

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

FORM 10-Q

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

For the quarterly period ended December 31, 2014

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File number 000-30262



**VISUALANT, INCORPORATED**

(Exact name of registrant as specified in charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**90-0273142**

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

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

(Address of principal executive offices)

**98101**

(Zip Code)

**206-903-1351**

(Registrant's telephone number, including area code)

**N/A**

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

The number of shares of common stock, \$.001 par value, issued and outstanding as of February 10, 2015: 169,538,674 shares

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ITEM 1. FINANCIAL STATEMENTS

VISUALANT, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	December 31, 2014	September 30, 2014 (audited)
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 87,319	\$ 70,386
Accounts receivable, net of allowance of \$42,000 and \$40,750, respectively	980,117	815,460
Prepaid expenses	33,858	25,067
Inventories	333,073	412,831
Refundable tax assets	28,927	29,590
Total current assets	<u>1,463,294</u>	<u>1,353,334</u>
EQUIPMENT, NET	426,255	447,236
<b>OTHER ASSETS</b>		
Intangible assets, net	346,846	431,653
Goodwill	983,645	983,645
Other assets	<u>5,070</u>	<u>5,070</u>
TOTAL ASSETS	<u>\$ 3,225,110</u>	<u>\$ 3,220,938</u>
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT)</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable - trade	\$ 2,333,873	\$ 2,234,123
Accounts payable - related parties	44,969	66,729
Accrued expenses	38,290	31,369
Accrued expenses - related parties	307,521	260,687
Derivative liability - warrants	5,230,164	2,579,157
Convertible notes payable	166,500	166,500
Notes payable - current portion of long term debt	<u>1,346,354</u>	<u>1,290,960</u>
Total current liabilities	<u>9,467,671</u>	<u>6,629,525</u>
<b>LONG TERM LIABILITIES:</b>		
Long term debt	<u>-</u>	<u>-</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
	-	-
<b>STOCKHOLDERS' DEFICIT</b>		
Preferred stock - \$0.001 par value, 43,000,000 shares authorized, 0 and shares issued and outstanding	-	-
Series A Convertible Preferred stock - \$0.001 par value, 7,000,000 shares authorized, 3,000,000 shares issued and outstanding	3,000	-
Common stock - \$0.001 par value, 500,000,000 shares authorized, 168,188,674 and 168,163,674 shares issued and outstanding at 12/31/14 and 9/30/14, respectively	168,189	168,164
Additional paid in capital	18,278,678	17,958,368
Accumulated deficit	<u>(24,692,428)</u>	<u>(21,535,119)</u>
Total stockholders' deficit	<u>(6,242,561)</u>	<u>(3,408,587)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	<u>\$ 3,225,110</u>	<u>\$ 3,220,938</u>

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

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

	Three Months Ended,	
	December 31, 2014	December 31, 2013
REVENUE	\$ 1,843,213	\$ 1,877,089
COST OF SALES	1,545,449	1,571,021
GROSS PROFIT	297,764	306,068
RESEARCH AND DEVELOPMENT EXPENSES	119,387	312,987
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	653,203	842,496
OPERATING LOSS	(474,826)	(849,415)
OTHER INCOME (EXPENSE):		
Interest expense	(37,130)	(17,948)
Other income	6,317	7,722
(Loss) gain on change - derivative liability warrants	(2,651,007)	12,865
Total other (expense) income	(2,681,820)	2,639
LOSS BEFORE INCOME TAXES	(3,156,646)	(846,776)
Income taxes - current benefit	663	(1,177)
NET LOSS	(3,157,309)	(845,599)
NONCONTROLLING INTEREST	-	16,168
NET (LOSS) ATTRIBUTABLE TO VISUALANT, INC. AND SUBSIDIARIES COMMON SHAREHOLDERS	\$ (3,157,309)	\$ (861,767)
Basic and diluted income (loss) per common share attributable to Visualant, Inc. and subsidiaries common shareholders-		
Basic and diluted income (loss) per share	\$ (0.02)	\$ (0.01)
Weighted average shares of common stock outstanding- basic and diluted	168,168,294	165,263,674

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

**VISUALANT, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three Months Ended,	
	December 31, 2014	December 31, 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (3,157,309)	\$ (845,599)
Adjustments to reconcile net loss to net cash (used in) operating activities		
Depreciation and amortization	104,378	97,688
Issuance of capital stock for services and expenses	2,500	-
Stock based compensation	20,835	23,503
(Gain) loss on sale of assets	(900)	(1,111)
Loss (gain) on change - derivative liability warrants	2,651,007	(12,865)
Provision for losses on accounts receivable	3,036	-
Changes in operating assets and liabilities:		
Accounts receivable	(167,693)	404,109
Prepaid expenses	(8,791)	13,926
Inventory	79,758	90,721
Accounts payable - trade and accrued expenses	131,745	(158,719)
Deferred revenue	-	201,130
Income tax receivable	663	(1,177)
<b>CASH (USED IN) OPERATING ACTIVITIES</b>	<b>(340,771)</b>	<b>(188,394)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of equipment	2,310	1,600
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES:</b>	<b>2,310</b>	<b>1,600</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds (repayments) from line of credit	56,126	(507,670)
Proceeds from sale of preferred stock	300,000	-
Repayments of capital leases	(732)	(1,112)
<b>NET CASH PROVIDED (USED IN) BY FINANCING ACTIVITIES</b>	<b>355,394</b>	<b>(508,782)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>16,933</b>	<b>(695,576)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>70,386</b>	<b>747,129</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 87,319</b>	<b>\$ 51,553</b>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	\$ 52,755	\$ 12,525
Taxes paid	\$ -	\$ -

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 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 November 11, 2013, the Company entered into a Services and License Agreement with Invention Development Management Company, L.L.C. ("IDMC"), a Delaware limited liability company. IDMC is affiliated with Intellectual Ventures, which collaborates with inventors, partners with pioneering companies and invests both expertise and capital in the process of invention. On November 19, 2014, the Company entered into an Amendment to Services and License Agreement with IDMC. This Amendment exclusively licenses ten filed patents to the Company.

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.

To date, the Company been issued seven patents by the United States Office of Patents and Trademarks. See Note 4 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 \$1,017,281 and \$6,604,631 for the years ended September 30, 2014 and 2013, respectively. Our net cash used in operating activities was \$340,771 and \$1,379,397 for the three months ended December 31, 2014 and the year ended September 30, 2014, respectively.

The Company anticipates that it will record losses from operations for the foreseeable future. As of December 31, 2014, our accumulated deficit was \$24,692,428. 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, 2014 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**

**BASIS OF PRESENTATION** - The accompanying unaudited consolidated financial statements include the accounts of the Company. Intercompany accounts and transactions have been eliminated. The preparation of these unaudited condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP").

The unaudited consolidated financial statements of the Company and the accompanying notes included in this Quarterly Report on Form 10-Q are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of the Consolidated Financial Statements have been included. Such adjustments are of a normal, recurring nature. The Consolidated Financial Statements, and the accompanying notes, are prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and do not contain certain information included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2014. The interim Condensed Consolidated Financial Statements should be read in conjunction with that Annual Report on Form 10-K.

**PRINCIPLES OF CONSOLIDATION** - The consolidated financial statements include the accounts of the Company and its wholly owned and majority-owned subsidiaries, TransTech Systems, Inc. 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. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risk for cash on deposit.

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

**INVENTORIES** - Inventories consist primarily of printers and consumable supplies, including ribbons and cards, badge accessories, capture devices, and access control components held for resale and are stated at the lower of cost or market on the first-in, first-out ("FIFO") method. Inventories are considered available for resale when drop shipped and invoiced directly to a customer from a vendor, or when physically received by TransTech at a warehouse location. The Company records a provision for excess and obsolete inventory whenever an impairment has been identified. There is a \$15,000 and \$10,000 reserve for impaired inventory as of December 31, 2014 and September 30, 2014, respectively.

**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. The Company performs annual assessments and has determined that no impairment is necessary. On June 7, 2011, the Company closed the acquisition of all Visualant related assets of the RATLab LLC, namely the rights to the medical field of use of the Chroma ID technology. On July 31, 2012, the Company closed the acquisition of all rights to the ChromaID technology in the environmental field of use from Javelin LLC.

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

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

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

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

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

Derivative Instruments – Warrants with the June 2013 Private Placement

Financial Instruments	Fair Value Measurements Using Inputs			Carrying Amount at December 31, 2014
	Level 1	Level 2	Level 3	
<b>Liabilities:</b>				
Derivative Instruments - Warrants	\$ -	\$ 4,393,201	\$ -	\$ 4,393,201
<b>Total</b>	<b>\$ -</b>	<b>\$ 4,393,201</b>	<b>\$ -</b>	<b>\$ 4,393,201</b>

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

	December 31, 2014
Market price and estimated fair value of common stock:	\$ 0.110
Exercise price	\$ 0.15-0.20
Expected term (years)	3-5 years
Divident yield	-
Expected volatility	76.7%
Risk-free interest rate	0.78%

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 Company issued warrants to 104,600,000 shares of common stock 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. The Company recognized \$1,448,710 of other expense resulting from the increase in the fair value of the warrant liability at September 30, 2013. During the year ended September 30, 2014, the Company recognized \$2,092,000 of other income resulting from the decrease in the fair value of the warrant liability at June 30, 2014. During the three months ended December 31, 2014, the Company recognized \$2,301,202 of other expense resulting from the decrease in the fair value of the warrant liability at December 31, 2014.

Derivative Instruments – Warrant with the November 2013 IDMC Services and License Agreement

Financial Instruments	Fair Value Measurements Using Inputs			Carrying Amount at December 31, 2014
	Level 1	Level 2	Level 3	
<b>Liabilities:</b>				
Derivative Instruments - Warrants	\$ -	\$ 670,463	\$ -	\$ 670,463
<b>Total</b>	<b>\$ -</b>	<b>\$ 670,463</b>	<b>\$ -</b>	<b>\$ 670,463</b>



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

	December 31, 2014
Market price and estimated fair value of common stock:	0.11
Exercise price	0.20
Expected term (years)	5
Divident yield	-
Expected volatility	76.7%
Risk-free interest rate	0.78%

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 Company issued a warrant to purchase 14,575,286 shares of common stock as consideration for the exclusive IP license and application development services to IDMC signed on November 11, 2013. The warrant price of \$0.20 per share expires November 10, 2018 and the per share price is subject to adjustment. This warrant was 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. This warrant was 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.

During the year ended September 30, 2014, the Company recognized \$320,657 of other expense related to the IDMC warrant. During the three months ended December 31, 2014, the Company recognized \$349,807 of other expense related to the IDMC warrant.

#### Derivative Instrument – Convertible Note Payable

Financial Instruments	Fair Value Measurements Using Inputs			Carrying Amount at December 31, 2014
	Level 1	Level 2	Level 3	
<b>Liabilities:</b>				
Derivative Instruments - Convertible Promissory Note	\$ -	\$ 103,500	\$ -	\$ 103,500
<b>Total</b>	<b>\$ -</b>	<b>\$ 103,500</b>	<b>\$ -</b>	<b>\$ 103,500</b>

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

	December 31, 2014
Market price and estimated fair value of common stock:	0.11
Exercise price	0.07
Expected term (years)	0.75
Divident yield	-
Expected volatility	76.7%
Risk-free interest rate	0.78%

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 Convertible Note Payable.

The Company entered into a Convertible Note Payable with KBM Worldwide, Inc. on August 25, 2014 for \$103,500. The Note is due May 27, 2015 and provides for interest at 8%. The Note is convertible at 65% of the average of the lowest three day trading price in the 10 days prior to conversion; however, the Note is not convertible until the second quarter of fiscal year 2015. The Note provides short term working capital while funding closes and the Company expects to repay the Note at the closing of funding.

The Company has recorded a derivative liability for the conversion discount in the amount of \$103,500 at December 31, 2014 and September 30, 2014.

Derivative Instrument – Convertible Note Payable

Financial Instruments	Fair Value Measurements Using Inputs			Carrying Amount at December 31, 2014
	Level 1	Level 2	Level 3	
<b>Liabilities:</b>				
Derivative Instruments - Convertible Promissory Note	\$ -	\$ 63,000	\$ -	\$ 63,000
<b>Total</b>	<b>\$ -</b>	<b>\$ 63,000</b>	<b>\$ -</b>	<b>\$ 63,000</b>

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

	December 31, 2014
Market price and estimated fair value of common stock:	0.11
Exercise price	0.07
Expected term (years)	0.75
Dividend yield	-
Expected volatility	76.7%
Risk-free interest rate	0.78%

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 Convertible Note Payable.

The Company entered into a Convertible Note Payable with KBM Worldwide, Inc. on September 23, 2014 for \$63,000. The Note is due June 26, 2015 and provides for interest at 8%. The Note is convertible at 65% of the average of the lowest three day trading price in the 10 days prior to conversion; however, the Note is not convertible until the second quarter of fiscal year 2015. The Note provides short term working capital while funding closes and the Company expects to repay the Note at the closing of funding.

The Company has recorded a derivative liability for the conversion discount in the amount of \$63,000 at September 30, 2014.

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 December 31, 2014 and September 30, 2014 based upon the short-term nature of the assets and liabilities.

**REVENUE RECOGNITION** – Visualant and TransTech revenue are 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.

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

**INCOME TAXES** - Income tax benefit is based on reported loss before income taxes. Deferred income taxes reflect the effect of temporary differences between asset and liability amounts that are recognized for financial reporting purposes and the amounts that are recognized for income tax purposes. These deferred taxes are measured by applying currently enacted tax laws where that company operates out of. The Company recognizes refundable and deferred assets to the extent that management has determined their realization. As of December 31, 2014 and September 30, 2014, the Company had refundable tax assets related to TransTech of \$28,927 and \$29,590, respectively.

**NET LOSS PER SHARE** – Under the provisions of ASC 260, “Earnings Per Share,” basic loss per common share is computed by dividing net loss available to common shareholders by the weighted average number of shares of common stock outstanding for the periods presented. Diluted net loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the income of the Company, subject to anti-dilution limitations. The common stock equivalents have not been included as they are anti-dilutive. As of December 31, 2014, there were options outstanding for the purchase of 12,900,000 common shares, warrants for the purchase of 134,555,286 common shares, preferred stock for the conversion of 3,000,000 common shares and an unknown number of shares related to the conversion of \$166,500 in Convertible Promissory Notes due to KBM Worldwide, Inc. which could potentially dilute future earnings per share. As of December 31, 2013, there were options outstanding for the purchase of 12,710,000 common shares, warrants for the purchase of 128,072,223 common shares 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 OUR 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 us 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 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.

There is no current requirement for FDA or other government approval for the current applications of the Company's 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.

The Company's research and development expenses were as follows:

Three months ended December 31, 2014- \$119,387  
Year ended September 30, 2014- \$670,742  
Year ended September 30, 2013- \$1,169,281

The Company's research and development efforts are supported internally and through contractors at the RATLab LLC, the Invention Development Management Company LLC and other suppliers.

##### **The Company's Patents**

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

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

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

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

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

On November 12, 2013, the Company was issued US Patent No. 8,583,394 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 November 21, 2014, the Company was issued US Patent No. 8,888,207 entitled “Systems, Methods, and Articles Related to Machine-Readable Indicia and Symbols” by the United States Office of Patents and Trademarks. The patent expires February 7, 2033.

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

#### **Services and License Agreement Invention Development Management Company, L.L.C.**

On November 11, 2013, the Company entered into a Services and License Agreement with Invention Development Management Company, L.L.C. (“IDMC”), a Delaware limited liability company. IDMC is affiliated with Intellectual Ventures, which collaborates with inventors, partners with pioneering companies and invests both expertise and capital in the process of invention. On November 19, 2014, the Company entered into an Amendment to Services and License Agreement with IDMC. This Amendment exclusively licenses ten filed patents to the Company.

The Agreement required IDMC to identify and engage investors to develop new applications of the Company’s ChromaID™ development kits, present the developments to the Company for approval, and file at least ten patent applications to protect the developments. IDMC is responsible for the development and patent costs. The Company provided the development kits to IDMC at no cost and is providing ongoing technical support. In addition, to provide time for this accelerated expansion of its intellectual property the Company delayed the selling of the ChromaID development kits for 140 days except for certain select accounts. The Company has continued its business development efforts during this period and has worked with IDMC and their global business development services to secure potential customers and licensees for its technology. The Company shipped twenty ChromaID Lab Kits to inventors in the IDMC network during December 2013 and January 2014.

The Company received a worldwide, nontransferable, exclusive license to the licensed IP developed under this IDMC Agreement dated November 11, 2013, during the term of the Agreement, and solely within the identification, authentication and diagnostics field of use, to (a) make, have made, use, import, sell and offer for sale products and services; (b) make improvements; and (c) grant sublicenses of any and all of the foregoing rights (including the right to grant further sublicenses).

The Company received a nonexclusive and nontransferable option to acquire a worldwide, nontransferable, nonexclusive license to the useful IP held by IDMC within the identification, authentication and diagnostics field of use to (a) make, have made, use, import, sell and offer to sell products and services and (b) grant sublicenses to any and all of the foregoing rights. The option to acquire this license may be exercised for up to two years from the effective date of the Agreement.

IDMC is providing global business development services to the Company, including present Visualant IP and any licensed IP, if applicable, to potential customers, licensees, and distributors in markets or geographies not being pursued by Visualant. Also, IDMC has introduced Visualant to potential customers, licensees, or distributors for the purpose of identifying and closing a license, sale, or distribution deal or other monetization event.

Visualant granted to IDMC a nonexclusive, worldwide, fully paid up, nontransferable, sublicenseable, perpetual license to the Visualant IP, solely outside the identification, authentication and diagnostics field of use to (a) make, have made, use, import, sell and offer for sale products and services and (b) grant sublicenses of any and all of the foregoing rights (including the right to grant further sublicenses).

The Company granted to IDMC a nonexclusive, worldwide, fully paid up, royalty-free, nontransferable, nonsublicenseable, perpetual license to access and use Visualant Technology solely for the purpose of marketing the aforementioned sublicenses to the Visualant IP to third parties outside the designated fields of use.

The Company issued a warrant to purchase 14,575,286 shares of common stock as consideration for the exclusive IP license and application development services to IDMC signed on November 11, 2013. The warrant price of \$0.20 per share expires November 10, 2018 and the per share price is subject to adjustment.

The Company has agreed to pay IDMC a percentage of license revenue for the global development business services and a percentage of revenue received from any IDMC introduced company. The Company has also agreed to pay IDMC a royalty when Visualant receives royalty product revenue from an IDMC introduced company.

IDMC has agreed to pay Visualant a license fee for the nonexclusive license of the Visualant IP.

The term of the exclusive IP license and the nonexclusive IP license commences on the effective date of November 11, 2013, and terminates when all claims of the patents expire or are held in valid or unenforceable by a court of competent jurisdiction from which no appeal can be taken.

The term of the Agreement commences on the effective date until either party terminates the Agreement at any time following the fifth anniversary of the effective date by providing at least ninety days' prior written notice to the other party.

#### **5. AGREEMENTS 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 or Amended Agreement with Sumitomo. The Amended Agreement extended the Joint Development Agreement from March 31, 2013 to December 31, 2013, which expired December 31, 2013. The Agreements provided 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 current version of the technology, identified as Version 6D, was introduced to the marketplace as a part of our ChromaID Lab Kit during the three months ended December 31, 2013. The Amended Agreement expired 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 for the Spectral Pattern Matching technology which covers Japan, China, Taiwan, Korea and the entirety of Southeast Asia (Burma, Indonesia, Thailand, Cambodia, Laos, Vietnam, Singapore and the Philippines). 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.**

The Company's 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.

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

#### **7. ACCOUNTS RECEIVABLE/CUSTOMER CONCENTRATION**

Accounts receivable were \$980,117 and \$815,460, net of allowance, as of December 31, 2014 and September 30, 2014, respectively. The Company had one customer (12.0%) in excess of 10% of our consolidated revenues for the three months ended December 31, 2014. The Company had two customers (21.6% and 12.9%) with accounts receivable in excess of 10% as of December 31, 2014. 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 \$333,073 and \$412,831 as of December 31, 2014 and September 30, 2014, 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 \$15,000 and \$10,000 reserve for impaired inventory as of December 31, 2014 and September 30, 2014, respectively.

## 9. FIXED ASSETS

Fixed assets, net of accumulated depreciation, was \$426,255 and \$447,236 as of December 31, 2014 and September 30, 2014, respectively. Accumulated depreciation was \$762,248 and \$742,676 as of December 31, 2014 and September 30, 2014, respectively. Total depreciation expense, was \$19,571 and \$12,794 for the three months ended December 31, 2014 and 2013, 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 December 31, 2014 was comprised of the following:

	Estimated Useful Lives	December 31, 2014		
		Purchased	Capital Leases	Total
Machinery and equipment	2-10 years	\$ 210,922	\$ 87,038	\$ 297,960
Leasehold improvements	5-20 years	603,612	-	603,612
Furniture and fixtures	3-10 years	77,039	101,260	178,299
Software and websites	3- 7 years	63,783	44,849	108,632
Less: accumulated depreciation		(533,265)	(228,983)	(762,248)
		<u>\$ 422,091</u>	<u>\$ 4,164</u>	<u>\$ 426,255</u>

## 10. INTANGIBLE ASSETS

Intangible assets as of December 31, 2014 and September 30, 2014 consisted of the following:

	Estimated Useful Lives	December 31, 2014	September 30, 2014
Customer contracts	5 years	\$ 983,645	\$ 983,645
Technology	5 years	712,500	\$ 712,500
Less: accumulated amortization		(1,349,299)	(1,264,492)
Intangible assets, net		<u>\$ 346,846</u>	<u>\$ 431,653</u>

Total amortization expense was \$84,807 and \$84,808 for the three months ended December 31, 2014 and 2013, 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 \$2,333,873 and \$2,234,123 as of December 31, 2014 and September 30, 2014, 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. The Company had 2 vendors (17.4% and 12.7%) with accounts payable in excess of 10% of its accounts payable as of December 31, 2014. 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

The Company entered into a Convertible Note Payable with KBM Worldwide, Inc. on August 25, 2014 for \$103,500. The Note is due May 27, 2015 and provides for interest at 8%. The Company entered into a Convertible Note Payable with KBM Worldwide, Inc. on September 23, 2014 for \$63,000. The Note is due June 26, 2015 and provides for interest at 8%. The Notes are convertible at 65% of the average of the lowest three day trading price in the 10 days prior to conversion; however, the Notes are not convertible until the second quarter of fiscal year 2015. The Notes provided short term working capital while funding closes and the Company expects to repay the Notes at the closing of funding. The Company has accrued interest of \$4,293 as of December 31, 2014. The Company has recorded a derivative liability for the conversion discount in the amount of \$166,500 at December 31, 2014.

## 13. NOTES PAYABLE, CAPITALIZED LEASES AND LONG TERM DEBT

Notes payable, capitalized leases and long term debt as of December 31, 2014 and September 30, 2014 consisted of the following:

	December 31, 2014	September 30, 2014
BFI Business Finance Secured Credit Facility	\$ 544,524	\$ 488,398
Note payable to Umpqua Bank	200,000	200,000
Secured note payable to J3E2A2Z LP - related party	600,000	600,000
TransTech capitalized leases, net of capitalized interest	1,830	2,562
Total debt	1,346,354	1,290,960
Less current portion of long term debt	(1,346,354)	(1,290,960)
Long term debt	\$ -	\$ -

### Capital Source Business Finance Group Secured Credit Facility

The Company finances its TransTech operations from operations and a Secured Credit Facility with Capital Source Business Finance Group. On December 9, 2008 TransTech entered into a \$1,000,000 secured credit facility with Capital Source to fund its operations. On December 12, 2014, the secured credit facility was renewed for an additional six months, with a floor for prime interest of 4.5% (currently 4.5%) plus 2.5%. The eligible borrowing is based on 80% of eligible trade accounts receivable, not to exceed \$1,000,000. The secured credit facility is collateralized by the assets of TransTech, with a guarantee by Visualant, including all assets of Visualant. Availability under this Secured Credit ranges from \$0 to \$175,000 (\$72,481 as of December 31, 2014) on a daily basis. The remaining balance on the accounts receivable line (\$544,524) as of December 31, 2014 must be repaid by the time the secured credit facility expires on June 12, 2015, or the Company renews by automatic extension for the next successive six month term.

### Note Payable to Umpqua Bank/ Ronald P. Erickson or J3E2A2Z LP

On December 19, 2013, the Company entered into a \$200,000 Note Payable with Umpqua Bank. The Note Payable has a maturity date of December 31, 2014 and provided for interest of 2.79%, subject to adjustment annually. On December 19, 2014, this Note Payable maturity date was extended to December 31, 2015 and provides for interest at 3.25%.

The cash from the Note Payable was received on January 14, 2014. Related to this Note Payable and in the case of a default by the Company, the Company entered into a Demand Promissory Note for \$200,000 on January 10, 2014 with Mr. Erickson, our Chief Executive Officer and/or entities in which Mr. Erickson has a beneficial interest. On March 31, 2014, the Company entered into an Amendment to the Demand Promissory Note which extended the due date of this from March 31, 2014 to June 30, 2014. On July 17, 2014, the Company entered into Amendment 2 to the Demand Promissory Note which extended the due date from June 30, 2014 to September 30, 2014. On December 31, 2014, the Company entered into Amendment 3 to the Demand Promissory Note which extended the due date from September 30, 2014 to March 31, 2015. The Note provides for interest of 3% per annum and provides for a second lien on company assets if not repaid by March 31, 2015 or converted into convertible debentures or equity on terms acceptable to the Holder. The Company has recorded accrued interest of \$5,852 as of December 31, 2014.

### Note Payables to Ronald P. Erickson or J3E2A2Z LP

On March 31, 2014, the Company entered into a Demand Promissory Note for \$300,000 with Mr. Erickson, our Chief Executive Officer and/or entities in which Mr. Erickson has a beneficial interest. On July 17, 2014, the Company entered into an Amendment to Demand Promissory Note which extended the due date of this from June 30, 2014 to September 30, 2014. On December 31, 2014, the Company entered into Amendment 2 to Demand Promissory Note which extended the due date of this from September 30, 2014 to March 31, 2015. The Note provides for interest of 3% per annum and provides for a second lien on company assets if not repaid by March 31, 2015 or converted into convertible debentures or equity on terms acceptable to the Holder. The Company has recorded accrued interest of \$6,781 as of December 31, 2014.

On July 17, 2014, the Company entered into a Demand Promissory Note for \$300,000 with Mr. Erickson, our Chief Executive Officer and/or entities in which Mr. Erickson has a beneficial interest. On December 31, 2014, the Company entered into an Amendment to Demand Promissory Note for \$300,000 which extended the due date of this from September 30, 2014 to March 31, 2015. The Note provides for a second lien on company assets if not repaid by March 31, 2015 or converted into convertible debentures or equity on terms acceptable to the Holder. The Company has recorded accrued interest of \$4,142 as of December 31, 2014.

#### **Capitalized Leases**

TransTech has capitalized leases for equipment. The leases have a remaining lease term of seven months. The imputed interest rate in the capitalized leases is approximately 10.5%.

Aggregate maturities totaling \$1,346,354 are all due within twelve months.

### **14. EQUITY**

#### **Series A Convertible Preferred Stock**

On January 26, 2015, the Board of Directors and the Nevada Secretary of State approved a Certificate of Designations, Preference and Rights for Series A Convertible Preferred Stock. The Company's Series A Preferred is \$0.10 par value, with 50,000,000 shares authorized and as of January 13, 2015, we had 3,000,000 shares issued and outstanding. Each holder of outstanding shares of Series A Preferred shall be entitled to the number of votes equal to the number of whole shares of common stock of the Corporation into which the shares of Series A Preferred held by such holder are then convertible as of the applicable record date. The Company cannot not amend, alter or repeal any preferences, rights, or other terms of the Series A Preferred so as to adversely affect the Series A Preferred, without the written consent or affirmative vote of the holders of at least sixty-six and two-thirds percent (66.66%) of the then outstanding shares of Series A Preferred, voting as a separate voting group, given by written consent or by vote at a meeting called for such purpose for which notice shall have been duly given to the holders of the Series A Preferred.

During the three months ended December 31, 2014, the Company sold 3,000,000 Series A Preferred to one accredited investor of Series A Convertible Preferred Stock totaling \$300,000 that is convertible into 3,000,000 shares of common stock at \$0.10 over the next five years. The Preferred Series A has voting rights and may not be called. The Company also issued (i) a Series C five year Warrant for 3,000,000 shares of common stock at \$0.20 per share, which is callable at \$0.40 per share; and (ii) a Series D five year Warrant for 3,000,000 shares of common stock at \$0.30 per share, which is callable at \$0.60 per share. The Preferred Series A and Series C and D Warrants have registration rights upon the closing of the offering. A notice filing under Regulation D will be filed with the SEC upon the closing of the offering.

#### **Common Stock**

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.

The Company has 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.

The following equity issuances occurred during the three months ended December 31, 2014:

On December 14, 2014, we entered into an Advisory Agreement with Lester Garfinkel for financial consulting services. Under the Advisory Agreement, Mr. Garfinkel was awarded 25,000 shares of our common stock. The shares were valued at \$0.20 per share by the parties. We expensed \$2,500 during the three months ended December 31, 2014 or \$0.10, the closing price on December 14, 2014.

#### **Warrants to Purchase Common Stock**

The following warrant issuances occurred during the three months ended December 31, 2014:

The Company issued (i) a Series C five year Warrant for 3,000,000 shares of common stock at \$0.20 per share, which is callable at \$0.40 per share; and (ii) a Series D five year Warrant for 3,000,000 shares of common stock at \$0.30 per share, which is callable at \$0.60 per share. During the three months ended December 31, 2014, the Company sold 3,000,000 Series A Preferred to one accredited investor of Series A Convertible Preferred Stock totaling \$300,000 that is convertible into 3,000,000 shares of common stock at \$0.10 over the next five years.



During the three months ended December 31, 2014, the Company expensed \$0 related to warrants.

A summary of the warrants issued as of December 31, 2014 were as follows:

	December 31, 2014	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	128,555,286	\$ 0.175
Issued	6,000,000	0.250
Exercised	-	-
Forfeited	-	-
Expired	-	-
Outstanding at end of period	134,555,286	\$ 0.178
Exercisable at end of period	134,555,286	

A summary of the status of the warrants outstanding as of December 31, 2014 is presented below:

Number of Warrants	December 31, 2014			
	Weighted Average Remaining Life ( In Years)	Weighted Average Exercise Price	Shares Exercisable	Weighted Average Exercise Price
6,330,000	2.86	\$ 0.10-.13	6,330,000	\$ 0.10-.13
52,300,000	3.38	0.150	52,300,000	0.150
75,925,286	3.59	0.200	75,925,286	0.200
134,555,286	3.50	0.178	134,555,286	0.178

The significant weighted average assumptions relating to the valuation of the Company's warrants for the period ended December 31, 2014 were as follows:

Dividend yield	0%
Expected life	3
Expected volatility	90%
Risk free interest rate	0.7%

There were vested warrants of 5,830,000 as of December 31, 2014 with an aggregate intrinsic value of \$58,300.

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

## Determining Fair Value under ASC 505

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

## Stock Option Activity

The Company had the following stock option transactions during the three months ended December 31, 2014:

During the three months ended December 31, 2014, two employees of TransTech, forfeited stock option grants for 200,000 shares of common stock at \$0.12 per share.

There are currently 12,900,000 options to purchase common stock at an average exercise price of \$0.125 per share outstanding as of December 31, 2014 under the 2011 Stock Incentive Plan. The Company recorded \$20,835 and \$23,503 of compensation expense, net of related tax effects, relative to stock options for the three months ended December 31, 2014 and 2013 in accordance with ASC 505. Net loss per share (basic and diluted) associated with this expense was approximately (\$0.00). At December 31, 2014, there is approximately \$308,565 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 5.09 years.

Stock option activity for the three months ended December 31, 2014 and the years ended September 30, 2014 and 2013 was as follows:

	Options	Weighted Average Exercise Price	\$
Outstanding as of September 30, 2012	5,920,000	0.131	776,800
Granted	6,830,000	0.122	836,000
Exercised	-	-	-
Forfeitures	(15,000)	(0.240)	(3,600)
Outstanding as of September 30, 2013	12,735,000	0.126	1,609,200
Granted	395,000	0.100	39,500
Exercised	-	-	-
Forfeitures	(30,000)	(0.217)	(6,500)
Outstanding as of September 30, 2014	13,100,000	0.125	1,642,200
Granted	-	-	-
Exercised	-	-	-
Forfeitures	(200,000)	(0.120)	(24,000)
Outstanding as of December 31, 2014	12,900,000	\$ 0.125	\$ 1,618,200

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2014:

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	5.39 years	\$ 0.090	500,000	\$ 0.090
0.100	4,020,000	5.36 years	0.100	2,765,417	0.100
0.130	5,100,000	4.93 years	0.130	4,683,333	0.130
0.150	3,100,000	5.39 years	0.150	3,100,000	0.150
0.240	180,000	.63 years	0.240	180,000	0.240
	12,900,000	5.09 years	\$ 0.125	11,228,750	\$ 0.133

There were exercisable options of 3,265,417 as of December 31, 2014 with an aggregate intrinsic value of \$37,654.

## **16. OTHER SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES**

### **Related Party Transactions with Ronald P. Erickson**

See Note 13 for Notes Payable to Ronald P. Erickson, our Chief Executive Officer and/or entities in which Mr. Erickson has a beneficial interest. In addition, the Company recorded advances from Mr. Erickson of \$268,010 as of December 31, 2014 as accrued liabilities – related parties.

## **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.

### **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 an Office Lease with Logan Building LLC for 2,244 square feet and which expired 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 entered into Amendment One to the Office Lease, 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. On June 18, 2014, the Company entered into the Second Amendment to the Office Lease, which maintained our net monthly payment at \$4,057. On December 18, 2014, the Company entered into the Third Amendment to the Office Lease reducing our square footage to 2,244 square feet and decreasing our net monthly payment to \$2,535 through the expiration date of February 28, 2015.

### **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.

The aggregate future minimum lease payments under operating leases as of December 31, 2014 were \$62,162 and \$9,502 for the years ended December 31, 2014 and 2013, respectively.

## **18. SUBSEQUENT EVENTS**

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

Subsequent to December 31, 2014, the following material transactions occurred:

On January 26, 2015, the Company approved (i) the cancellation of 1,150,000 in previously issued stock option grants from two employees; (ii) the issuance of 1,350,000 shares of common stock to board members and employees at \$.10 per share in accordance with the 2011 Stock Incentive Plan; and (iii) the issuance of stock option grants to employees totaling 1,700,000 shares at \$.10 per share in accordance with the 2011 Stock Incentive Plan. The stock option grants vest upon the achievement of performance targets during 2015.

The Company entered into a Convertible Note Payable with KBM Worldwide, Inc. on January 27, 2015 for \$64,000. The Note is due October 27, 2015 and provides for interest at 8%. The Note is convertible at 65% of the average of the lowest three day trading price in the 10 days prior to conversion; however, the Notes are not convertible until the first quarter of fiscal year 2016. The Note provides short term working capital while funding closes and the Company expects to repay the Notes at the closing of funding.

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

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

The following summarizes our plans for our ChromaID™ technology. Based on our expenditures on this technology, the management effort and the Intellectual Venture 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.

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 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 companies, and many others.

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 were as follows:

Three months ended December 31, 2014- \$119,387  
Year ended September 30, 2014- \$670,742  
Year ended September 30, 2013- \$1,169,281

Our research and development efforts are supported internally and through contractors at the RATLab LLC, the Invention Development Management Company LLC and other suppliers.

### 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.

On November 12, 2013, we were issued US Patent No. 8,583,394 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 November 21, 2014, we were issued US Patent No. 8,888,207 entitled "Systems, Methods, and Articles Related to Machine-Readable Indicia and Symbols" by the United States Office of Patents and Trademarks. The patent expires February 7, 2033.

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

#### **Services and License Agreement Invention Development Management Company, L.L.C.**

On November 11, 2013, we entered into a Services and License Agreement with Invention Development Management Company, L.L.C. ("IDMC"), a Delaware limited liability company. IDMC is affiliated with Intellectual Ventures, which collaborates with inventors, partners with pioneering companies and invests both expertise and capital in the process of invention. On November 19, 2014, we entered into an Amendment to Services and License Agreement with IDMC. This Amendment exclusively licenses ten filed patents to us.

The Agreement required IDMC to identify and engage investors to develop new applications of our ChromaID™ development kits, present the developments to us for approval, and file at least ten patent applications to protect the developments. IDMC is responsible for the development and patent costs. We provided the development kits to IDMC at no cost and is providing ongoing technical support. In addition, to provide time for this accelerated expansion of its intellectual property we delayed the selling of the ChromaID development kits for 140 days except for certain select accounts. We have continued its business development efforts during this period and has worked with IDMC and their global business development services to secure potential customers and licensees for its technology. We shipped twenty ChromaID Lab Kits to inventors in the IDMC network during December 2013 and January 2014.

We received a worldwide, nontransferable, exclusive license to the licensed IP developed under this IDMC Agreement dated November 11, 2013, during the term of the Agreement, and solely within the identification, authentication and diagnostics field of use, to (a) make, have made, use, import, sell and offer for sale products and services; (b) make improvements; and (c) grant sublicenses of any and all of the foregoing rights (including the right to grant further sublicenses).

We received a nonexclusive and nontransferable option to acquire a worldwide, nontransferable, nonexclusive license to the useful IP held by IDMC within the identification, authentication and diagnostics field of use to (a) make, have made, use, import, sell and offer to sell products and services and (b) grant sublicenses to any and all of the foregoing rights. The option to acquire this license may be exercised for up to two years from the effective date of the Agreement.

IDMC is providing global business development services to us or geographies not being pursued by Visualant. Also, IDMC has introduced us to potential customers, licensees, or distributors for the purpose of identifying and closing a license, sale, or distribution deal or other monetization event.

We granted to IDMC a nonexclusive, worldwide, fully paid up, nontransferable, sublicenseable, perpetual license to our IP, solely outside the identification, authentication and diagnostics field of use to (a) make, have made, use, import, sell and offer for sale products and services and (b) grant sublicenses of any and all of the foregoing rights (including the right to grant further sublicenses).

We granted to IDMC a nonexclusive, worldwide, fully paid up, royalty-free, nontransferable, nonsublicenseable, perpetual license to access and use our Technology solely for the purpose of marketing the aforementioned sublicenses to our IP to third parties outside the designated fields of use.

We issued a warrant to purchase 14,575,286 shares of common stock as consideration for the exclusive IP license and application development services to IDMC signed on November 11, 2013. The warrant price of \$0.20 per share expires November 10, 2018 and the per share price is subject to adjustment.

We agreed to pay IDMC a percentage of license revenue for the global development business services and a percentage of revenue received from any IDMC introduced company. We also have also agreed to pay IDMC a royalty when Visualant receives royalty product revenue from an IDMC introduced company.

IDMC has agreed to pay us a license fee for the nonexclusive license of our IP.

The term of the exclusive IP license and the nonexclusive IP license commences on the effective date of November 11, 2013, and terminates when all claims of the patents expire or are held in valid or unenforceable by a court of competent jurisdiction from which no appeal can be taken.

The term of the Agreement commences on the effective date until either party terminates the Agreement at any time following the fifth anniversary of the effective date by providing at least ninety days' prior written notice to the other party.

#### **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 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.

#### **Agreements 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 extended the Joint Development Agreement from March 31, 2013 to December 31, 2013, which expired December 31, 2013. The extension provided 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 current version of the technology, identified as Version 6D, was introduced to the marketplace as a part of our ChromaID 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 for the then extant Spectral Pattern Matching technology which covers Japan, China, Taiwan, Korea and the entirety of Southeast Asia (Burma, Indonesia, Thailand, Cambodia, Laos, Vietnam, Singapore and the Philippines). 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.

#### **KEY MARKET PRIORITIES**

##### **Our Developing Markets and Customers.**

Our plan is to develop markets and customers who have a need to identify, detect, or diagnose 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 started shipping our first ChromaID product, the ChromaID Lab Kit, during the last calendar quarter of 2013, after we complete final assembly and testing. This Lab Kit includes the following:

- ChromaID 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 Scanner, displays the captured ChromaID Profile, and compares it to known ChromaID Profiles.

The ChromaID 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 could 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 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 Around the World**

We are coordinating the sales and marketing efforts of Visualant and its partners Sumitomo and IDMC 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 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 expand 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.

#### 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 resellers and national accounts in the United States.

**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.

### THE COMPANY'S COMMON STOCK

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

### PRIMARY RISKS AND UNCERTAINTIES

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

### RESULTS OF OPERATIONS

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

(dollars in thousands)

	Three Months Ended December 31,			
	2014	2013	\$ Variance	% Variance
Revenue	\$ 1,843	\$ 1,877	\$ (34)	-1.8%
Cost of sales	1,545	1,571	(26)	1.7%
Gross profit	298	306	(8)	-2.6%
Research and development expenses	119	313	(194)	62.0%
Selling, general and administrative expenses	653	843	(190)	22.5%
Operating loss	(474)	(850)	376	44.2%
Other income (expense):				
Interest expense	(37)	(18)	(19)	-105.6%
Other income	6	8	(2)	-25.0%
Gain on change - derivative liability warrants	(2,651)	13	(2,664)	-20492.3%
Total other (expense) income	(2,682)	3	(2,685)	-89500.0%
Loss before income taxes	(3,156)	(847)	(2,309)	-272.6%
Income taxes - current provision (benefit)	1	(1)	2	-200.0%
Net loss	(3,157)	(846)	(2,311)	-273.2%
Non-controlling interest	-	16	(16)	100.0%
Net loss attributable to Visualant, Inc. common shareholders	\$ (3,157)	\$ (862)	\$ (2,295)	-266.2%

### THREE MONTHS ENDED DECEMBER 31, 2014 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2013

#### SALES

Net revenue for the three months ended December 31, 2014 decreased \$34,000 to \$1,843,000 as compared to \$1,877,000 for the three months ended December 31, 2013.

The decrease was due to decreased sales of \$34,000 at TransTech. The TransTech decrease primarily resulted from slightly lower sales at TransTech.

#### COST OF SALES

Cost of sales for the three months ended December 31, 2014 decreased \$26,000 to \$1,545,000 as compared to \$1,571,000 for the three months ended December 31, 2013. The decrease was due to slightly lower gross margin at TransTech.

Gross margin was \$298,000 from TransTech as compared to \$306,000 for the three months ended December 31, 2013. The gross margin was 16.2% for the three ended December 31, 2014 as compared to 16.3% for the three months ended December 31, 2013. The decrease relates to slightly lower gross margin at TransTech.



## RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the three months ended December 31, 2014 decreased \$194,000 to \$119,000 as compared to \$313,000 for the three months ended December 31, 2013. The decrease was due to reduced expenditures for suppliers related to the commercialization of Visualant's ChromaID technology and the Services and License Agreement with IDMC.

## SELLING, GENERAL AND ADMINISTRATIVE EXPENSE

Selling, general and administrative expenses for the three months ended December 31, 2014 decreased \$190,000 to \$653,000 as compared to \$843,000 for the three months ended December 31, 2013.

The decrease was due to reduced legal expenses of (\$86,000), reduced consulting expenses of (\$26,000), reduced expenses at TransTech of (\$17,000) and a decrease in other general expenses (\$61,000). The reduction related to reduced expenses. As part of the selling, general and administrative expenses for the three months ended December 31, 2014, we incurred investor relation expenses of \$7,000 and business development expenses of \$32,000.

## OTHER INCOME/EXPENSE

Other expense for the three months ended December 31, 2014 was \$2,682,000 as compared to other income of \$3,000 for the three months ended December 31, 2013. The other expense for the three months ended December 31, 2014 included other income of \$6,000, offset by loss on change - derivative liability of \$2,651,000 and interest expense of \$37,000. The loss on change- derivative liability warrants relates to derivative instruments included in the June 2013 Private Placement, the November 2013 IDMC Services and License Agreement and Convertible Notes Payable.

The expenses for the three months ended December 31, 2013 included \$18,000 for interest expense, offset by \$8,000 in other income and gain on change - derivative liability warrants of \$13,000.

## NET LOSS

Net loss for the three months ended December 31, 2014 was \$3,157,000 as compared to a net loss of \$846,000 for the three months ended December 31, 2013 for the reasons discussed above. The net loss for the three months ended December 31, 2014 included non-cash expense of \$2,781,000, including (i) depreciation and amortization of \$104,000; (ii) stock based compensation of \$21,000; (iii) loss on change- derivative liability warrants of \$2,651,000; (iv) share and warrant issuances of \$3,000; and (v) other of \$2,000. TransTech net profit from operations was \$15,000 for the three months ended December 31, 2014 as compared to \$2,000 for the three months ended December 31, 2013.

The net loss for the three months ended December 31, 2013 included non-cash expenses of \$107,000, including (i) depreciation and amortization of \$98,000; and (ii) stock based compensation of \$24,000, offset by gain on change - derivative liability warrants of \$13,000 and other income of \$2,000.

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

## LIQUIDITY AND CAPITAL RESOURCES

We had cash of \$87,000 and net working capital deficit of approximately \$2,774,000 (excluding the derivative liability- warrants of \$5,230,000) as of December 31, 2014. We expect losses to continue as we commercialize our ChromaID™ technology. Our cash used in operations for the three months ended December 31, 2014 and year ended September 30, 2014 was \$341,000 and \$(1,379,000), respectively.

We 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 will 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 the purchase of 52,300,00 common shares at \$0.15 per share and Series B Warrants for the purchase of 52,300,000 common shares at \$0.20 per share. In addition, we issued a warrant to IDMC for the purchase of 14,575,286 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.  
IDMC Warrant - up to \$2,915,000.

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.

We have financed our corporate operations and our technology development through the issuance of convertible debentures, the sale common stock, issuance of common stock in conjunction with an equity line of credit, and loans by our Chief Executive Officer.

We finance our TransTech operations from operations and a Secured Credit Facility with Capital Source Business Finance Group. On December 9, 2008 TransTech entered into a \$1,000,000 secured credit facility with Capital Source to fund its operations. On December 12, 2014, the secured credit facility was renewed for an additional six months, with a floor for prime interest of 4.5% (currently 4.5%) plus 2.5%. The eligible borrowing is based on 80% of eligible trade accounts receivable, not to exceed \$1,000,000. The secured credit facility is collateralized by the assets of TransTech, with a guarantee by Visualant, including all assets of Visualant. Availability under this Secured Credit ranges from \$0 to \$175,000 (\$72,481 as of December 31, 2014) on a daily basis. The remaining balance on the accounts receivable line (\$544,524) as of December 31, 2014 must be repaid by the time the secured credit facility expires on June 12, 2015, or the Company renews by automatic extension for the next successive six month term.

#### OPERATING ACTIVITIES

Net cash used in operating activities for the three months ended December 31, 2014 was (\$341,000). This amount was primarily related to a net loss of \$3,157,000 and an increase in account receivable of \$168,000, offset by non-cash other expense of \$2,781,000, including (i) depreciation and amortization of \$104,000; (ii) stock based compensation of \$21,000; (iii) loss on change- derivative liability warrants of \$2,651,000; (iv) share and warrant issuances of \$3,000; and (v) other of \$2,000, an increase in accounts payable and accrued expenses totaling \$132,000. The loss on change- derivative liability warrants relates to derivative instruments included in the June 2013 Private Placement, the November 2013 IDMC Services and License Agreement and Convertible Notes Payable.

#### INVESTING ACTIVITIES

Net cash provided by investing activities for the three months ended December 31, 2014 was \$2,000. This amount was primarily related to proceeds from the sale of equipment of \$2,000.

#### FINANCING ACTIVITIES

Net cash provided by financing activities for the three months ended December 31, 2014 was \$355,000. This amount was primarily related to proceeds from the sale of preferred stock of \$300,000 and proceeds from line of credit of \$55,000.

Our contractual cash obligations as of December 31, 2014 are summarized in the table below:

Contractual Cash Obligations	Total	Less Than 1 Year	1-3 Years	3-5 Years	Greater Than 5 Years
Operating leases	\$ 71,664	\$ 62,162	\$ 9,502	\$ 0	\$ 0
Convertible notes payable	166,500	166,500	-	-	-
Notes payable	1,346,354	1,346,354	-	-	-
Capital expenditures	150,000	50,000	50,000	50,000	-
	<u>\$ 1,734,518</u>	<u>\$ 1,625,016</u>	<u>\$ 59,502</u>	<u>\$ 50,000</u>	<u>\$ 0</u>

(1) Based on the end of period exchange rate.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

This item is not applicable.

#### ITEM 4. CONTROLS AND PROCEDURES

##### a) Evaluation of Disclosure Controls and Procedures

We conducted an evaluation under the supervision and with the participation of our management, of the effectiveness of the design and operation of our disclosure controls and procedures. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (“Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures also include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our principal executive and principal financial officers concluded as of December 31, 2014 that our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weaknesses in our internal controls over financial reporting discussed immediately below.

#### Identified Material Weakness

A material weakness in our internal control over financial reporting is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Management identified the following material weakness during its assessment of internal controls over financial reporting:

*Audit Committee:* While we have an audit committee, we lack a financial expert. During 2015, the Board expects to appoint an additional independent Director to serve as Audit Committee Chairman who is an “audit committee financial expert” as defined by the Securities and Exchange Commission (“SEC”) and as adopted under the Sarbanes-Oxley Act of 2002. In addition, this Director is expected to strengthen our governance processes. We are using external service providers to ensure compliance with the Securities and Exchange Commission requirements until we appoint the Audit Committee Chairman.

#### ***b) Changes in Internal Control over Financial Reporting***

During the quarter ended December 31, 2014, there were no changes in our internal controls over financial reporting during this fiscal quarter that materially affected, or is reasonably likely to have a materially affect, on our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1A. RISK FACTORS

There are certain inherent risks which will have an effect on the Company's development in the future and the most significant risks and uncertainties known and identified by our management are described below.

There are certain inherent risks which will have an effect on the Company's development in the future and the most significant risks and uncertainties known and identified by our management are described below.

#### WE NEED ADDITIONAL FINANCING TO SUPPORT OUR TECHNOLOGY DEVELOPMENT AND ONGOING OPERATIONS, PAY OUR DEBTS AND MAINTAIN OWNERSHIP OF OUR INTELLECTUAL PROPERTIES

We need additional financing to implement our business plan and to service our ongoing operations, pay our current debts and maintain ownership of our intellectual property. 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 will need to restructure our operations, and divest all or a portion of our business.

On December 19, 2013, we entered into a \$200,000 Note Payable with Umpqua Bank. The Note Payable had a maturity date of December 31, 2014 and provided for interest of 2.79%, subject to adjustment annually. On December 19, 2014, this Note Payable maturity date was extended to December 31, 2015 and provides for interest at 3.25%.

The cash from the Note Payable was received on January 14, 2014. Related to this Note Payable and in the case of a default by us, we entered into a Demand Promissory Note for \$200,000 on January 10, 2014 with Mr. Erickson, our Chief Executive Officer and/or entities in which Mr. Erickson has a beneficial interest. On March 31, 2014, we entered into an Amendment to the Demand Promissory Note which extended the due date of this from March 31, 2014 to June 30, 2014. On July 17, 2014, we entered into Amendment 2 to the Demand Promissory Note which extended the due date from June 30, 2014 to September 30, 2014. On December 31, 2014, we entered into Amendment 3 to the Demand Promissory Note which extended the due date from September 30, 2014 to March 31, 2015. The Note provides for interest of 3% per annum and provides for a second lien on our assets if not repaid by March 31, 2015 or converted into convertible debentures or equity on terms acceptable to the Holder.

On March 31, 2014, we entered into a Demand Promissory Note for \$300,000 with Mr. Erickson, our Chief Executive Officer and/or entities in which Mr. Erickson has a beneficial interest. On July 17, 2014, we entered into an Amendment to Demand Promissory Note which extended the due date of this from June 30, 2014 to September 30, 2014. On December 31, 2014, we entered into Amendment 2 to Demand Promissory Note which extended the due date of this from September 30, 2014 to March 31, 2015. The Note provides for interest of 3% per annum and provides for a second lien on our assets if not repaid by March 31, 2015 or converted into convertible debentures or equity on terms acceptable to the Holder.

On July 17, 2014, we entered into a Demand Promissory Note for \$300,000 with Mr. Erickson, our Chief Executive Officer and/or entities in which Mr. Erickson has a beneficial interest. On December 31, 2014, we entered into an Amendment to Demand Promissory Note for \$300,000 which extended the due date of this from September 30, 2014 to March 31, 2015. The Note provides for a second lien on our assets if not repaid by March 31, 2015 or converted into convertible debentures or equity on terms acceptable to the Holder.

We recorded advances from Mr. Erickson of \$268,010 as of December 31, 2014 as accrued liabilities – 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 the Company 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.

We entered into a Convertible Note Payable with KBM Worldwide, Inc. on August 25, 2014 for \$103,500. The Note is due May 27, 2015 and provides for interest at 8%. The Company entered into a Convertible Note Payable with KBM Worldwide, Inc. on September 23, 2014 for \$63,000. The Note is due June 26, 2015 and provides for interest at 8%. The Notes provided short term working capital while funding closes and we expect to repay the Notes at the closing of funding.

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

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

Sales or issuances of a large number of shares of common stock in the public market or the perception that sales may occur could cause the market price of our common stock to decline. As of December 31, 2014, there were approximately 168.2 million shares of our common stock issued and outstanding, stock options grants for the purchase of 12.9 million common shares at a \$0.125 average strike price and warrants for the purchase of 134.6 million common shares at a \$0.178 average exercise price. The Company may be obligated to issue up to 5.2 million additional placement agent warrants which have the potential to add additional shares to the total number of shares of common stock issued and outstanding.

In addition, there are 3,000,000 shares of common stock reserved for issuance upon conversion of Series A Convertible Preferred stock and an unknown number of shares related to the conversion of \$166,500 in Convertible Promissory Notes due to KBM Worldwide, Inc. The Convertible Promissory Notes due to KBM are not convertible until the second fiscal quarter of 2015.

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.

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, THE IDMC WARRANT AND SERIES C AND D WARRANTS 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, the IDMC warrant for 14.5 million shares of common stock at \$0.20 per share, Series C Warrants to purchase 3,000,000 shares of common stock at \$0.20 per share and Series D Warrants to purchase 3,000,000 shares of common stock at \$0.30 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, Series B Warrants, IDMC Warrant, Series C Warrant and Series D Warrant, 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.

## 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 September 30, 2014, we had an accumulated deficit of \$21.5 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 SERVICES AND LICENSE AGREEMENT WITH INVENTION DEVELOPMENT MANAGEMENT COMPANY, LLC IS IMPORTANT TO OUR OPERATIONS

On November 11, 2013, we entered into a Services and License Agreement with Invention Development Management Company, L.L.C. (“IDMC”), a Delaware limited liability company. IDMC is affiliated with Intellectual Ventures, which collaborates with inventors, partners with pioneering companies and invests both expertise and capital in the process of invention. On November 19, 2014, we entered into an Amendment to Services and License Agreement with IDMC. This Amendment exclusively licenses ten filed patents to us.

The Agreement required IDMC to identify and engage investors to develop new applications of our ChromaID™ development kits, present the developments to us for approval, and file at least ten patent applications to protect the developments. IDMC is responsible for the development and patent costs. We provided the development kits to IDMC at no cost and is providing ongoing technical support. In addition, to provide time for this accelerated expansion of its intellectual property we delayed the selling of the ChromaID development kits for 140 days except for certain select accounts. We have continued its business development efforts during this period and has worked with IDMC and their global business development services to secure potential customers and licensees for its technology. We shipped twenty ChromaID Lab Kits to inventors in the IDMC network during December 2013 and January 2014.

We received a worldwide, nontransferable, exclusive license to the licensed IP developed under this IDMC Agreement dated November 11, 2013, during the term of the Agreement, and solely within the identification, authentication and diagnostics field of use, to (a) make, have made, use, import, sell and offer for sale products and services; (b) make improvements; and (c) grant sublicenses of any and all of the foregoing rights (including the right to grant further sublicenses).

We received a nonexclusive and nontransferable option to acquire a worldwide, nontransferable, nonexclusive license to the useful IP held by IDMC within the identification, authentication and diagnostics field of use to (a) make, have made, use, import, sell and offer to sell products and services and (b) grant sublicenses to any and all of the foregoing rights. The option to acquire this license may be exercised for up to two years from the effective date of the Agreement.

IDMC is providing global business development services to us or geographies not being pursued by Visualant. Also, IDMC has introduced us to potential customers, licensees, or distributors for the purpose of identifying and closing a license, sale, or distribution deal or other monetization event.

We granted to IDMC a nonexclusive, worldwide, fully paid up, nontransferable, sublicenseable, perpetual license to our IP, solely outside the identification, authentication and diagnostics field of use to (a) make, have made, use, import, sell and offer for sale products and services and (b) grant sublicenses of any and all of the foregoing rights (including the right to grant further sublicenses).

We granted to IDMC a nonexclusive, worldwide, fully paid up, royalty-free, nontransferable, nonsublicenseable, perpetual license to access and use our Technology solely for the purpose of marketing the aforementioned sublicenses to our IP to third parties outside the designated fields of use.

We issued a warrant to purchase 14,575,286 shares of common stock as consideration for the exclusive IP license and application development services to IDMC signed on November 11, 2013. The warrant price of \$0.20 per share expires November 10, 2018 and the per share price is subject to adjustment.

We agreed to pay IDMC a percentage of license revenue for the global development business services and a percentage of revenue received from any IDMC introduced company. We also have also agreed to pay IDMC a royalty when Visualant receives royalty product revenue from an IDMC introduced company.

IDMC has agreed to pay us a license fee for the nonexclusive license of our IP.

The term of the exclusive IP license and the nonexclusive IP license commences on the effective date of November 11, 2013, and terminates when all claims of the patents expire or are held in valid or unenforceable by a court of competent jurisdiction from which no appeal can be taken.

The term of the Agreement commences on the effective date until either party terminates the Agreement at any time following the fifth anniversary of the effective date by providing at least ninety days' prior written notice to the other party.

Failure to operate in accordance with the Services and License Agreement could result in the cancellation of this agreement.

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

Our financial statements and notes for the year ended September 30, 2014 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 early 2014, 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 in early 2015 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. In addition, the CFO currently reports to the Audit Committee on any noncompliance issues, and we are using external service providers to ensure compliance with the Securities and Exchange Commission requirements.

**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.

#### THE COMPANY DOES NOT HAVE A FULL-TIME CHIEF FINANCIAL OFFICER AND THE COMPANY'S CHIEF FINANCIAL OFFICER HAS COMMITMENTS TO ANOTHER COMPANY.

Our Chief Financial Officer, Mark Scott, also serves as the Chief Financial Officer of one other company. At this time, we 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 a consulting CFO for GrowLife, Inc. Both companies are aware of Mr. Scott's employment and the companies do not rely on Mr. Scott to identify or secure funding sources for their operations. If, however, the needs either Company 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.

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

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.

The Company has 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.

During the three months ended December 31, 2014, we had the following unregistered sales of equity securities:

During the three months ended December 31, 2014, we sold 300,000 Series A Preferred to one accredited investor of Series A Convertible Preferred Stock totaling \$300,000 that is convertible into 3,000,000 shares of common stock at \$0.10 over the next five years. The Preferred Series A has voting rights and may not be called. We also issued (i) a Series C five year Warrant for 3,000,000 shares of common stock at \$0.20 per share, which is callable at \$0.40 per share; and (ii) ) a Series D five year Warrant for 3,000,000 shares of common stock at \$0.30 per share, which is callable at \$0.60 per share.

On December 14, 2014, we entered into an Advisory Agreement with Lester Garfinkel for financial consulting services. Under the Advisory Agreement, Mr. Garfinkel was awarded 25,000 shares of our common stock. The shares were valued at \$0.20 per share by the parties. We expensed \$2,500 during the three months ended December 31, 2014 or \$0.10, the closing price on December 14, 2014.

#### **ITEM 5. OTHER INFORMATION**

This item is not applicable.

#### **ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

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

(a) Exhibits

- 10.1 Amendment to Services and License Agreement dated November 18, 2014 by and between Visualant, Inc. and Invention Development Management Company, LLC. Attached as an exhibit to the Company's Form 8-K dated November 18, 2014 and filed with the SEC on November 25, 2014, and hereby incorporated by reference.
- 10.2 Amendment to Demand Promissory Note dated December 31, 2014 by and between Visualant, Inc. and 3E2A2Z LP. Attached as an exhibit to the Company's Form 8-K dated December 31, 2014 and filed with the SEC on January 2, 2015, and hereby incorporated by reference.
- 10.3 Amendment 2 to Demand Promissory Note dated December 31, 2014 by and between Visualant, Inc. and 3E2A2Z LP. Attached as an exhibit to the Company's Form 8-K dated December 31, 2014 and filed with the SEC on January 2, 2015, and hereby incorporated by reference.
- 10.4 Amendment 3 to Demand Promissory Note dated December 31, 2014 by and between Visualant, Inc. and 3E2A2Z LP. Attached as an exhibit to the Company's Form 8-K dated December 31, 2014 and filed with the SEC on January 2, 2015, and hereby incorporated by reference.
- 10.5 Second Amendment to Office Lease dated June 18, 2014 by and between Visualant, Inc. and LogarBuilding LLC. Attached as an exhibit to the Company's Form 10-K dated September 30, 2014 and filed with the SEC on January 13, 2015, and hereby incorporated by reference.
- 10.6 Third Amendment to Office Lease dated December 18, 2014 by and between Visualant, Inc. and LogarBuilding LLC. Attached as an exhibit to the Company's Form 10-K dated September 30, 2014 and filed with the SEC on January 13, 2015, and hereby incorporated by reference.

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

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

[32.1 Section 906 Certifications. Attached herewith.](#)

[32.2 Section 906 Certifications. Attached herewith.](#)

101 Interactive data files pursuant to Rule 405 of Regulation S-T. (1)

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

**SIGNATURES**

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

**VISUALANT, INCORPORATED**

(Registrant)

Date: February 10, 2015

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

Date: February 10, 2015

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

## SECTION 302 CERTIFICATIONS

I, Ronald P. Erickson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Visualant, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(a) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 10, 2015

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

## SECTION 302 CERTIFICATIONS

I, Mark Scott, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Visualant, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(a) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 10, 2015

/s/ Mark Scott  
Mark Scott  
Chief Financial Officer

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

In connection with the Quarterly Report of Visualant, Inc. (the "Company") on Form 10-Q for the quarter ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald P. Erickson, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

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

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

/s/ Ronald P. Erickson  
Ronald P. Erickson  
Chief Executive Officer  
February 10, 2015

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

In connection with the Quarterly Report of Visualant, Inc. (the "Company") on Form 10-Q for the quarter ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark Scott, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

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

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

/s/ Mark Scott  
Mark Scott  
Chief Financial Officer  
February 10, 2015