pursuant to letters of credit or acceptance transactions or any other financial accommodations; and all principal, interest, fees, charges, Lender Expenses, reasonable attorneys' fees and accountants' fees chargeable to Borrower 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.

"Obligor" means Borrower and all Guarantors.

Old Lender" means **West Coast Bank**.

"Org ID" shall have the meaning given in Section 8.1.15 hereof.

"Overadvance" means the amount by which the principal balance of any sums advanced plus any applicable reserves exceed the Allowable Amount.

"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 this Agreement or the Loan Documents;

(b.) subordinated debt that is subject to a subordination agreement in favor of Lender 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 Borrower 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: (i.) the terms and conditions of such refinancings, renewals, or extensions do not materially impair the prospects of repayment of the Obligations by Borrower; (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;

"Permitted Liens" means all of the following:

(a.) liens and Security Interests held by Lender or agreed to by Lender in the Term Loan Documents, if any;

(b.) liens for unpaid taxes of Borrower 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 Borrower to Lender and consented to by Lender in writing;

(d.) liens described in **Addendum B** thereto, provided they 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 Borrower; (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" shall mean a protest taken by Borrower in good faith with respect to disputed taxes for which a bond has been posted by Borrower in the amount of disputed taxes that have not 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.

"Person" means and includes natural persons, corporations, limited partnerships, general partnerships, joint ventures, limited liability companies, limited liability partnerships, trusts, land trusts, business trusts, or other organizations, irrespective of whether they are legal entities, and governments and agencies and political subdivisions thereof.

"Post Office Box" has the meaning given in Section 3.8.2 hereof.

"Premises" means all of the locations of Borrower consisting of its Chief Executive Office, any and all other offices or locations and any and all Additional Locations.

"Prepayment" has the meaning given in Section 6.3 hereof.

"Prepayment Fee" means the fee described in Section 6.3 hereof.

"Prime Accounts" means those Accounts of Borrower that meet all of the following criteria:

(a.) are acceptable to Lender in the exercise of its Sole Discretion;

(b.) are creditworthy as determined by Lender in its Sole Discretion based on the facts and circumstances presented, including payment history, turn, PAYDEX rating and other data;

(c.) have been validly assigned as Collateral to Lender, giving Lender a first priority Security Interest therein and in all proceeds thereof;

(d.) as of the date of determining whether an Account is "prime" or not, (i.) no invoice is more than sixty (60) days past due if payment terms are for thirty (30) days or less; or (ii.) in any event, no invoice remains uncollected for more than ninety (90) days from the date of such invoice;

(e.) strictly comply with all Borrower's warranties and representations to Lender;

(f.) have been created by absolute sales of Borrower's merchandise or services;

(g.) are genuine, bona fide and collectible;

(h.) Borrower will have good, unencumbered and absolute title to Collateral free of all third party claims other than Permitted Liens;

(i.) are not subject to any dispute, right of offset, counterclaim, or right of cancellation or return;

(j.) all property giving rise to such Accounts will have been delivered from Borrower's Premises to, and unconditionally accepted by, each Account Debtor;

(k.) Borrower has performed all things required of Borrower by the terms of all agreements or purchase orders giving rise to such Accounts;

(l.) are due and unconditionally payable on terms of thirty (30) days or less, or on such other terms not exceeding sixty (60) days (if acceptable to Lender in its Sole Discretion) which are expressly set forth on the face of all invoices, copies of which shall be delivered to Lender;

(m.) are not Accounts with respect to which goods are placed on consignment, guaranteed sale, or other terms by which the payment by the Account Debtor may be conditional;

(n.) are not Accounts with respect to which the Account Debtor is an officer, employee, partner, joint venturer or agent of Borrower;

(o.) are not Accounts with respect to which the Account Debtor is a resident of a country other than the United States of America;

(p.) are not Accounts with respect to which the Account Debtor is the United States of America or any department, agency or instrumentality of the United States of America and Canada;

(q.) are not Accounts with respect to which the Account Debtor is any state of the United States of America or any city, county, town, municipality or division thereof;

(r.) are not Accounts with respect to which the Account Debtor disputes liability or makes any claim, or has any defense, crossclaim, counterclaim or offset;

(s.) are not Accounts with respect to which any Insolvency Proceeding is filed by or against the Account Debtor, or if an Account Debtor becomes insolvent, fails or goes out of business;

(t.) are not Accounts with respect to which Borrower is or may become liable to the Account Debtor for goods sold or services rendered by the Account Debtor to Borrower;

(u.) are not Accounts which in the aggregate from one Account Debtor constitutes twenty-five percent (25%) of total Accounts, but the portion not in excess of such percentage may be deemed Prime Accounts; and

(v.) are not Accounts from any one Account Debtor of which twenty-five percent (25%) is ninety (90) days old or older.

"Prime Rate" means the variable rate of interest announced as the "prime" rate in the Western Edition of the Wall Street Journal which is in effect from time to time; provided that the Prime Rate shall at all times be deemed to be not less than **five and one-half percent (5.50%) per annum** (the "Deemed Prime Rate").

"Purchase Money Indebtedness for Acquisition of Fixed Assets" means debt (other than the Indebtedness, but including capitalized lease obligations), incurred at the time of, or within twenty (20) days after, the acquisition of any fixed asset for the purpose of financing all or any part of the acquisition cost thereof.

"RCRA" has the meaning given in the definition of Environmental Laws.

"Real Property Collateral" means that or those certain item(s) of real property pledged by Borrower and/or Guarantor respectively, pursuant to this Agreement and the Loan Documents.

"Renewal Term" has the meaning given in Section 6.1 hereof.

"Report of Assignment" means the form with which invoices are transmitted to Lender.

"SARA" has the meaning given in the definition of Environmental Laws.

"Security Interest(s)" means any present or future lien, charge, mortgage, pledge, assignment, or other encumbrance, or security interest in any asset, whether created or arising voluntarily, involuntarily or by operation of law.

"Software" has the meaning given in the Code, which defines Software as a computer program and any supporting information provided in connection with a transaction relating to the program.

"Sole 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 by Lender.

"Solvent" means that 1) a Person is able to pay its debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business; and 2) such Person does not intend to, and does not believe that it will, incur debts beyond such Person's ability to pay as such debts mature. In computing the amount of contingent liabilities at any time, it is intended that such liabilities will be computed at the amount that, in light of all the facts and circumstances existing at such time, represents the amount that reasonably can be expected to become an actual or matured liability.

"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" means the loan extended by Lender to Borrower pursuant to the Term Loan Documents described in Section 25.16 hereof, if applicable.

"Term Loan Documents" means those documents described in Section 25.16 hereof, if any, and all amendments and renewals thereof.

"Termination Notice" has the meaning given in Section 6.1 hereof.

"Trade Fixtures" means equipment and furnishings that are used in Borrower's business or operations which become affixed to the Premises, but which can be removed from the Premises without causing undue damage to such Premises.

UCC" has the meaning given in the definition of Code.

"Voidable Transfer" has the meaning given in Section 25.12 hereof.

1.2. Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP. When used herein, the term "financial statements" shall include the notes and schedules thereto. Whenever the term "Borrower" is used in respect of a financial covenant or a related definition, it shall be understood to mean Borrower on a consolidated basis unless the context clearly requires otherwise.

1.3. Terms Not Defined. All other terms contained in this Agreement, which are not specifically defined herein, shall have the meanings provided in the Code.

1.4. Construction. Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular, references to the singular include the plural, the term "including" is not limiting, and the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or." The words "hereof," "herein," "hereby," "hereunder," and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Any section, subsection, clause, schedule, and exhibit references are to this Agreement unless otherwise specified. Any reference in this Agreement or in the Loan Documents to this Agreement or any of the Loan Documents shall include all alterations, amendments, changes, extensions, modifications, renewals, replacements, substitutions, and supplements, thereto and thereof, as applicable.

1.5. Authenticated Documents. Any reference herein to a "writing", a "written document", or an executed document shall also mean an "Authenticated" writing or document or "Authentication" unless Lender shall otherwise require an original writing.

1.6. Addenda; Schedules and Exhibits. All of the addenda, schedules, and exhibits attached to this Agreement shall be deemed to be incorporated herein by reference as though set forth in full herein.

2. Loan and Terms of Payment.

2.1. Revolving Advances Against Accounts and Inventory.

2.1.1. Advances Not to Exceed Borrowing Base. Subject to the terms and conditions of this Agreement, from the Closing Date until the termination of this Agreement, Lender shall, from time to time, at the request of Borrower, make advances (each, an "Advance" and collectively, the "Advances") to Borrower so long as, no Overadvance exists before the Advance or would be created by such Advance.

2.1.2. Advances to be Drawn First Against A/R Borrowing Base; Inventory Advances Due Upon Payment in Full of A/R Advances if no Intent to Have Further Advances to be Made Against Accounts. Borrower shall draw all available funds under the A/R Borrowing Base prior to drawing any available funds under the Inventory Borrowing Base. At such time as amounts advanced against Accounts under this Agreement have been paid in full, with (a.) no further intention on the part of Lender to make further Advances against Accounts; and/or (b.) no further intention on the part of Borrower to obtain any further Advances against Accounts, amounts advanced against Inventory under this Agreement shall also be due, owing, and payable in full. Amounts borrowed pursuant to this Section 2.1.2 may be repaid and, subject to the terms and conditions of this Agreement, reborrowed at any time during the term of this Agreement.

2.1.3. Reduction of Advance Rates. Lender may, in its Sole Discretion, from time to time, upon not less than five (5) days' prior notice to Borrower, reduce the Borrowing Base to the extent that Lender determines in good faith that: (a.) the Dilution Rate with respect to the Accounts for any period (based on the ratio of (i.) the aggregate amount of reductions in Accounts other than as a result of payments in cash to (ii.) the aggregate amount of total sales) has increased in any material respect or may be reasonably anticipated to increase in any material respect above historical levels; (b.) the general creditworthiness of Account Debtors has declined; (c.) the number of days of the turnover of the Inventory for any period has changed in any material respect; (d.) the liquidation value of the Eligible Inventory, or any category thereof, has decreased; or (e.) the nature and quality of the Inventory has deteriorated. In determining whether to reduce the Borrowing Base, Lender may consider events, conditions, contingencies, or risks that are also considered in determining Prime Accounts or Eligible Inventory.

2.1.4. Authorization for Advances. Subject to the terms and conditions of this Agreement, Lender is authorized to make Advances (a.) upon telephonic, facsimile or other instructions received from anyone purporting to be an Authorized Officer of Borrower; or (b.) at the Sole Discretion of Lender, and notwithstanding any other provision in this Agreement, if necessary to meet any Obligations, including but not limited to any interest not paid when due. Notwithstanding anything to the contrary contained herein, Lender shall not be obligated to make an Advance if, before or as a result thereof, an Overadvance would be created.

2.1.5. Establish Deposit Account; Provide Control Agreement. Borrower agrees to establish and maintain a single designated Deposit Account for the purpose of receiving the proceeds of the Advances requested by Borrower and made by Lender hereunder. Unless otherwise agreed by Lender and Borrower, any Advance requested by Borrower and made by Lender hereunder shall be made to such designated Deposit Account. Borrower agrees to provide Lender with a control agreement in form and substance reasonably acceptable to Lender, signed by the bank or financial institution at which the Deposit Account is located. If Borrower's bank or financial institution refuses to or does not cooperate in executing such control agreement, Borrower shall move its account to a financial institution willing to execute a control agreement in form and substance reasonably satisfactory to Lender.

2.2. Interest: Rates, Payments, Fees, and Calculations.

2.2.1. Interest Rates.

2.2.1.1. On Advances Against Accounts. All Advances against Accounts hereunder shall bear interest, on the Average Daily Balance, at a **per annum rate** of **Two and One-half percent (2.50%)** in excess of (i.) the Prime Rate; or (ii.) the Deemed Prime Rate, whichever is higher.

2.2.1.2. On Advances Against Inventory. All Advances against Inventory hereunder shall bear interest, on the Average Daily Balance, at a **per annum rate** of **Two and One-half percent (2.50%)** in excess of (i.) the Prime Rate; or (ii.) the Deemed Prime Rate, whichever is higher.

2.2.2. Cumulative Minimum Annual Interest Payment. Interest payable under this Agreement, on a cumulative annual basis, shall not be less than **----------n/a---------- Dollars ($----------n/a----------)** (the "Cumulative Minimum Annual Interest Payment").

2.2.3. Minimum Monthly Interest Payment. Interest, together with the Administrative Fee payable under this Agreement on a monthly basis, shall not be less than **Five Thousand Nine Hundred Eighty and 00/100 Dollars ($5,980.00)** (the "Minimum Monthly Interest Payment").

2.2.4. Default Rate. All Obligations shall bear interest, from and after the occurrence and during the continuance of an Event of Default, at a rate equal to an additional **three percent (3.00%) per annum** in excess of the applicable interest rate as set forth in Section 2.2.1 (the "Default Rate"). Lender's failure to assess interest at the Default Rate as provided hereunder shall not be deemed a waiver by Lender of its right to charge such Default Rate at any time after default. Lender reserves the right to, and Borrower hereby acknowledges that Lender may, recalculate interest at the Default Rate.

2.2.5. Interest Payments. Subject to Section 2.2.4, interest on the Obligations shall be payable monthly, in arrears, shall be computed at the applicable interest rate as set forth in Section 2.2.1, and shall be due on the last day of each month following the accrual thereof. **Interest shall be payable commencing on the first (1st) day of the month following the Closing Date**. Any interest not paid when due shall be compounded by becoming a part of the Obligations, and such interest shall thereafter accrue interest at the rate then applicable hereunder.

2.2.6. Calculation of Interest. All interest charged hereunder shall be computed on the basis of a three hundred sixty (360) day year for the actual number of days elapsed. Notwithstanding anything to the contrary contained herein, any interest rate calculated hereunder shall be rounded up to the closest one-quarter of one percent (1/4 of 1.00%), with no adjustments made for rate changes of less than one-quarter of one percent (1/4 of 1.00%). Lender shall, for the purpose of the computation of interest due hereunder, add the Clearance Days to any payments by check, which is acknowledged by the parties to constitute an integral aspect of the pricing of Lender's facility to Borrower, and shall apply irrespective of the characterization of whether receipts are owned by Borrower or Lender. Should any check not be honored when presented for payment, then Borrower shall be deemed not to have made such payment, and interest shall be recalculated accordingly.

2.2.7. Computation upon Change in Prime Rate. In the event the Prime Rate changes, the applicable interest rate hereunder automatically and immediately shall be increased or decreased by an amount equal to such change in the Prime Rate.

2.2.8. Principal Payments. Commencing on **-----n/a-----** and continuing on the first (1st) day of every month through **-----n/a-----**, Borrower shall make equal monthly principal payments in the sum of **----------n/a----------Dollars ($----------n/a----------)**, which shall be used to pay down Advances against Inventory.

2.2.9. Loan Fee. At the time of initial funding hereunder and annually (every twelve (12) months) thereafter while any Obligations remain outstanding to Lender, Borrower agrees to pay Lender a loan fee equal to **one percent (1.00%)** of the Maximum Amount (the "Loan Fee").

2.2.10. Administrative Fee. While any Obligations remain outstanding to Lender, on or before the first (1st) day of each month, Borrower agrees to pay Lender an administrative fee equal to **Twenty One-hundredths of one percentage point(s) (0.20%) per month** of the Average Daily Balance during the preceding month (the "Administrative Fee").

2.2.11. Deposits for Lender Expenses. Borrower shall pay to Lender the Lender Expenses incurred by Lender in connection with the negotiation and preparation of this Agreement and the Loan Documents. In connection therewith, the following applies with respect to Deposits for such Lender Expenses:

2.2.11.1. Lender **has received** a deposit in the amount of **Two thousand and 00/100 Dollars ($2,000.00)** (the "Good Faith Deposit") to be applied against such Lender Expenses consisting of out of pocket costs. Any unpaid portion of the Good Faith Deposit shall be due and payable at the initial funding hereof. In the event that such Lender Expenses are less than the Good Faith Deposit, any such excess amount will be applied to the Loan Fee and then to Administrative Fee, or if the Loan Fee and Administrative Fee have been paid in full, such excess amount shall be refunded to Borrower; and

2.2.11.2. Lender **has received** a documentation fee/legal deposit in the amount of **Two thousand five hundred and 00/100 Dollars ($2,500.00)** to be applied against Lender Expenses consisting of document preparation and legal fees and costs, (the "Documentation Fee/Legal Deposit"). Any unpaid portion of the Documentation Fee/Legal Deposit shall be due and payable at the initial funding hereof.

2.2.12. Audit Fees. Borrower shall pay to Lender on demand **annual** audit fees of **-----see Addendum A----- Dollars ($-----see Addendum A-----) per day**, plus actual out of pocket costs related to each audit (the "Audit Fee").

2.2.13. Inventory Appraisal Fee. Borrower shall pay to Lender on demand an **annual** inventory appraisal fee not to exceed the amount of **-----see Addendum A -----Dollars ($-----n/a-----) per year** (the "Inventory Appraisal Fee") absent the occurrence and continuance of an Event of Default, for any year in which (a.) funds are available to Borrower under the Inventory Borrowing Base; or (b.) funds that have been advanced under the Maximum Inventory Amount are owing and payable to Lender.

3. Payment of Advances.

3.1. Delivery to Lender of All Receipts. Borrower shall remit to Lender all payments received by Borrower on all Accounts including without limitation, all payments on Accounts, Deposits, and proceeds of cash sales, irrespective of whether Borrower has obtained or seeks to obtain an Advance against any Account.

3.2. Required Payments on Past Due Accounts or Overadvance. On demand, Borrower shall pay to Lender (a.) the Net Face Amount of all Delinquent Accounts; or (b.) the Net Face Amount of Accounts more than sixty (60) days past due. Notwithstanding the foregoing, in the alternative, rather than complying with (a.) or

(b.) above, if (i.) Lender so agrees in its Sole Discretion; and (ii.) Borrower provides additional Prime Accounts reasonably acceptable to Lender, in lieu of payment of such past due Accounts to Lender, Borrower may, in the alternative, submit additional invoices that constitute Prime Accounts. Except as set forth in the prior sentence of this Section 3.2, Borrower shall pay the entire unpaid balance of the Obligations immediately upon (1.) the occurrence of an Event of Default and acceleration of the Obligations by Lender pursuant to Section 12.1.1; or

(2.) in the case of termination, as set forth in Section 6.1, whether by notice, lapse of time or otherwise, whichever occurs first.

3.3. Application of Payments. Payments received shall be applied first against fees and Lender Expenses, if any, then against interest and then against principal. To the extent Borrower uses Advances under this Agreement to purchase any Collateral, Borrower's repayment of the Advances shall apply on a "first-in-first-out" basis so that the portion of the Advances used to purchase a particular item of Collateral shall be paid in the chronological order in which Borrower purchased the Collateral.

3.4. Clearance Days. Payments made by check or any other means, including wire transfer, ACH transfer, credit card receipts shall be deemed to be made **three (-3-) Business Days** after receipt by Lender and shall be subject to clearance of funds (the "Clearance Days").

3.5. Overadvances. Subject to the provisions of Section 3.2, in the event of an Overadvance, if Lender continues to provide Advances hereunder, such event shall not limit, waive or otherwise affect any rights of Lender in that circumstance or on any future occasions and Borrower shall, upon demand by Lender, which may be made at any time or from time to time, immediately repay to Lender the entire amount of the Overadvance.

3.6. Payment of Obligations. Notwithstanding anything to the contrary contained in this Agreement, no payment received by Lender shall constitute payment thereof unless and until final payment thereof has been received.

3.7. Statements of Obligations. Lender shall render monthly statements to Borrower of the Obligations, including principal, interest, fees, and an itemization of all charges and expenses constituting Lender Expenses owing, and such statements shall be conclusively presumed to be correct and accurate and constitute an account stated between Borrower and Lender unless, within thirty (30) days following receipt thereof by Borrower, Borrower shall have delivered to Lender by registered or certified mail at its address specified herein, written objection thereto describing the error or errors contained in any such statements.

3.8. Notification of Accounts. Lender and Borrower have agreed to the terms set forth below with respect to notification of Accounts.

3.8.1. Right of Lender to Notify Account Debtors. Lender may, at any time, (a.) after the occurrence and during the continuance of an Event of Default; or (b.) as necessary in Lender's Sole Discretion in light of the facts and circumstances, to prevent prejudice to Lender irrespective of whether an Event of Default has occurred or is continuing, without notice to or the assent of Borrower: (i.) notify any Account Debtor that the underlying Account has been assigned for collateral purposes to Lender by Borrower and that payment thereof is to be made to the order of and directly and solely to Lender; and (ii.) send, or cause to be sent by its designee, written or telephonic requests (which may identify the sender by a pseudonym) for verification of any Account directly to the appropriate Account Debtor or any bailee with respect thereto. At Lender's request, all invoices and statements sent to any Account Debtor or any bailee shall state that the relevant Account has been for collateral purposes assigned to Lender and that any payments in respect thereof are payable directly and solely to Lender.

3.8.2. Collateral Account. Borrower shall direct, at Borrower's expense and in the manner requested by Lender from time to time, that remittances and all other collections and proceeds of Accounts and other Collateral be (a.) deposited into a lock box account (the "Collateral Account") maintained in Lender's name as set forth in **Exhibit A**; or (b.) sent to Lender or a post office box (the "Post Office Box") designated by or in the name of Lender, or in the name of Borrower, but as to which access is limited solely to Lender also as set forth in **Exhibit A**. In connection with the Collateral Account, Borrower shall execute such lockbox agreement as Lender shall reasonably require. Borrower shall maintain with Lender, and Borrower hereby grants to Lender a Security Interest in, the Deposit Account representing the Collateral Account, over which Borrower shall have no control and into which the proceeds of all Collateral shall be deposited immediately upon their receipt.

3.8.3. Collateral Control Account. Lender may, on occasion, agree to permit Borrower to maintain a Deposit Account in addition to the Collateral Account (the "Collateral Control Account"), provided

(a.) Lender has received a control agreement in form and substance reasonably acceptable to Lender, which is fully executed by the financial institution where such account is located; and (b.) the Collateral Control Account is a blocked account to which only Lender may have access. A description of said Collateral Control Account is set forth in **Exhibit A** hereto.

3.8.4. Procedure Regarding Mail Delivered to the Post Office Box. All mail delivered to the Post Office Box shall be opened by Lender, checks contained therein shall be endorsed by Lender, and all such items shall be deposited by Lender into the Collateral Account.

3.8.5. Wire Transfers. Borrower shall direct all Account Debtors on Accounts that make payments by electronic transfer of funds to wire such funds directly to the Collateral Account.

3.8.6. Monies Held in Trust. Borrower shall hold in trust for Lender all amounts Borrower may receive in payment of or relating to any Accounts despite directions to make payment to the Post Office Box or the Collateral Account, and immediately deliver such payments to Lender in their original form as received, with proper endorsements. Borrower and all of its Affiliates, subsidiaries, shareholders, directors, employees or agents shall, acting as trustee for Lender, receive, as the property of Lender, any monies, checks, notes, drafts, or any other payment relating to and/or proceeds of Accounts or other Collateral which come into Borrower's possession, control, and immediately upon receipt thereof, shall deposit or cause the same to be deposited in the Collateral Account, or remit the same or cause the same to be remitted, in kind, to Lender. In no event shall the same be commingled with Borrower's own funds. Borrower shall continue to remit such payments to Lender until such time as Borrower's Obligations (other than contingent obligations) have been paid in full.

3.8.7. Authorization. Notwithstanding any other provision of this Agreement, Borrower irrevocably authorizes Lender to transfer into the Collateral Account any funds in payment of or relating to the Accounts that have been deposited into other deposit accounts with Lender or that Lender has otherwise received.

3.8.8. Lender's Right to Items in Collateral Account. Lender shall have continuing security interest in all of the items contained from time to time in the Collateral Account and the proceeds thereof.

3.8.9. Lender Has Sole Control Over Collateral Account. Neither Borrower, nor any Person or entity claiming through Borrower shall have any right in or control over the use of, or any right to withdraw any amount from the Collateral Account that shall be under Lender's sole control. Unless (a.) the instruments so deposited in the Collateral Account are dishonored; or (b.) Lender shall in Lender's Sole Discretion have remitted the amount thereof to Borrower, Lender shall credit the amount thereof against Borrower's Obligations (other than contingent obligations) to Lender.

3.8.10. Lender Authorization.

3.8.10.1. Borrower hereby irrevocably authorizes Lender and any designee of Lender, at Borrower's sole expense, to exercise at any time in Lender's or such designee's Sole Discretion all or any of the following powers as attorney in fact of Borrower until all of the Obligations (other than contingent obligations) have been paid in full:

3.8.10.1.1. in the ordinary course of business as a lender, receive, take, endorse, assign, deliver, accept and deposit, in the name of Lender or Borrower, any and all cash, checks, commercial paper, drafts, remittances and other instruments and documents relating to the Collateral or the proceeds thereof (whether checks or other forms of payment are (a.) in the name of Borrower; (b.) any other name under which it now does business or does business in the future; or (c.) in the names of its products now or in the future, and Borrower additionally agrees not to make any protest of any kind against Lender for negotiating such checks or other items described herein);

3.8.10.1.2. after the occurrence and during the continuance of an Event of Default, take or bring, in the name of Lender or Borrower, all steps, actions, suits or proceedings deemed by Lender necessary or desirable to effect collection of or other realization upon the Accounts and other Collateral;

3.8.10.1.3. after the occurrence and during the continuance of an Event of Default, extend the time of payment of, compromise or settle for cash, credit, return of merchandise, and upon any terms or conditions, any and all Accounts or other Collateral which includes a monetary obligation and discharge or release any Account Debtor or other obligor (including filing of any public record releasing any lien granted to Borrower by such Account Debtor), without affecting any of the Obligations;

3.8.10.1.4. execute in the name of Borrower and file against Borrower in favor of Lender financing statements or amendments with respect to the Collateral;

3.8.10.1.5. pay any sums necessary to discharge any lien or encumbrance that is senior to Lender's Security Interest in the Collateral other than Permitted Liens, which sums shall be included as Obligations hereunder;

3.8.10.1.6. at any time, irrespective of whether an Event of Default has occurred, without notice to or the assent of Borrower, notify any Account Debtor obligated with respect to any Account, that the underlying Account has been assigned for collateral purposes to Lender by Borrower and that payment thereof is to be made to the order of and directly and solely to Lender;

3.8.10.1.7. after the occurrence and during the continuance of an Event of Default, change the address for delivery of mail to Borrower and to receive and open mail addressed to Borrower;

3.8.10.1.8. send requests for verification of Accounts;

3.8.10.1.9. after the occurrence and during the continuance of an Event of Default, to make, settle, and adjust all claims under Borrower's policies of insurance and make all determinations and decisions with respect to such policies of insurance;

3.8.10.1.10. after the occurrence and during the continuance of an Event of Default, to settle and adjust disputes and claims respecting the Accounts directly with Account Debtors, for amounts and upon terms which Lender determines to be reasonable;

3.8.10.1.11. after the occurrence and during the continuance of an Event of Default and as Lender may reasonably determine to be necessary without the occurrence of an Event of Default if Lender has requested and Borrower has refused, Lender may cause to be executed and delivered any documents and releases which Lender reasonably determines to be necessary in order to protect its interest as Lender; and

3.8.10.1.12. after the occurrence and during the continuance of an Event of Default, qualify Borrower to do business in any state if Borrower shall fail to do so following request by Lender.

3.8.10.2. After the occurrence and during the continuance of an Event of Default, Borrower authorizes Lender to accept, indorse and deposit on behalf of Borrower any checks tendered by an Account Debtor "in full payment" of its obligation to Borrower. Borrower shall not assert against Lender any claim arising therefrom, irrespective of whether such action by Lender affects an accord and satisfaction of Borrower's claims, under ORS 73.0311, as such section may be amended and/or re-numbered from time to time or otherwise.

3.8.10.3. BORROWER HEREBY RELEASES AND EXCULPATES LENDER, LENDER'S OFFICERS, EMPLOYEES, AGENTS, DESIGNEES, ATTORNEYS, ACCOUNTANTS, AND OTHER REPRESENTATIVES FROM ANY AND ALL LIABILITY ARISING FROM ANY ACTS UNDER THIS AGREEMENT OR RELATED TO THIS AGREEMENT IN ANY MANNER OR IN FURTHERANCE THEREOF, WHETHER OF OMISSION OR COMMISSION, AND WHETHER BASED UPON ANY ERROR OF JUDGMENT OR MISTAKE OF LAW OR FACT AND WHETHER BASED UPON ANY LEGAL THEORY, INCLUDING WITHOUT LIMITATION, BREACH OF CONTRACT, TORT CLAIMS, BREACH OF DUTY CLAIMS AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS, EXCEPT FOR LIABILITY DIRECTLY CAUSED BY LENDER'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. IN NO EVENT SHALL LENDER HAVE ANY LIABILITY TO BORROWER FOR LOST PROFITS OR OTHER SPECIAL OR CONSEQUENTIAL DAMAGES.

3.8.10.4. 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.

4 . Audits. Lender shall have the right to conduct audits of Borrower's Accounts, Inventory, and Borrower's Books on a semi-annual basis during the term of this Agreement, which audit shall be conducted during reasonable business hours absent the occurrence and continuance of an Event of Default. Lender agrees to give Borrower reasonable advance notice of such audit provided that no Event of Default shall have occurred or reasonably be suspected by Lender to have occurred and is continuing. In the event of an actual or potential Event of Default, no advance notice of any audit shall be required. The cost of each audit shall be paid by Borrower, which cost per audit shall not exceed the Audit Fee or the Inventory Appraisal Fee set forth in Sections 2.2.12 and 2.2.13, respectively. Borrower shall pay the cost of such Audit Fee or Inventory Appraisal Fee within five (5) Business Days of receipt of invoice and if such Audit Fee or Inventory Appraisal Fee is not paid by such date, Lender may charge such Audit Fee and Inventory Appraisal Fee against the Obligations at such time or if not charged at such time, upon termination. In addition, upon the occurrence and during the continuance of an Event of Default, Lender may conduct such additional audits as it deems appropriate, also at Borrower's cost, but not subject to any limitation contained in Section 2.2.12 and 2.2.13.

4.1. Delivery of Collateral. At such times as Lender may request and in the manner specified by Lender, Borrower shall deliver to Lender or Lender's representative original invoices, agreements, proof of rendition of services and delivery of goods and other documents evidencing or relating to the transactions which gave rise to any of the Collateral, together with customer statements, schedules describing the proceeds or statements of account and confirmatory collateral assignments to Lender of the proceeds in form and substance satisfactory to Lender and duly executed by Borrower. Without limiting the provisions of any other section of this Agreement, Borrower will promptly notify Lender, in writing, of Borrower's granting of credits, discounts, allowances, deductions, return authorizations or the like with respect to any proceeds. In no event shall any such schedule or confirmatory collateral assignment (or the absence thereof or omission of any proceeds therefrom) limit or in any way be construed as a waiver, limitation, or modification of the liens or rights of Lender or the warranties, representations, and covenants of Borrower under this Agreement. In addition, in the event that any Collateral, including without limitation proceeds, is evidenced by or consists of Chattel Paper, Documents, Instruments, or Financial Assets, including without limitation, Investment Property, Borrower shall, immediately upon written request therefor from Lender, endorse and assign such Chattel Paper, Documents, Instruments, or Financial Assets, including without limitation, Investment Property over to Lender and deliver actual physical possession of such Chattel Paper, Documents, Instruments, or Financial Assets, including without limitation, Investment Property to Lender with, if applicable, stock powers in blank executed by Borrower.

5. Conditions Precedent to Advances.

5.1. Conditions Precedent to Initial Advance. The obligation of Lender to make the initial Advance is subject to the fulfillment, to the satisfaction of Lender and its counsel unless waived by Lender in writing in its Sole Discretion, of each of the conditions set forth below on or before the Closing Date.

5.1.1. Lien in First Position. Lender shall be satisfied that its lien against the Collateral is a first priority perfected Security Interest, subject only to Permitted Liens.

5.1.2. UCC Search. Lender shall have received searches with results reflecting the filing of its financing statements and fixture filings.

5.1.3. Loan Documents Contemplated Hereby. Lender shall have received all of the Loan Documents, duly executed, and each such document shall be in full force and effect.

5.1.4. Authorization. Lender shall have received such certificate of authorization, corporate resolution, unanimous written consent, or other writing as Lender deems appropriate under the circumstances, duly executed by the secretary, general partner, managing member, or other appropriate representative of Borrower, authorizing the execution and delivery of this Agreement and the other Loan Documents to which Borrower is a party and authorizing one or more specific officers, general partners, managing members, or other persons to execute and deliver same to Lender.

5.1.5. Bylaws, etc. Lender shall have received copies of Borrower's By-laws and Articles, Certificate of Incorporation, Articles of Organization, Partnership Agreement, Trust Agreement, or Operating Agreement all duly certified as appropriate, as amended, modified, or supplemented to the Closing Date, all of which shall accurately reflect the current status of Borrower and Borrower's officers, directors, and any other requested information.

5.1.6. Certificate from State of **Oregon**. Lender shall have received a certificate of status, corporate or otherwise, with respect to Borrower dated as of a date acceptable to Lender, by the Secretary of State of **Oregon**, which certificate shall indicate that Borrower is in good standing in such state.

5.1.7. Certificates from States Other than **Oregon**. Lender shall have received certificates of status, corporate or otherwise, with respect to Borrower dated as of a date acceptable to Lender, issued by the Secretary of State of the states in which its failure to be duly qualified or licensed would have a Material Adverse Change in the financial condition or properties and assets of Borrower, and shall indicate that Borrower is in good standing.

5.1.8. Insurance Policies and Endorsements. Lender shall have received the certified copies of the policies of insurance, together with the endorsements thereto, as further described in Section 9.11 hereof, as are required hereby, the form and substance of which shall be satisfactory to Lender and its counsel.

5.1.9. Certificates of Title. Lender shall have received duly executed certificates of title with respect to that portion of the Collateral that is subject to certificates of title, if any.

5.1.10. Evidence of Payment of Taxes. Lender shall have received satisfactory evidence that all tax returns required to be filed by Borrower have been timely filed and all taxes upon Borrower or its properties, assets, income, and franchises (including real property taxes and payroll taxes) have been paid prior to delinquency, except such taxes that are the subject of a Permitted Protest.

5.1.11. Subordination Agreements. Lender shall have received subordination agreements in form satisfactory to Lender from all parties that Lender shall require.

5.1.12. Guaranty. (a.) Lender shall have received the duly executed Guaranty from Guarantor, (and if Guarantor is not an individual, a duly executed Security Agreement All-Assets); and (b.) Guarantor shall have executed the Acknowledgment and Agreement by Guarantor set forth at the end of this Agreement.

5.1.13. Payment of All Fees and Lender Expenses. All fees and Lender Expenses required to be paid in connection with this Agreement shall have been paid.

5.1.14. Deed of Trust From **Guarantor**. Lender shall have received the Deed of Trust for the Real Property Collateral commonly known as**----------n/a----------**, which secures the obligations of **Guarantor** under the **Guaranty** and which shall be in **----------n/a----------(----------n/a---------)** priority against such Real Property Collateral.

5.1.15. Bailment Agreements; Waiver and Consents by Real Property Owner(s); Sales of Premises; Changes in Premises/Additional Locations. Borrower shall execute and deliver, or cause to be executed and delivered to Lender such commercially reasonable agreements, documents, and instruments in form and substance reasonably acceptable to Lender, as Lender may deem reasonably necessary or desirable to protect its interests in the Collateral at the Premises/Additional Locations, including without limitation, UCC-1 Financing Statements, Waivers and Consents by Real Property Owner(s), and/or bailment agreements. In the event that Borrower becomes aware of the pending or potential sale of the Premises, Borrower shall give Lender not less than thirty (30) days' notice of the sale or potential sale of the Premises by the owner thereof, whether the Premises are owned or leased by Borrower, so that Lender may obtain an executed Waiver and Consent from the new owner prior to title to the Premises having been transferred to the new owner of the Premises. The Inventory and Equipment shall not, at any time now or hereafter, be stored with a bailee, warehouseman, or similar party without Lender's prior written consent. Additionally, Borrower shall not open any new locations, whether a new Chief Executive Office or other operating facility or any new Additional Locations, unless Borrower (a.) gives Lender thirty (30) days' prior written notice of the intended opening of any such new Chief Executive Office or Additional Locations; and (b.) executes and delivers, or causes to be executed and delivered, to Lender such agreements, documents, and instruments in form and substance acceptable to Lender, as Lender may deem reasonably necessary or desirable to protect its interests in the Collateral at such Chief Executive Office or Additional Locations, including without limitation, UCC-1 Financing Statements, Waiver and Consents by Real Property Owner(s), and/or bailment agreements.

5.1.16. Pre-Funding Audits. Lender shall have performed a pre-funding audit of Borrower's Accounts and Inventory, with results satisfactory to Lender.

5.1.17. Key Person Life Insurance. Lender shall have received an assignment of Borrower's interest in the key person insurance on the life of**----------n/a----------** in the amount of **-----n/a-----Dollars ($-----n/a-----)**.

5.1.18. Assignment of Insurance Claims. Lender shall have received an assignment of Borrower's claim against its insurance company in the sum of approximately **-----n/a-----Dollars ($-----n/a-----)**.

5.1.19. Payment to Old Lender; Termination of Old Lender's Security Interest If applicable, Old Lender shall have been paid in full and Old Lender's Security Interest in any assets of Borrower and all Collateral shall have been terminated.

5.1.20. Control Agreements. Borrower shall execute, or cause to be executed, and Lender shall have received such control agreements, in form and substance satisfactory to Lender and its counsel, regarding Deposit Accounts, Investment Property, or such other Collateral as Lender may reasonably require.

5.1.21. Other Documents and Legal Matters. All other documents in connection with the transactions contemplated by this Agreement shall have been delivered or executed or recorded and shall be in form and substance satisfactory to Lender and its counsel, including without limitation a Report of Assignment of Invoices and all procedural requirements, whether pursuant to a procedure manual or otherwise, shall have been met.

5.1.22. Payment of Deposits. All required Deposits shall have been paid to Lender, including the Good Faith Deposit and the Documentation Fee/Legal Deposit.

5.2. Conditions Precedent to All Advances. The items set forth below shall be conditions precedent to all Advances hereunder and under the Loan Documents.

5.2.1. Representations and Warranties. The representations and warranties contained in this Agreement and the other Loan Documents shall be true and correct in all respects on and as of the date of such Advance, as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date).

5.2.2. No Event of Default. No Event of Default or event that with the giving of notice or passage of time would constitute an Event of Default shall have occurred and be continuing on the date of such Advance, nor shall either result from the making of the Advance.

5.2.3. No Injunction, etc. No injunction, writ, restraining order, or other order of any nature prohibiting, directly or indirectly, the making of such Advance shall have been issued and remain in force by any governmental authority against Borrower, Lender, or any Affiliate.

5.2.4. Procedural Requirements. Borrower shall have submitted a report of assignment and followed such other procedures as Lender may require pursuant to a procedure manual or otherwise.

6. Basic Term; Termination; Prepayment Fee.

6.1. Basic Term. This Agreement will be effective upon the Closing Date, will continue in full force and effect for**twelve (- 12 -) months** thereafter (the "Basic Term"), and shall be further automatically extended, for successive periods equal to the term of the Basic Term (each, a "Renewal Term"), unless Borrower shall have given the Lender written notice of its intention to terminate (a "Termination Notice") at least thirty (30) days prior to the anniversary of each Basic Term anniversary, whereupon this Agreement shall terminate as of the date fixed in the Termination Notice. Notwithstanding any contrary provisions herein, Lender reserves the right to terminate this Agreement at its Sole Discretion upon giving sixty (60) days' prior written notice to Borrower pursuant to provisions of Section 15 hereof.

6.2. Termination; Payments Due upon Termination. Upon termination of this Agreement whether pursuant to Section 6 or due to the occurrence of an Event of Default pursuant to Section 11, Borrower shall pay the Obligations to Lender. Upon payment in full in cash of the Obligations (other than contingent obligations), with no further Advances to be made under the Agreement, Lender shall at Borrower's sole cost and expense, release its lien in the Collateral and all rights therein shall revert to Borrower.

6.3. Prepayment Fee. If the Obligations are prepaid in full on a final basis prior to the end of the Basic Term or any Renewal Term, a "Prepayment" shall be deemed to have occurred. To the extent such Prepayment shall have occurred, Borrower shall pay to Lender a sum equal to the amount of (a.) the Cumulative Minimum Annual Interest Payment less interest paid during the Basic Term or any Renewal Term; or (b.) an amount equal to the Minimum Monthly Interest Payment times the number of months remaining in the Basic Term or Renewal Term, as applicable (the "Prepayment Fee"). In addition, Borrower shall also pay any prepayment penalties provided for in the Term Loan Documents or any other agreement with Lender. A Prepayment may be deemed to have occurred regardless of whether such payment or other reduction (a.) is voluntary or involuntary; (b.) is occasioned by Lender's acceleration of the Obligations or demand hereunder; (c.) is made by Borrower or other third party, including Guarantor; (d.) results from Lender's receipt or collection of proceeds of its Collateral, including insurance proceeds and condemnation awards; (e.) results from Lender's exercise of its right of setoff; and/or (f.) is made during an Insolvency Proceeding, or is made pursuant to any plan of reorganization or liquidation.

6.4. Acceleration of Other Obligations Upon Termination of this Agreement. Upon termination of this Agreement whether pursuant to Section 6 or due to the occurrence of a Material Event of Default pursuant to Section 11, the Obligations owed under the Term Loan Documents or any other Loan Documents shall be accelerated and shall be due, owing and payable in full at such time, including without limitation, all Lender Expenses.

6.5. Obligations and Rights Upon Termination. No termination of this Agreement shall relieve or discharge Borrower of Borrower's duties, Obligations, or covenants hereunder, including without limitation the obligation to continue to turn over sales information and invoices, and Lender's continuing Security Interests in the Collateral shall remain in effect until all Obligations (other than contingent obligations) have been fully and finally discharged and Lender's obligation to provide Advances hereunder is terminated.

7. Creation of Security Interest.

7.1. Grant of Security Interest. In order to secure the payment and performance in full of all of the Obligations, Borrower hereby grants to Lender a continuing Security Interest in the Collateral.

7.2. Express Authority of Lender to Execute and File UCC Financing Statement(s). Notwithstanding any provision hereof, Lender is hereby expressly authorized to execute and file on behalf of Borrower, UCC Financing Statement(s), including but not limited to corrections, amendments, and modifications thereof, including, without limitation, the use of an abbreviated description of Collateral such as "All Assets of the Borrower" on any and all of the foregoing.

7.3. Delivery of Additional Loan Documents. At any time upon the reasonable request of Lender, Borrower shall hereby authorize the preparation and filing by Lender and/or shall execute and deliver to Lender all financing statements, continuation financing statements, control agreements, fixture filings, security agreements, chattel mortgages, pledges, assignments, endorsements of certificates of title, applications for title, affidavits, reports, notices, schedules of Accounts, letters of authority, and all other documents that Lender may reasonably request, in form satisfactory to Lender, to perfect and continue the perfection of Lender's Security Interests in the Collateral, and in order to fully consummate all of the transactions contemplated hereby and under the Loan Documents.

8. Representations and Warranties, and Covenants.

8.1. Borrower's Representations, Warranties, and Covenants. So long as Borrower is indebted to Lender hereunder, Borrower warrants, represents, and agrees that except as disclosed in the Disclosure Schedule attached as **Addendum B** and consented thereto by Lender, the statements set forth herein are true and correct on the Closing Date and shall remain true and correct after the Closing Date until such time as Borrower notifies Lender to the contrary. Borrower shall immediately advise Lender if it learns that any such representation or warranty is untrue in any material respect.

8.1.1. Borrower Sole Owner of Collateral; Personal Property; First Priority Security Interest All Collateral is (a.) solely owned by Borrower; (b.) shall remain personal property at all times except to the extent granted in connection with the pledge of Real Property Collateral; and (c.) all Security Interests against any Collateral given or caused to be given by Borrower to Lender are and will be first priority Security Interests thereon except for Permitted Liens.

8.1.2. No Other Liens. Borrower has good and indefeasible title to the Collateral and the Collateral is free and clear of all liens, encumbrances, Security Interests, and adverse claims or restrictions on transfer or pledge except: (a.) Permitted Liens; (b.) as disclosed in **Addendum B**; and (c.) all such liens, encumbrances, Security Interests, and adverse claims that have either previously or concurrently herewith, been consented to in writing by Lender.

8.1.3. Condition of Collateral; No Transfer of Collateral. The Collateral (a.) is kept in good condition and repair subject to normal wear and tear; (b.) is not subject to waste; and (c.) will not (except for (i.) sales of Inventory in the ordinary course of business; (ii.) the sale of obsolete equipment from time to time in the ordinary course of Borrower's business in an amount not to exceed the aggregate sum of **Twenty-five thousand and 00/100 Dollars ($25,000.00)** provided that all proceeds of such sale of obsolete equipment shall be remitted to Lender; and (iii.) licenses of Borrower's intellectual property in the ordinary course of Borrower's business) be sold, transferred, assigned or removed from the Premises/Additional Locations without first obtaining Lender's prior written consent, which consent shall not be unreasonably withheld.

8.1.4. Facts, Figures and Representations True and Correct. All facts, figures, and representations given, or caused to be given, by Borrower to Lender in connection with the value of the Collateral or regarding each Advance or Account or pertaining to anything done under this Agreement shall to the best of Borrower's knowledge after reasonable inquiry, be true and correct as of the date given and if Borrower subsequently learns that any such facts, figures, or representations are materially or intentionally false, Borrower shall promptly so advise Lender.

8.1.5. Books and Records. Borrower's Books and records (a.) fully and accurately reflect all of Borrower's assets and liabilities (absolute and contingent); (b.) are kept in the ordinary course of business; and (c.) are in accordance with GAAP (subject, in the case of internally prepared interim financial statements, to the absence of footnotes and normal recurring year-end adjustments, the effect of which will not, individually or in the aggregate, be materially adverse).

8.1.6. Fair Market Value of Collateral. The fair market value of the Collateral is, and shall at all times be, not less than the value carried on Borrower's financial statements (less normal depreciation caused by ordinary wear and tear) and as represented to Lender.

8.1.7. Taxes. All taxes of any governmental or taxing authority due or payable by, or imposed or assessed against Borrower, have been paid and shall be paid in full before delinquency, subject only to Permitted Protests.

8.1.8. No Actions, Litigation, etc. Except as disclosed in writing by Borrower to Lender as reflected on the Disclosure Schedule attached hereto as **Addendum B** (a.) there are no actions or proceedings pending by or against Borrower, Guarantor, or other Obligor before any court or administrative agency; and

(b.) Borrower does not have knowledge or belief of any pending, threatened, or imminent litigation, governmental investigations, or claims, complaints, actions, or prosecutions involving Borrower or any Guarantor of the Obligations, except for (i.) ongoing collection matters in which Borrower is the plaintiff; and (ii.) matters arising after the date hereof that, if decided adversely to Borrower or Guarantor, would not (1.) materially impair the prospect of repayment of the Obligations; or (2.) materially impair the value or priority of Lender's Security Interests in the Collateral.

8.1.9. Legal Power and Authority. Borrower has the legal power and authority to enter into this Agreement and the Loan Documents and to perform and discharge Borrower's Obligations hereunder and under the Loan Documents. The Persons signing this Agreement and the Loan Documents on behalf of Borrower are authorized to do so.

8.1.10. Payments on Accounts. At such time as Borrower submits any invoice that is being represented to be a Prime Account, to the best of Borrower's knowledge after due inquiry at such time and subject to Borrower's obligation to advise Lender at such time as it learns to the contrary, every payment falling due on Accounts assigned to Lender will be duly paid and received by Lender on or before the earlier of (a.) sixty (60) days from the due date of each invoice if the payment terms call for payments of thirty (30) days or less; and (b.) in any event, ninety (90) days from the date of each invoice.

8.1.11. Prime Accounts. All Accounts against which Borrower seeks Advances from Lender are now Prime Accounts and Borrower shall only seek Advances against Accounts if such Accounts are believed by Borrower to be Prime Accounts as defined above.

8.1.12. Eligible Inventory. All Inventory against which Borrower seeks Advances from Lender is and shall be Eligible Inventory as defined above, and Borrower shall only seek Advances against such Inventory if such Inventory is believed by Borrower to be Eligible Inventory as defined above.

8.1.13. Location of Inventory. Except as permitted herein, the Inventory is not and shall not be stored with a bailee, warehouseman, or similar party (without Lender's prior written consent and the execution by the bailee of a bailment agreement in form and content satisfactory to Lender) and is located and shall be located only at the Premises/Additional Locations.

8.1.14. Inventory Records. Borrower now keeps, and hereafter at all times shall keep, correct and accurate records itemizing and describing the kind, type, quality, and quantity of the Inventory, and Borrower's cost therefor.

8.1.15. Location of Chief Executive Office; FEIN; Organizational Number. The Chief Executive Office of Borrower is located at the address set forth in the definition of Chief Executive Office. Borrower's Federal Employer Identification Number (the "FEIN") is **93-1148400** and the number assigned by **Oregon**, the state of Borrower's organization, for Borrower's organizational identification number (the "Org ID") is **411915-86**.

8.1.16. Due Organization and Qualification. Borrower is a duly formed, organized, and existing corporation, limited liability company, limited partnership, general partnership, or other legal entity in good standing, qualified, and licensed to do business in the state of its incorporation or formation and in any other state where the failure to be so licensed or qualified could reasonably be expected to have a Material Adverse Change to the business, operations, conditions (financial or otherwise), or finances of Borrower, or on the value of the Collateral to Lender.

8.1.17. Due Authorization; No Conflict. The execution, delivery, and performance of the Loan Documents are within Borrower's powers, have been duly authorized, and are not in conflict with nor constitute a breach of any provision contained in Borrower's By-laws and Articles, Certificate of Incorporation, Articles of Organization, Partnership Agreement, Trust Agreement, or Operating Agreement, nor will they constitute an event of default under any material agreement to which Borrower is a party or by which its properties or assets may be bound.

8.1.18. Financial Statements Fairly Represent Borrower's Financial Condition; No Material Adverse Change in Financial Condition. All financial statements relating to Borrower or any Guarantor of the Obligations that have been delivered by Borrower to Lender have been prepared in accordance with GAAP (subject, in the case of internally prepared interim financial statements, to the absence of footnotes and normal recurring year-end adjustments, the effect of which will not, individually or in the aggregate, be materially adverse) and fairly present Borrower's (or such Guarantor's, as applicable) financial condition as of the date thereof and Borrower's (or such Guarantor's as applicable) results of operations for the period then ended. There has not been a Material Adverse Change in the financial condition of Borrower (or such Guarantor, as applicable) since the date of the latest financial statements submitted to Lender on or before the Closing Date.

8.1.19. Solvency. No transfer of property is being made by Borrower and no Obligation is being incurred by Borrower in connection with the transactions contemplated by this Agreement or the other Loan Documents with the intent to hinder, delay, or defraud either the present or future creditors of Borrower.

8.1.20. Environmental Condition. Except as disclosed in writing by Borrower to Lender, none of Borrower's properties or assets has ever been used by Borrower or, to the best of Borrower's knowledge, by previous owners or operators in the disposal of, or to produce, store, handle, treat, release, or transport, any Hazardous Substances or Hazardous Wastes. None of the Premises of Borrower's properties or assets has ever been designated or identified in any manner pursuant to any Environmental Laws as a disposal site for Hazardous Substances or Hazardous Wastes, or a candidate for closure pursuant to any Environmental Laws. No lien arising under any Environmental Laws has attached to any revenues or to any real or personal property owned or operated by Borrower. Borrower has not received a summons, citation, notice, or directive from the Environmental Protection Agency or any other federal or state governmental agency concerning any action or omission by Borrower resulting in the releasing or disposing of Hazardous Substances or Hazardous Wastes into the environment. Borrower is not using and neither Borrower nor to the best of Borrower's knowledge, any prior owner, occupant, or operator of the Premises has used Hazardous Substances or Hazardous Wastes at or upon, or in any way affecting, the Premises in any manner which violates or violated any Environmental Laws if such violation could, individually or in the aggregate, reasonably be expected to have a Material Adverse Change with respect to any of the Premises or property of Borrower or to result in a Material Adverse Change.

8.1.21. Filings and other Actions. Borrower shall timely make all filings and take other actions required under applicable law, including but not limited to applicable securities law.

8.2. Reliance by Lender; Cumulative Representations and Warranties. Each warranty and representation contained in this Agreement automatically shall be deemed repeated with each Advance made hereunder or any of the other Loan Documents and shall be conclusively presumed to have been relied on by Lender regardless of any investigation made or information possessed by Lender. The warranties and representations set forth herein shall be cumulative and in addition to any and all other warranties and representations that Borrower now or hereafter shall give, or cause to be given, to Lender.

9. Affirmative Covenants. Borrower covenants and agrees that, so long as any credit hereunder shall be available and until full and final payment of the Obligations (other than contingent obligations), and unless Lender shall otherwise consent in writing, the following statements shall be true and Borrower shall do all of the actions set forth below.

9.1. Preserve Good Standing. Borrower shall do all things necessary to preserve its good standing as a **corporation** under the laws of the states where Borrower is authorized to do business, specifically the state(s) of **----------n/a----------,** and under the laws of **Oregon**, the state of its organization. Further, Borrower shall maintain the state of **Oregon** as the state in which Borrower is organized or incorporated.

9.2. Preliminary Annual Financial Statements. Borrower shall provide Lender, as soon as possible after the end of each fiscal year of Borrower, and in any event within sixty (60) days thereafter, preliminary year end financial statements, including but not limited to, the balance sheet and income statement for such year.

9.3. **Compiled** Annual Financial Statements. Borrower shall provide Lender, as soon as possible after the end of each fiscal year but in any event within one hundred twenty (120) days of the end of Borrower's fiscal year:

9.3.1. a complete copy of Borrower's compiled financial statements, including but not limited to (i.) the management letter, if any; (ii.) the balance sheet as of the close of the fiscal year; and (iii.) the income statement for such year, together with a statement of cash flows, audited, reviewed, or compiled by a firm of independent certified public accountants of recognized standing and acceptable to Lender as set forth in Section 9.3 above, or if permitted by Lender in writing, by Borrower;

9.3.2. a statement certified by the chief financial officer of Borrower that Borrower is in compliance with all the terms, conditions, covenants, and warranties of this Agreement or if not so in compliance, providing a detailed explanation thereof; and

9.3.3. a complete copy of all filings required under securities law if Borrower is a publicly traded company.

9.4. Other Financial Statements. No later than thirty (30) days after the close of each month (each, an "Accounting Period"), Borrower shall provide Lender with Borrower's balance sheet as of the close of such Accounting Period and its income statement for that portion of the then current fiscal year through the end of such Accounting Period certified by Borrower's chief financial officer as being complete, correct, and fairly representing its financial condition and results of operations.

9.5. Tax Returns. Borrower shall provide Lender copies of each of Borrower's federal income tax returns, and any amendments thereto and extensions thereof, within one hundred twenty (120) days after the end of Borrower's fiscal year or on such other dates as permitted by law.

9.6. Inventory Product Activity. Borrower shall provide Lender a full, complete, and accurate summary of all Borrower's Inventory activity on a **monthly** basis from Borrower within five (5) Business Days of the end of the prior period and on a monthly basis from any and all public warehouses within fifteen (15) Business Days of the end of the prior month.

9.7. Monthly Accounts Payable and Accounts Receivable Aging Reports. Borrower shall provide Lender on a monthly basis with a full, complete, and accurate accounts payable and accounts receivable aging reports within ten (10) Business Days of the end of the prior month.

9.8. Accounting System. Borrower shall maintain a standard and modern system of accounting in accordance with GAAP with ledger and account cards or computer tapes, discs, printouts, and records pertaining to the Collateral that contain information as from time to time may be reasonably requested by Lender. Borrower also shall keep proper books of account showing all sales, claims, and allowances on its Inventory.

9.9. Designation of Inventory. Borrower shall now and from time to time hereafter, but not less frequently than monthly, execute and deliver to Lender a written designation of Inventory specifying Borrower's cost and the wholesale market value of Borrower's raw materials, work in process, and finished goods, and further specifying such other information as Lender may reasonably request.

9.10. Taxes. All assessments and taxes, whether real, personal, or otherwise, due or payable by, or imposed, levied, or assessed against Borrower or any of its property have been paid subject to Permitted Protests, and shall hereafter be paid in full, before delinquency or before the expiration of any extension period subject to Permitted Protests. Subject to Permitted Protests, Borrower shall make due and timely payment or deposit of all federal, state, and local taxes, assessments, or contributions required of it by law, and will execute and deliver to Lender, on demand, appropriate certificates and/or payroll and other tax receipts attesting to the payment thereof or deposit with respect thereto. Borrower will make timely payment or deposit of all payroll and other employment related tax payments and withholding taxes required of it by applicable laws, including those laws concerning F.I.C.A., F.U.T.A., state disability, and local, state, and federal income taxes, and will, upon request, furnish Lender with proof satisfactory to Lender indicating that Borrower has made such payments or deposits.

9.11. Insurance. Borrower, at its expense, shall keep the Collateral insured against loss or damage by fire, theft, explosion, sprinklers, and all other hazards and risks, and in such amounts, as are ordinarily insured against by other owners in similar businesses. Borrower also shall maintain business interruption, public liability, product liability, and property damage insurance relating to Borrower's ownership and use of the Collateral, as well as insurance against larceny, embezzlement, and criminal misappropriation. Additionally, Borrower shall maintain Workers' Compensation Insurance coverage for all employees as required by law.

9.12. Lender as Loss Payee. All such policies of insurance shall be in such form, with such companies, and in such amounts as may be reasonably satisfactory to Lender. All such policies of insurance (except those of public liability and property damage) shall contain a 438BFU lender's loss payable endorsement or comparable endorsement, or an equivalent endorsement in a form satisfactory to Lender, showing Lender as additional loss payee thereof, and shall contain a waiver of warranties, and shall specify that the insurer must give at least thirty (30) days' prior written notice to Lender before canceling its policy for any reason. Borrower shall deliver to Lender certified copies of such policies of insurance and evidence of the payment of all premiums therefor. All proceeds payable under any such policy shall be payable to Lender to be applied on account of the Obligations.

9.13. No Setoffs or Counterclaims. All payments hereunder and under the other Loan Documents made by or on behalf of Borrower shall be made without setoff or counterclaim and free and clear of, and without deduction or withholding for or on account of, any federal, state, or local taxes.

9.14. Location of Collateral, Inventory, and Equipment. Borrower shall keep the Collateral, including, but not limited to Inventory and Equipment, only at the Premises and any Additional Locations at which any Collateral is stored (assuming bailment agreement(s) in form and content satisfactory to Lender have been signed in favor of Lender) in the following state(s): **Oregon** (in the singular or the plural, the "Collateral State"); provided, however, that with the prior written consent of Lender, Borrower may change the locations of the Collateral, including Inventory and Equipment after sending written notice to Lender not less than thirty (30) days prior to the date on which the Collateral, including but not limited to Inventory and Equipment is to be moved to such new location, provided (a.) such new location is within the continental United States; and (b.) at the time of giving such written notification, Borrower authorizes (i.) the filing of or provides any financing statements or fixture filings necessary to perfect and continue perfected Lender's Security Interest in such assets; and (ii.) executes and delivers, or causes to be executed and delivered, to Lender such agreements, documents, and instruments as Lender may deem reasonably necessary or desirable to protect its Security Interest in the Collateral, including but not limited to Inventory and Equipment, at such location, with such agreements, documents, and instruments to be in form and substance satisfactory to Lender.

9.15. Control of Collateral. At the request of Lender, Borrower shall cooperate with Lender in obtaining possession of any Collateral, in those instances in which Lender chooses to perfect its Security Interest in such Collateral by possession in addition to the filing of a financing statement. At the request of Lender, Borrower shall cooperate with Lender in obtaining control with respect to Collateral consisting of Deposit Accounts, Financial Assets, including without limitation, Investment Property, Letter of Credit Rights, and Electronic Chattel Paper.

9.16. Commercial Tort Claim. If Borrower should acquire a commercial tort claim, Borrower shall promptly notify Lender in a writing signed by Borrower of the general details thereof and grant to Lender in such writing a Security Interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance satisfactory to Lender.

9.17. Leases. Borrower shall pay when due all rents and other amounts payable under any leases to which Borrower is a party or by which Borrower's properties and assets are bound, unless such payments are the subject of a permitted protest. To the extent that Borrower fails timely to make payment of such rents and other amounts payable when due under its leases, Lender shall be entitled, in its Sole Discretion, and without the necessity of declaring an Event of Default, to reserve an amount equal to such unpaid amounts from the loan available to Borrower.

9.18. Change in Name. Borrower shall give Lender written notice immediately upon forming an intention to change its name, form, jurisdiction of business organization, FEIN, or Org ID, but in any event not less than thirty (30) days prior to effecting such change, and Borrower shall not make such change without first inquiring of Lender what actions Lender may require as a result of the contemplated change. Borrower shall take such actions, including but not limited to executing documents, as Lender may reasonably require as a result of such change.

9.19. Inspection. Upon reasonable advance notice by Lender to Borrower, Borrower shall permit Lender or any representatives thereof, during usual business hours, without notice to Borrower, to periodically: (a.) have access to all Premises/Additional Locations where any Collateral is located for the purposes of inspecting (and removing, if after the occurrence and during the continuance of an Event of Default) any of the Collateral, including Borrower's Books; and (b.) permit Lender or its designees to inspect, audit, make copies of, and make extracts from Borrower's Books as Lender may request. No such advance notice shall be required after the occurrence and during the continuance of an Event of Default or if Lender reasonably suspects that an Event of Default may have occurred. Borrower hereby irrevocably authorizes all accountants and third parties to disclose and deliver to Lender at Borrower's expense all financial information, books and records, work papers, management reports and other information in its possession relating to Borrower whether verbally, in writing (by record or authenticated record) or otherwise.

9.20. Employee Retirement Income Security Act. To the extent applicable, Borrower shall comply with all provisions of the Employee Retirement Income Security Act of 1974, and any successor statute, all as amended from time to time ("ERISA"), including regulations promulgated thereunder and interpretations published regarding same.

9.21. Environmental Issues. Borrower shall comply with the affirmative covenants set forth below with respect to environmental issues.

9.21.1. Borrower shall furnish to Lender promptly and in any event within thirty (30) days after receipt thereof, a copy of any notice, summons, citation, directive, letter or other communications from the EPA or any other governmental agency or instrumentality concerning any intentional or unintentional action or omission on Borrower's part in connection with the handling, transporting, transferring, disposal or in the releasing, spilling, leaking, pumping, pouring, emitting, emptying or dumping of Hazardous Substances or Hazardous Wastes into the environment resulting in damage to the environment, fish, shellfish, wildlife, biota and any other natural resource;

9.21.2. Borrower shall furnish to Lender promptly and in any event within thirty (30) days after the receipt thereof, a copy of any notice of or other communication concerning the filing of a lien upon, against or in connection with Borrower, the Collateral or Borrower's real property by the EPA or any other governmental agency or instrumentality authorized to file such a lien pursuant to an environmental protection statute in connection with a fund to pay for damages and/or cleanup and/or removal costs arising from the intentional or unintentional action or omission of Borrower resulting from the disposal or in the releasing, spilling, leaking, pumping, pouring, emitting, emptying or dumping of Hazardous Substances or Hazardous Wastes into the environment;

9.21.3. Borrower shall furnish to Lender promptly and in any event within thirty (30) days after the receipt thereof, a copy of any notice, directive, letter or other communication from the EPA or any other governmental agency or instrumentality acting under the authority of an Environmental Law indicating that all or any portion of the Borrower's property or assets have been listed and/or that Borrower has been deemed by such agency to be the owner and operator of the facility that has failed to furnish to the EPA or other authorized governmental agency or instrumentality, all the information required by the RCRA, CERCLA, SARA, or other applicable Environmental Laws; and

9.21.4. Borrower shall furnish to Lender promptly and in no event more than thirty (30) days after the filing thereof with the EPA or other governmental agency or instrumentality authorized as such pursuant to an environmental protection statute, copies of any and all information reports filed with such agency or instrumentality in connection with Borrower's compliance with RCRA, CERCLA, SARA, or other applicable Environmental Laws.

9.21.5. Borrower shall require and use all commercially reasonable efforts to ensure compliance by all operators and occupants of the Premises with all applicable Environmental Laws.

9.21.6. Borrower agrees to defend, indemnify, save, and hold Lender and its officers, employees, and agents harmless against all obligations, demands, claims, and liabilities claimed or asserted by any other Person arising out of or relating to any breach of the Environmental Laws and any discharges or releases by Borrower or its agents of Hazardous Substances or Hazardous Wastes into the environment from or about the Premises, including ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous substances or Hazardous Wastes or the clean-up or other remediation thereof, and all losses (including without limitation reasonable attorneys' fees and legal and other costs and the reasonable estimate of the allocated costs and expenses of in-house legal counsel and staff) in any way suffered, incurred, or paid by Lender as a result of or in any way arising out of, following, or consequential thereto; 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 its officers, employees and agents in connection with Hazardous Wastes or Hazardous Substances.

9.22. Reaffirmation and Continuing Nature of Representations, Warranties, and Covenants. The foregoing representations, warranties, and covenants shall be of a continuing nature and shall survive the termination of this Agreement and full payment and performance of the Obligations. They shall also be deemed to have been repeated whenever Borrower makes a request for an Advance.

10. Negative Covenants. Borrower covenants and agrees that, so long as any credit hereunder shall be available and until full and final payment and performance of the Obligations (other than contingent obligations), Borrower will not act or take any of the actions set forth herein, without Lender's prior written consent.

10.1. Returns; Allowances and Credits. Borrower shall not accept any returns or grant any allowances or credits to Account Debtors without notifying Lender at the time any credit is issued. Such notification may be made by way of the submission by Borrower of its usual reports to Lender in the event of returns, allowances, or credits provided they are (a.) in the ordinary course of Borrower's business; and (b.) not in material amounts.

10.2. Credit Limit. Borrower shall not borrow any funds from any third party in an amount in excess of **Twenty-five thousand and 00/100 Dollars ($25,000.00)** without Lender's prior written consent, which consent shall not be unreasonably denied. The foregoing credit limit shall not include (a.) accounts payable owed by Borrower to its trade debt in the ordinary course of Borrower's business; (b.) Permitted Indebtedness; or (c.) debt secured by Permitted Liens.

10.3. Indebtedness. Except as permitted by Section 10.2, Borrower shall not create, incur, assume, permit, guarantee, or otherwise become or remain, directly or indirectly, liable with respect to any Indebtedness except Permitted Indebtedness.

10.4. Liens. Borrower shall not create, incur, assume, or permit to exist, directly or indirectly, any lien on or with respect to any of the Collateral or its property or assets, of any kind, whether now owned or hereafter acquired, or any income or profits therefrom except for Permitted Liens (including liens that are replacements of Permitted Liens to the extent that the original Indebtedness is refinanced and provided that the replacement liens secure only those assets or property that secured the original Indebtedness).

10.5. Restrictions on Fundamental Changes. Borrower shall not enter into any acquisition, merger, consolidation, reorganization, or recapitalization, or reclassify its capital stock, or liquidate, wind up, or dissolve itself (or suffer any liquidation or dissolution), or convey, sell, assign, lease, license, transfer, or otherwise dispose of, in one transaction or a series of transactions, all or any substantial part of its business, property, or assets, whether now owned or hereafter acquired, or acquire by purchase or otherwise all or substantially all of the properties, assets, stock, or other evidence of beneficial ownership of any Person.

10.6. Extraordinary Transactions and Disposal of Assets. Borrower shall not enter into any transaction not in the ordinary and usual course of Borrower's business, including the sale, lease, license, or other disposition of, moving, relocation, or transfer, whether by sale or otherwise, of any of Borrower's properties or assets (other than sales of Inventory to buyers in the ordinary course of Borrower's business as currently conducted) except as permitted by this Agreement or the Loan Documents. Nothing herein shall prohibit Borrower from disposing of worthless or obsolete assets from time to time in the ordinary course of Borrower's business provided that (a.) Borrower shall notify Lender prior to doing so if Borrower is disposing of assets valued at or having a cost greater than **Twenty-five thousand and 00/100 Dollars ($25,000.00)**; and (b.) Lender shall receive all of the proceeds from any sale of such worthless or obsolete assets (which proceeds Lender shall apply toward the repayment of the Obligations).

10.7. Change Name. Borrower shall not change Borrower's name, Federal Employer Identification Number, business structure, or identity, or add any new fictitious name. To that effect, Borrower shall not do business under any name other than **TransTech Systems, Inc.**, Borrower's correct legal name, unless Borrower has provided to Lender evidence that it has taken such legal steps required with respect to fictitious or assumed names under the applicable laws of the jurisdictions in which Borrower is located and/or does business. Lender has received acceptable documentation indicating that Borrower will be doing business under the following additional name(s):

Team-ID.com [in California only]

10.8. Guarantee. Borrower shall not guarantee or otherwise become in any way liable with respect to the obligations of any third Person except by endorsement of instruments or items of payment for deposit to the account of Borrower or which are transmitted or turned over to Lender.

10.9. Restructure. Borrower shall not make any change in Borrower's financial structure, the principal nature of Borrower's business operations, or the date of its fiscal year without Lender's prior written consent, which consent shall not be unreasonably withheld.

10.10. Consignments. Borrower shall not consign any Inventory or sell any Inventory on bill and hold, sale or return, sale on approval, or other conditional terms of sale.

10.11. Distributions. Borrower shall not make any distribution or declare or pay any dividends (whether in cash or stock) on, or purchase, acquire, redeem, or retire any of Borrower's capital stock, of any class, whether now or hereafter outstanding, except as consented to in writing by Lender, which consent shall not be unreasonably withheld. Notwithstanding the foregoing, if Borrower is a Subchapter S corporation, Borrower may make distributions to its shareholders for its shareholders to use to pay taxes owed by Borrower attributed to such shareholders as long as no Event of Default has occurred and is continuing.

10.12. Accounting Methods. Borrower shall not modify or change its method of accounting or enter into, modify, or terminate any agreement currently existing, or at any time hereafter entered into with any third party accounting firm or service bureau for the preparation or storage of Borrower's accounting records without said accounting firm or service bureau agreeing to provide Lender information regarding the Collateral or Borrower's financial condition. Borrower waives the right to assert a confidential relationship, if any, it may have with any accounting firm or service bureau in connection with any information requested by Lender pursuant to or in accordance with this Agreement, and agrees that Lender may contact directly any such accounting firm or service bureau in order to obtain such information.

10.13. Investments. Borrower shall not directly or indirectly make or acquire any beneficial interest in (including stock, partnership interest, or other securities of), or make any loan, or capital contribution to, any Person without Lender's prior written consent, which consent shall not be unreasonably withheld.

10.14. Transactions With Affiliates. Except as disclosed in **Addendum B**, Borrower shall not directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower except for transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms, that are fully disclosed to Lender, and that are no less favorable to Borrower than would be obtained in arm's length transaction with a non-Affiliate.

10.15. Suspension. Borrower shall not suspend or go out of a substantial portion of its business.

10.16. Use of Proceeds. Borrower shall not use the proceeds of the Advances made hereunder for any purpose other than to, on the Closing Date, repay in full the outstanding principal, accrued interest, and accrued fees and/or expenses owing the Old Lender, if there is any sum owing to any Old Lender, and to pay transactional Lender Expenses incurred in connection with this Agreement. Thereafter, Borrower shall use the proceeds of the Advances made hereunder for any purpose consistent with the terms and conditions hereof, for its lawful and permitted business purpose, but subject to the terms and conditions of this Agreement.

10.17. Change in Location of Chief Executive Office / Additional Locations; Collateral and Third Party Control. Borrower covenants and agrees that it will not, without thirty (30) days' prior written notification to Lender, relocate its Chief Executive Office to a new location or add or change any Additional Locations. Further, Borrower agrees that at the time of such written notification, Borrower shall provide Lender any financing statements or fixture filings necessary to perfect and continue Lender's perfected Security Interests in the Collateral and authorize Lender to file same. In addition, Borrower agrees that it will not at any time store the Collateral with any bailee or warehouseman or in a third party owned facility without prior execution of a bailment agreement between Lender and bailee or a waiver and consent by landlord, each in form and substance satisfactory to Lender.

10.18. Hazardous Substances or Hazardous Waste. Borrower shall not permit the Premises to be used to generate, manufacture, refine, transport, treat, store, handle, dispose, produce, or process Hazardous Substances or Hazardous Wastes, except in compliance with all applicable Environmental Laws.

10.19. Management If Borrower's CEO, CFO or Controller should no longer be employed or should die or become disabled such that such officer would not be able to continue to act in its capacity as an officer, (a "Material Management Change"), Borrower shall (a.) so notify Lender within five (5) Business Days of such Material Management Change; and (b.) use its best efforts to replace such CEO, CFO or Controller with a satisfactory acting CEO, CFO or Controller within six (6) weeks of the Material Management Change and so advise Lender.

11. Events Of Default. Any one or more of the events set forth below shall constitute a "Material Event of Default" under this Agreement and the Loan Documents.

11.1. Failure to Pay. Borrower or any Obligor fails to pay when due and payable or when declared due and payable, any portion of the Obligations whether of principal, interest, (including any interest which, but for the provisions of the Bankruptcy Code, would have accrued on such amounts), fees and charges due Lender, reimbursement of Lender Expenses, or other amounts constituting the Obligations.

11.2. Failure to Perform. Borrower or any Obligor fails or neglects to perform, keep, or observe any material term, provision, condition, covenant, or agreement contained in this Agreement, any of the Loan Documents, or in any other present or future agreement between Borrower and Lender.

11.3. Material Adverse Change. A Material Adverse Change has occurred without being cured.

11.4. Writ. Any of Borrower's or any Obligor's properties or assets is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes into the possession of any third Person.

11.5. Insolvency Proceeding. An Insolvency Proceeding is commenced by or against Borrower or any Obligor without being dismissed in sixty (60) days; provided, however, that upon the filing of an Insolvency Proceeding by or against Borrower, Lender shall have no obligation to advance funds to Borrower and may seek relief from stay or to prohibit use of cash collateral or such other protection as Lender deems reasonably necessary under the circumstances without being dismissed in sixty (60) days; provided, however, that Lender may take such immediate actions permitted under the Loan Documents or applicable law that Lender believes are required under the circumstances to prevent or avoid prejudice to Lender, including but not limited to seeking court orders granting relief from the automatic stay or prohibiting the use of cash collateral, and Lender shall not be required to continue to made advances under the Agreement absent a stipulation on terms and conditions satisfactory to Lender and approved by the bankruptcy court.

11.6. Injunction Against Doing Business. Borrower or any Obligor is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs.

11.7. Notice of Lien or Levy. (a.) A notice of lien, levy, or assessment is filed of record with respect to any of Borrower's or any Obligor's properties or assets by the government of the United States, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency; or (b.) any taxes or debts owing at any time hereafter to any one or more of such entities becomes a lien, whether choate or otherwise, upon any of Borrower's properties or assets and the same is not paid on the payment date thereof.

11.8. Judgment Lien. A judgment or other claim becomes a lien or encumbrance upon any material portion of Borrower's or any Obligor's properties or assets.

11.9. Default in Third Party Agreements. Borrower or any Obligor defaults in any material agreement to which Borrower or any Obligor is a party with one or more third Persons resulting in a right by such third Persons, irrespective of whether exercised, to accelerate the maturity of Borrower's or any Obligor's obligations thereunder, which default would have a material negative effect on Borrower's or any Obligor's business in Lender's reasonable business judgment.

11.10. Prohibited Payment on Subordination Agreement. Borrower makes any payment on account of Indebtedness that has been subordinated in right of payment to the payment of the Obligations, except to the extent such payment is permitted by the terms of the subordination provisions applicable to such Indebtedness.

11.11. Misstatement or Misrepresentation. Any material or intentional misstatement or misrepresentation exists now or hereafter in any warranty, representation, statement, or report made to Lender by Borrower or any Obligor or any officer, employee, agent, or director of Borrower or any Obligor, or any such warranty or representation is withdrawn.

11.12. Limitation or Termination of Guaranties, Validity Agreements, etc. (a.) The obligation of any Guarantor or other third Person under the Guaranty, any validity agreement, or any of the other Loan Documents is limited or terminated by operation of law or by the Guarantor or other third Person thereunder; (b.) any such Guarantor or other third Person becomes the subject of an Insolvency Proceeding; or (c.) the termination, lapse, or ineffectiveness of any UCC Financing Statement filed in connection with or related to any collateral pledged in support of the Guaranty or any other Loan Documents.

11.13. Prospect of Payment Materially Impaired. Lender shall reasonably believe in good faith and in light of all the facts and circumstances that the prospect of (a.) payment of the Loans; or (b.) the performance of any of Borrower's material Obligations is materially impaired.

11.14. Termination, Lapse, or Ineffectiveness of UCC Filing. The termination, lapse of, or ineffectiveness of any UCC Financing Statement filed in connection with or related to any Collateral granted pursuant to this Agreement or any of the other Loan Documents unless due to the failure of Lender to file a continuation statement; provided, however that it shall be an Event of Default if Borrower does not take such steps as Lender may reasonably request to assist Lender in correcting such terminated, lapsed or ineffective UCC filing.

11.15. Violation of any Environmental Law. (a.) The failure by Borrower to comply with each, every and all of the requirements of RCRA, CERCLA, SARA, or any other applicable Environmental Law on Borrower's property; (b.) the receipt by Borrower of a notice from the EPA or any other governmental agency or instrumentality acting under the authority of any Environmental Law, indicating that a lien has been filed against any of the Collateral, or any of Borrower's other property by the EPA or any other governmental agency or instrumentality in connection with a fund as a result of damage arising from an intentional or unintentional action or omission by Borrower resulting from the disposal, releasing, spilling, leaking, pumping, pouring, emitting, emptying or dumping of Hazardous Substances or Hazardous Wastes into the environment; and (c.) any other event or condition exists which might reasonably be expected, in the good faith opinion of Lender, under applicable environmental protection statutes, to have a material adverse effect on the financial or operational condition of Borrower or the value of all or any material part of the Collateral or other property of Borrower.

11.16. Failure to Obtain a Waiver and Consent from Owner or Bailment Agreement After Change in Chief Executive Office / Additional Locations. If Lender shall not be not provided with a waiver and consent from the owner of the Chief Executive Office or a bailment agreement from the owner or operator of any new Additional Location following a change in (a.) the location of Borrower's Chief Executive Office or Additional Locations; or (b.) the ownership of the Chief Executive Office or Additional Locations.

11.17. Fraud, Defalcation or Conversion. If Borrower shall have engaged in any fraud, defalcation or conversion.

11.18. Failure to Cure a Breach or Default After Notice. Any breach or default under this Agreement, the Loan Documents or any other present or future agreement between Borrower and Lender shall become a Material Event of Default if Borrower has not cured said breach or default within the time period specified by Lender in its Sole Discretion in any notice of default, which time period shall depend upon the facts and circumstances then in effect.

12. Lender's Rights and Remedies Upon Default. Borrower and Lender have agreed to the terms set forth below with respect to the rights and remedies of Lender upon the occurrence of a breach or default hereunder or under the Loan Documents.

12.1. Rights and Remedies. Upon the occurrence, and during the continuation, of a Material Event of Default, Lender may, at its election, without notice of its election and without demand, take any one or more of the actions set forth below, all of which are authorized by Borrower.

12.1.1. Accelerate Obligations. Lender may declare all Obligations, whether evidenced by this Agreement, by any of the other Loan Documents, or otherwise, immediately due and payable, without presentment, demand, protest, or notice of any kind, all of which are hereby expressly waived by Borrower.

12.1.2. Cease Advancing Money. Lender may cease advancing money or extending credit to or for the benefit of Borrower under this Agreement, the Loan Documents, or any other agreement between Borrower and Lender.

12.1.3. Terminate This Agreement. Lender may terminate this Agreement and any of the other Loan Documents as to any future liability or obligation of Lender, but without affecting Lender's rights and Security Interests in the Collateral and without affecting the Obligations.

12.1.4. Settle or Adjust Disputes. Lender may settle or adjust disputes and claims directly with Account Debtors to the Accounts for amounts and upon terms which Lender considers advisable, and in such cases, Lender will credit Borrower's loan account with only the net amounts received by Lender in payment of such disputed Accounts, after deducting all Lender Expenses incurred or expended in connection therewith.

12.1.5. Returned Inventory. Lender may cause Borrower to hold all returned Inventory in trust for Lender, segregate all returned Inventory from all other property of Borrower or in Borrower's possession and conspicuously label said returned Inventory as being the Collateral of Lender.

12.1.6. Make Payment; Take Action. Lender may, without notice to or demand upon Borrower, Guarantor, or other guarantor, make such payments and take such actions as Lender considers necessary or reasonable to protect its Security Interests in the Collateral. Borrower agrees to assemble the Collateral if Lender so requires, and to make the Collateral available to Lender as Lender may designate. Borrower authorizes Lender to enter the Premises/Additional Locations where the Collateral is located, to take and maintain possession of the Collateral, or any part of it, and to pay, purchase, contest, or compromise any encumbrance, charge, or lien that in Lender's determination appears to conflict with its Security Interests and to pay all expenses incurred in connection therewith. With respect to any of Borrower's owned Premises, Borrower hereby grants Lender a license to enter into possession of such Premises and to occupy the same, without charge, for up to one hundred twenty (120) days in order to exercise any of Lender's rights or remedies provided herein or in any of the other Loan Documents, at law, in equity, or otherwise.

12.1.7. Setoff. Lender may, without notice to Borrower (such notice being expressly waived), and without constituting a retention of any Collateral in satisfaction of an Obligation (within the meaning of ORS 79.0620, as such sections may be amended and/or re-numbered from time to time), set off and apply to the Obligations any and all (a.) balances and deposits of Borrower held by Lender (including any amounts received in the Collateral Account); or (b.) the Obligations at any time owing to or for the credit or the account of Borrower held by Lender.

12.1.8. Hold Monies. Lender may hold, as cash collateral, any and all balances and deposits of Borrower held by Lender, and any amounts received in the Collateral Account and Collateral Control Account, to secure the full and final repayment of all of the Obligations.

12.1.9. Deal with Collateral. Lender may collect, ship, reclaim, recover, store, finish, maintain, repair, dispose of, prepare for sale, advertise for sale, and sell (in the manner provided for herein) the Collateral. Lender is hereby granted a license or other right to use, without charge, Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks, service marks, and advertising matter, or any property of a similar nature, as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and Borrower's rights under all licenses and all franchise agreements shall inure to Lender's benefit.

12.1.10. Sell Collateral. Lender may sell the Collateral at either a public or private sale, or both, by way of one or more contracts or transactions, for cash or on terms, in such manner and at such places (including Borrower's Premises) as Lender determines is commercially reasonable. It is not necessary that the Collateral be present at any such sale.

12.1.11. Notice of Disposition of Collateral. Lender shall give notice of the disposition of the Collateral as follows:

12.1.11.1. Lender shall give Borrower and each holder of a Security Interest in the Collateral which has filed with Lender a written request for notice, a notice in writing of the time and place of public sale, or, if the sale is a private sale or some other disposition other than a public sale is to be made of the Collateral, then the time on or after which the private sale or other disposition is to be made;

12.1.11.2. the notice shall be personally delivered or mailed, postage prepaid, to Borrower at the address set forth herein, giving such notice as may be reasonable under the circumstance of (a.) the date fixed for the sale; or (b.) before the date on or after which the private sale or other disposition is to be made; except that no notice needs to be given prior to the disposition of any portion of the Collateral that is perishable or threatens to decline speedily in value or that is of a type customarily sold on a recognized market. Notice to Persons other than Borrower, Guarantor, or secured creditors reflected in a UCC search claiming an interest in the Collateral shall be sent to such addresses as they have furnished to Lender or as is reflected in such UCC search as the case may be; and

12.1.11.3. if the sale is to be a public sale, Lender shall also give notice of the time and place by publishing a notice one (1) time giving such notice as may be reasonable under the circumstances before the date of the sale in a newspaper of general circulation in the county in which the sale is to be held.

12.1.12. Credit Bid. Lender may credit bid and purchase any and all of the Collateral at any public sale.

12.1.13. Deficiency; Excess. Any deficiency that exists after disposition of the Collateral as provided above will be paid immediately to Lender by Borrower. Any excess will be returned, without interest and subject to the rights of third Persons, by Lender to Borrower.

12.2. Remedies Cumulative. Lender shall have all rights, powers and remedies available under each of the Loan Documents, or accorded by law, including without limitation the right to resort to any or all Collateral for any credit accommodation from Lender under this Agreement or any other Loan Document and to exercise any or all of the rights of a beneficiary or secured party pursuant to applicable law. All rights, powers and remedies of Lender in connection with each of the Loan Documents or as accorded by Lender, may be reasonably exercised at any time by Lender and from time to time after the occurrence and during the continuance of a Material Event of Default, are cumulative and not exclusive, and shall be in addition to any other rights, powers or remedies provided by law or equity.

13. Taxes and Lender Expenses.

13.1. If Borrower fails to pay any monies (whether taxes, rents, assessments, insurance premiums, or otherwise) due to third Persons, or fails to make any deposits or furnish any required proof of payment or deposit, all as required under the terms of this Agreement (in each case, except for payments subject to Permitted Protests), then, to the extent that Lender determines in its good faith reasonable business judgment that such failure by Borrower could have a Material Adverse Change with respect to Lender's interests in the Collateral, in its Sole Discretion and without prior notice except as provided in the Loan Documents (except that Lender shall use its best efforts to give two (2) days' notice to Borrower without incurring any liability for failure to do so), Lender may do any or all of the following: (a.) set up such reserves in Borrower's loan account and comply with any condition as Lender reasonably deems necessary to protect Lender from the exposure created by such failure; (b.) qualify Borrower in any state to collect Accounts; (c.) obtain and maintain insurance policies of the type described herein; and (d.) take any action with respect to such policies as Lender reasonably deems prudent. Any such amounts paid by Lender shall be at Borrower's expense and shall constitute Lender Expenses. Any such payments made by Lender shall not constitute an agreement by Lender to make similar payments in the future or a waiver by Lender of any Event of Default under this Agreement. Lender need not inquire as to, or contest the validity of, any such expense, tax, Security Interest, encumbrance, or lien and the receipt of the usual official notice for the payment thereof shall be conclusive evidence that the same was validly due and owing. Such Lender's Expenses may be charged to Borrower's account and if not charged or paid prior to such time, shall be charged upon termination.

13.2. Unless Borrower provides Lender with evidence of the insurance coverage as required by this Agreement, Lender may purchase such insurance at Borrower's expense to protect Lender's interest. This insurance may, but need not, also protect Borrower's interest. If any Collateral becomes damaged, the insurance coverage that Lender purchases may not pay any claim Borrower makes or any claim made against Borrower. Borrower may later cancel this coverage after providing evidence that Borrower has obtained property coverage elsewhere.

13.3. Borrower is responsible for the cost of any insurance purchased by Lender, which shall constitute a Lender Expense. The cost of obtaining this insurance may be added to Borrower's loan balance. If the cost is added to Borrower's loan balance, interest at the Rate set forth in Section 2.2.1 will apply to this added amount. The effective date of coverage may be the date on which Borrower's prior coverage lapsed or the date Borrower failed to provide proof of coverage.

13.4. The insurance coverage that Lender purchases may be considerably more expensive than the insurance coverage that Borrower could obtain and may not satisfy any need for property damage coverage or any mandatory liability insurance requirements imposed by applicable law.

14. Waivers; Indemnification.

14.1. Waivers of Demand, Protest, etc. Except as expressly provided in the Agreement or the other Loan Documents, Borrower waives demand, protest, notice of protest, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of Accounts, Documents, Instruments, Chattel Paper, and guarantees at any time held by Lender on which Borrower may in any way be liable.

14.2. No Liability of Lender Re: Collateral. 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 Borrower.

14.3. Indemnification. Borrower 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 reasonable attorneys' fees and legal and other costs and the reasonable estimate of the allocated costs and expenses of in-house legal counsel and staff) 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 grossnegligence or willful misconduct on the part of Lender or any of Lender's officers, employees, shareholders, directors, attorneys, and agents.

14.4. No Liability for Failure to Make Advances. Borrower agrees Lender shall not be liable or responsible for any failure to make Advances (a.) if in Lender's Sole Discretion Lender reasonably believes in light of all of the facts and circumstances that Borrower is not entitled to receive such Advances; (b.) due to any accounting or administrative errors made by Lender provided that such errors are not in bad faith; or (c.) due to any other failure by Lender unless the same arises directly from Lender's gross negligence or willful misconduct.

14.5. Best Efforts by Lender to Give Notice of Default. Lender agrees to use its best efforts to give Borrower prompt written notice of any default or Event of Default or alleged default by Borrower promptly after Lender has made the determination that it intends to exercise its rights and remedies as Lender; provided, however, that there shall be no obligation on the part of Lender to give any notice in the event of any fraud, defalcation, or conversion on the part of Borrower.

15. Notices. 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 Borrower:	**TransTech Systems, Inc.**
	12142 NE Sky Lane, Suite 130, Aurora, Oregon 97002-8730
Attn:	**James M. Gingo, President**
Telephone No.:	**(503) 427-7116**
Facsimile No.:	**(503) 682-0166**
If to Lender:	**BFI Business Finance**
	851 East Hamilton Avenue, 2nd Floor, Campbell, California 95008
Attn:	**David Drogos, President**
Telephone No.:	**408.369.4000**
Facsimile No.:	**408.369.4018 / 408.369.4056**

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, other than notices by Lender in connection with ORS 79.0611, 79.0612, 79.0613, 79.0614, and 79.0620 and any other references to the disposition of collateral under the Code, all as such sections may be amended and/or re-numbered from time to time, shall be deemed received on the earlier of the date of actual receipt or three (3) days after the deposit thereof in the mail. Borrower 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.

16. Choice of Law. This Agreement and all transactions contemplated hereunder and/or evidenced hereby shall be governed by, construed under, and enforced in accordance with the internal laws of the State of Oregon, without giving effect to conflicts of law principles.

17. 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 Borrower 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.

18. JURY TRIAL WAIVER. BORROWER AND LENDER HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN, INCLUDING, WITHOUT LIMITATION, CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. BORROWER AND LENDER REPRESENT THAT EACH HAS REVIEWED THIS WAIVER AND EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. IN THE EVENT OF LITIGATION, A COPY OF THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

19. Destruction of Borrower's Documents. All documents, schedules, invoices, agings, or other papers delivered to Lender, other than Borrower's Books or Collateral, may be destroyed or otherwise disposed of by Lender four (4) months after they are delivered to or received by Lender, unless Borrower requests, in writing, the return of said documents, schedules, or other papers and makes arrangements, at Borrower's expense, for their return.

20. Revocation of Borrower's Right to Sell Inventory Free and Clear of Lender's Security Interest. Lender may, upon the occurrence and during the continuance of an Event of Default, revoke Borrower's right to sell Inventory free and clear of Lender's Security Interest therein.

21. Third Party Debt. If Borrower owes money to any third party which is also a borrower or other obligor of Lender (the "Third Party Debtor"), Lender may at its option to protect the interests of Lender, advance sums to Borrower under the Agreement and pay directly to the Third Party Debtor the amount of the obligation owed by Borrower to the Third Party Debtor.

22. Disclaimer for Negligence. Lender shall not be liable for any claims, demands, losses, or damages made, claimed, or suffered by Borrower, except to the extent such claims, demands, losses, or damages are caused directly by Lender's gross negligence or willful misconduct.

23. Limitation of Damages. Lender shall not be responsible for any lost profits of indirect, special, or consequential damages from Borrower arising from any breach of contract, tort (excluding Lender's gross negligence or willful misconduct), or any other wrong arising from the establishment, administration, or collection of the Obligations. In no event shall Lender be liable for losses or delays resulting from computer malfunction, interruption of communication facilities, labor difficulties or other causes beyond Lender's reasonable control or for indirect, special or consequential damages.

24. Multiple Borrowers. If there is more than one Borrower as of the Closing Date or thereafter, the following provisions shall apply:

24.1. Waiver of Subrogation, etc. Each Borrower hereby waives its rights of subrogation, reimbursement, indemnification, and contribution and any other rights and defenses that are or may become available to any Borrower.

24.2. Waiver with Respect to Real Property Collateral. Each Borrower waives all rights and defenses it may have if any agreement with Lender is secured by real property. This means, among other things: (a.) Lender may collect from any Borrower without first foreclosing on any real or personal property Collateral pledged by Borrower; and (b.) if Lender forecloses on any Real Property Collateral pledged by any Borrower: (i.) the amount of the debt may be reduced only by the price for which that Collateral is sold at the foreclosure sale, even if the Collateral is worth more than the sale price; and (ii.) Lender may collect from any Borrower even if Lender, by foreclosing on the Real Property Collateral, has destroyed any right any Borrower may have to collect from any other Borrower. This is an unconditional and irrevocable waiver of any rights and defenses any Borrower may have because Borrower's debt is secured by Real Property Collateral. These rights and defenses include, but are not limited to, any rights or defenses based upon the Oregon equivalents of §§ 580a, 580b, 580d, or 726 of the California Code of Civil Procedure.

24.3. Waiver of Rights and Remedies Based on Election of Remedies. Each Borrower waives all rights and defenses arising out of an election of remedies by Lender, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for a guaranteed obligation, has destroyed any Borrower's rights of subrogation and reimbursement against the principal and each Borrower further waives any and all benefits or defenses, if any, arising directly or indirectly under any one or more of ORS 73.0116, 73.0118, 73.0119, 73.0419, 73.0605, 79.0615, 79.0620, and 79.0626.

24.4. Acknowledgment of Joint and Several Liability by Each Borrower. Each Borrower hereby agrees that it is jointly and severally, directly, and primarily liable to Lender for payment and performance in full of all duties, obligations, and liabilities under this Agreement and each other document, instrument, and agreement entered into by any Borrower with or in favor of Lender in connection herewith, and that such liability is independent of the duties, obligations, and liabilities of any other Borrower or any Guarantor of the Obligations, as applicable. Except as specifically otherwise provided, each reference herein to Borrower shall mean each and every Borrower that is a party hereto, individually and collectively, jointly and severally.

25. General Provisions.

25.1. Effectiveness. This Agreement shall be binding and deemed effective when executed by Borrower and Lender, with the acknowledgment and agreement portion executed by each Guarantor.

25.2. Successors and Assigns. This Agreement shall be binding on and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties; provided however, that Borrower may not assign or transfer its interest hereunder without the prior written consent of Lender, any prohibited assignment shall be void ab initio. Lender reserves the right to sell, assign, transfer, negotiate, or grant participations in all or any part of, or any interest in, Lender's rights and benefits under each of the Loan Documents executed herewith or hereafter. In connection therewith, Lender may, subject to the requirements of Section 29, disclose all documents and information that Lender now has or may hereafter acquire relating to any credit extended by Lender to Borrower, Borrower or its business, any Obligor or the business of any Obligor, or any Collateral.

25.3. Section Headings. Headings and numbers have been set forth herein for convenience only. Unless the contrary is compelled by the context, everything contained in each section applies equally to this entire Agreement.

25.4. Interpretation. This Agreement, all the Loan Documents, and all agreements relating to the subject matter hereof are the product of negotiation and preparation by and among each party and its respective attorneys, and shall be construed accordingly.

25.5. Severability of Provisions. In the event any one or more of the provisions contained in this Agreement is held to be invalid, illegal or unenforceable in any respect, then such provision shall be ineffective only to the extent of such prohibition or invalidity, and the validity, legality, and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

25.6. Amendments in Writing. Neither this Agreement nor any provisions hereof may be changed, waived, discharged, or terminated, nor may any consent to the departure from the terms hereof be given, orally (even if supported by new consideration), but only by an instrument in writing signed by all parties to this Agreement. Any waiver or consent so given shall be effective only in the specific instance and for the specific purpose for which given.

25.7. Waiver or Delay by Lender to Exercise Rights. No failure by Lender to exercise and no delay by Lender in exercising any right, power, or remedy hereunder or under any of the other Loan Documents shall impair any right, power, or remedy which Lender may have, nor shall any such delay be construed to be a waiver of any of such rights, powers, or remedies, or any acquiescence in any breach or default hereunder; nor shall any waiver by Lender of any breach or default by Borrower hereunder be deemed a waiver of any default or breach subsequently occurring. All rights and remedies granted to Lender hereunder shall remain in full force and effect notwithstanding any single or partial exercise of, or any discontinuance of action begun to enforce, any such right or remedy. The rights and remedies specified herein are cumulative and not exclusive of each other or of any rights or remedies which Lender would otherwise have. Any waiver, permit, consent, or approval by Lender of any breach or default hereunder must be in writing and shall be effective only to the extent set forth in such writing and only as to that specific instance.

25.8. Survival. All representations, warranties, and agreements herein contained shall be effective so long as any portion of this Agreement remains executory.

25.9. Continuing Obligations. No termination of this Agreement or the other Loan Documents shall relieve or discharge Borrower of its respective duties, obligations and covenants until all Borrower's Obligations (other than contingent obligations) under this Agreement and the other Loan Documents, other than contingent obligations, have been fully and finally discharged and paid, and Lender's continuing Security Interest in the Collateral and the rights and remedies of Lender hereunder, under the other Loan Documents and applicable law and procedures established by Lender in connection with its lending operations from time to time, whether pursuant to a procedure manual or otherwise, shall remain in effect until all such Obligations (other than contingent obligations), other than contingent obligations, have been fully and finally discharged and paid.

25.10. Further Assurances. Borrower shall execute such other and further documents and instruments and take such other actions as Lender may reasonably request to implement the provisions of this Agreement and to perfect and protect the Security Interests and other rights and remedies of Lender contemplated by the Loan Documents or granted hereafter.

25.11. Counterparts; Telefacsimile Execution. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if all signatures were upon the same instrument. Delivery of an executed counterpart of the signature page to this Agreement by telefacsimile shall be effective as delivery of a manually executed counterpart of this Agreement, and any party delivering such an executed counterpart of the signature page to this Agreement by telefacsimile to any other party shall thereafter also promptly deliver a manually executed counterpart of this Agreement to such other party, provided that the failure to deliver such manually executed counterpart shall not affect the validity, enforceability, or binding effect of this Agreement.

25.12. Revival and Reinstatement of Obligations. If the incurrence or payment of the Obligations by Borrower, any Guarantor, or other Obligor or the transfer by either or both of such parties to Lender of any property of either or both of such parties should for any reason subsequently be declared to be void or voidable under any state or federal law relating to creditors' rights, including provisions of the Bankruptcy Code relating to fraudulent conveyances, preferences, and other voidable or recoverable payments of money or transfers of property (individually or collectively, a "Voidable Transfer"), and if Lender is required to repay or restore, in whole or in part, any such Voidable Transfer, or elects to do so upon the reasonable advice of its counsel, then, as to any such Voidable Transfer, or the amount thereof that Lender is required or elects to repay or restore, and as to all reasonable costs, expenses, and attorneys' fees of Lender related thereto, the liability of Borrower or such Guarantor automatically shall be revived, reinstated, and restored and shall exist as though such Voidable Transfer had never been made.

25.13. Supplementary Terms. The terms and conditions of the Loan Documents shall supplement the terms hereof, except to the extent otherwise specifically provided herein.

25.14. Integration. This Agreement, together with the Loan Documents, embodies the entire agreement and understanding among and between the parties hereto, and supersedes all prior or contemporaneous agreements and understandings between said parties, verbal or written, express or implied, relating to the subject matter hereof. No promises of any kind have been made by Lender or any third party to induce Borrower to execute this Agreement. No course of dealing, course of performance or trade usage, and no parol evidence of any nature, shall be used to supplement or modify any terms of this Agreement.

25.15. Conflicts With Other Agreements. Unless otherwise expressly stated in the Loan Documents or any other agreement between Lender and Borrower, if a conflict exists between the provisions of this Agreement and the provisions of such other agreement, the provisions of this Agreement shall control.

25.16. Term Loan Documents Executed Concurrently Herewith, If Any. Concurrently with the execution of this Agreement or hereafter, Borrower may be executing an Equipment Security Agreement or other applicable security agreement and a Secured Promissory Note (the "Term Loan") and related documents (collectively, the "Term Loan Documents").

26. Cross Collateral. Any Collateral pledged to Lender to secure any obligation of Borrower shall also secure any other obligation of Borrower to Lender except that any Real Property Collateral pledged to secure any obligation of Borrower shall only secure any other obligation of Borrower if Lender specifically so agrees in writing.

27. Cross-Payment; Right to Reserve. Lender may, in its Sole Discretion, make Advances under one loan to make any payments due from Borrower to Lender under any other loan. Lender may also, in its Sole Discretion, reserve under one loan for amounts due under any other loan.

28. Cross-Defaults. An Event of Default under this Agreement shall be an Event of Default under each of the Loan Documents, and vice versa.

29. Confidentiality. In handling any confidential information of Borrower, Lender and all employees and agents of Lender shall exercise the same degree of care that Lender exercises with respect to its own proprietary information of the same types to maintain the confidentiality of any non-public information thereby received or received pursuant to this Agreement and the other Loan Documents except that disclosure of such information may be made (a.) to the subsidiaries or Affiliates of Lender in connection with their present or prospective business relations with Borrower; (b.) to prospective transferees or purchasers of any interest in the Advances, provided that they have entered into a comparable confidentiality agreement in favor of Borrower and have delivered a copy to Borrower; (c.) as required by law, regulations, rule or order, subpoena, judicial order, or similar order; (d.) as may be required in connection with the examination, audit or similar investigation of Lender; and (e.) as Lender may determine in connection with the enforcement of any remedies hereunder. Confidential information hereunder shall not include information that either: (i.) is in the public domain or in the knowledge or possession of Lender when disclosed to Lender, or becomes part of the public domain after disclosure to Lender through no fault of Lender; or (ii.) is disclosed to Lender by a third party, provided Lender does not have actual knowledge that such third party is prohibited from disclosing such information.

30. **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 any terms and conditions set forth in **Addendum A** attached hereto and made a part hereof. There may be disclosures made by Borrower to Lender set forth on **Addendum B** attached hereto and incorporated by reference herein.

IN WITNESS WHEREOF, the parties hereto have caused this Loan and Security Agreement (Accounts Receivable & Inventory Line of Credit) to be executed as of the date first set forth above.

TransTech Systems, Inc.

/s/ James M. Gingo
By: James M. Gingo
Title: President

BFI Business Finance

/s/ Jeffrey P. Johnson
By: Jeffrey P. Johnson
Title: Executive Vice President

ACKNOWLEDGMENT AND AGREEMENT BY GUARANTOR(S)

The Guarantor or Guarantors hereby acknowledge the terms and conditions of the foregoing Loan and Security Agreement (Accounts Receivable & Inventory Line of Credit) and agree to the terms thereof, and further agree to be bound by such terms, including, but not limited to, the terms regarding choice of law, venue, and the waiver of the right to a jury trial.

/s/ James M. Gingo
James M. Gingo, Guarantor

ADDENDUM A

Pursuant to this **Addendum A to Loan and Security Agreement** (this "Addendum"), the foregoing **Loan and Security Agreement (Accounts Receivable & Inventory Line of Credit)** (the "Agreement") by and between **BFI Business Finance** ("Lender") and **TransTech Systems, Inc.** ("Borrower") is hereby amended and/or supplemented by the terms and conditions set forth below.

31. Borrower shall not upstream, transfer or convey any funds or assets outside of the ordinary course of business to ID VALIDATION SYSTEMS, L.L.C., EZ IDENTIFICATION LLC, or any other entity without Lender's prior written consent.

32. Notwithstanding any contrary definition of Prime Accounts, unless foreign credit insurance is provided in form and content acceptable to Lender, foreign receivables shall be capped at the amount of Fifty Thousand and 00/100 Dollars ($50,000.00). In addition and unless fully executed government assignment of claims forms in form and content acceptable to Lender are provided, all Government receivables shall be capped at the amount of Seventy-five Thousand and 00/100 Dollars ($75,000.00).

33. The following Section(s) is(are) hereby replaced in their entirety with the Section(s) set forth below.

"Section 2.2.12. Audit Fees. Borrower shall pay to Lender on demand **semi-annual** audit fee of **Nine Hundred and 00/100 Dollars ($950.00).**"

"Section 2.2.13. Inventory Appraisal Fee. Should the Maximum Inventory Advance exceed the amount of Three Hundred Thousand and 00/100 Dollars ($300,000.00), Borrower shall pay to Lender on demand an **annual** inventory appraisal fee not to exceed the amount of **Four Thousand and 00/100 Dollars ($4,000.00) per year** (the "Inventory Appraisal Fee") absent the occurrence and continuance of an Event of Default."

ADDENDUM B

Borrower hereby makes the following disclosures to Lender:

None

EXHIBIT A

Collateral Account

Name: BFI Business Finance
Bank: City National Bank
Address: 2001 North Main Street, Suite 200
Walnut Creek, California 94596

Collateral Control Account

Name: TransTech Systems, Inc. - Collateral Control Account
Bank: ----------n/a----------
Address: ----------n/a----------
----------n/a----------

Post Office Box

Name: BFI Business Finance
Address: P.O. Box 25492
Portland, Oregon 97298-0492

First Modification to Loan and Security Agreement

This **First Modification to Loan and Security Agreement** (this "Modification") is entered into by and between **TransTech Systems, Inc.** ("Borrower") and **BFI Business Finance** ("Lender") as of this **11th day of March, 2009**, at **Campbell, California**.

RECITALS

A. Lender and Borrower have previously entered into or are concurrently herewith entering into a **Loan and Security Agreement** (the "Agreement") dated **December 9, 2008**.

B. Lender and Borrower may have previously executed one or more Modifications to **Loan and Security Agreement** (the "Previous Modification(s)").

C. Borrower has requested, and Lender has agreed, to modify the Agreement as set forth below.

AGREEMENT

For good and valuable consideration, the parties agree as set forth below:

1. Incorporation by Reference. The Agreement and the Previous Modification(s), if any, as modified hereby and the Recitals are incorporated herein by this reference.

2. Effective Date. The terms of this Modification shall be in full force and effect as of **December 9, 2008**.

3. Modification to Agreement. The Agreement is hereby modified to amend and restate the section(s) referenced below:

a. **Section 2.2.3.** Minimum Monthly Interest Payment. Interest, together with the Administrative Fee payable under this Agreement on a monthly basis, shall not be less than **--------N/A-------- Dollars ($--------N/A--------)** (the "Minimum Monthly Interest Payment").

b. **Section 34.** Minimum Quarterly Interest Payment. Interest, together with the Administrative Fee payable under this Agreement on a quarterly basis, shall not be less than **Five Thousand Nine Hundred Eighty and 00/100 Dollars ($5,980.00)** (the "Minimum Quarterly Interest Payment").

c. **Section 6.3.** Prepayment Fee. If the Obligations are prepaid in full on a final basis prior to the end of the Basic Term or any Renewal Term, a "Prepayment" shall be deemed to have occurred. To the extent such Prepayment shall have occurred, Borrower shall pay to Lender a sum equal to the amount of (a) the Cumulative Minimum Annual Interest Payment less interest paid during the Basic Term or any Renewal Term; or (b) an amount equal to the Minimum Quarterly Interest Payment times the number of quarters remaining in the Basic Term or Renewal Term, as applicable (the "Prepayment Fee"). In addition, Borrower shall also pay any prepayment penalties provided for in the Term Loan Documents or any other agreement with Lender. A Prepayment may be deemed to have occurred regardless of whether such payment or other reduction (a) is voluntary or involuntary; (b) is occasioned by Lender's acceleration of the Obligations or demand hereunder; (c) is made by Borrower or other third party, including Guarantor; (d) results from Lender's receipt or collection of proceeds of its Collateral, including insurance proceeds and condemnation awards; (e) results from Lender's exercise of its right of setoff; and/or (f) is made during an Insolvency Proceeding, or is made pursuant to any plan of reorganization or liquidation.

4. Fee. At the time of execution of the Modification, Borrower agrees to pay a one-time fee in the amount of**----------N/A----------and 00/100 Dollars ($----------n/a----------)**.

5. Legal Effect. Except as specifically set forth in this Modification, all of the terms and conditions of the Agreement remain in full force and effect.

6. Integration. This is an integrated Modification and supersedes all prior negotiations and agreements regarding the subject matter hereof. All amendments hereto must be in writing and signed by the parties.

IN WITNESS WHEREOF, the parties have executed this **First Modification to Loan and Security Agreement** as of the date first set forth above.

BFI Business Finance

/s/ Stephen P. Darlington
By: Stephen P. Darlington
Its: Vice President

TransTech Systems, Inc.

/s/ James M. Gingo
By: James M. Gingo
Its: President

Second Modification to Loan and Security Agreement

This **Second Modification to Loan and Security Agreement** (this "Modification") is entered into by and between **TransTech Systems, Inc.** ("Borrower") and **BFI Business Finance** ("Lender") as of this **16th day of December, 2009**, at **Campbell, California**.

RECITALS

A. Lender and Borrower have previously entered into or are concurrently herewith entering into a **Loan and Security Agreement** (the "Agreement") dated **December 9, 2008**.

B. Lender and Borrower may have previously executed one or more Modifications to **Loan and Security Agreement** (the "Previous Modification(s)").

C. Borrower has requested, and Lender has agreed, to modify the Agreement as set forth below.

AGREEMENT

For good and valuable consideration, the parties agree as set forth below:

1 . Incorporation by Reference. The Agreement and the Previous Modification(s), if any, as modified hereby and the Recitals are incorporated herein by this reference.

2. Effective Date. The terms of this Modification shall be in full force and effect as of **December 12, 2009**.

3. Modification to Agreement. The Agreement is hereby modified as set forth below:

a. The following definition(s) as set forth in "Section 1.1 Definitions." is(are) hereby amended and restated in its(their) entirety as set forth below:

"Prime Rate" means, the variable rate of interest announced as the "prime" rate in the Western Edition of the Wall Street Journal which is in effect from time to time; provided that the Prime Rate shall at all times be deemed to be not less than **four and one-half percent (4.50%) per annum** (the "Deemed Prime Rate").

b. The following Section(s) is(are) hereby amended and restated in its(their) entirety as set forth below:

2.2.3 Minimum Monthly Interest Payment. means, Interest, together with the Administrative Fee payable under this Agreement on a monthly basis, shall not be less than **--------N/A-------- Dollars ($------N/A------)** (the "Minimum Monthly Interest Payment")

2.2.9 Loan Fee. On the Effective Date of the Second Modification to Loan and Security Agreement; and semi-annually (every six (-6-) months) thereafter while any Obligations remain outstanding to Lender, Borrower agrees to pay Lender a loan fee equal to **one-half of one percent (0.50%)** of the Maximum Amount (each, the "Loan Fee").

6.1 Basic Term. This Agreement will be effective upon the Effective Date of the Second Modification to Loan and Security Agreement, will continue in full force and effect for **six (-6-)** months thereafter (the "Basic Term"); and shall be further automatically extended, for successive periods equal to **six (-6-)** months (each, a "Renewal Term"), unless Borrower shall have given the Lender written notice of its intention to terminate (a "Termination Notice") at least thirty (30) days prior to the anniversary of each Basic Term, whereupon this Agreement shall terminate as of the date fixed in the Termination Notice. Notwithstanding any contrary provisions herein, Lender reserves the right to terminate this Agreement at its Sole Discretion upon giving sixty (60) days' prior written notice to Borrower pursuant to provisions of Section 15 hereof.

3 4 . Minimum Quarterly Interest Payment. Interest, together with the Administrative Fee payable under this Agreement on a quarterly basis, shall not be less than **--------N/A-------- and 00/100 Dollars ($------N/A------)** (the "Minimum Quarterly Interest Payment").

4. Fee. At the time of execution of the Modification, Borrower agrees to pay a one-time fee in the amount of **----------N/A----------and 00/100 Dollars ($----------n/a----------)**.

5. Legal Effect. Except as specifically set forth in this Modification, all of the terms and conditions of the Agreement remain in full force and effect.

6. Integration. This is an integrated Modification and supersedes all prior negotiations and agreements regarding the subject matter hereof. All amendments hereto must be in writing and signed by the parties.

7 . Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original but all of which taken together shall constitute a single original. This Agreement, or a signature page thereto intended to be attached to a copy of this Agreement, signed and transmitted by facsimile machine, telecopier or other electronic means (including via transmittal of a "pdf" file) shall be deemed and treated as an original document. The signature of any person thereon, for purposes hereof, is to be considered as an original signature, and the document transmitted is to be considered to have the same binding effect as an original signature on an original document. At the request of any party hereto, any facsimile, telecopy or other electronic document is to be re-executed in original form by the persons who executed the facsimile, telecopy of other electronic document. No party hereto may raise the use of a facsimile machine, telecopier or other electronic means or the fact that any signature was transmitted through the use of a facsimile machine, telecopier or other electronic means as a defense to the enforcement of this Agreement.

IN WITNESS WHEREOF, the parties have executed this **Second Modification to Loan and Security Agreement** as of the date first set forth above.

BFI Business Finance

/s/ Stephen P. Darlington
By: Stephen P. Darlington
Its: Vice President

TransTech Systems, Inc.

/s/ James M. Gingo
By: James M. Gingo
Its: President

THIRD MODIFICATION TO LOAN AND SECURITY AGREEMENT

This **Third Modification to Loan and Security Agreement** (this "Modification") is entered into by and between **TransTech Systems, Inc., a(n) Oregon corporation** ("Borrower") and **BFI Business Finance**, a California corporation ("Lender") as of this **12th day of June, 2013**, at **Campbell, California**.

RECITALS

A. Lender and Borrower have previously entered into or are concurrently herewith entering into a Loan and Security Agreement (the "Agreement") dated **December 9, 2008**.

B. Lender and Borrower may have previously executed one or more Modifications to Loan and Security Agreement (the "Previous Modification(s)").

C. Borrower has requested, and Lender has agreed, to modify the Agreement as set forth below.

AGREEMENT

For good and valuable consideration, the parties agree as set forth below:

1 . Incorporation by Reference. The Agreement and the Previous Modification(s), if any, as modified hereby and the Recitals are incorporated herein by this reference.

2. Effective Date. The terms of this Modification shall be in full force and effect as of **June 12, 2013**.

3. Modification to Agreement. The Agreement is hereby modified as follows:

a. The following definition(s) as set forth in "Section 1.1 Definitions." is(are) hereby amended and restated in its(their) entirety as set forth below:

""Maximum Inventory Advance" means: (a) as of the June 7, 2013, the lesser of One Hundred Eighty-three Thousand and 00/100 Dollars ($183,000.00) or fifty percent (50%) of the A/R Borrowing Base, which sum shall be permanently reduced pursuant to the payment schedule in Section 2.2.8, below; and b) effective as of the date of the payment that reduces the balance to $0.00, and continuing thereafter, Zero and 00/100 Dollars ($0.00) or zero percent (0.00%) of the A/R Borrowing Base (the "Maximum Inventory Advance")."

b. The following Section(s) is(are) hereby amended and restated in its(their) entirety as set forth below:

"2.2.8 Principal Payments. Borrower shall make principal payments, which shall be used to pay down Advances against Eligible Inventory, as follows: i) four (4) monthly payments each in the amount of Thirty-five Thousand and 00/100 Dollars ($35,000.00) beginning on July 31, 2013 and continuing on the last day of each consecutive month thereafter; and ii) one (1) payment in the amount of Forty-three Thousand and 00/100 Dollars ($43,000.00) on November 30, 2013. Each such Principal Payment shall be made as an Advance under the A/R Borrowing Base and shall contemporaneously result in a permanent reduction to the Maximum Inventory Advance in the amount of such Principal Payment."

"3.7. Statements of Obligations. Lender has provided Borrower with continuous on-line internet access to information and statements regarding its Obligations, including principal, interest, fees and an itemization of all charges and expenses constituting Lender Expenses owing, and such information shall be conclusively presumed to be correct and accurate and constitute an account stated between Borrower and Lender unless, within thirty (30) days following any such information first becoming available to Borrower, Borrower shall have delivered to Lender by registered or certified mail at its address specified herein, written objection thereto describing the error or errors contained in such applicable information. No statements of obligations will be mailed or otherwise transmitted by Lender to Borrower."

"9.5. Tax Returns. Upon Lender request, Borrower shall provide to Lender copies of each of Borrower's federal income tax returns, and any amendments thereto and extensions thereof."

"15. Notices. Unless otherwise provided in this Agreement or hereinbelow, 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) may be made, and deemed to be given, as follows: a) if delivered in person or by courier (overnight or otherwise), on the date when it is delivered; b) if by facsimile, when received at the correct number (proof of which shall be an original facsimile transmission confirmation slip or equivalent); or c) if sent by certified or registered mail or the equivalent, on the earlier of the date such mail is actually delivered or three (3) days after deposit thereof in the mail, unless the date of actual delivery or such date 3 days after deposit thereof in the mail (as applicable) is not a Business Day in which case such communication shall be deemed given and effective on the first following Business Day. Any such notice or communication given pursuant to this Agreement or any of the Loan Documents shall be addressed to the intended recipient at its address or number specified as follows:

If to Borrower: TransTech Systems, Inc.
12142 NE Sky Lane, Suite 130, Aurora, Oregon 97002-8730
Attn: Steve Waddle, Controller
Telephone No.: (503) 682-3292
Facsimile No.: (503) 682-0166

If to Lender: BFI Business Finance
851 East Hamilton Avenue, 2nd Floor, Campbell, California 95008
Attn: David Drogos, President
Telephone No.: (408) 369-4000
Facsimile No.: (408) 369-4018 / (408) 369-4056

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. Notwithstanding anything to the contrary in the foregoing, Borrower acknowledges and agrees that notices sent by Lender in connection with ORS 79.0611, 79.0612, 79.0613, 79.0614, and 79.0620 and any other references to the disposition of collateral under the Code, all as such sections may be amended and/or re-numbered from time to time, shall be deemed sent when: (a) delivered in person or by courier (overnight or otherwise), (b) deposited in the mail, or (c) transmitted by facsimile."

"25.11. Counterparts; Telefacsimile Execution. This Agreement and all of the Loan Documents may be signed in any number of counterparts, each of which shall be an original, with the same effect as if all signatures were upon the same instrument. This Agreement and all of the Loan Documents, or a signature page thereto intended to be attached to a copy of this Agreement or any of the Loan Documents, signed and transmitted by facsimile machine, telecopier or other electronic means (including via transmittal of a "pdf" file) shall be deemed and treated as an original document. The signature of any person thereon, for purposes hereof, is to be considered as an original signature, and the document transmitted is to be considered to have the same binding effect as an original signature on an original document. At the request of any party hereto, any facsimile, telecopy or other electronic document is to be re-executed in original form by the persons who executed the facsimile, telecopy of other electronic document. No party hereto may raise the use of a facsimile machine, telecopier or other electronic means or the fact that any signature was transmitted through the use of a facsimile machine, telecopier or other electronic means as a defense to the enforcement of this Agreement and any of the Loan Documents."

c. The following Section(s) is(are) hereby added as set forth below:

"31. Borrower Authorization. Borrower consents to Lender's use of Borrower's company names and logos in Lender's written and oral presentations, including in Lender's advertising, promotional and marketing materials, client lists, news releases and Web site. In connection with any client references in such written or oral presentations, Borrower consents to the use of individual names and quotations. Borrower's consents herein shall survive termination of this Agreement until such time that Borrower delivers, and Lender receives, written revocation of such consents."

4 . Conditions Precedent. The items set forth below are hereby added as conditions precedent to BFI's agreement to release James Gingo ("Gingo") from his guaranty of Borrower's obligations to BFI, with the below also added to the Agreement as affirmative covenants to be satisfied (or caused to be satisfied) by Borrower:

a. Borrower shall have executed and Lender shall have received the following documents in form and substance acceptable to Lender:
   i. Borrowing Resolution & Incumbency Certificate
   ii. Validity Agreement (Steve Waddle & Jeff Kruse)
   iii. Signature Authorization
   iv. PO Box Letter
   v. Acknowledgement (Steve Waddle & Jeff Kruse)
   vi. Verification of Contact Information (Steve Waddle & Jeff Kruse)

b. Visualant, Incorporated ("Visualant"), a guarantor of Borrower, shall have executed and Lender shall have received the following documents in form and substance acceptable to Lender:
   i. Secretary's Certificate Guaranty Resolution
   ii. General Continuing Guaranty
   iii. Security Agreement (All Assets)
   iv. Verification of Contact Information ("Ronald P. Erickson & Mark E. Scott)

c. Visualant shall have received a minimum of Five Million and 00/100 Dollars ($5,000,000.00) of equity funding.

d. In connection with Visualant's purchase of Gingo's ownership interest in Borrower, all terms of conditions of such purchase shall have been satisfied including payment to Mr. Gingo of the remaining $1MM balance owing to him on account of such purchase.

e. Mr. Gingo shall have signed a full release in favor of (and in form satisfactory to) BFI upon receipt of final payment by Visualant to him in consideration of the release of Gingo's guaranty of Borrower in favor of Lender.

5. Fee. At the time of execution of the Modification, Borrower agrees to pay a one-time fee in the amount of**----------N/A----------and 00/100 Dollars ($----------n/a----------)**.

6. Legal Effect. Except as specifically set forth in this Modification, all of the terms and conditions of the Agreement remain in full force and effect.

7. Counterparts. This Modification may be executed in any number of counterparts, each of which shall be deemed an original but all of which taken together shall constitute a single original.

8 . Electronic Signature. This Modification, or a signature page thereto intended to be attached to a copy of this Modification, signed and transmitted by facsimile machine, telecopier or other electronic means (including via transmittal of a "pdf" file) shall be deemed and treated as an original document. The signature of any person thereon, for purposes hereof, is to be considered as an original signature, and the document transmitted is to be considered to have the same binding effect as an original signature on an original document. At the request of any party hereto, any facsimile, telecopy or other electronic document is to be re-executed in original form by the persons who executed the facsimile, telecopy of other electronic document. No party hereto may raise the use of a facsimile machine, telecopier or other electronic means or the fact that any signature was transmitted through the use of a facsimile machine, telecopier or other electronic means as a defense to the enforcement of this Modification.

9. Integration. This is an integrated Modification and supersedes all prior negotiations and agreements regarding the subject matter hereof. All amendments hereto must be in writing and signed by the parties.

[signature page follows]

IN WITNESS WHEREOF, the parties have executed this Third Modification to Loan and Security Agreement as of the date first set forth above.

BFI Business Finance

/s/ Stephen P. Darlington
By: Stephen P. Darlington
Its: Vice President

TransTech Systems, Inc.

/s/ Steve Waddle
By: Steve Waddle
Its: Controller

ACKNOWLEDGED AND AGREED:

VISUALANT, INCORPORATION ("Guarantor")

/s/ Mark E. Scott

By: Mark E. Scott
Its: Secretary

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND, ACCORDINGLY, MAY NOT BE TRANSFERRED UNLESS (I) SUCH SECURITIES HAVE BEEN REGISTERED FOR SALE PURSUANT TO THE SECURITIES ACT OF 1933, AS AMENDED, (II) SUCH SECURITIES MAY BE SOLD PURSUANT TO RULE 144, OR (III) THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO IT THAT SUCH TRANSFER MAY LAWFULLY BE MADE WITHOUT REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

PURSUANT TO THE TERMS OF SECTION 1 OF THIS WARRANT, ALL OR A PORTION OF THIS WARRANT MAY HAVE BEEN EXERCISED, AND THEREFORE THE ACTUAL NUMBER OF WARRANT SHARES REPRESENTED BY THIS WARRANT MAY BE LESS THAN THE AMOUNT SET FORTH ON THE FACE HEREOF.

VISUALANT, INCORPORATED

FORM OF PLACEMENT AGENT Warrant To Purchase Common Stock

Warrant No.:_____
Number of Shares of Common Stock: _____
Date of Issuance: June 10, 2013 (**"Issuance Date"**)

Visualant, Incorporated, a Nevada corporation (the **"Company"**), hereby certifies that, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Liolios Family Trust, the registered holder hereof or its permitted assigns (the **"Holder"**), is entitled, subject to the terms set forth below, to purchase from the Company, at the Exercise Price (as defined below) then in effect, upon surrender of this Warrant to Purchase Common Stock (including any Warrants to Purchase Common Stock issued in exchange, transfer or replacement hereof, the **"Warrant"**), at any time or times on or after Exercisability Date (as defined below), but not after 11:59 p.m., New York time, on the Expiration Date (as defined below), _____ fully paid nonassessable shares of Common Stock (as defined below) (the **"Warrant Shares"**). Except as otherwise defined herein, capitalized terms in this Warrant shall have the meanings set forth in Section 15. This Warrant is one of the warrants to purchase Common Stock (this **"Warrant"**) issued pursuant to (i) the Purchase Agreement (the **"Purchase Agreement"**), dated as of June 10, 2013 (the **"Subscription Date"**), by and among the Company and the investors party thereto. This Warrant is one of a series of warrants containing substantially identical terms and conditions issued pursuant to Purchase Agreement (collectively, the "**Warrants**").

1. EXERCISE OF WARRANT.

(a) Mechanics of Exercise. Subject to the terms and conditions hereof, this Warrant may be exercised by the Holder on any day on or after the Exercisability Date, in whole or in part (but not as to fractional shares), by (i) delivery of a written notice, in the form attached hereto as Exhibit A (the "**Exercise Notice**"), of the Holder's election to exercise this Warrant and (ii) if both (A) the Holder is not electing a Cashless Exercise (as defined below) pursuant to Section 1(d) of this Warrant and (B) a registration statement registering the issuance of the Warrant Shares under the Securities Act of 1933, as amended (the "**Securities Act**"), is effective and available for the issuance of the Warrant Shares, or an exemption from registration under the Securities Act is available for the issuance of the Warrant Shares, payment to the Company of an amount equal to the applicable Exercise Price multiplied by the number of Warrant Shares as to which this Warrant is being exercised (the "**Aggregate Exercise Price**") in cash or wire transfer of immediately available funds (a "**Cash Exercise**") (the items under (i) and (ii) above, the "**Exercise Delivery Documents**"). The Holder shall not be required to surrender this Warrant in order to effect an exercise hereunder; provided, however, that in the event that this Warrant is exercised in full or for the remaining unexercised portion hereof, the Holder shall deliver this Warrant to the Company for cancellation within a reasonable time after such exercise. On or before the first Trading Day following the date on which the Company has received the Exercise Delivery Documents (the date upon which the Company has received all of the Exercise Delivery Documents, the "**Exercise Date**"), the Company shall transmit by facsimile or e-mail transmission an acknowledgment of confirmation of receipt of the Exercise Delivery Documents to the Holder and the Company's transfer agent for the Common Stock (the "**Transfer Agent**"). The Company shall deliver any objection to the Exercise Delivery Documents on or before the second Trading Day following the date on which the Company has received all of the Exercise Delivery Documents. On or before the second Trading Day following the date on which the Company has received all of the Exercise Delivery Documents (the "**Share Delivery Date**"), the Company shall, (X) provided that the Transfer Agent is participating in The Depository Trust Company ("**DTC**") Fast Automated Securities Transfer Program (the "**FAST Program**") and so long as the certificates therefor are not required to bear a legend regarding restriction on transferability, upon the request of the Holder, credit such aggregate number of shares of Common Stock to which the Holder is entitled pursuant to such exercise to the Holder's or its designee's balance account with DTC through its Deposit Withdrawal Agent Commission system, or (Y), if the Transfer Agent is not participating in the FAST Program or if the certificates are required to bear a legend regarding restriction on transferability, issue and dispatch by overnight courier to the address as specified in the Exercise Notice, a certificate, registered in the Company's share register in the name of the Holder or its designee, for the number of shares of Common Stock to which the Holder is entitled pursuant to such exercise. Upon delivery of the Exercise Delivery Documents, the Holder shall be deemed for all corporate purposes to have become the holder of record of the Warrant Shares with respect to which this Warrant has been exercised, irrespective of the date such Warrant Shares are credited to the Holder's DTC account or the date of delivery of the certificates evidencing such Warrant Shares, as the case may be. If this Warrant is submitted in connection with any exercise pursuant to this Section 1(a) and the number of Warrant Shares represented by this Warrant submitted for exercise is greater than the number of Warrant Shares being acquired upon an exercise, then the Company shall as soon as practicable and in no event later than three Trading Days after any such submission and at its own expense, issue a new Warrant (in accordance with Section 7(e)) representing the right to purchase the number of Warrant Shares purchasable immediately prior to such exercise under this Warrant, less the number of Warrant Shares with respect to which this Warrant has been and/or is exercised. The Company shall pay any and all taxes and other expenses of the Company (including overnight delivery charges) that may be payable with respect to the issuance and delivery of Warrant Shares upon exercise of this Warrant; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the registration of any certificates for Warrant Shares or Warrants in a name other than that of the Holder or an affiliate thereof. The Holder shall be responsible for all other tax liability that may arise as a result of holding or transferring this Warrant or receiving Warrant Shares upon exercise hereof.

(b) Exercise Price. For purposes of this Warrant, **"Exercise Price"** means $0.10, subject to adjustment as provided herein.

(c) Company's Failure to Timely Deliver Securities. If the Company shall fail for any reason or for no reason to issue to the Holder within three (3) Business Days of the Exercise Date a certificate for the number of shares of Common Stock to which the Holder is entitled and register such shares of Common Stock on the Company's share register or to credit the Holder's balance account with DTC for such number of shares of Common Stock to which the Holder is entitled upon the Holder's exercise of this Warrant, and if on or after such Trading Day the Holder purchases, or another Person purchasers on the Holder's behalf or for the Holder's account (in an open market transaction or otherwise) shares of Common Stock to deliver in satisfaction of a sale by the Holder of shares of Common Stock issuable upon such exercise that the Holder anticipated receiving from the Company (a **"Buy-In"**), then the Company shall, within three (3) Business Days after the Holder's written request and in the Holder's discretion, either (i) pay cash to the Holder in an amount equal to the Holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased (the **"Buy-In Price"**), at which point the Company's obligation to deliver such certificate (and to issue such Warrant Shares) shall terminate, or (ii) promptly honor its obligation to deliver to the Holder a certificate or certificates representing such Warrant Shares and pay cash to the Holder in an amount equal to the excess (if any) of the Buy-In Price over the product of (A) such number of shares of Common Stock, times (B) the Closing Bid Price on the date of exercise.

(d) Cashless Exercise. Notwithstanding anything contained herein to the contrary, if at any time after the six-month anniversary of the Issuance Date a registration statement covering the Warrant Shares that are the subject of the Exercise Notice (the **"Unavailable Warrant Shares"**), or an exemption from registration, is not available for the resale of such Unavailable Warrant Shares, the Holder may, in its sole discretion, exercise this Warrant in whole or in part and, in lieu of making the cash payment otherwise contemplated to be made to the Company upon such exercise in payment of the Aggregate Exercise Price, elect instead to receive upon such exercise the **"Net Number"** of shares of Common Stock determined according to the following formula (a **"Cashless Exercise"**):

$$\text{Net Number} = \frac{(A \times B) - (A \times C)}{B}$$

For purposes of the foregoing formula:

A= the total number of shares with respect to which this Warrant is then being exercised.

B= the arithmetic average of the Closing Sale Prices of the shares of Common Stock for the five (5) consecutive Trading Days ending on the date immediately preceding the date of the Exercise Notice.

C= the Exercise Price then in effect for the applicable Warrant Shares at the time of such exercise.

(e) Rule 144. For purposes of Rule 144(d) promulgated under the Securities Act, as in effect on the date hereof, assuming the Holder is not an affiliate of the Company, it is intended that the Warrant Shares issued in a Cashless Exercise shall be deemed to have been acquired by the Holder, and the holding period for the Warrant Shares shall be deemed to have commenced, on the date this Warrant was originally issued pursuant to the Purchase Agreement.

(f) Disputes. In the case of a dispute as to the determination of the Exercise Price or the arithmetic calculation of the Warrant Shares, the Company shall promptly issue to the Holder the number of Warrant Shares that are not disputed.

(g) Beneficial Ownership. The Company shall not effect the exercise of this Warrant, and the Holder shall not have the right to exercise this Warrant, to the extent that after giving effect to such exercise, such Person (together with such Person's affiliates) would beneficially own in excess of 4.99% (the "**Maximum Percentage**") of the shares of Common Stock outstanding immediately after giving effect to such exercise. For purposes of the foregoing sentence, the aggregate number of shares of Common Stock beneficially owned by such Person and its affiliates shall include the number of shares of Common Stock issuable upon exercise of this Warrant with respect to which the determination of such sentence is being made, but shall exclude shares of Common Stock which would be issuable upon (i) exercise of the remaining, unexercised portion of this Warrant beneficially owned by such Person and its affiliates and (ii) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company beneficially owned by such Person and its affiliates (including, without limitation, any convertible notes or convertible preferred stock or warrants) subject to a limitation on conversion or exercise analogous to the limitation contained herein. Except as set forth in the preceding sentence, for purposes of this paragraph, beneficial ownership shall be calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). For purposes of this Warrant, in determining the number of outstanding shares of Common Stock, the Holder may rely on the number of outstanding shares of Common Stock as reflected in the most recent of (1) the Company's most recent Form 10-K, Form 10-Q, Current Report on Form 8-K or other public filing with the Securities and Exchange Commission, as the case may be, (2) a more recent public announcement by the Company or (3) any other notice by the Company or the Transfer Agent setting forth the number of shares of Common Stock outstanding. For any reason at any time, upon the written or oral request of the Holder, the Company shall within two (2) Business Days confirm to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company, including this Warrant, by the Holder and its affiliates since the date as of which such number of outstanding shares of Common Stock was reported. By written notice to the Company, the Holder may from time to time increase or decrease the Maximum Percentage to any other percentage not in excess of 9.99% specified in such notice; provided that (i) any such increase will not be effective until the sixty-first (61st) day after such notice is delivered to the Company, and (ii) any such increase or decrease will apply only to the Holder. The provisions of this paragraph shall be construed and implemented in a manner otherwise than in strict conformity with the terms of this Section 1(g) to correct this paragraph (or any portion hereof) which may be defective or inconsistent with the intended beneficial ownership limitation herein contained or to make changes or supplements necessary or desirable to properly give effect to such limitation.

2. ADJUSTMENT OF EXERCISE PRICE AND NUMBER OF WARRANT SHARES. The Exercise Price and the number of Warrant Shares shall be adjusted from time to time as follows:

(a) Record Date. If the Company takes a record of the holders of shares of Common Stock for the purpose of entitling them (A) to receive a dividend or other distribution payable in shares of Common Stock, Options or in Convertible Securities or (B) to subscribe for or purchase shares of Common Stock, Options or Convertible Securities, then such record date will be deemed to be the date of the issue or sale of the shares of Common Stock deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be.

(b) Voluntary Adjustment By Company. The Company may at any time during the term of this Warrant reduce the then current Exercise Price to any amount and for any period of time deemed appropriate by the Board of Directors of the Company.

(c) Adjustment upon Subdivision or Combination of Common Stock. If the Company at any time on or after the Subscription Date subdivides (by any stock split, stock dividend, recapitalization, reorganization, scheme, arrangement or otherwise) one or more classes of its outstanding shares of Common Stock into a greater number of shares, the Exercise Price in effect immediately prior to such subdivision will be proportionately reduced and the number of Warrant Shares will be proportionately increased. If the Company at any time on or after the Subscription Date combines (by any stock split, stock dividend, recapitalization, reorganization, scheme, arrangement or otherwise) one or more classes of its outstanding shares of Common Stock into a smaller number of shares, the Exercise Price in effect immediately prior to such combination will be proportionately increased and the number of Warrant Shares will be proportionately decreased. Any adjustment under this Section 2(c) shall become effective at the close of business on the date the subdivision or combination becomes effective.

(d) Other Events. If any event occurs of the type contemplated by the provisions of this Section 2 but not expressly provided for by such provisions (including, without limitation, the granting of stock appreciation rights or phantom stock rights), then the Company's Board of Directors will make an appropriate adjustment in the Exercise Price and the number of Warrant Shares so as to protect the rights of the Holder; provided that no such adjustment pursuant to this Section 2(d) will increase the Exercise Price or decrease the number of Warrant Shares as otherwise determined pursuant to this Section 2.

3. RIGHTS UPON DISTRIBUTION OF ASSETS.

(a) If the Company, at any time while this Warrant is outstanding, shall distribute to all holders of Common Stock (and not to the Holders) evidences of its indebtedness or assets (including cash and cash dividends) or rights or warrants to subscribe for or purchase any security other than the Common Stock (including, without limitation, any distribution of cash, stock or other securities, property or options by way of a dividend, spin off, reclassification, corporate rearrangement, scheme of arrangement or other similar transaction), then in each such case the Exercise Price shall be adjusted by multiplying the Exercise Price in effect immediately prior to the record date fixed for determination of stockholders entitled to receive such distribution by a fraction of which the denominator shall be the Weighted Average Price determined as of the record date mentioned above, and of which the numerator shall be such Weighted Average Price on such record date less the then per share fair market value at such record date of the portion of such assets or evidence of indebtedness so distributed applicable to one outstanding share of the Common Stock as determined by the Board of Directors in good faith. In either case the adjustments shall be described in a statement provided to the Holder of the portion of assets or evidences of indebtedness so distributed or such subscription rights applicable to one share of Common Stock. Such adjustment shall be made whenever any such distribution is made and shall become effective immediately after the record date mentioned above.

4. PURCHASE RIGHTS; FUNDAMENTAL TRANSACTIONS.

(a) Purchase Rights. In addition to any adjustments pursuant to Section 2 above, if at any time the Company grants, issues or sells any Options, Convertible Securities or rights to purchase stock, warrants, securities or other property pro rata to the record holders of any class of Common Stock (the "**Purchase Rights**"), then the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of shares of Common Stock acquirable upon complete exercise of this Warrant (without regard to any limitations on the exercise of this Warrant) immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

(b) Fundamental Transactions. The Company shall not enter into or be party to a Fundamental Transaction unless the Successor Entity assumes in writing (unless the Company is the Successor Entity) all of the obligations of the Company under this Warrant and the other Transaction Documents in accordance with the provisions of this Section (4)(b) pursuant to written agreements in form and substance reasonably satisfactory to the Required Holders and approved by the Required Holders prior to such Fundamental Transaction, including agreements to deliver to each holder of the Warrants in exchange for such Warrants a security of the Successor Entity evidenced by a written instrument substantially similar in form and substance to this Warrant, including, without limitation, an adjusted exercise price equal to the value for the shares of Common Stock reflected by the terms of such Fundamental Transaction, and exercisable for a corresponding number of shares of capital stock equivalent to the shares of Common Stock acquirable and receivable upon exercise of this Warrant (without regard to any limitations on the exercise of this Warrant) prior to such Fundamental Transaction, and reasonably satisfactory to the Required Holders. Upon the occurrence of any Fundamental Transaction, the Successor Entity shall succeed to, and be substituted for (so that from and after the date of such Fundamental Transaction, the provisions of this Warrant referring to the "Company" shall refer instead to the Successor Entity), and may exercise every right and power of the Company and shall assume all of the obligations of the Company under this Warrant with the same effect as if such Successor Entity had been named as the Company herein. Upon consummation of the Fundamental Transaction, the Successor Entity shall deliver to the Holder confirmation that there shall be issued upon exercise of this Warrant at any time after the consummation of the Fundamental Transaction, in lieu of the shares of Common Stock (or other securities, cash, assets or other property) issuable upon the exercise of the Warrant prior to such Fundamental Transaction, such shares of the publicly traded common stock or common shares (or its equivalent) of the Successor Entity (including its Parent Entity) which the Holder would have been entitled to receive upon the happening of such Fundamental Transaction had this Warrant been converted immediately prior to such Fundamental Transaction, as adjusted in accordance with the provisions of this Warrant. In addition to and not in substitution for any other rights hereunder, prior to the consummation of any Fundamental Transaction pursuant to which holders of shares of Common Stock are entitled to receive securities or other assets with respect to or in exchange for shares of Common Stock (a "**Corporate Event**"), the Company shall make appropriate provision to insure that the Holder will thereafter have the right to receive upon an exercise of this Warrant at any time after the consummation of the Corporate Event but prior to the Expiration Date, in lieu of shares of Common Stock (or other securities, cash, assets or other property) purchasable upon the exercise of this Warrant prior to such Corporate Event, such shares of stock, securities, cash, assets or any other property whatsoever (including warrants or other purchase or subscription rights) which the Holder would have been entitled to receive upon the happening of such Corporate Event had this Warrant been exercised immediately prior to such Corporate Event. Provision made pursuant to the preceding sentence shall be in a form and substance reasonably satisfactory to the Required Holders. The provisions of this Section 4(b) shall apply similarly and equally to successive Fundamental Transactions and Corporate Events and shall be applied without regard to any limitations on the exercise of this Warrant.

(c) Black Scholes Value. Notwithstanding the foregoing and the provisions of Section 4(b) above, in the event of the consummation of a Fundamental Transaction that is (1) an all-cash transaction, (2) a "Rule 13e-3 transaction" as defined in Rule 13e-3 under the Exchange Act or (3) a Fundamental Transaction involving a person or entity not traded on an Eligible Market, at the request of the Holder delivered at any time commencing on the earliest to occur of (x) the public disclosure of the Fundamental Transaction or (y) the consummation of the Fundamental Transaction, through the date that is ninety (90) days after the public disclosure of the consummation of such Fundamental Transaction by the Company pursuant to a Current Report on Form 8-K filed with the SEC, the Company or the Successor Entity (as the case may be) shall purchase this Warrant from the Holder on the later of (i) the date of consummation of the Fundamental Transaction and (ii) the fifth Trading Day following the date of such request, in each case by paying to the Holder cash in an amount equal to the Black Scholes Value.

(d) Applicability to Successive Transactions. The provisions of this Section shall apply similarly and equally to successive Fundamental Transactions and Corporate Events and shall be applied without regard to any limitations on the exercise of this Warrant.

5. NONCIRCUMVENTION. The Company hereby covenants and agrees that the Company will not, by amendment of its Certificate of Incorporation, Bylaws or through any reorganization, transfer of assets, consolidation, merger, scheme of arrangement, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, and will at all times in good faith comply with all the provisions of this Warrant and take all actions consistent with effectuating the purposes of this Warrant. Without limiting the generality of the foregoing, the Company (i) shall not increase the par value of any shares of Common Stock receivable upon the exercise of this Warrant above the Exercise Price then in effect, (ii) shall take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock upon the exercise of this Warrant, and (iii) shall, so long as this Warrant is outstanding, take all action necessary to reserve and keep available out of its authorized and unissued shares of Common Stock, solely for the purpose of effecting the exercise of this Warrant, 100% of the number of shares of Common Stock issuable upon exercise of this Warrant then outstanding (without regard to any limitations on exercise).

6. WARRANT HOLDER NOT DEEMED A STOCKHOLDER. Except as otherwise specifically provided herein, the Holder, solely in such Person's capacity as a holder of this Warrant, shall not be entitled to vote or receive dividends or be deemed the holder of share capital of the Company for any purpose, nor shall anything contained in this Warrant be construed to confer upon the Holder, solely in such Person's capacity as the Holder of this Warrant, any of the rights of a stockholder of the Company or any right to vote, give or withhold consent to any corporate action (whether any reorganization, issue of stock, reclassification of stock, consolidation, merger, conveyance or otherwise), receive notice of meetings, receive dividends or subscription rights, or otherwise, prior to the issuance to the Holder of the Warrant Shares which such Person is then entitled to receive upon the due exercise of this Warrant. In addition, nothing contained in this Warrant shall be construed as imposing any liabilities on the Holder to purchase any securities (upon exercise of this Warrant or otherwise) or as a stockholder of the Company, whether such liabilities are asserted by the Company or by creditors of the Company.

7. REISSUANCE OF WARRANTS.

(a) Transfer of Warrant. If this Warrant is to be transferred, the Holder shall surrender this Warrant to the Company and deliver the completed and executed Assignment Form, in the form attached hereto as Exhibit B, whereupon the Company will forthwith issue and deliver upon the order of the Holder a new Warrant (in accordance with Section 7(d)), registered as the Holder may request, representing the right to purchase the number of Warrant Shares being transferred by the Holder and, if less then the total number of Warrant Shares then underlying this Warrant is being transferred, a new Warrant (in accordance with Section 7(d)) to the Holder representing the right to purchase the number of Warrant Shares not being transferred.

(b) Lost, Stolen or Mutilated Warrant. Upon receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant, and, in the case of loss, theft or destruction, of any indemnification undertaking by the Holder to the Company in customary form and, in the case of mutilation, upon surrender and cancellation of this Warrant, the Company shall execute and deliver to the Holder a new Warrant (in accordance with Section 7(d)) representing the right to purchase the Warrant Shares then underlying this Warrant.

(c) Exchangeable for Multiple Warrants. This Warrant is exchangeable, upon the surrender hereof by the Holder at the principal office of the Company, for a new Warrant or Warrants (in accordance with Section 7(d)) representing in the aggregate the right to purchase the number of Warrant Shares then underlying this Warrant, and each such new Warrant will represent the right to purchase such portion of such Warrant Shares as is designated by the Holder at the time of such surrender; provided, however, that no Warrants for fractional shares of Common Stock shall be given.

(d) Issuance of New Warrants. Whenever the Company is required to issue a new Warrant pursuant to the terms of this Warrant, such new Warrant (i) shall be of like tenor with this Warrant, (ii) shall represent, as indicated on the face of such new Warrant, the right to purchase the Warrant Shares then underlying this Warrant (or in the case of a new Warrant being issued pursuant to Section 7(a) or Section 7(c), the Warrant Shares designated by the Holder which, when added to the number of shares of Common Stock underlying the other new Warrants issued in connection with such issuance, does not exceed the number of Warrant Shares then underlying this Warrant), (iii) shall have an issuance date, as indicated on the face of such new Warrant which is the same as the Issuance Date, and (iv) shall have the same rights and conditions as this Warrant.

8 . NOTICES. Whenever notice is required to be given under this Warrant, unless otherwise provided herein, such notice shall be given in accordance with Section 9.4 of the Purchase Agreement.

9 . AMENDMENT AND WAIVER. Except as otherwise provided herein, the provisions of this Warrant may be amended and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, only if the Company has obtained the written consent of the Required Holders. Any such amendment shall apply to all Warrants and be binding upon all registered holders of such Warrants.

1 0 . GOVERNING LAW; CONSENT TO JURISDICTION; WAIVER OF JURY TRIAL. This Warrant shall be governed by, and construed in accordance with, the internal laws of the State of New York, without reference to the choice of law provisions thereof. The Company and, by accepting this Warrant, the Holder, each irrevocably submits to the exclusive jurisdiction of the courts of the State of New York located in New York County and the United States District Court for the Southern District of New York for the purpose of any suit, action, proceeding or judgment relating to or arising out of this Warrant and the transactions contemplated hereby. Service of process in connection with any such suit, action or proceeding may be served on each party hereto anywhere in the world by the same methods as are specified for the giving of notices under this Warrant. The Company and, by accepting this Warrant, the Holder, each irrevocably consents to the jurisdiction of any such court in any such suit, action or proceeding and to the laying of venue in such court. The Company and, by accepting this Warrant, the Holder, each irrevocably waives any objection to the laying of venue of any such suit, action or proceeding brought in such courts and irrevocably waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum. **EACH OF THE COMPANY AND, BY ITS ACCEPTANCE HEREOF, THE HOLDER HEREBY WAIVES ANY RIGHT TO REQUEST A TRIAL BY JURY IN ANY LITIGATION WITH RESPECT TO THIS WARRANT AND REPRESENTS THAT COUNSEL HAS BEEN CONSULTED SPECIFICALLY AS TO THIS WAIVER.**

11. CONSTRUCTION; HEADINGS. This Warrant shall be deemed to be jointly drafted by the Company and the Holder and shall not be construed against any person as the drafter hereof. The headings of this Warrant are for convenience of reference and shall not form part of, or affect the interpretation of, this Warrant.

12. DISPUTE RESOLUTION. In the case of a dispute as to the determination of the Exercise Price or the arithmetic calculation of the Warrant Shares, the Company shall submit the disputed determinations or arithmetic calculations via facsimile within two (2) Business Days of receipt of the Exercise Notice giving rise to such dispute, as the case may be, to the Holder. If the Holder and the Company are unable to agree upon such determination or calculation of the Exercise Price or the Warrant Shares within three Business Days of such disputed determination or arithmetic calculation being submitted to the Holder, then the Company shall, within two (2) Business Days submit via facsimile (a) the disputed determination of the Exercise Price to an independent, reputable investment bank selected by the Company and approved by the Holder, which approval shall not be unreasonably withheld, or (b) the disputed arithmetic calculation of the Warrant Shares to the Company's independent, outside accountant. The Company shall cause the investment bank or the accountant, as the case may be, to perform the determinations or calculations and notify the Company and the Holder of the results no later than ten Business Days from the time it receives the disputed determinations or calculations. The prevailing party in any dispute resolved pursuant to this Section 12 shall be entitled to the full amount of all reasonable expenses, including all costs and fees paid or incurred in good faith, in relation to the resolution of such dispute. Such investment bank's or accountant's determination or calculation, as the case may be, shall be binding upon all parties absent demonstrable error.

13. REMEDIES, OTHER OBLIGATIONS, BREACHES AND INJUNCTIVE RELIEF. The remedies provided in this Warrant shall be cumulative and in addition to all other remedies available under this Warrant, at law or in equity (including a decree of specific performance and/or other injunctive relief), and nothing herein shall limit the right of the Holder to pursue actual damages for any failure by the Company to comply with the terms of this Warrant.

14. TRANSFER. Subject to applicable laws, this Warrant may be offered for sale, sold, transferred or assigned without the consent of the Company

15. CERTAIN DEFINITIONS. For purposes of this Warrant, the following terms shall have the following meanings:

(a) "**Approved Stock Plan**" means any employee benefit plan or other issuance, employment agreement or option grant or similar agreement which has been approved by the Board of Directors of the Company, pursuant to which the Company's securities may be issued to any employee, consultant, officer or director for services provided to the Company.

(b) "**Black Scholes Value**" means the value of the unexercised portion of this Warrant remaining on the date of the Holder's request pursuant to Section 4(c), which value is calculated using the Black Scholes Option Pricing Model obtained from the "OV" function on Bloomberg utilizing (i) an underlying price per share equal to the greater of (1) the highest Closing Sale Price of the Common Stock during the period beginning on the Trading Day immediately preceding the earlier to occur of (x) the public disclosure of the applicable Fundamental Transaction or (y) the consummation of the applicable Fundamental Transaction and ending on the Trading Day of the consummation of the Fundamental Transaction and (2) the sum of the price per share being offered in cash in the applicable Fundamental Transaction (if any) plus the value of the non-cash consideration being offered in the applicable Fundamental Transaction (if any), (ii) a strike price equal to the Exercise Price in effect on the date of the Holder's request pursuant to Section 4(c), (iii) a risk-free interest rate corresponding to the U.S. Treasury rate for a period equal to the greater of (1) the remaining term of this Warrant as of the date of the Holder's request pursuant to Section 4(c) and (2) the remaining term of this Warrant as of the date of consummation of the applicable Fundamental Transaction or as of the date of the Holder's request pursuant to Section 4(c) if such request is prior to the date of the consummation of the applicable Fundamental Transaction and (iv) an expected volatility equal to the greater of 100% and the 100 day volatility obtained from the HVT function on Bloomberg (determined utilizing a 365 day annualization factor) as of the Trading Day immediately following the public disclosure of the applicable Fundamental Transaction.

(c) **"Bloomberg"** means Bloomberg Financial Markets.

(d) **"Business Day"** means any day other than Saturday, Sunday or other day on which commercial banks in The City of New York are authorized or required by law to remain closed.

(e) **"Closing Bid Price"** and **"Closing Sale Price"** means, for any security as of any date, the last closing bid price and last closing trade price, respectively, for such security on the Principal Market, as reported by Bloomberg, or, if the Principal Market begins to operate on an extended hours basis and does not designate the closing bid price or the closing trade price, as the case may be, then the last bid price or the last trade price, respectively, of such security prior to 4:00:00 p.m., New York time, as reported by Bloomberg, or, if the Principal Market is not the principal securities exchange or trading market for such security, the last closing bid price or last trade price, respectively, of such security on the principal securities exchange or trading market where such security is listed or traded as reported by Bloomberg, or if the foregoing do not apply, the last closing bid price or last trade price, respectively, of such security in the over-the-counter market on the electronic bulletin board for such security as reported by Bloomberg, or, if no closing bid price or last trade price, respectively, is reported for such security by Bloomberg, the average of the bid prices, or the ask prices, respectively, of any market makers for such security as reported in the "pink sheets" by Pink Sheets LLC (formerly the National Quotation Bureau, Inc.). If the Closing Bid Price or the Closing Sale Price cannot be calculated for a security on a particular date on any of the foregoing bases, the Closing Bid Price or the Closing Sale Price, as the case may be, of such security on such date shall be the fair market value as mutually determined by the Company and the Holder. All such determinations to be appropriately adjusted for any stock dividend, stock split, stock combination or other similar transaction during the applicable calculation period.

(f) **"Common Stock"** means (i) the Company's shares of Common Stock, par value $0.001 per share, and (ii) any share capital into which such Common Stock shall have been changed or any share capital resulting from a reclassification of such Common Stock.

(g) **"Conversion Shares"** means the shares of Common Stock issuable upon conversion of the Convertible Notes.

(h) **"Convertible Notes"** means up to $5,000,000 in aggregate principal amount of the Company's 7% Convertible Promissory Notes due June 2017, in the form of Exhibit D to the Purchase Agreement.

(i) **"Convertible Securities"** means any stock or securities (other than Options) directly or indirectly convertible into or exercisable or exchangeable for shares of Common Stock.

(j) **"Eligible Market"** means the Principal Market, The New York Stock Exchange, Inc., The NYSE MKT, The NASDAQ Capital Market, The NASDAQ Global Market or The NASDAQ Global Select Market.

(k) **"Exercisability Date**" means the Issuance Date.

(l) **"Expiration Date"** means the fifth anniversary of the Exercisability Date or, if such date falls on a day other than a Trading Day or on which trading does not take place on the Principal Market, or, if the Principal Market is not the principal trading market for the Common Stock, then on the principal securities exchange or securities market on which the Common Stock is then traded (a "**Holiday**"), the next date that is not a Holiday.

(m) **"Excluded Securities"** means: (i) the Convertible Notes and the Conversion Shares, provided that the terms of the Convertible Notes are not amended after the Subscription Date to increase the number of shares of Common Stock issuable thereunder or to lower the conversion price thereof, (ii) capital stock, Options or Convertible Securities issued to directors, officers, employees or consultants of the Company in connection with their service as directors of the Company, their employment by the Company or their retention as consultants by the Company pursuant to an Approved Stock Plan, (iii) shares of Common Stock issued upon the conversion or exercise of Options or Convertible Securities that were issued and outstanding on the date immediately preceding the Subscription Date, provided such securities are not amended after the Subscription Date to increase the number of shares of Common Stock issuable thereunder or to lower the exercise or conversion price thereof, (iv) securities issued pursuant to the Purchase Agreement and securities issued upon the exercise or conversion of those securities, and (v) shares of Common Stock issued or issuable by reason of a dividend, stock split or other distribution on shares of Common Stock (but only to the extent that such a dividend, split or distribution results in an adjustment in the Warrant Price pursuant to the other provisions of this Warrant).

(n) **"Fundamental Transaction"** means that the Company shall, directly or indirectly, in one or more related transactions, (i) consolidate or merge with or into (whether or not the Company is the surviving corporation) another Person (but excluding a migratory merger effected solely for the purpose of changing the jurisdiction of incorporation of the Company), or (ii) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of the Company to another Person, or (iii) allow another Person to make a purchase, tender or exchange offer that is accepted by the holders of more than the 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by the Person or Persons making or party to, or associated or affiliated with the Persons making or party to, such purchase, tender or exchange offer), or (iv) consummate a stock purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another Person whereby such other Person acquires more than 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock purchase agreement or other business combination), (v) reorganize, recapitalize or reclassify its Common Stock, or (vi) any "person" or "group" (as these terms are used for purposes of Sections 13(d) and 14(d) of the Exchange Act) is or shall become the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 50% of the aggregate ordinary voting power represented by issued and outstanding Common Stock.

(o) **"Options"** means any rights, warrants or options to subscribe for or purchase shares of Common Stock or Convertible Securities.

(p) **"Option Value"** means the value of an Option based on the Black and Scholes Option Pricing model obtained from the "OV" function on Bloomberg determined as of the day prior to the public announcement of the applicable Option for pricing purposes and reflecting (i) a risk-free interest rate corresponding to the U.S. Treasury rate for a period equal to the remaining term of the applicable Option as of the applicable date of determination, (ii) an expected volatility equal to the greater of (a) 100% and (b) the 100 day volatility obtained from the HVT function on Bloomberg as of the day immediately following the public announcement of the issuance of the applicable Option, (iii) the underlying price per share used in such calculation shall be the highest Weighted Average Price of the Common Stock during the period beginning on the day prior to the execution of definitive documentation relating to the issuance of the applicable Option and the public announcement of such issuance and (iv) a 360 day annualization factor.

(q) **"Parent Entity"** of a Person means an entity that, directly or indirectly, controls the applicable Person and whose common stock or equivalent equity security is quoted or listed on an Eligible Market, or, if there is more than one such Person or Parent Entity, the Person or Parent Entity with the largest public market capitalization as of the date of consummation of the Fundamental Transaction.

(r) **"Person"** means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization, any other entity and a government or any department or agency thereof.

(s) **"Principal Market"** means The OTCQB.

(t) **"Required Holders"** means, as of any date, the holders of at least a majority of the Warrants outstanding as of such date.

(u) **"Successor Entity"** means the Person (or, if so elected by the Holder, the Parent Entity) formed by, resulting from or surviving any Fundamental Transaction or the Person (or, if so elected by the Holder, the Parent Entity) with which such Fundamental Transaction shall have been entered into.

(v) **"Trading Day"** means any day on which the Common Stock are traded on the Principal Market, or, if the Principal Market is not the principal trading market for the Common Stock, then on the principal securities exchange or securities market on which the Common Stock are then traded; *provided* that "Trading Day" shall not include any day on which the Common Stock are scheduled to trade on such exchange or market for less than 4.5 hours or any day that the Common Stock are suspended from trading during the final hour of trading on such exchange or market (or if such exchange or market does not designate in advance the closing time of trading on such exchange or market, then during the hour ending at 4:00:00 p.m., New York time).

(w) **"Weighted Average Price"** means, for any security as of any date, the dollar volume-weighted average price for such security on the Principal Market during the period beginning at 9:30:01 a.m., New York time (or such other time as the Principal Market publicly announces is the official open of trading), and ending at 4:00:00 p.m., New York time (or such other time as the Principal Market publicly announces is the official close of trading), as reported by Bloomberg through its "Volume at Price" function or, if the foregoing does not apply, the dollar volume-weighted average price of such security in the over-the-counter market on the electronic bulletin board for such security during the period beginning at 9:30:01 a.m., New York time (or such other time as the Principal Market publicly announces is the official open of trading), and ending at 4:00:00 p.m., New York time (or such other time as the Principal Market publicly announces is the official close of trading), as reported by Bloomberg, or, if no dollar volume-weighted average price is reported for such security by Bloomberg for such hours, the average of the highest closing bid price and the lowest closing ask price of any of the market makers for such security as reported in the "pink sheets" by OTC Markets LLC. If the Weighted Average Price cannot be calculated for a security on a particular date on any of the foregoing bases, the Weighted Average Price of such security on such date shall be the fair market value as mutually determined by the Company and the Holder. If the Company and the Holder are unable to agree upon the fair market value of such security, then such dispute shall be resolved pursuant to Section 12 with the term "Weighted Average Price" being substituted for the term "Exercise Price." All such determinations shall be appropriately adjusted for any stock dividend, stock split, stock combination or other similar transaction during the applicable calculation period..

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this Warrant to Purchase Common Stock to be duly executed as of the Issuance Date set out above.

VISUALANT, INCORPORATED

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

EXHIBIT A

EXERCISE NOTICE
TO BE EXECUTED BY THE REGISTERED HOLDER TO EXERCISE THIS
WARRANT TO PURCHASE COMMON STOCK

VISUALANT, INCORPORATED

The undersigned holder hereby exercises the right to purchase _____ of the shares of Common Stock **("Warrant Shares")** of Visualant, Incorporated, a Nevada corporation (the **"Company"**), evidenced by the attached Warrant to Purchase Common Stock (the **"Warrant"**). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Warrant.

1. Form of Exercise Price. The Holder intends that payment of the Exercise Price shall be made as:

_____ a "Cash Exercise" with respect to _____ Warrant Shares; and/or

_____ a "Cashless Exercise" with respect to _____ Warrant Shares.

2. Payment of Exercise Price. In the event that the holder has elected a Cash Exercise with respect to some or all of the Warrant Shares to be issued pursuant hereto, the holder shall pay the Aggregate Exercise Price in the sum of $_____ to the Company in accordance with the terms of the Warrant.

3. Delivery of Warrant Shares. The Company shall deliver to the holder _____ Warrant Shares in accordance with the terms of the Warrant and, after delivery of such Warrant Shares, _____ Warrant Shares remain subject to the Warrant.

Date: _____ __, _____

_____
Name of Registered Holder

By: _____
Name:
Title:

EXHIBIT B

ASSIGNMENT FORM

VISUALANT, INCORPORATED

(To assign the foregoing Warrant, execute this form and supply required information. Do not use this form to purchase shares.)

FOR VALUE RECEIVED, the foregoing Warrant and all rights evidenced thereby are hereby assigned to

Name: _____
(Please Print)

Address: _____
(Please Print)

Dated: _____ __, _____

Holder's Signature: _____

Holder's Address: _____

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatever. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the use in this Registration Statement on Form S-1 of Visualant, Inc., of our report dated November 10, 2012 to the consolidated financial statements of Visualant, Inc. as of September 30, 2012, and the related statements of operations, stockholders' equity, and cash flows for year September 30, 2012. We also consent to the reference to our firm under the heading “Experts” in this Registration Statement.

/s/ PMB Helin Donovan, LLP

Seattle, Washington

October 3, 2013

Exhibit 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in this S-1 filing of Visualant, Inc. filed on August 16, 2013, of our report dated November 29, 2011 relating to the financial statements of Visualant, Inc., as of September 30, 2011, and the related statements of operations, stockholders' equity, and cash flows for the year then ended, and to the reference of being experts in auditing and accounting.

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

Murray, Utah
October 3, 2013

October 4, 2013

VIA EDGAR

Mr. Russell Mancuso
Branch Chief
Division of Corporation Finance
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: Visualant, Incorporated
Amendment No. 2 to Registration Statement on Form S-1
Filed September 16, 2013
File No. 333-189788

Dear Mr. Mancuso:

Reference is made to the Staff's comment letter dated September 30, 2013 (the "Staff's Letter") to Visualant, Incorporated (the "registrant"). The registrant hereby submits the following responses to the comments contained in the Staff's Letter with respect to the registrant's Amendment No. 2 to Registration Statement on Form S-1 filed with the SEC on September 16, 2013.

For convenience of reference, each comment contained in the Staff's Letter is reprinted below, numbered to correspond with the paragraph numbers assigned in the Staff's Letter, and is followed by the corresponding response of the registrant.

These comments have been made in response to the Staff's comments.

The Company and our Business, page 5

1. *Please provide us objective support for the claim of leadership that you added in this section and on page 19, including your claim to be a "leading distributor" and to have "top" support in the industry. Also, with a view toward clarified disclosure, please tell us when you received the "top awards," who issued the awards, your relationship to the issuer of the awards, what the criteria were to determine the recipient of the awards, whether others also received the awards, and whether you provided any consideration to apply for or receive the awards.*

Amendment No. 3 to the Registration Statement revises the language used.

Risk Factors, page 6

2. *We note your response to prior comment 6; however, it appears you have removed the heading for the risk factor referenced in your response. Please revise.*

The heading for this risk factor has been added on page 7.

3. *We note your response to prior comment 7. Where you discuss the risks associated with your need for financing in this prospectus, please clarify if true that your CFO also has an agreement to serve as full-time CFO of WestMountain Gold and spends a substantial amount of his time as CFO for several other companies. We note for example Exhibit 10.1 to WestMountain's Form 8-K filed on April 19, 2011 and the statement in Sonora Resources' most recent Form 10-K that your CFO devotes approximately 40% of his working time on providing services to it.*

Mark Scott is employed at will by Visualant, Inc. and by WestMountain Gold Inc. (pursuant to an employment agreement) as their Chief Financial Officer. At this time, Visualant does not require a full-time CFO, and Visualant continues to review its need for a full-time CFO on an ongoing basis. Mr. Scott works in excess of forty hours per week on a combined basis for both companies.

Mr. Scott also is a consulting CFO for Sonora Resources Corp. (pursuant to a consulting agreement) and for U.S. Rare Earths, Inc. as a consultant on an at-will and as-needed basis. Neither of these companies requires specific time commitments from Mr. Scott on an ongoing basis, and his work is sporadic and as needed. A risk factor in Sonora's most recent periodic reports on Form 10-K (as amended) and Form 10-Q (as amended) stated that Mr. Scott was spending approximately 40% of his time on Sonora. This time commitment was based on the company's past needs; however, Mr. Scott's current time commitment to Sonora is substantially less than 40%, which will be reflected in future periodic reports for Sonora.

All four companies are aware of Mr. Scott's other assignments.

4. *We note the disclosure added on page 39 in response to prior comment 50. Please add a risk factor to disclose your failure to pay Sumitomo the full amount when it was due under the agreement. Discuss the material effects on your business.*

Amendment No.3 to the Registration Statement addresses this with the addition of a risk factor.

We are subject to corporate governance and internal control requirements, page 10

5. *Please tell us how the control weakness mentioned in this risk factor caused the failure to comply with Rule 14a-21 as mentioned in your response to prior comment 44. If the failure was not a result of the identified weakness, please tell us whether you have identified additional control weaknesses that you should describe in this risk factor. Also, (1) tell us how you intend to address the weaknesses, and (2) confirm that you will in the future comply with both Rule 14a-21(a) and Rule 14a-21(b) and provide the resulting disclosure required by Item 5.07 of Form 8-K.*

The failure to comply with Rule 14a-21 for the annual meeting held on March 21, 2013 was not a result of the identified weakness, but rather a misreading of the rule. The Company's Board of Directors and its executive officers have been made aware of the requirements of Rule 14a-21(a) and (b), and the failure to comply for the 2013 annual meeting. The Company hereby confirms that it will in the future comply with the requirements of Rule 14a-21 and provide the resulting disclosure required by Item 5.07 of Form 8-K.

Selling Security Holders, page 12

6. *Refer to the last sentence of your response to prior comment 10. Please confirm that you will withdraw your registration statement on Form S-1, file number 333-190685, before you seek acceleration of the effective date of this registration statement, file number 333- 189788.*

The Company confirms that it will withdraw its registration statement on Form S-1, file number 333-190685, before it seeks acceleration of the effective date of this registration statement, file number 333-189788.

7. *Your response to prior comment 14 that you calculated percentage ownership assuming the exercise of all warrants and stock options is inconsistent with Regulation S-K Item 403 and Rule 13d-3(d)(1). Any shares not outstanding but which are deemed beneficially owned by a stockholder pursuant to Rule 13d-3 shall be deemed outstanding for the purpose of computing the percentage of outstanding securities of the class owned by that stockholder but shall not be deemed to be outstanding for the purpose of computing the percentage of the class owned by any other person. Please revise your disclosure accordingly here and on page 38.*

The disclosures and tables in Amendment No. 3 to the Registration Statement have been revised to reflect beneficial ownership determined in accordance with the rules and regulations cited.

8. We note your response to prior comments 16 and 17. Please replace the term "securities" in the column headings of your table with "common stock" to clarify, if true, that you are referring to your common stock. Also, please include a column that shows the total amount of your common stock that each selling shareholder beneficially owned before this offering, not merely before the "private placement memorandum." For stockholders that appear in both this table and in the tables on page 38, the common stock beneficial ownership numbers disclosed in both tables should be identical.

Amendment No.3 to the Registration Statement addresses this by revising the tables. For those stockholders who appear in both the selling stockholder table and the beneficial ownership tables, the beneficial ownership numbers disclosed in the first column B of the selling stockholder table (Common Stock Beneficially Owned Prior to this Offering) are identical to the beneficial ownership numbers in the beneficial ownership tables on page 38.

9. We note your response to prior comment 13 and your disclosure in the fifth paragraph that you have included broker-dealers in the table. Unless you clearly disclose which selling stockholders are broker-dealers and disclose, if true, that each such broker-dealer received the offered securities as compensation for underwriting activities, the broker- dealer must be identified as an underwriter in this prospectus. A broker-dealer who is a selling stockholder must be identified as an underwriter if the broker-dealer did not receive the offered securities as compensation for underwriting activities, regardless of whether the broker-dealer purchased the offered shares in the ordinary course of business or had agreements or understandings to distribute the securities. Each selling stockholder that is an affiliate of a broker-dealer also must be identified as an underwriter unless you disclose, if true, that the selling stockholder purchased the offered shares in the ordinary course of business and, at the time of the purchase of the securities to be resold, the selling stockholder had no agreements or understandings, directly or indirectly, with any person to distribute the securities. Please revise your disclosure accordingly.

The disclosure regarding those selling stockholders who are either broker-dealers or an affiliate of a broker-dealer has been revised.

10. Please disclose the natural person or persons who exercise sole or shared voting and/or dispositive powers with respect to the shares offered by GVC Partners LLC.

Steven Bathgate, Richard Huebner, Vicki Barone, and Greg Fulton.

Plan of Distribution, page 14

11. Please substantially expand your response to prior comment 18 to clarify how each relevant factor affects your conclusion regarding whether this offering is actually on behalf of the issuer. In your response, address the total number of common shares registered for sale as a percentage of your outstanding common shares held by non-affiliates. Also, address clearly how the following affect your conclusions: (1) the participation in this offering of your affiliates as well as broker-dealers and affiliates of broker-dealers, and (2) how long the selling shareholders held the shares between the time that the shares were authorized and sold and the time they were registered for sale on this registration statement.

In addition to the discussion of the relevant factors set forth in response to prior comment 18, we note that the June 2013 private placement was an arms-length negotiation with Special Situations, the lead investor, which had its own counsel. It is the Company's understanding that although the investors in the private placement were and are planning on holding their stock indefinitely, it was important to many of them for accounting and financial statement purposes that they be able to demonstrate to auditors and others reviewing the financial position of the investors that if needed, they would have the ability to sell these securities. It is the Company's understanding that this is the reason the registration requirement was included as part of the private placement.

Given this requirement, it seemed to the Company that the only fair approach in this offering was to treat all investors the same, regardless of status. As a result, shares held by everyone who acquired shares (and/or warrants) in connection with the private placement were included as "selling stockholders" in the registration statement.

The Company is not aware of any agreements or current plans by any broker-dealers or any of their affiliates to sell their shares. Except for GVC Capital LLC and its affiliates, G. Select Securities LLC and its affiliate, and the affiliates of Concept Capital Markets LLC and Smith Hayes Advisors, Inc., who purchased units in the private placement, none of the selling stockholders are in the business of underwriting securities, and the selling stockholders will be acting independently of the Company in making any decision with respect to the timing, manner and size of any sale of the shares. The affiliates of the broker-dealers purchased the securities for their own accounts.

In addition, the Company's CEO (on behalf of his affiliate) and the CFO have represented to the Company that even though the registration statement includes shares acquired by an affiliate of the CEO and by the CFO of the Company in the private placement, neither has any present intention of selling his shares in the foreseeable future.

This, along with the other factors described in our previous response, led the Company to conclude that this offering is not an offering on behalf of the issuer.

We have, however, expanded the disclosures under "Plan of Distribution" in this regard, including a disclosure that the sales by broker-dealers of shares they purchased from the Company in the private placement may be considered to be sales by an underwriter within the meaning of the 1933 Act and that such sales under this offering may be considered to be a sale on behalf of the issuer.

Further, the exercise price of the Series A and Series B Warrants was fixed at a premium over the trading price of the Company's common stock at the time the private placement closed. The Company believes that upon registration of the shares very few, if any, of the selling stockholders will in fact sell their respective shares in the near future because: (i) the Company's common stock currently is trading (and in recent months has been trading) below the $0.10 per share price paid by the selling stockholders for the 52,300,000 shares they purchased; and (ii) the exercise price of the Series A Warrants ($0.15 per share) and the Series B Warrants ($0.20 per share) are well below the current and historical trading price of the Company's common stock. The selling stockholders are unlikely to exercise their warrants until the price of the Company's common stock significantly increases, which may not occur until well into the future. If and when the shares are sold by the selling stockholders, the Company will not receive any of the sale proceeds, and it will not receive any proceeds from exercise of the warrants until the warrants are exercised, which will almost certainly only occur when the stock price of the Company's common stock rises above the warrant exercise price.

The common shares registered for sale represent approximately 72% of the outstanding shares held by non-affiliates.

Business, page 17

12. Please expand your revisions in response to prior comment 21 to clarify what constitutes "Visualant related assets." Also clarify whether Javelin's failure to source any business exempts you from your obligation to pay the ten percent fee in the future should you receive any revenue in connection with this agreement.

Amendment No.3 to the Registration Statement addresses this with revised language in the sections about the RATLab and Javelin acquisitions. Even though the Company does not believe that the Javelin Business Development Agreement is material, it has been filed as Exhibit 10.44.

13. We note your disclosure added in response to prior comment 23 regarding no requirement for FDA or other government approval. Given the medical applications that you suggest in your prospectus and mention on your web site, please tell us how you reached your conclusions regarding FDA approval.

Amendment No.3 to the Registration Statement addresses this with the addition of a risk factor, and additional disclosure has been included in the section entitled "Business" on page 17.

Our Joint Development Agreement . . ., page 17

14. Please revise your disclosure added in response to prior comment 24 to clarify what you mean by your statement that a marketing study will define version 7, and why this definition is necessary before you or Sumitomo can sell the product.

Amendment No.3 to the Registration Statement addresses this with revised language.

Purchase Agreement . . ., page 21

15. We are unable to provide you any comfort regarding the accuracy of your analyses or conclusions that you provide in response to our comments, including in response to prior comment 29. We remind you of the acknowledgements that must accompany any request for acceleration of the effective date of this registration statement as indicated at the end of this letter.

The Company understands that the SEC is unable to provide any comfort on this issue. The Company acknowledges that the requirements of Regulation 14A were not complied with in connection with the solicitation of the voting agreements referenced in our response to prior comment 29. However, the voting agreements were never utilized by the Company in connection with the special meeting of stockholders held on August 9, 2013. The Company confirms that it is aware of the acknowledgements that must accompany its request for acceleration of the effective date of its registration statement.

Summary of Recent Business Operations for the Nine Months Ended June 30, 2013, page 26

16. Please apply prior comment 36 to the disclosure you added in this section. Quantify separately the amount of general and administrative expenses for business development and investor relations. Also, explain the nature of each of those expenditures during this period.

Amendment No.3 to the Registration Statement addresses this with revised language.

Summary of Recent Business Operations for the Year Ended September 30, 2012, page 26

17. Your discussion of the components to your selling, general and administrative expenses appears to omit significant portions of those expenses because the sum of those components does not equal the total. Please provide a materially complete discussion.

Amendment No.3 to the Registration Statement addresses this with revised language.

Summary of Financings, page 28

18. Refer to your disclosure added in response to prior comment 40. Please disclose the amount currently available to you under the BFI Finance credit facility. Also disclose any material restrictions on your access to those funds, any material restrictions on your operations under the credit agreement, and when the credit facility terminates. Also, tell us in your response which exhibit to this registration statement contains the provisions that you disclose.

Amendment No.3 to the Registration Statement addresses this with revised language. See also Exhibits 10.45 through 10.49 filed with Amendment No. 3 to the Registration Statement.

Executive Compensation, page 34

19. Please update your compensation disclosure to include information for the fiscal year ended September 30, 2013.

Amendment No.3 to the Registration Statement revises the compensation disclosures to include information for the fiscal year ended September 30, 2013.

Remuneration of Executive Officers, page 34

20. Please clarify how you calculated Mr. Sparks' compensation in the table on page 35 in light of your revised disclosure in footnote 6. Cite in your response the specific provisions in Regulation S-K Item 402 on which you rely.

Please note that the Company has now revised the compensation disclosures to include compensation for FY 2013, 2012 and 2011. FY 2010 has been deleted and accordingly, Mr. Sparks is no longer included in the tables.

At the time of the Settlement Agreement, Mr. Sparks was owed $28,000 in compensation for his services as CEO and President of the Company during FY 2010. The issuance to Mr. Sparks of 4,000,000 shares of common stock of the Company was in settlement of the $28,000 in unpaid compensation due him for FY 2010 plus unpaid compensation for prior years (2007, 2008 and 2009). The table covered compensation for years 2010, 2011 and 2012, so only the $28,000 earned by Mr. Sparks for 2010 was included in the table. We believe this disclosure was consistent with Regulation S-K, Item 402(a)(2).

21. We note your response to prior comment 46. However, the footnotes to both your Summary Compensation Table and your Director Compensation Table continue to refer to "the dollar amount recognized for financial statement reporting purposes" rather than the grant date fair value as required by Regulation S-K Item 402. Please revise your disclosure in the tables regarding stock and option awards accordingly.

The footnotes to the Summary Compensation Table and the Director Compensation Table have been corrected to indicate that the option award dollar amounts reflect the grant date fair value as required by Regulation S-K Item 402.

Security Ownership of Certain Beneficial Owners and Management, page 37

22. Please provide us your analysis of how the exclusions from beneficial ownership that you mention in the footnotes to the tables on page 38 are consistent with the requirements of Rule 13d-3. See Instruction 2 to Regulation S-K Item 403.

The tables and the footnotes to the tables have been corrected to include all the shares beneficially owned as determined in accordance with Rule 13d-3.

Certain Relationships and Related Party Transactions, page 38

23. Refer to the last sentence of prior comment 57. Given the parties that signed exhibits 10.38 and 10.42, please describe those transactions in this section or provide us your analysis of why you believe the disclosure is not required in this section.

Amendment No.3 to the Registration Statement addresses this comment by expanding the disclosure.

Item 15. Recent Sales of Unregistered Securities, page 45

24. We note your response to prior comment 54 and your added disclosure that you believe that all of the disclosed transactions were exempt from registration based on Regulation D. Please provide us a table that identifies when you filed the Form D for each transaction mentioned in this section.

Amendment No. 3 to the Registration Statement has been revised to delete transactions in fiscal year ended September 30, 2010 because those transactions are now more than three years old. A chart indicating when the Form D was filed for each transaction mentioned in revised Item 15 is attached. There are, however, a few transactions for which we have not yet identified the relevant Form D, and we will follow up with the SEC shortly regarding these few remaining transactions. The chart lists each transaction in the order in which it is listed in Item 15.

Item #	Date of Sale of Unregistered Securities (S-1/A Amendment #3, Item #15)	Amount of Sale	Sold To	# of Shares Sold	Price Per Share	Form D File Date	Form D File Number
1	17-Nov-10	$4,800.00	Robert Jones	20,000	$0.240	3-Dec-10	021-151392
2	23-Dec-10	$30,910.00	Seaside 88 LP	144,471	$0.210	18-Jan-11	021-153959
2	23-Dec-10	$196,108.00	Seaside 88 LP	699,428	$0.280	25-Feb-11	021-155905
2	23-Dec-10	$326,842.00	Seaside 88 LP	985,415	$0.330	4-Apr-11	021-157799
2	23-Dec-10	$209,790.00	Seaside 88 LP	700,000	$0.299	20-May-11	021-160154
3	as of 9/30/11	$763,650.00	Seaside 88 LP	2,529,314	$0.302	See #2	See #2
3	30-Sep-11	$53,469.40	John O'Brien; John Lane; Scott Ashburyk	177,051	$0.302		
4	27-Jan-11	$22,400.00	Yoshitami Arai	50,000	$0.448	22-Feb-11	021-155688
4	27-Jan-11	$22,400.00	Masahiro Kawahata	50,000	$0.448	22-Feb-11	021-155688
4	27-Jan-11	$22,400.00	Marco Hegyi	50,000	$0.448	22-Feb-11	021-155688
4	27-Jan-11	$22,400.00	Jon Pepper	50,000	$0.448	22-Feb-11	021-155688
4	27-Jan-11	$22,400.00	Bradley Sparks	50,000	$0.448	22-Feb-11	021-155688
4	27-Jan-11	$11,200.00	Paul Bonderson	25,000	$0.448	22-Feb-11	021-155688
5	27-Jan-11	$171,675.00	Core Consulting Group, Inc.	381,500	$0.450	22-Feb-11	021-155689
5	27-Jan-11	$171,675.00	Core Consulting Group, Inc.	381,500	$0.450		
6	27-Jan-11	$136,726.00	Monahan & Biagi PLLC	341,815	$0.400	22-Feb-11	021-155691
7	14-Feb-11	$50,000.00	Asher Enterprises, Inc.	173,378	$0.288	18-Feb-11	021-155623
8	23-Feb-11	$90,905.00	Masahiro Kawahata (Nextelligent, Inc.)	211,409	$0.430	20-May-11	021-160150
9	23-Feb-11	$250,000.00	Coach Capital LLC	1,000,000	$0.250		
10	23-Feb-11	$250,000.00	Sterling Group	500,000	$0.500		
11	1-Apr-11	$278,758.00	Coach Capital LLC	1,858,387	$0.150	20-May-11	021-160152
12	1-Apr-11	$2,080.00	Cerillion N4 Partners	4,000	$0.520	20-May-11	021-160153
13	1-Apr-11	$29,999.84	InvestorIdeas.com	57,692	$0.520	20-May-11	021-160153
14	1-Apr-11	$31,200.00	National Securities Corporation	60,000	$0.520	20-May-11	021-160153
15	1-Apr-11	$39,000.00	Aquiline Group Inc.	75,000	$0.520	20-May-11	021-160153
16	31-May-11	$125,000.00	Coach Capital LLC	833,333	$0.150		
17	18-May-11	$5,200.00	Lance Gima	10,000	$0.520	20-May-11	021-160151
18	20-May-11	$20,000.00	Asher Enterprises Inc.	106,781	$0.169	24-May-11	021-160275
18	24-May-11	$20,000.00	Asher Enterprises Inc.	118,343	$0.169	26-May-11	021-160422
18	26-May-11	$12,000.00	Asher Enterprises Inc.	71,006	$0.169	27-May-11	021-160506
19	7-Jun-11	$200,000.00	RATLab LLC	1,000,000	$0.200	12-Jul-11	021-162726
20	17-Jun-11	$3,000,000.00	Asciendiant Capital Partners LLC (Securities Purchase Agmt)	Equity drawdown facility			
20	17-Jun-11	$82,500.00	Asciendiant Capital Partners LLC (Securities Purchase Agmt)	358,696	$0.230	1-Sep-11	021-165299
20	17-Jun-11	$60,870.00	Asciendiant Capital Partners LLC (Securities Purchase Agmt)	507,247	$0.120	1-Sep-11	021-165299
20	17-Jun-11	$9,935.00	Asciendiant Capital Partners LLC (Securities Purchase Agmt)	140,727	$0.071	21-Nov-11	021-169058
20	17-Jun-11	$25,000.00	Asciendiant Capital Partners LLC (Securities Purchase Agmt)	312,500	$0.080	21-Nov-11	021-169058

Item #	Date of Sale of Unregistered Securities (S-1/A Amendment #3, Item #15)	Amount of Sale	Sold To	# of Shares Sold	Price Per Share	Form D File Date	Form D File Number
20	17-Jun-11	$136,472.00	Asciendiant Capital Partners LLC (Securities Purchase Agmt)	1,989,404	$0.068	24-Jan-12	021-172388
20	17-Jun-11	$12,781.00	Asciendiant Capital Partners LLC (Securities Purchase Agmt)	245,792	$0.052	31-Jan-12	021-172714
20	17-Jun-11	$25,000.00	Asciendiant Capital Partners LLC (Securities Purchase Agmt)	312,500	$0.080	26-Oct-11	021-167851
20	17-Jun-11	$25,849.00	Asciendiant Capital Partners LLC (Securities Purchase Agmt)	514,905	$0.050	27-Feb-12	021-174028
20	17-Jun-11	$32,446.00	Asciendiant Capital Partners LLC (Securities Purchase Agmt)	523,330	$0.062	16-Mar-12	021-175115
29	17-Jun-11	$35,070.00	Asciendiant Capital Partners LLC (Securities Purchase Agmt)	375,480	$0.093	19-Apr-12	021-176931
20	17-Jun-11	$38,883.07	Asciendiant Capital Partners LLC (Securities Purchase Agmt)	333,474	$0.117	6-Jun-12	021-179362
20	17-Jun-11	$38,883.07	Asciendiant Capital Partners LLC (Securities Purchase Agmt) (Amended Form D filing) (Director Bonderson deleted)	333,474	$0.117	20-Jul-12	021-179362
20	17-Jun-11	$29,859.06	Asciendiant Capital Partners LLC (Securities Purchase Agmt)	271,446	$0.110	6-Jun-12	021-179362
20	17-Jun-11	$29,859.06	Asciendiant Capital Partners LLC (Securities Purchase Agmt) (Amended Form D filing) (Director Bonderson deleted)	271,446	$0.110	20-Jul-12	021-179362
20	17-Jun-11	$55,863.00	Ascendiant Capital Partners LLC (Securities Purchase Agmt)	1,117,260	$0.050	16-Aug-12	021-182855
20	17-Jun-11	$56,191.00	Ascendiant Capital Partners LLC (Securities Purchase Agmt)	1,123,836	$0.050	16-Aug-12	021-182855
20	17-Jun-11	$100,000.00	Ascendiant Capital Partners LLC (Securities Purchase Agmt)	993,049	$0.100	19-Oct-12	021-185855
21	30-Sep-11	$66,991.00	Asciendant Capital Partners LLC (Securities Purchase Agmt)	774,599	$0.086		
21	31-Dec-11	$193,370.00	Asciendant Capital Partners LLC (Securities Purchase Agmt)	1,490,943	$0.131		
22	17-Jun-11	$13,000.00	Aquiline Group, Inc.	25,000	$0.520	12-Jul-11	021-162725
23	14-Jul-11	$50,000.00	Asher Enterprises Inc.	491,506	$0.102	21-Jul-11	021-163298
24	5-Oct-11	$70,000.00	D. Weckstein and Co.	1,000,000	$0.070	24-Jan-12	021-172388
25	15-Dec-11	$12,000.00	Todd Weaver	100,000	$0.120	24-Jan-12	021-172388
26	7-Feb-12	$100,000.00	Coventry Capital LLC	1,000,000	$0.100	7-Feb-12	021-173041
27	24-Feb-12	$8,000.00	Yoshitami Arai	100,000	$0.080	16-Mar-12	021-175115
27	24-Feb-12	$8,000.00	Masahiro Kawahata	100,000	$0.080	16-Mar-12	021-175115
27	24-Feb-12	$6,000.00	Jon Pepper	75,000	$0.080	16-Mar-12	021-175115
27	24-Feb-12	$6,000.00	Paul Bonderson	75,000	$0.080	16-Mar-12	021-175115
27	24-Feb-12	$4,000.00	Bradley Sparks	50,000	$0.080	16-Mar-12	021-175115
28	12-Mar-12	$20,400.00	National Securities Corporation	204,000	$0.100		
28	12-Mar-12	$36,600.00	Steven Freifeld	366,000	$0.100		
28	12-Mar-12	$3,000.00	Vince Calicchia	30,000	$0.100		
29	16-May-12	$15,000.00	Manna Advisory Services LLC	150,000	$0.130	6-Jun-12	021-179362
29	16-May-12	$15,000.00	Manna Advisory Services LLC (amended Form D filing (Director Bonderson deleted)	150,000	$0.130	20-Jul-12	021-179362
30	31-May-12	$2,250,000.00	Sumitomo	17,307,693	$0.130	27-Jun-12	021-180351
30	31-May-12	$2,250,000.00	Sumitomo (Amended Form D filing) (Director Bonderson deleted)	17,307,693	$0.130	20-Jul-12	021-180351

Item #	Date of Sale of Unregistered Securities (S-1/A Amendment #3, Item #15)	Amount of Sale	Sold To	# of Shares Sold	Price Per Share	Form D File Date	Form D File Number
31	31-Jul-12	$162,500.00	Javelin LLC	1,250,000	$0.130	2-Oct-12	021-184907
32	6-Sep-12	$66,780.00	Bradley Sparks	513,696	$0.130	11-Sep-12	021-183903
32	6-Sep-12	$721,333.00	Bradley Sparks	4,000,000	$0.180	11-Sep-12	021-183903
33	18-Sep-12	$65,000.00	NVPR LLC	500,000	$0.130	20-Sep-12	021-184410
34	28-Sep-12	$32,500.00	Clayton McMeekin	250,000	$0.130	2-Oct-12	021-184907
35	As of 9/30/2012	$320,780.00	Gemini Master Fund	7,036,975	$0.050		
35	7-Sep-11	$25,762.37	Gemini Master Fund	311,516	$0.083	16-Sep-11	021-166011
35	21-Oct-11	$104,246.00	Gemini Master Fund	2,619,261	$0.039	26-Oct-11	021-167851
35	7-Feb-12	$107,132.00	Gemini Master Fund	2,434,828	$0.044	7-Feb-12	021-173041
35	9-Jul-12	$83,568.00	Gemini Master Fund	1,671,370	$0.050	20-Jul-12	021-181582
36	As of 9/30/2012	$168,671.00	Ascendiant Capital Partners (Notice of Conversion)	3,373,425	$0.050	20-Sep-12	021-184410 (notice $$ amount and # of shares on this Form D is less than entries on #45)
37	Duplicative of entry #19 above		Duplicative of entry #19 above				
38	30-Sep-12	$383,141.00	Ascendiant Capital Partners LLC (Securities Purchase Agreement)	5,365,884	$0.071		
38	Issued during entire 2011	$193,370.00	Ascendiant Capital Partners LLC (Securities Purchase Agreement)	1,490,943	$0.131		
39	8-Oct-12	$56,959.00	Ascendiant Capital Partners LLC (Securities Purchase Agreement	1,139,178	$0.050	10-Oct-12	021-185250
40	Duplicative of entry #19 above		Duplicative of entry #19 above				
41	30-Sep-12	$483,141.00	Ascendiant Capital Partners LLC (Securities Purchase Agreement)	6,358,933	$0.076		
42	26-Oct-12	$19,500.00	Manna Advisory Services LLC	150,000	$0.130	30-Oct-12	021-186285
43	28-Nov-12	$57,644.00	Ascendiant Capital Partners LLC (Security Purchase Agreement)	1,152,877	$0.050	29-Nov-12	021-187651
44	24-Jan-13	$350,630.00	Gemini Master Fund	7,012,603	$0.050	29-Jan-13	021-190930
45	24-Jan-13	$58,438.00	Ascendiant Capital Partners LLC (Security Purchase Agreement)	1,168,767	$0.050	29-Jan-13	021-190985
46	28-Jan-13	$350,959.00	Gemini Master Fund	7,019,178	$0.050	30-Jan-13	021-191084
47	11-Feb-13	$25,000.00	Integrated Consulting Services	250,000	$0.100		
48	13-Feb-13	$15,000.00	Manna Advisory Services LLC	150,000	$0.100	19-Feb-13	021-192006 (Form D states $0.13 per share)
49	13-Feb-13	$15,000.00	David Markowski	150,000	$0.100	19-Feb-13	021-192006 (Form D states $0.13 per share)

Item #	Date of Sale of Unregistered Securities (S-1/A Amendment #3, Item #15)	Amount of Sale	Sold To	# of Shares Sold	Price Per Share	Form D File Date	Form D File Number
50	13-Feb-13	$120,000.00	Ronald P. Erickson	1,200,000	$0.100	19-Feb-13	021-192007
50	13-Feb-13	$20,000.00	Mark Scott	200,000	$0.100	19-Feb-13	021-192007
50	13-Feb-13	$40,000.00	Marco Hegyi	400,000	$0.100	19-Feb-13	021-192007
50	13-Feb-13	$20,000.00	Jon Pepper	200,000	$0.100	19-Feb-13	021-192007
51	1-Mar-13	$5,000.00	Manna Advisory Services LLC	50,000	$0.100	4-Apr-13	021-194473
52	26-Apr-13	Cashless exercise of Warrant	Ascendiant Capital Partners LLC	4,565,068	$0.000	3-May-13	021-195934
53	26-Apr-13	$300,000.00	Visualant exercise of option to re-purchases shares from Ascendiant Capital Partners LLC	4,000,000	$0.080	3-May-13	021-195934
54	30-Apr-13	$12,000.00	David Markowski	120,000	$0.100	17-May-13	021-196660
55	10-Jun-13	$5,230,000.00	Special Situation Funds and 40 other accredited investors	52,300,000	$0.100	18-Jun-13	021-198218
55	10-Jun-13	$523,000.00	GVC Capital (placement agent warrants)	5,230,000	$0.100	18-Jun-13	021-198218
56	4-Sep-13	$60,000.00	Liolios Group, Inc.	300,000	$0.200	1-Oct-13	021-203843
57	15-Sep-13	$40,000.00	Genesis Select Corporation	200,000	$0.200		

Exhibits

25. Exhibit 10.24 appears to be missing attachment A and exhibit 10.33 is missing exhibits and schedules. Please file complete exhibits as noted in prior comment 56.

We are re-filing Exhibit 10.24 with Attachment A and Exhibit 10.33 with all exhibits and schedules.

Exhibit 23.2 Consent of Independent Accountants

26. We note the Consent for Madsen & Associates CPA's, Inc. is incorrectly dated November 13, 2013. Prior to requesting effectiveness on the registration statement, please amend the filing to include a currently and correctly dated consent.

Amendment No.3 to the Registration Statement addresses this date change in Exhibit 23.2.

The registrant acknowledges that:

- should the Commission or the staff, acting pursuant to delegated authority, declare the filing effective, it does not foreclose the Commission from taking any action with respect to the filing;
- the action of the Commission or the staff, acting pursuant to delegated authority, in declaring the filing effective, does not relieve the company from its full responsibility for the adequacy and accuracy of the disclosure in the filing; and
- the company may not assert staff comments and the declaration of effectiveness as a defense in any proceeding initiated by the Commission or any person under the federal securities laws of the United States.

Please contact me at (206) 903-1351 with any questions. The Company respectfully requests that if the staff has any remaining comments or questions after reviewing Amendment No. 3 to the Registration Statement and this letter, that it discuss such comments or questions with our attorney, James Biagi, in a telephone call prior to issuing another comment letter. Mr. Biagi's telephone number is (206) 587-5700.

Sincerely,

/s/ Mark Scott

Mark Scott, CFO
Visualant, Incorporated

cc: James F. Biagi, Jr., Fifth Avenue LawGroup, PLLC