

Registration No. \_\_\_\_\_

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM S-1/A  
AMENDMENT 5  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

**VISUALANT, INCORPORATED**

(Exact name of registrant as specified in charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**90-0273142**

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

**3920**

(Primary Standard Industrial Classification Number)

**500 Union Street, Suite 420, Seattle, Washington USA**

(Address of principal executive offices)

**98101**

(Zip Code)

**206-903-1351**

(Registrant's telephone number, including area code)

**N/A**

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

**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
<b>Total</b>	<b>162,130,000</b>		<b>\$ 24,058,000</b>	<b>\$ 3,281.51</b>

- (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 10 , 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. On October 9 , 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 10 , 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](http://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 COMPANY DOES NOT HAVE A FULL-TIME CHIEF FINANCIAL OFFICER AND THE COMPANY'S CHIEF FINANCIAL OFFICER HAS COMMITMENTS TO OTHER COMPANIES.

The Company's Chief Financial Officer, Mark Scott, also serves as the Chief Financial Officer of three other companies. At this time, the Company does not require a full-time Chief Financial Officer but as the Company's operations increase, it will consider retaining a full-time CFO.

Mr. Scott serves as the Chief Financial Officer of WestMountain Gold Inc., as well as a consulting CFO for Sonora Resources Corp. and U.S. Rare Earths, Inc. The latter two companies do not require any specific time commitment from Mr. Scott, and his work for these two companies is sporadic and on an as-needed basis. Although Mr. Scott has an employment agreement with WestMountain Gold Inc. to serve as full-time CFO, he works in excess of forty hours per week on a combined basis for both WestMountain Gold and Visualant, so he is able to accommodate both companies' needs at this time. The other three companies are aware of Mr. Scott's employment by the Company and these other companies do not rely on Mr. Scott to identify or secure funding sources for their operations. If, however, the needs of the Company or any of the other three companies should change in the future requiring Mr. Scott to devote more time and/or requiring him to assist with identifying or securing funding sources, it could create material conflicts regarding the decisions he must make in allocating his time and the funding sources he might identify among the companies who employ him, which could have a material adverse effect on our business.

#### 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 10, 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 10, 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 may face difficulties include:

- Diversion of management time, during the period of negotiation through closing and after closing, from its focus on operating the businesses to issues of integration;
- Decline in employee morale and retention issues resulting from changes in compensation, reporting relationships, future prospects or the direction of the business;
- The need to integrate each Company's accounting, management information, human resource and other administrative systems to permit effective management, and the lack of control if such integration is delayed or not implemented;
- The need to implement controls, procedures and policies appropriate for a public Company that may not have been in place in private companies, prior to acquisition;
- The need to incorporate acquired technology, content or rights into our products and any expenses related to such integration; and
- The need to successfully develop any acquired in-process technology to realize any value capitalized as intangible assets.

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

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

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

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

#### WE MAY INCUR LOSSES IN THE FUTURE.

We have experienced net losses since inception. As of June 30, 2013, we had an accumulated deficit of \$19.4 million. There can be no assurance that we will achieve or maintain profitability.

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

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

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

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

## TRADING IN THE COMPANY'S STOCK MAY BE RESTRICTED 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 15c-9 which generally defines "penny stock" to be any equity security that has a market price (as defined) less than US\$ 5.00 per share or an exercise price of less than US\$ 5.00 per share, subject to certain exclusions (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 with Sumitomo 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 10, 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.

In addition, under the rules implementing the Dodd-Frank Act, commencing with the first annual meeting of stockholders on or after January 21, 2013 and at least every three years thereafter, the Company's stockholders are entitled to an advisory vote to approve the compensation of our executive officers. The proxy statement for the Company's annual stockholder meeting held on March 21, 2013 failed to include the required resolution providing for such advisory vote and resulted in the Company's failure to hold the advisory vote and make the necessary disclosure of the outcome of such advisory vote in its subsequent Form 8-K filing. To address this omission and correct this control weakness in the Company's corporate governance compliance, the Company intends to hire a corporate governance and compliance consultant to fully review the Company's proxy statements as well as the Company's other filings with the Securities and Exchange Commission to insure that all necessary requirements are met.

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 \$0.232 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.

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				% Beneficial Ownership After Offering (F)
				Common Stock Being Offered (C)	Common Stock Underlying Warrant A Being Offered (C)	Common Stock Underlying Warrant B Being Offered (C)	Common Stock Underlying Placement Agent Warrants Being Offered (D)	
Michael L. Conn	750,000	-	-	250,000	250,000	250,000	-	*
Growth Ventures, Inc.	1,500,000	-	-	500,000	500,000	500,000	-	*
Pension Plan & Trust/ Gary McAdam								
Edward Staas	540,000	-	-	180,000	180,000	180,000	-	*
Jim Bisping	300,000	-	-	100,000	100,000	100,000	-	*
William D. Moreland	9,000,000	-	-	3,000,000	3,000,000	3,000,000	-	*
Len Goldberg	2,700,000	900,000	900,000	600,000	600,000	600,000	-	*
Michael S. Barish	4,500,000	-	-	1,500,000	1,500,000	1,500,000	-	*
Alva Terry Staples	750,000	-	-	250,000	250,000	250,000	-	*
Lucky Dog LLC/ Robert Doane	1,500,000	-	-	500,000	500,000	500,000	-	*
High Speed Aggregate, Inc./ Jeff Ploen	750,000	-	-	250,000	250,000	250,000	-	*
Wallace Family Trust	3,000,000	-	-	1,000,000	1,000,000	1,000,000	-	*
John Wallace								
H. Leigh Severance	2,500,000	1,000,000	1,000,000	500,000	500,000	500,000	-	*
Stephanie L. Russo	1,050,000	-	-	350,000	350,000	350,000	-	*
Robert G. Allison	2,250,000	-	-	750,000	750,000	750,000	-	*
Aeneas Valley Holdings LLC/ Scott Wilburn	6,000,000	-	-	2,000,000	2,000,000	2,000,000	-	*
Delaware Charter G & T Co FBO John Jenkins	750,000	-	-	250,000	250,000	250,000	-	*
Diker Micro-Cap Fund, LP/ Mark Diker	10,500,000	-	-	3,500,000	3,500,000	3,500,000	-	*
Delaware Charter G & T Co. FBO Shane T. Petersen	450,000	-	-	150,000	150,000	150,000	-	*
Delaware Charter G & T Co FBO Douglas Kelsall	750,000	-	-	250,000	250,000	250,000	-	*
Herbert C. Brosnan Jr	1,050,000	-	-	350,000	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	5,000,000	-	4.5%
John D.Gibbs	1,750,000	1,000,000	1,000,000	250,000	250,000	250,000	-	*
Jeb Partners LP/ Jeb Besser	4,500,000	-	-	1,500,000	1,500,000	1,500,000	-	*
Special Situations Technology Funds, L.P./ Adam Stettner	47,700,000	-	-	15,900,000	15,900,000	15,900,000	-	*

Rapture Investments LP/ Cooper Dubois	15,000,000	-	-	5,000,000	5,000,000	5,000,000	-	*
Mark Scott, our CFO	2,568,500	2,268,500	2,268,500	100,000	100,000	100,000	-	*
Patrick Lin	750,000	-	-	250,000	250,000	250,000	-	*
SouthShore Capital Partners, LP/ Thomas Turner	1,500,000	-	-	500,000	500,000	500,000	-	*
David R. Morgan	1,500,000	-	-	500,000	500,000	500,000	-	*
Millennium Trust Company LLC Cust. FBO John Seabern	3,000,000	-	-	1,000,000	1,000,000	1,000,000	-	*
Daniel S. & Patrice M. Perkins	750,000	-	-	250,000	250,000	250,000	-	*
Michael E. Donnelly (1)	2,129,943	32,603	32,603	500,000	500,000	500,000	597,340	*
Delaware Charter G & T Co FBO Steven M. Bathgate (1)	3,654,490	2,286,300	2,286,300	250,000	250,000	250,000	618,190	*
Margaret Bathgate (1)	3,025,000	775,000	775,000	750,000	750,000	750,000	-	*
Viva CO LLC/ Douglas Kelsall and Steven Bathgate (1)	1,250,000	500,000	500,000	250,000	250,000	250,000	-	*

Liolios Family Trust/ Scott Liolios (1)	1,750,000	-	500,000	250,000	250,000	250,000	500,000	*
GVC Capital LLC (1)	4,500,000	-	-	1,500,000	1,500,000	1,500,000	-	*
Financial America Securities, Inc. (1)	5,250	-	-	-	-	-	5,250	*
Matthew Kelsall (1)	250,220	-	-	-	-	-	250,220	*
Richard Huebner (1)	126,000	-	-	-	-	-	126,000	*
Anita Dudley (1)	5,000	-	-	-	-	-	5,000	*
Andrea Kidd (1)	10,000	-	-	-	-	-	10,000	*
GVC Partners LLC (1)	493,900	-	-	-	-	-	493,900	*
Delaware Charter G&T Co. FBO: Vicki Barone (1)	839,100	-	-	170,000	170,000	170,000	329,100	*
G. Select Securities LLC (2)	2,495,000	-	200,000	-	-	-	2,295,000	*
Alan Budd Zuckerman (2)	3,000,000	-	-	1,000,000	1,000,000	1,000,000	-	*
Tom Juda & Nancy Juda Living Trust (3)	3,000,000	-	-	1,000,000	1,000,000	1,000,000	-	*
Delaware Charter G&T Co. FBO: Rod Cerny (4)	450,000	-	-	150,000	150,000	150,000	-	*
	183,920,776	21,090,776	21,790,776	52,300,000	52,300,000	52,300,000	5,230,000	8.0%

\*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 as compensation for underwriting activities. 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 will 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 under the 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 with Sumitomo. 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 in 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 in 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), stock based compensation expenses (\$177,000), and other general expenses (\$95,000). The increase in legal expense related to increased patent and trademark expenses and corporate legal expense related to financing transactions, the Gemini and Ascendant 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. As part of the selling, general and administrative expenses for the nine months ended June 30, 2013, we incurred investor relation expenses of \$27,500 and business development expenses of \$296,000.

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 in 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 \$3,692,000 for the year ended September 30, 2011. These expenses included administrative costs (\$529,800), consulting (\$123,400), insurance (\$54,300), interest (\$400,700), marketing (\$9,400), payroll (\$133,000), legal and other professional fees (\$268,200), rent, utilities and repairs (\$26,600), research and development (\$177,000), travel and entertainment (\$38,600), as well as \$195,000 in expenses related to the Sumitomo transactions during the year ended September 30, 2012 and other general expenses. During the year ended September 30, 2012, as part of our selling, general and administrative expenses, we also 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; (iii) stock based compensation of \$266,000; and (4) issuance of shares for debenture conversions and other miscellaneous issuances totaling \$247,000. In addition, for the year ended September 30, 2012 we incurred investor relation expenses of \$7,000 and business development expenses of \$466,000.

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 Ascendant dated June 17, 2011**

On June 17, 2011, we entered into a Securities Purchase Agreement with Ascendant, pursuant to which Ascendant 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 Ascendant is commonly referred to as an "equity line of credit" or an "equity drawdown facility."

Under the terms of the Securities Purchase Agreement, Ascendant 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 Ascendant's resale of any shares purchased by it under the equity drawdown facility. The customary terms and conditions associated with Ascendant'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 Ascendant, and Ascendant 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 Ascendant. In such draw down notices, the Company was required to specify the dollar amount of shares that it intended to sell to Ascendant, which was spread over a five-trading-day pricing period. For each draw, the Company was required to deliver the shares sold to Ascendant by the second trading day following the pricing period. Ascendant 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 Ascendant'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 Ascendant 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 - Ascendant 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 Ascendant'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 Ascendant must be paid in full; the Registration Statement must be effective with respect to Ascendant'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 Ascendant 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 Ascendant, including customary investment-related representations provided by Ascendant, as well as acknowledgements by Ascendant 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 Ascendant 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 Ascendant 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 Ascendant expired on August 29, 2013.

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

On May 19, 2011, we entered into a Securities Purchase Agreement or Agreement with Gemini and Ascendant, 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 Ascendant 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 Ascendant, pursuant to which the Gemini and Ascendant 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 Ascendant 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.

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

During the year ended September 30, 2012, we modified the terms of the outstanding Original Debentures with the Gemini and Ascendant having an aggregate principal value of \$1,200,000. The maturity date was extended to September 30, 2013, Gemini and Ascendant 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 Ascendant 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 Ascendant 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 Ascendant pursuant to which we agreed to repurchase the Ascendant 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 Ascendant was issued a total of 4,564,068 shares of common stock on April 26, 2013 as a result of Ascendant's cashless exercise of the Ascendant Warrant. On April 26, 2013, we entered into an Option Agreement with Ascendant pursuant to which we had the option to purchase from Ascendant 4,000,000 of the 4,564,068 shares of common stock of the Company acquired by Ascendant 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 Ascendant and paid to Ascendant the \$300,000 purchase price. Ascendant 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 Ascendant Capital Partners, LLC ("Ascendant") 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 Ascendant. 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 Ascendant. The Court ordered Ascendant 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 Ascendant's AIR right in a private transaction between Gemini and Ascendant) dated January 23, 2013 pursuant to which we acquired all additional investment rights or AIR of Gemini and Ascendant 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 10, 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 June 30, 2013	Years Ended September 30,				
		2012	2011	2010	2009	2008
(in thousands, except for share and per share data)						
<b>STATEMENT OF OPERATIONS DATA:</b>						
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
<b>BALANCE SHEET DATA:</b>						
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 Ascendant 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, 2010. 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) Ascendant Capital Markets for the option exercise price, and (iv) Gemini Master Fund, Ltd. for the June 30, 2013 payment under the AIR Termination Agreement. The balance of the proceeds from the Transaction will be used by us for technology development, operating expenses and to pay our debts. We entered into the agreements with Gemini and Ascendant 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 credit facility has two components: (1) accounts receivable borrowing based on 80% of eligible trade accounts receivable, not to exceed \$700,000 (currently \$671,000), and (b) inventory borrowing up to \$300,000 based on 35% of the company's inventory, computed monthly. As part of the June 2013 renewal, the parties agreed that the inventory borrowing line would be terminated and the existing balance of \$183,000 would be paid back by November 30, 2013. As of September 30, 2013, the Company had a remaining balance of \$78,000 on its inventory borrowing, which it is obligated to pay 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 on the accounts receivable line (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	Year Ending,		
	June 30, 2013	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	Year Ending,		
	June 30, 2013	September 30, 2012	September 30, 2011	September 30, 2010
<b>Shares of Common Stock-</b>				
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	-
Ascendant Convertible Debentures	5,739,000	3,373,000	-	-
Ascendant 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	<u>73,064,000</u>	<u>32,763,000</u>	<u>7,802,000</u>	<u>-</u>
<b>Proceeds from Financings-</b>				
Coach Capital LLC Convertible Debenture and warrant exercise	\$ -	\$ -	\$ 125,000	\$ 250,000
Seaside	-	-	761,000	-
Gemini Convertible Debentures	102,000	20,000	900,000	-
Ascendant Convertible Debentures	23,000	19,000	300,000	-
Ascendant 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	<u>\$ 5,455,000</u>	<u>\$ 2,666,000</u>	<u>\$ 2,424,000</u>	<u>\$ 300,000</u>
TransTech Secured Credit Facility with BFI Finance Corp.	<u>\$ 110,000</u>	<u>\$ 62,000</u>	<u>\$ (137,000)</u>	<u>\$ 188,000</u>

*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) Ascendant Capital Markets for the option exercise price, and (iv) Gemini Master Fund, Ltd. for the June 30, 2013 payment under the AIR Termination Agreement. The balance of the proceeds from the Transaction will be used by us for technology development, operating expenses and to pay our debts. 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 Ascendant that we previously discussed.

We issued 5,357,000 shares to shares to Ascendant 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 Ascendant 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
<b>Directors-</b>			
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
<b>Executive Officers-</b>			
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 of Sumitomo 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 in Sumitomo 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 with Sumitomo 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 Britannia 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 10, 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](http://www.visualant.net). The table below shows current membership for each of the standing Board committees.

<b>Audit</b>	<b>Compensation</b>	<b>Nominating</b>
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 at [www.visualant.net](http://www.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 policies 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 (\$)
<b>Salary-</b>									
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
Mark Scott (2)	Chief Financial Officer	9/30/2013	\$ 120,000	\$ -	\$ 20,000	\$ -	\$ 130,000	\$ -	\$ 270,000
		9/30/2012	\$ 104,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 104,000
		9/30/2011	\$ 74,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 74,000
James Gingo (3)	Chief Executive Officer, TransTech Systems, Inc.	9/30/2013	\$ 137,789	\$ -	\$ -	\$ -	\$ -	\$ 9,914	\$ 147,703
		9/30/2012	\$ 200,016	\$ -	\$ -	\$ -	\$ -	\$ 8,001	\$ 208,017
		9/30/2011	\$ 200,016	\$ -	\$ -	\$ -	\$ -	\$ 8,001	\$ 208,017
Richard Mander, Ph.D. (4)	Vice President of Product Management and Technology	9/30/2013	\$ 150,000	\$ -	\$ -	\$ -	\$ 180,000	\$ 12,000	\$ 342,000
		9/30/2012	\$ 40,615	\$ -	\$ -	\$ -	\$ -	\$ 3,000	\$ 43,615
		9/30/2011	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Todd Martin Sames (5)	Vice President of Business Development	9/30/2013	\$ 120,000	\$ -	\$ -	\$ -	\$ 130,000	\$ -	\$ 250,000
		9/30/2012	\$ 10,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,000
		9/30/2011	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Jeffrey Kruse (6)	President of TransTech Systems, Inc.	9/30/2013	\$ 153,000	\$ -	\$ -	\$ -	\$ 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. 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, in July 2013. As President, Mr. Kruse was paid at the monthly rate of \$13,500 from July 2013 to September 30, 2013. Prior to July 2013, Mr. Kruse was an employee of TransTech and was paid at the monthly rate of \$12,500. Mr. Kruse also was eligible to participate in the Company's 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:

Name	Date	Estimated Future Payouts Under Non-Equity Incentive Plan			Estimated Future Payouts Under Equity Incentive Plan			All Other Stock Awards; Number of	All Other Option Awards;	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards
		Awards			Awards			Shares of Stock or Units	Number of Securities		
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)	Options (#)			
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

Name	Option Awards (1)					Stock Awards			
	Number of Securities Underlying Unexercised Options	Number of Securities Underlying Unexercised Options	Number of Securities Underlying Unexercised 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
	Exercisable (#)	Unexercisable (#)	Options (#)	Price (\$)	Expiration Date	Vested (#)	Vested (\$)	Vested (#)	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 10, 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	15.2 %
Mark Scott (2)	2,568,500	1.5 %
Marco Hegyi	2,675,000	1.6 %
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	10.5 %
Total Directors and Officers (8 in total)	52,954,089	30.7 %

\* 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	15.2 %
500 Union Street , Suite 420		
Seattle, WA 98101		
Sumitomo Precision Products Co., Ltd./ Ichiro Takesako (2)	17,307,693	10.5 %
1-10 Fuso-cho		
Amagasaki		
Hyogo 660-0891 Japan		
Special Situations Technology Funds, L.P./ Adam Stettner (3)	47,700,000	24.2 %
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 10, 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 for Special 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 and September 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 Officer, 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 10, 2013, we had 65,263,674 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 10, 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 10, 2013, there were 165,263,674 shares of common stock outstanding.

### Holders

As of October 10, 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 Statutes 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
<b>ASSETS</b>		(Audited)
<b>CURRENT ASSETS:</b>		
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
<b>EQUIPMENT, NET</b>	442,270	469,001
<b>OTHER ASSETS</b>		
Intangible assets, net	855,689	1,110,111
Goodwill	983,645	983,645
Other assets	6,161	6,161
<b>TOTAL ASSETS</b>	<u>\$ 5,591,587</u>	<u>\$ 5,319,766</u>
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
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
<b>LONG TERM LIABILITIES:</b>		
Long term debt	2,455	4,015
<b>COMMITMENTS AND CONTINGENCIES</b>	-	-
<b>STOCKHOLDERS' (DEFICIT) EQUITY:</b>		
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
<b>TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>	<u>\$ 5,591,587</u>	<u>\$ 5,319,766</u>

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

**VISUALANT, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended,		Nine Months Ended,	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
REVENUE	\$ 2,060,250	\$ 1,813,625	\$ 6,333,552	\$ 5,525,785
COST OF SALES	1,642,240	1,457,420	4,807,196	4,512,899
GROSS PROFIT	418,010	356,205	1,526,356	1,012,886
RESEARCH AND DEVELOPMENT EXPENSES	341,231	23,000	720,022	99,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,018,083	1,076,134	3,570,911	2,754,050
OPERATING LOSS	(941,304)	(742,929)	(2,764,577)	(1,840,164)
OTHER INCOME (EXPENSE):				
Interest expense	(38,605)	(12,261)	(154,642)	(128,503)
Other income	5,296	7,610	25,206	19,758
Loss on change - derivative liability warrants	(1,448,710)	-	(1,448,710)	-
Loss on purchase of warrants and additional investment right	-	-	(1,150,000)	-
Total other expense	(1,482,019)	(4,651)	(2,728,146)	(108,745)
LOSS BEFORE INCOME TAXES	(2,423,323)	(747,580)	(5,492,723)	(1,948,909)
Income taxes - current benefit	(13,910)	(9,965)	(30,045)	(24,159)
NET LOSS	(2,409,413)	(737,615)	(5,462,678)	(1,924,750)
NONCONTROLLING INTEREST	(6,476)	(786)	(14,802)	2,750
NET (LOSS) ATTRIBUTABLE TO VISUALANT, INC. AND SUBSIDIARIES COMMON SHAREHOLDERS	<u>\$ (2,402,937)</u>	<u>\$ (736,829)</u>	<u>\$ (5,447,876)</u>	<u>\$ (1,927,500)</u>
Basic and diluted income (loss) per common share attributable to Visualant, Inc. and subsidiaries common shareholders-				
Basic and diluted income (loss) per share	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>	<u>\$ (0.05)</u>	<u>\$ (0.03)</u>
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
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
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)
<b>CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<b>(2,486,603)</b>	<b>406,543</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(23,746)	5,301
Proceeds from sale of equipment	12,201	8,302
<b>NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES:</b>	<b>(11,545)</b>	<b>13,603</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
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)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>3,066,812</b>	<b>2,573,146</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>568,664</b>	<b>2,993,292</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>1,141,165</b>	<b>92,313</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 1,709,829</b>	<b>\$ 3,085,605</b>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	\$ 109,545	\$ 12,458
Taxes paid	\$ -	\$ -
<b>Non-cash investing and financing activities:</b>		
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.

**VISUALANT, INCORPORATED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**INVENTORIES** - Inventories consist primarily of printers and consumable supplies, including ribbons and cards, badge accessories, capture devices, and access control components held for resale and are stated at the lower of cost or market on the first-in, first-out ("FIFO") method. Inventories are considered available for resale when drop shipped and invoiced directly to a customer from a vendor, or when physically received by TransTech at a warehouse location. The company records a provision for excess and obsolete inventory whenever an impairment has been identified. There is a \$10,000 reserve for impaired inventory as of June 30, 2013 and September 30, 2012.

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

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

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

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

**FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS** – ASC Topic 820, *Fair Value Measurement and Disclosures*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This topic also establishes a fair value hierarchy, which requires classification based on observable and unobservable inputs when measuring fair value. The fair value hierarchy distinguishes between assumptions based on market data (observable inputs) and an entity's own assumptions (unobservable inputs). The hierarchy consists of three levels:

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

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

**VISUALANT, INCORPORATED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

Financial Instruments	Fair Value Measurements Using Inputs			Carrying Amount at June 30, 2013
	Level 1	Level 2	Level 3	
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.

**VISUALANT, INCORPORATED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**INCOME TAXES** - Income tax benefit is based on reported loss before income taxes. Deferred income taxes reflect the effect of temporary differences between asset and liability amounts that are recognized for financial reporting purposes and the amounts that are recognized for income tax purposes. These deferred taxes are measured by applying currently enacted tax laws where that company operates out of. The Company recognizes refundable and deferred assets to the extent that management has determined their realization. As of June 30, 2013 and September 30, 2012, the Company had refundable tax assets related to TransTech of \$30,045 and \$29,316, respectively.

**NET LOSS PER SHARE** – Under the provisions of ASC 260, “Earnings Per Share,” basic loss per common share is computed by dividing net loss available to common shareholders by the weighted average number of shares of common stock outstanding for the periods presented. Diluted net loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the income of the Company, subject to anti-dilution limitations. The common stock equivalents have not been included as they are anti-dilutive. As of June 30, 2013, there were options outstanding for the purchase of 11,005,000 common shares, warrants for the purchase of 112,357,050 common shares, and an undetermined number shares of common stock related to convertible debt, which could potentially dilute future earnings per share. As of June 30, 2012, there were options outstanding for the purchase of 9,020,000 common shares, warrants for the purchase of 4,977,051 common shares, and an undetermined number shares of common stock related to convertible debt, which could potentially dilute future earnings per share.

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

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

**RECENT ACCOUNTING PRONOUNCEMENTS**

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

**4. DEVELOPMENT OF CHROMAID™ TECHNOLOGY**

**The Company’s ChromaID™ Technology**

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

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

**The Company’s Patents**

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

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

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

**VISUALANT, INCORPORATED AND SUBSIDIARIES**  
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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.

**VISUALANT, INCORPORATED AND SUBSIDIARIES**  
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**9. FIXED ASSETS**

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

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

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

**10. INTANGIBLE ASSETS**

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

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

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

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

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

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

**11. ACCOUNTS PAYABLE**

Accounts payable were \$2,297,387 and \$1,593,861 as of June 30, 2013 and September 30, 2012, respectively. Such liabilities consisted of amounts due to vendors for inventory purchases and technology development, external audit, legal and other expenses incurred by the Company. TransTech had 3 vendors (37.5%, 19.2%, and 11.6%) with accounts payable in excess of 10% of its accounts payable as of June 30, 2013. The Company does expect to have vendors with accounts payable balances of 10% of total accounts payable in the foreseeable future.

**12. ACCRUED EXPENSES**

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

**VISUALANT, INCORPORATED AND SUBSIDIARIES**  
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**13. CONVERTIBLE NOTES PAYABLE**

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

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

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

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

**14. NOTES PAYABLE, CAPITALIZED LEASES AND LONG TERM DEBT**

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

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

*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 (a) 80% of eligible trade accounts receivable, not to exceed \$700,000, plus (b) 35% of inventory value, not to exceed \$300,000. The Company agreed to repay the \$183,000 inventory balance monthly with a final payment by November 30, 2013. The secured credit facility is collateralized by the assets of TransTech, with a guarantee by the Company.

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

*Note Payable to Umpqua Bank*

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

*Capitalized Leases*

TransTech has capitalized leases for equipment. The leases have a remaining lease term of 3-28 months. The aggregate future minimum lease payments under capital leases, to the extent the leases have early cancellation options and excluding escalation charges, are as follows:

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

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

*Related Party Notes Payable*

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

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

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

**15. EQUITY**

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

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

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

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

On October 26, 2012 the Company issued 150,000 shares of restricted common stock to Manna Advisory Services, LLC, for investor relation services. The shares were valued at \$.13 per share. The Company expensed \$19,500 during the nine months ended June 30, 2013. The shares do not have registration rights. A notice filing under Regulation D was filed with the SEC in October 30, 2012.

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

On January 24, 2013, Gemini converted \$300,000 of principal and \$50,630 of accrued interest into 7,012,603 shares of common stock at \$.050 per share under the Securities Purchase Agreement dated May 19, 2011. A notice filing under Regulation D was filed with the SEC on January 29, 2013.

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On January 24, 2013, Ascendant converted \$50,000 of principal and \$8,438 of accrued interest into 1,168,767 shares of common stock at \$.050 per share under the Securities Purchase Agreement dated May 19, 2011. A notice filing under Regulation D was filed with the SEC on January 29, 2013.

On January 28, 2013, Gemini converted \$300,000 of principal and \$50,959 of accrued interest into 7,019,178 shares of common stock at \$.050 per share under the Securities Purchase Agreement dated May 19, 2011. A notice filing under Regulation D was filed with the SEC on January 30, 2013.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### 16. STOCK OPTIONS

##### Description of Stock Option Plan

On April 29, 2011, the 2011 Stock Incentive Plan was approved at the Annual Stockholder Meeting. The Company was authorized to issue options for, and has reserved for issuance, up to 7,000,000 shares of common stock under the 2011 Stock Incentive Plan. On March 21, 2013, an amendment to the Stock Option Plan was approved by the stockholders of the Company, increasing the number of shares reserved for issuance under the Plan to 14,000,000 shares.

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Determining Fair Value Under ASC 505

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

Stock Option Activity

Stock option grants totaling 5,100,000 shares of common stock have been made to three directors and four employees for services provided during 2012. These options were authorized for issuance under the 2011 Stock Incentive Plan and were effective March 21, 2013, when the Company was authorized to issue options up to 14,000,000 shares under the 2011 Stock Incentive Plan at the Annual Stockholder Meeting.

There are currently 11,005,000 options to purchase common stock at an average exercise price of \$0.131 per share outstanding at June 30, 2013 under the 2011 Stock Incentive Plan. The Company recorded \$221,692 and \$232,567 of compensation expense, net of related tax effects, relative to stock options for the nine months ended June 30, 2013 and 2012 in accordance with ASC 505. Net loss per share (basic and diluted) associated with this expense was approximately \$(0.00).

Stock option activity for the nine months ended June 30, 2013 and the year ended September 30, 2012:

	Options	Weighted Average Exercise Price	\$
Outstanding as of September 30, 2011	6,920,000	\$ 0.296	\$ 2,050,800
Granted	2,200,000	0.104	229,000
Exercised	-	-	-
Forfeitures	(3,200,000)	0.470	(1,503,000)
Outstanding as of September 30, 2012	5,920,000	0.131	\$ 776,800
Granted	5,100,000	0.130	663,000
Exercised	-	-	-
Forfeitures	(15,000)	0.240	(3,600)
Outstanding as of June 30, 2013	11,005,000	\$ 0.131	1,436,200

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

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life In Years	Weighted Average Exercise Price Exercisable	Number Exercisable	Weighted Average Exercise Price Exercisable
0.090	500,000	6.50 years	0.090	375,000	0.090
0.100	1,900,000	8.25 years	0.100	2,000,000	0.100
0.120	200,000	1.00 years	0.120	100,000	0.120
0.130	5,100,000	6.43 years	0.130	3,633,333	0.130
0.150	3,100,000	6.55 years	0.150	3,100,000	0.150
0.240	205,000	2.00 years	0.240	165,000	0.240
	11,005,000	7.29 years	\$ 0.131	9,373,333	\$ 0.135

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

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**17. OTHER SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES**

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

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

Other related party transactions are discussed in Note 14.

**18. COMMITMENTS, CONTINGENCIES AND LEGAL PROCEEDINGS**

**LEGAL PROCEEDINGS**

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

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

**EMPLOYMENT AGREEMENTS**

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

**LEASES**

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

**Corporate Offices**

The Company's executive office is located at 500 Union Street, Suite 420, Seattle, Washington, USA, 98101. On August 1, 2012, the Company entered into a lease which expires August 31, 2014. The monthly lease rate was \$1,944 for the year ending August 31, 2013 and \$2,028 for the year ending August 31, 2014. On June 14, 2013, the Company amended the lease and added Suite 450, increasing our monthly payment to \$3,978 through August 31, 2013, \$4,057 from September 1, 2013 to May 31, 2014 and \$4,140 from June 1, 2014 through August 31, 2014.

**TransTech Facilities**

TransTech is located at 12142 NE Sky Lane, Suite 130, Aurora, OR 97002. They lease a total of approximately 9,750 square feet of office and warehouse space for its administrative offices, product inventory and shipping operations, at a monthly rental of \$4,292. The lease was extended from March 2011 for an additional five year term at a monthly rental of \$4,751. There are two additional five year renewals with a set accelerating increase of 10% per 5 year term.

**VISUALANT, INCORPORATED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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	<u>\$ 208,911</u>

**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

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**

	<u>September 30, 2012</u>	<u>September 30, 2011</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
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	<u>2,750,848</u>	<u>1,662,909</u>
EQUIPMENT, NET	469,001	522,668
<b>OTHER ASSETS</b>		
Intangible assets, net	1,110,111	1,143,090
Goodwill	983,645	983,645
Other assets	<u>6,161</u>	<u>1,091</u>
TOTAL ASSETS	<u>\$ 5,319,766</u>	<u>\$ 4,313,403</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
<b>CURRENT LIABILITIES:</b>		
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	<u>5,113,328</u>	<u>4,865,383</u>
<b>LONG TERM LIABILITIES:</b>		
Long term debt	<u>4,015</u>	<u>1,014,582</u>
<b>STOCKHOLDERS' EQUITY (DEFICIT):</b>		
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)	<u>170,616</u>	<u>(1,610,390 )</u>
Noncontrolling interest	<u>31,807</u>	<u>43,828</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	<u>\$ 5,319,766</u>	<u>\$ 4,313,403</u>

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	<u>\$ (2,731,898 )</u>	<u>\$ (2,409,756 )</u>
Basic and diluted loss per common share attributable to Visualant, Inc. and subsidiaries common shareholders-		
Basic and diluted loss per share	<u>\$ (0.04 )</u>	<u>\$ (0.06 )</u>
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	Accumulated	Total
	Shares	Amount	Paid in Capital	Deficit	Stockholders' Equity (Deficit)
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
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
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 )
<b>CASH (USED IN) OPERATING ACTIVITIES</b>	<b>(58,174 )</b>	<b>(1,312,291 )</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(109,167 )	(121,060 )
Proceeds from sale of equipment	9,058	13,377
Purchase of investments-deposit	-	50
<b>NET CASH (USED IN) INVESTING ACTIVITIES:</b>	<b>(100,109 )</b>	<b>(107,633 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
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 )
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>1,207,135</b>	<b>1,428,300</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,048,852</b>	<b>8,376</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>92,313</b>	<b>83,937</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 1,141,165</b>	<b>\$ 92,313</b>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	\$ 135,828	\$ 164,503
Taxes paid	\$ -	\$ 3,041
<b>Non-cash investing and financing activities:</b>		
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.

**VISUALANT, INCORPORATED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**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.

**VISUALANT, INCORPORATED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*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.

**VISUALANT, INCORPORATED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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 Shownerd 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).

**VISUALANT, INCORPORATED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

On July 31, 2012, the Company closed the acquisition of the environmental field of use of its Spectral 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.

**VISUALANT, INCORPORATED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**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)
		<u>\$ 441,846</u>	<u>\$ 27,155</u>	<u>\$ 469,001</u>

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)
		<u>\$ 470,383</u>	<u>\$ 52,285</u>	<u>\$ 522,668</u>

**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		<u>\$ 1,110,111</u>	<u>\$ 1,143,090</u>

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.

**VISUALANT, INCORPORATED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**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 Ascendant Capital Partners, LLC (“Ascendant”) (Gemini and Ascendant are collectively referred to as the “Investors”), pursuant to which the Company issued \$1.2 million in principal amount of 10% convertible debentures (the “Original Debentures”) which were due May 1, 2012. The due date of the Original Debentures was extended to September 30, 2012 pursuant to a First Amendment to the Agreement on March 12, 2012, and further extended to September 30, 2013 pursuant to a Second Amendment to the Agreement on August 16, 2012. In addition, the Company issued 5-year warrants to the Investors to collectively purchase 2,400,000 shares of our common stock. The purchase price for the debentures was 83.3% of the face amount, resulting in the Company receiving \$1.0 million, less legal fees, placement agent fees and expenses as set forth below. The Agreement includes an additional investment right granted to the Investors, pursuant to which the Investors have the right at any time until September 30, 2013, to purchase up to \$1.2 million in principal amount of additional debentures (the “Additional Debentures”) on the same terms and conditions as the Original Debentures, except that the conversion price on the Additional Debentures may have a higher floor. The conversion price on both the Original Debentures and the Additional Debentures are subject to a potential downward adjustment for any equity sales subsequent to the date of issuance. In conjunction with the purchase of the Additional Debentures, the Investors also have the right to purchase additional warrants. The full terms of the transactions with Gemini and Ascendant are set forth in the transaction agreements, copies of which are filed with 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 Ascendant has \$150,000 remaining in principal amount of Original Debentures outstanding plus accrued interest thereon that is convertible into common shares. Ascendant 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 Ascendant Capital Markets LLC.

The Company filed a registration statement on Form S-1, which was declared effective on August 29, 2011, to register 15,340,361 shares of its common stock, including (i) up to 5,400,000 shares of our common stock for Gemini issuable on conversion and the exercise of a warrant issued to Gemini and (ii) up to 1,992,000 shares of our common stock for Ascendant issuable on conversion of debt and the exercise of a warrant issued to Ascendant. 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 Ascendant 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.

**VISUALANT, INCORPORATED AND SUBSIDIARIES**  
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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 Felsing	49,500	82,000
Ronald P. Erickson and affiliated parties	-	58,952
<b>Total debt</b>	<b>1,635,918</b>	<b>2,551,773</b>
Less current portion of long term debt	(1,631,903)	(1,537,191)
<b>Long term debt</b>	<b>\$ 4,015</b>	<b>\$ 1,014,582</b>

*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	<u>\$ 4,015</u>

**VISUALANT, INCORPORATED AND SUBSIDIARIES**  
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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 Felsing, 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	<u>\$ 1,635,918</u>

#### **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.

**VISUALANT, INCORPORATED AND SUBSIDIARIES**  
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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 into 173,378 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.

**VISUALANT, INCORPORATED AND SUBSIDIARIES**  
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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 Ascendant, pursuant to which Ascendant 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 Ascendant 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 Ascendant 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 Ascendant 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, Ascendant, 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.

**VISUALANT, INCORPORATED AND SUBSIDIARIES**  
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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 Ascendant, 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 Ascendant 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 Ascendant, 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	

**VISUALANT, INCORPORATED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

Number of Warrants	Weighted Average Remaining Life	September 30, 2012		Shares Exercisable	Weighted Average Exercise Price
		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
<b>3,369,050</b>	<b>2.27</b>	<b>\$ 0.307</b>		<b>3,369,050</b>	<b>\$ 0.307</b>

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

<b>Assumptions</b>	
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.

**VISUALANT, INCORPORATED AND SUBSIDIARIES**  
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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 Exercisable	Number Exercisable	Weighted Average Exercise Price Exercisable
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.

**VISUALANT, INCORPORATED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**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	<u>\$ 240,511</u>

**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.

**VISUALANT, INCORPORATED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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 Ascendant 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 Ascendant 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
	<hr/>
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 Statutes 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 Ascendant Capital Partners LLC or Ascendant, pursuant to which Ascendant 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 Ascendant is commonly referred to as an "equity line of credit" or an "equity drawdown facility."

As of September 30, 2011, we issued to Ascendant 774,599 shares for \$66,991 or \$0.086 per share under the Securities Purchase Agreement dated June 17, 2011. In addition, we issued to Ascendant during 2011 a total of 1,490,943 shares for \$193,370 or \$0.131 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 \$0.102 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 for financial advisory services. The shares were valued at \$0.10 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 \$0.10 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 Ascendant 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 Ascendant Capital Partners LLC or Ascendant, pursuant to which Ascendant 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 Ascendant is commonly referred to as an "equity line of credit" or an "equity drawdown facility."

As of September 30, 2012, we issued to Ascendant 5,365,884 shares for \$383,141 or \$0.071 per share under the Securities Purchase Agreement dated June 17, 2011. In addition, the Company issued to Ascendant during 2011 a total of 1,490,943 shares for \$193,370 or \$0.131 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, Ascendant converted \$50,000 of principal and interest of \$6,959 into 1,139,178 shares of common stock at \$0.050 per share under the Securities Purchase Agreement dated May 19, 2011.

On June 17, 2011, we entered into a Securities Purchase Agreement with Ascendant Capital Partners LLC or Ascendant, pursuant to which Ascendant 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 Ascendant is commonly referred to as an "equity line of credit" or an "equity drawdown facility."

As of September 30, 2012, we issued to Ascendant 6,358,933 shares for \$483,141 or \$0.076 per share under the Securities Purchase Agreement dated June 17, 2011. In addition, the Company issued to Ascendant during 2011 a total of 1,490,943 shares for \$193,370 or \$0.131 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, Ascendant converted \$50,000 of principal and interest of \$7,644 into 1,152,877 shares of common stock at \$0.050 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 at \$0.050 per share under the Securities Purchase Agreement dated May 19, 2011.

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

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

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 \$.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 \$.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 \$.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 \$.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 \$.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, Ascendant was issued a total of 4,565,068 shares of common stock as a result of Ascendant'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 Ascendant Warrant for a purchase price of \$300,000, payment of which was due by March 31, 2013; however, we did not complete that purchase, thereby enabling Ascendant to exercise the Ascendant Warrant on April 26, 2013.

We entered into an Option Agreement with Ascendant dated April 26, 2013, pursuant to which we had the option to purchase from Ascendant 4,000,000 shares of our common stock (the "Option Shares") for an aggregate purchase price of \$300,000. On May 31, 2013, the Company exercised its option to purchase the 4,000,000 Option Shares from Ascendant and paid to Ascendant the \$300,000 purchase price. 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 Ascendant and paid to Ascendant the \$300,000 purchase price. Ascendant 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 Ascendant Capital Partners, LLC ("Ascendant") 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 Ascendant. 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 Ascendant. The Court ordered Ascendant 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 \$.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 \$.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 \$.15 per share; and (ii) five year Series B Warrants to purchase a total of 52,300,000 shares of common stock at \$.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, are exercisable at \$0.20 per share and expire 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, are exercisable at \$0.20 per share and expire 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 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 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 10, 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 8th day of October, 2013 by the persons and in the capacities indicated below.

SIGNATURES	TITLE	DATE
<u>/s/ Ronald P. Erickson</u> Ronald P. Erickson	Chief Executive Officer, President and Director (Principal Executive Officer)	October 10, 2013.
<u>/s/ Mark Scott</u> Mark Scott	Chief Financial Officer and Secretary (Principal Financial/Accounting Officer)	October 10, 2013.
<u>/s/ Marco Hegyi</u> Marco Hegyi	Chairman of the Board, Independent Director	October 10, 2013.
<u>/s/ Jon Pepper</u> Jon Pepper	Independent Director	October 10, 2013.
<u>/s/ Ichiro Takesako</u> Ichiro Takesako	Management Director	October 10, 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.
<u>5.1</u>	<u>Opinion of Fifth Avenue Law Group, PLLC. Filed herewith.</u>

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 to Form 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. Filed as 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 Ascendant 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 Ascendant 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 Ascendant 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 Ascendant 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 Ascendant 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, 2011, and incorporated by reference.
10.16	Securities Purchase Agreement dated June 17, 2011 by and between Visualant, Inc. and Ascendant 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 Ascendant 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 Ascendant 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. 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.
10.24	Joint Research and Product Development Agreement dated May 31, 2012 by and between Visualant, Inc. and Sumitomo Precision Products Co., Ltd. and filed with the SEC on October 7, 2013, and incorporated by reference.
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 Ascendant 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 dated January 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 Ascendant 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 and 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 dated June 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 affiliated with 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 exhibit to 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 and filed 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 BFI Business Finance and filed with the SEC on October 7, 2013, and incorporated by reference.
10.46	Loan and Security Agreement dated December 9, 2008 by and between TransTech Systems Inc. and BFI Business Finance and filed with the SEC on October 7, 2013, and incorporated by reference.
10.47	First Modification to Loan and Security Agreement dated March 11, 2009 by and between TransTech Systems Inc. and BFI Business Finance and filed with the SEC on October 7, 2013, and incorporated by reference.
10.48	Second Modification to Loan and Security Agreement dated December 16, 2009 by and between TransTech Systems Inc. and BFI Business Finance and filed with the SEC on October 7, 2013, and incorporated by reference.
10.49	Third Modification to Loan and Security Agreement dated June 12, 2013 by and between TransTech Systems Inc. and BFI Business Finance and filed with the SEC on October 7, 2013, and incorporated by reference.
10.50	Form of Placement Agent Warrant by and between Visualant, Inc. and placement agents and filed with the SEC on October 7, 2013, and incorporated by reference.
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.
<a href="#">23.1</a>	<a href="#">Consent of PMB Helin Donovan, LLP. Filed herewith.</a>
<a href="#">23.2</a>	<a href="#">Consent of Madsen &amp; Associates CPA's, Inc. Filed herewith.</a>
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.



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

Exhibit 5.1

October 10, 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, Amendments No. 3, 4 and 5, File No. 333-189788, filed with the Commission on October 7, October 8, and October 10, 2013, respectively, 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

**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 on Schedule 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 as Exhibit 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.

4.13 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 . 1 6 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 . 1 7 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 of the 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 60<sup>th</sup> 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, INCORPORATED

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 Ascendant under the Securities Purchase Agreement for the sum of \$850,000, to be paid pursuant to the terms of a promissory note executed by the Company for the principal amount of \$850,000. The promissory note is payable in two installments of \$425,000 each, together with accrued interest thereon at the rate of 5% per annum, due on June 30, 2013 and September 30, 2013. 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 Ascendant. 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 Ascendant 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) Ascendant Capital Partners LLC (“Ascendant”) was issued a total of 4,564,068 shares of common stock of the Company on April 26, 2013 as a result of Ascendant’s cashless exercise of the Warrant issued to Ascendant on May 19, 2011. On April 26, 2013, the Company entered into an Option Agreement with Ascendant pursuant to which the Company has the option to purchase from Ascendant 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, Ascendant 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 Ascendant under the Securities Purchase Agreement for the sum of \$850,000, to be paid pursuant to the terms of a promissory note executed by the Company for the principal amount of \$850,000. The promissory note is payable in two installments of \$425,000 each, together with accrued interest thereon at the rate of 5% per annum, due on June 30, 2013 and September 30, 2013. 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

Schedule 4.11 – Tax Sharing Agreements

None.

## 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 reallocate 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).

## DISCLOSURE SCHEDULE

### 6.1 – Persons To Execute Voting Agreements

Biagi, James F. Jr.  
Bringman, Hal  
Erickson, Ronald and affiliates  
Furness, Thomas  
Hegyí, Marco  
Kruse, Jeffrey  
Lost Nation Capital LLC  
McMeekin, Clay  
Mill Lake Limited Partnership  
Nielsen, Dean  
Pepper, Jon  
Sames, Todd  
Scott, Mark  
Seed Intellectual Property Group PLLC  
Sparks, Bradley  
Sumitomo Precision Products Co. Ltd.  
Waddle, Steven

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:\_\_\_\_\_

**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 10, 2013

**CONSENT OF INDEPENDENT ACCOUNTANTS**

We consent to the use in this Registration Statement on Form S-1 of Visualant, Inc., of our report dated November 29, 2011 to the consolidated financial statements of Visualant, Inc. as of September 30, 2011, and the related statements of operations, stockholders' equity, and cash flows for year September 30, 2011. We also consent to the reference to our firm under the heading "Experts" in this Registration Statement.

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

Murray, Utah  
October 10, 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. 4 to Registration Statement on Form S-1**  
**Filed October 8, 2013**  
**File No. 333-189788**

Dear Mr. Mancuso:

Reference is made to the Staff's comment letter dated October 9, 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. 4 to Registration Statement on Form S-1 filed with the SEC on October 8, 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.

Risk Factors, page 6

1. *We note your response to prior comment 3. Please address that part of our comment that asked you to clarify in your risk factor disclosure in this prospectus Mr. Scott's concurrent employment with other companies, including his agreement to serve as full-time CFO of WestMountain Gold.*

We have added a risk factor to Amendment No. 5 to the Registration Statement to address this.

We are subject to corporate governance and internal control requirements . . . , page 10

2. *We note your response to prior comment 5. However, it remains unclear how the disclosure in this risk factor adequately describes the risk if you do not mention the failure to include required resolutions in a proxy statement, the resulting lack of disclosure in response to Item 5.07 of Form 8-K, and the material reasons that your disclosure controls and procedures would permit the omission. Please revise. Also, tell us how your controls and procedures have been changed given the omission.*

We have added language to this risk factor in Amendment No. 5 to the Registration Statement to address this.

Selling Security Holders, page 12

3. *We note your response to prior comment 9; however, from footnote 2 to the table in this section, it is unclear whether the offered securities allocated to G. Select Securities were acquired by G. Select Securities as compensation for underwriting activities. Please revise consistent with prior comment 9.*

Footnote 2 to the Selling Security Holder table in Amendment No. 5 to the Registration Statement has been revised to indicate that the securities allocated to G. Select Securities were acquired as compensation for underwriting activities.

Plan of Distribution, page 14

4. *If a broker-dealer must be identified as an underwriter as noted in prior comment 9, it is not sufficient merely to disclose that the broker-dealer “may be deemed” an underwriter as you do in this section. Please revise.*

We have revised the language in the Plan of Distribution section in Amendment No. 5 to the Registration Statement to address this.

5. *Please expand your response to prior comment 11 to address the total number of common shares registered for sale as a percentage of your outstanding common securities held by non-affiliates; when calculating the percentage, please do not include in the denominator any common shares that are (1) not currently outstanding or (2) held by non-affiliates. Also address how participation in this offering of a holder who is seeking to sell shares representing a significant portion of your current public float affects your analysis of whether this offering is actually on behalf of the issuer.*

The total number of common shares registered for sale (i.e., 162,130,000 shares) represents approximately 129% of the Company’s current outstanding common securities held by non-affiliates. Although this represents a significant percentage, it is likely that at least 67% of all the shares being registered (i.e., the 104,600,000 Series A and Series B warrant shares) will not be sold, notwithstanding the registration of such shares, since the exercise price of the warrants substantially exceeds the price at which the Company’s common stock is currently trading. In addition, the 5,230,000 placement agent warrants have an exercise price of \$0.10 per share and it is unlikely that any of the selling shareholders will be exercising their warrants until the price of the Company’s common stock significantly increases.

Special Situations Technology Funds, the owner of 47,700,000 shares being registered (of which 31,800,000 are Series A and Series B warrant shares), has represented to the Company that it purchased the shares for investment purposes only without a view toward distribution, and that it does not intend to sell its shares in the foreseeable future and intends to hold them on a long-term basis.

Summary of Recent Business Operations for the Year Ended September 30, 2012, page 20

6. *We note your response to prior comments 16 and 17; however, the \$1,196,000 in non-cash expenses and the \$195,000 in expenses related to the Sumitomo transactions still do not add up to the \$3,625,000 you incurred in selling, general and administrative expenses in 2012. We also note that the three non-cash expenses disclosed in the last sentence of the second paragraph on page 21 do not equal \$1,196,000. Furthermore, we note that the selling, general and administrative expenses for the period ended June 30, 2013 identified on page 20 do not equal the \$818,000 in increase you disclose. Please revise so that investors may clearly understand your results. Your revised disclosure should also make clear the amount incurred for "investor relations" activities versus "business development."*

We have revised the disclosure to clarify the various expenses and have included the specific amounts incurred for investor relations and corporate business development in Amendment No. 5 to the Registration Statement.

Executive Compensation, page 34

7. *Please include Jeffery Kruse's compensation for the entire year.*

Mr. Kruse's compensation for the 2013 fiscal year has been included in Amendment No. 5 to the Registration Statement.

Security Ownership of Certain Beneficial Owners and Management, page 37

8. *It is unclear how the percentages in the table on page 38 are consistent with the requirements cited in prior comment 7. For example, if you have approximately 165.3 million common shares outstanding as you say on page 7, it is unclear why the percentage of shares that your CEO beneficially owns is not disclosed as the percentage resulting from dividing the 27,328,372 shares you say on page 38 he beneficially owns by the sum of the 165.3 million shares plus the number of shares your CEO has the right to acquire within 60 days. Please recalculate the percentages disclosed in both tables on page 38 and in the table beginning on page 13 consistent with the requirements cited in prior comment 7.*

The ownership percentages in the tables on page 38 have been recalculated and the revised percentages have been included in Amendment No. 5 to the Registration Statement. We believe the ownership percentages disclosed in the selling shareholder table beginning on page 13 have been correctly calculated. The ownership percentages (reflected in Column F in the selling shareholder table) are different than the ownership percentages in the tables on page 38 because the ownership percentages in the selling shareholder table reflect beneficial ownership after and assuming that all of the shares covered by this Registration Statement are sold

Item 15. Recent Sales of Unregistered Securities, page 45

9. *We will continue to evaluate your response to prior comment 24 when you provide the missing information that you say you will provide in your response.*

As reflected in the chart showing the Form Ds previously filed, the Company has filed Form Ds for nearly all of the transactions for which it is claiming exemption under Regulation D. A review shows that there appear to be a small number of private transactions (involving warrants only) for which Form Ds were not filed, as follows:

- September 30, 2011: a total of 177,051 warrants issued to John O'Brien, John Lane and Scott Ashburyk in connection with the Seaside 88 LP transaction (line 3);
- February 23, 2011: 1,000,000 warrants issued to Coach Capital LLC (line 9);
- February 23, 2011: 500,000 warrants issued to Sterling Group (line 10);
- March 12, 2012: a total of 600,000 warrants issued to National Securities Corporation, Steven Freifeld and Vince Calicchia (line 28);
- February 11, 2013: 250,000 warrants issued to Integrated Consulting Services (line 47);
- September 4, 2013: 300,000 warrants issued to Genesis Select Corporation (line 57).

The Company will file Form Ds with respect to these transactions as soon as possible.

We respectfully submit that the failure to file Form Ds in these transactions falls within Rule 508 of Regulation D. Rule 506 was complied with in all material respects in these transactions except for the filing of Form D.

Line 16 pertains to the exercise of a warrant issued to Coach Capital LLC in December 2009, for which a Form D was filed on January 1, 2010, File number 021-77811.

With respect to securities issued to Gemini Master Fund, Ltd. and Ascendant Capital Partners, the line items that do not have corresponding Form Ds shown are merely year-end summaries of the total securities issued to these investors. The chart shows the numerous Form Ds filed with respect to each issuance to these investors.

#### Exhibits

10. Refer to your response to prior comment 25. Please tell us why exhibit 10.33 does not include schedules 4.11 and 6.1 mentioned in the text of the agreement.

We are re-filing Exhibit 10.33 with all schedules, including schedules 4.11 and 6.1.

#### Exhibit 23.2 Consent of Independent Accountants

11. We note the consent from Madsen & Associates CPAs, Inc. refers to the Form S-1 filed on August 16, 2013. As we note the consent also refers to "this S-1 filing," the reference to the date of the filing appears superfluous. Please revise the filing to include a new consent from the auditor that eliminates the reference to the prior S-1 filing.

We are filing a new Exhibit 23.2 with Amendment No. 5 to the Registration Statement.

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. 5 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/ Ronald P. Erickson

Ronald P. Erickson, Chief Executive Officer  
Visualant, Incorporated

cc: James F. Biagi, Jr., Fifth Avenue Law Group, PLLC