

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, 2016

☐ 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 21, 2017: 3,750,962 shares

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ITEM 1. FINANCIAL STATEMENTS

VISUALANT, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2016	September 30, 2016 (Audited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 180,847	\$ 188,309
Accounts receivable, net of allowance of \$175,000 and \$55,000, respectively	635,471	808,955
Prepaid expenses	17,233	20,483
Inventories, net	210,717	295,218
Total current assets	1,044,268	1,312,965
EQUIPMENT, NET	276,213	285,415
OTHER ASSETS		
Intangible assets, net	30,625	43,750
Goodwill	500,000	983,645
Other assets	5,070	5,070
TOTAL ASSETS	\$ 1,856,176	\$ 2,630,845
LIABILITIES AND STOCKHOLDERS' (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable - trade	\$ 2,098,895	\$ 1,984,326
Accounts payable - related parties	33,334	41,365
Accrued expenses	66,706	80,481
Accrued expenses - related parties	1,082,839	1,109,046
Derivative liability	562,714	145,282
Convertible notes payable	555,000	909,500
Notes payable - current portion of long term debt	1,100,071	1,170,339
Total current liabilities	5,499,559	5,440,339
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' DEFICIT		
Preferred stock - \$0.001 par value, 5,000,000 shares authorized, 0 shares issued and outstanding at 12/31/2016 and 9/30/2016, respectively	-	-
Series A Convertible Preferred stock - \$0.001 par value, 23,334 shares authorized, 23,334 issued and outstanding at 12/31/2016 and 9/30/2016, respectively	23	23
Series C Convertible Preferred stock - \$0.001 par value, 1,785,715 shares authorized, 1,785,715 shares issued and outstanding at 12/31/2016 and 9/30/2016, respectively	1,790	1,790
Series D Convertible Preferred stock - \$0.001 par value, 3,906,250 shares authorized, 375,000 and 0 shares issued and outstanding at 12/31/2016 and 9/30/2016, respectively	375	-
Common stock - \$0.001 par value, 100,000,000 shares authorized, 3,570,010 and 2,356,152 shares issued and outstanding at 12/31/2016 and 9/30/2016, respectively	3,570	2,356
Additional paid in capital	26,090,915	24,259,702
Accumulated deficit	(29,740,056)	(27,073,365)
Total stockholders' deficit	(3,643,383)	(2,809,494)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 1,856,176	\$ 2,630,845

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

VISUALANT, INCORPORATED AND SUBSIDIARIES
STATEMENTS OF OPERATIONS

	Three Months Ended,	
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
REVENUE	\$ 1,148,800	\$ 1,284,800
COST OF SALES	<u>958,442</u>	<u>1,086,678</u>
GROSS PROFIT	190,358	198,122
RESEARCH AND DEVELOPMENT EXPENSES	40,608	91,962
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>1,791,213</u>	<u>736,207</u>
OPERATING LOSS	<u>(1,641,463)</u>	<u>(630,047)</u>
OTHER INCOME (EXPENSE):		
Interest expense	(52,273)	(38,639)
Other income	3,607	2,320
(Loss) on change - derivative liability	<u>(417,432)</u>	<u>(1,345,960)</u>
Total other expense	<u>(466,098)</u>	<u>(1,382,279)</u>
(LOSS) BEFORE INCOME TAXES	(2,107,561)	(2,012,326)
Income taxes - current provision	<u>-</u>	<u>-</u>
NET (LOSS)	<u>\$ (2,107,561)</u>	<u>\$ (2,012,326)</u>
Basic and diluted loss per common share attributable to Visualant, Inc. and subsidiaries common shareholders-		
Basic and diluted loss per share	<u>\$ (0.65)</u>	<u>\$ (1.73)</u>
Weighted average shares of common stock outstanding- basic and diluted	3,227,351	1,161,366

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

VISUALANT, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended,	
	December 31, 2016	December 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (2,107,561)	\$ (2,012,326)
Adjustments to reconcile net loss to net cash (used in) operating activities		
Depreciation and amortization	22,327	53,722
Issuance of capital stock for services and expenses	206,831	104,476
Conversion of interest	56,454	-
Stock based compensation	10,887	11,837
Gain on sale of assets	(1,034)	-
Loss on change - derivative liability	417,432	1,346,264
Amortization of debt discount	10,000	-
Provision for losses on accounts receivable	121,041	-
Impairment of goodwill	483,645	-
Changes in operating assets and liabilities:		
Accounts receivable	52,443	7,768
Prepaid expenses	3,250	(5,861)
Inventory	84,501	28,888
Accounts payable - trade and accrued expenses	66,556	(81,196)
Deferred revenue	-	(2,500)
NET CASH (USED IN) OPERATING ACTIVITIES	(573,228)	(548,928)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in BioMedx, Inc., net	-	-
Proceeds from sale of equipment	1,034	-
NET CASH PROVIDED BY INVESTING ACTIVITIES:	1,034	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Repayments) proceeds from line of credit	(35,268)	221,457
Proceeds from warrant exercises	-	16,264
Proceeds from convertible notes payable	300,000	370,000
Proceeds from issuance of common/preferred stock, net of costs	300,000	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	564,732	607,721
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(7,462)	58,793
CASH AND CASH EQUIVALENTS, beginning of period	188,309	82,266
CASH AND CASH EQUIVALENTS, end of period	\$ 180,847	\$ 141,059
Supplemental disclosures of cash flow information:		
Interest paid	\$ 14,245	\$ 15,190
Taxes paid	\$ -	\$ -

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

VISUALANT, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company incurred net losses of \$2,107,561, \$1,746,495 and \$2,631,037 for the three months ended December 31, 2016 and the years ended September 30, 2016 and 2015, respectively. Net cash used in operating activities was \$(573,228), \$(3,373,734) and \$(239,877) for the three months ended December 31, 2017 and the years ended September 30, 2016 and 2015, respectively.

The Company anticipates that it will record losses from operations for the foreseeable future. As of December 31, 2016, the Company's accumulated deficit was \$29,740,056. 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, or entities with which he is affiliated. These conditions raise substantial doubt about our ability to continue as a going concern. The audit report prepared by the Company's independent registered public accounting firm relating to our financial statements for the year ended September 30, 2016 includes an explanatory paragraph expressing the substantial doubt about the Company's ability to continue as a going concern.

We believe that our cash on hand will be sufficient to fund our operations until February 28, 2017. 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. We may seek additional capital through a combination of private and public equity offerings, debt financings and strategic collaborations. Debt financing, if obtained, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, and could increase our expenses and require that our assets secure such debt. Equity financing, if obtained, could result in dilution to our then-existing stockholders and/or require such stockholders to waive certain rights and preferences. If such financing is not available on satisfactory terms, or is not available at all, we may be required to delay, scale back, eliminate the development of business opportunities or file for bankruptcy and our operations and financial condition may be materially adversely affected.

2. ORGANIZATION

Visualant, Incorporated (the "Company," "Visualant, Inc." or "Visualant") was incorporated under the laws of the State of Nevada in 1998. The Company has authorized 105,000,000 shares of capital stock, of which 100,000,000 are shares of voting common stock, par value \$0.001 per share, and 5,000,000 are shares preferred stock, par value \$0.001 per share.

On July 21, 2015, the Company filed with the Nevada Secretary of State an Amended and Restated Certificate of Designations, Preferences and Rights for its Series A Convertible Preferred Stock. Among other things, the Amended and Restated Certificate changed the conversion price and the stated value from \$0.10 (pre-reverse stock split) to \$30.00 (post-reverse stock split), and added a provision adjusting the conversion price upon the occurrence of certain events. As a result of the foregoing, the Company currently has 23,334 Series A Preferred Stock issued and outstanding, with a conversion price of \$0.70 per share.

On August 11, 2016, the Company applied with the State of Nevada for the approval of the Certificate of Designations, Preferences, and Rights of Series C Convertible Preferred Stock. The Certificate designated 1,250,000 shares as Series C Convertible Preferred Stock with a par value of \$.001 per share. The Series C Convertible Preferred Stock is convertible into common stock at \$0.70 per share, with certain adjustments as set forth in the Certificate. On August 31, 2016, the Company filed with the State of Nevada a Certificate of Correction to the Certificate of Designations of Preferences, Powers, Rights and Limitations for the Series C Convertible Preferred Stock to correct the number of authorized shares. The Certificate authorized 1,785,715 shares of Series C Preferred Stock with a par value of \$.001 per share. The Series C Convertible Preferred Stock is convertible into common stock at \$0.70 per share, with certain adjustments as set forth in the Certificate. As a result of the foregoing, the Company currently has 1,785,715 shares of Series C Preferred Stock issued and outstanding, with a conversion price of \$0.70 per share.

On November 8, 2016, the Company applied with the State of Nevada for the approval of the Certificate of Designations, Preferences, and Rights of Series D Convertible Preferred Stock. The Certificate designated up to 3,906,250 shares with a par value of \$.001 per share. The Series D Convertible Preferred Stock is convertible into common stock at \$0.80 per share, with certain adjustments as set forth in the Certificate. The Company has issued 375,000 shares of Series D Convertible Preferred Stock through February 21, 2017, and intends to issue up to 3,125,000 Series D Shares (and an equal number of warrants) for gross proceeds of \$2,500,000 pursuant on a "best efforts" basis.

Since 2007 the Company has been focused primarily on the development of a proprietary technology which is capable of uniquely identifying and authenticating almost any substance using light at the "photon" level to detect the unique digital "signature" of the substance. The Company calls this its "ChromaID™" technology.

In 2010, the Company acquired TransTech Systems, Inc. as an adjunct to its business. TransTech is a distributor of products for employee and personnel identification. TransTech currently provides substantially all of the Company's revenues.

The Company is in the process of commercializing its ChromaID™ technology. To date, the Company has entered into License Agreements with Sumitomo Precision Products Co., Ltd. and Intellicheck, Inc. In addition, it has a strategic relationship with Xinova, formerly Invention Development Management Company, a subsidiary of Intellectual Ventures.

The Company believes that its commercialization success is dependent upon its ability to significantly increase the number of customers that are purchasing and using its products. To date the Company has generated minimal revenue from sales of its ChromaID products. The Company is currently not profitable. Even if the Company succeeds in introducing the ChromaID technology and related products to its target markets, the Company may not be able to generate sufficient revenue to achieve or sustain profitability.

ChromaID was invented by scientists from the University of Washington under contract with Visualant. The Company has pursued an intellectual property strategy and have been granted ten patents. The Company also has 20 patents pending. The Company possess all right, title and interest to the issued patents. Ten of the pending patents are licensed exclusively to the Company in perpetuity by the Company's strategic partner, Xinova

In June 2015, the Company effected a 1-for-150 reverse stock split of our common stock. All warrant, option, share and per share information in this Form 10-Q gives retroactive effect to the 1-for-150 reverse split with all numbers rounded up to the nearest whole share.

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 were prepared in conformity with U.S. generally accepted accounting principles ("GAAP").

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 \$25,000 reserve for impaired inventory as of December 31, 2016 and September 30, 2016, 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 determined that its goodwill related to the 2010 acquisition of TransTech Systems was impaired and recorded an impairment of \$483,645 as selling, general and administrative expenses during the three months ended December 31, 2016.

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 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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, 2016 and 2015 based upon the short-term nature of the assets and liabilities.

Derivative financial instruments -The Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statements of operations. For stock-based derivative financial instruments, the Company uses a Black-Scholes-Merton option pricing model to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within twelve months of the balance sheet date.

Revenue Recognition – Visualant and TransTech revenue are derived from products and services. Revenue is considered realized when the products or 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, the Company defers 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.

Convertible Securities – Based upon ASC 815-15, we have adopted a sequencing approach regarding the application of ASC 815-40 to convertible securities issued subsequent to September 30, 2015. We will evaluate our contracts based upon the earliest issuance date. In the event partial reclassification of contracts subject to ASC 815-40-25 is necessary, due to our inability to demonstrate we have sufficient shares authorized and unissued, shares will be allocated on the basis of issuance date, with the earliest issuance date receiving first allocation of shares. If a reclassification of an instrument were required, it would result in the instrument issued latest being reclassified first.

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 stockholders 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, 2016, there were options outstanding for the purchase of 50,908 common shares, warrants for the purchase of 4,494,080 common shares, 2,184,048 shares of our common stock issuable upon the conversion of Series A, Series C and Series D Convertible Preferred Stock and up to 332,940 shares of our common stock issuable upon the exercise of placement agent warrants. As of December 31, 2015, there were options outstanding for the purchase of 56,641 common shares, warrants for the purchase of 893,244 common shares, 11,667 shares of our common stock issuable upon the conversion of Series A Convertible Preferred Stock, up to 34,031 shares of our common stock issuable upon the exercise of placement agent warrants and an unknown number of shares related to the conversion of \$479,000 in convertible promissory notes 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 the Company’s consolidated financial statements.

4. DEVELOPMENT OF OUR CHROMAID™ TECHNOLOGY

The Company is focused primarily on the development of a proprietary technology which is capable of uniquely identifying and authenticating almost any substance using light to create, record and detect the unique digital “signature” of the substance. The Company calls this its “ChromaID™” technology.

The Company’s ChromaID™ Technology

The Company has developed a proprietary technology to uniquely identify and authenticate almost any substance. This patented technology utilizes light at the photon (elementary particle of light) level through a series of emitters and detectors to generate a unique signature or “fingerprint” from a scan of almost any solid, liquid or gaseous material. This signature of reflected or transmitted light is digitized, creating a unique ChromaID signature. Each ChromaID signature is comprised of from hundreds or thousands of specific data points.

The ChromaID technology looks beyond visible light frequencies to areas of near infra-red and ultraviolet light that are outside the humanly visible light spectrum. The data obtained allows the Company to create a very specific and unique ChromaID signature of the substance for a myriad of authentication and verification applications.

Traditional light-based identification technology, called spectrophotometry, has relied upon a complex system of prisms, mirrors and visible light. Spectrophotometers typically have a higher cost and utilize a form factor more suited to a laboratory setting and require trained laboratory personnel to interpret the information. The ChromaID technology uses lower cost LEDs and photodiodes and specific frequencies of light resulting in a more accurate, portable and easy-to-use solution for a wide variety of applications. The ChromaID technology not only has significant cost advantages as compared to spectrophotometry, it is also completely flexible in size, shape and configuration. The ChromaID scan head can range in size from endoscopic to a scale that could be the size of a large ceiling-mounted florescent light fixture.

In normal operation, a ChromaID master or reference scan is generated and stored in a database. The Visualant scan head can then scan similar materials to identify, authenticate or diagnose them by comparing the new ChromaID digital signature scan to that of the original or reference ChromaID signature or scan result.

The following summarizes the Company’s plans for its Company’s proprietary ChromaID technology. Based on the Company’s anticipated expenditures on this technology, the expected efforts of its management and its relationship with Xinova and the Company’s other strategic partner, Sumitomo Precision Products, Ltd., the Company expects its ChromaID technology to provide an increasing portion of its revenues in future years from product sales, licenses, royalties and other revenue streams., as discussed further below.

ChromaID: A Foundational Platform Technology

The Company's ChromaID technology provides a platform upon which a myriad of applications can be developed. As a platform technology, it is analogous to a smartphone, upon which an enormous number of previously unforeseen applications have been developed. The ChromaID technology is an enabling technology that brings the science of light and photonics to low cost, real world commercialization opportunities across multiple industries. The technology is foundational and as such, the basis upon which the Company believes a significant business can be built.

As with other foundational technologies, a single application may reach across multiple industries. The ChromaID technology can, for example effectively differentiate and identify different brands of clear vodkas that appear identical to the human eye. By extension this same technology can identify pure water from water with contaminants present. It can provide real time detection of liquid medicines such as morphine that have been adulterated or compromised. It can detect if jet fuel has water contamination present. It could determine when it is time to change oil in a deep fat fryer. These are but a few of the potential applications of the ChromaID technology based upon extensions of its ability to identify different clear liquids.

The cornerstone of a company with a foundational platform technology is its intellectual property. ChromaID was invented by scientists from the University of Washington under contract with Visualant. The Company has pursued an intellectual property strategy and has been granted nine patents. The Company currently has 20 patents pending. The Company possesses all right, title and interest to the issued patents. Ten of the pending patents are licensed exclusively to us in perpetuity by our strategic partner, Xinova.

Xinova Relationship

In November 2013, the Company entered into a strategic relationship with Xinova, formerly Invention Development Management Company, a subsidiary of Intellectual Ventures, a private intellectual property fund. Xinova has worked to expand the reach and the potential application of the ChromaID technology and has filed ten patents base on the ChromaID technology, which it has licensed to us.

Products

The Company first delivered 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 cards, cosmetic companies, scanner manufactures and food processing companies.

The Company's second product, the ChromaID Liquid Lab Kit, scans and identifies liquids. This product is currently in prototype form. Similar to the Company's first product, it will be marketed to customers who are considering licensing the technology. Rather than use an LED emitter to reflect light off of a surface that is captured by a photodiode to generate a ChromaID signature the liquid analysis product shines light through the liquid (transmissive) with the LEDs positioned on one side of the liquid sample and the photo detectors on the opposite side. This device is in a functional state in our laboratory and the Company anticipates having a Liquid ChromaID Lab Kit available for customers by the Company during the fall of 2015. Target markets include, but are not limited to, water companies, petrochemical companies, pharmaceutical companies, and numerous consumer applications.

The ChromaID Lab Kits allows potential licensors of our technology to work with our technology and develop solutions for their particular application. Our contractual arrangements with Xinova are described in greater detail below.

The Company's next planned product should be an exemplar product is a prototype that will be produced to address several markets. The primary purpose of this prototype will be to demonstrate the technology to prospective business partners, and will consist of a small, hand held, battery powered, Bluetooth enabled scanning device. The scanner should wirelessly connect to a smart phone or tablet to transfer the scanned data. The smart phone application will include two or three industry specific but generic applications that allow for the demonstration of the scanning and matching of the ChromaID signatures. The applications will focus on drug identification, food safety and liquid detection. The prototype device will lend itself to consumer applications and can be a consumer product as well.

Research and Development

The Company's research and development efforts are primarily focused improving the core foundational ChromaID technology and developing new and unique applications for the technology. As part of this effort, the Company typically conduct testing to ensure that ChromaID application methods are compatible with the customer's requirements, and that they can be implemented in a cost effective manner. The Company is also actively involved in identifying new application methods. Visualant's team has considerable experience working with the application of light-based technologies and their application to various industries. The Company believes that its continued development of new and enhanced technologies relating to our core business is essential to its future success. The Company spent \$325,803 and \$362,661 during the years ended September 30, 2016 and 2015, respectively, on research and development activities.

The Company's Patents

The Company believes that its ten patents, 20 patent applications, and two registered trademarks, and our trade secrets, copyrights and other intellectual property rights are important assets. The Company's patents will expire at various times between 2027 and 2033. The duration of the Company's trademark registrations varies from country to country. However, trademarks are generally valid and may be renewed indefinitely as long as they are in use and/or their registrations are properly maintained.

The patents that have been granted to Visualant include:

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 B2 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.

On March 23, 2015, the Company was issued US Patent No. 8,988,666 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 May 26, 2015, the Company was issued patent US Patent No. 9,041,920 B2 entitled "Device for Evaluation of Fluids using Electromagnetic Energy" by the United States Office of Patents and Trademarks. The patent expires March 12, 2033.

On April 19, 2016, the Company was issued patent US Patent No. 9,316,581 B2 entitled "Method, Apparatus, and Article to Facilitate Evaluation of Substances Using Electromagnetic Energy" by the United States Office of Patents and Trademarks. The patent expires March 12, 2033.

The Company pursues a patent strategy to expand its unique intellectual property in the United States and other countries.

Services and License Agreement with Xinova

In November 2013, the Company entered into a strategic relationship with Xinova, formerly Invention Development Management Company, a subsidiary of Intellectual Ventures, a private intellectual property fund. Xinova has worked to expand the reach and the potential application of the ChromaID technology and has filed ten patents based on the ChromaID technology, which it has licensed to us.

The agreement requires Xinova to identify and engage inventors to develop new applications of Visualant's ChromaID™ technology, present the developments to us for approval, and file at least 10 patent applications to protect the developments. Xinova is responsible for the development and patent costs. The Company provided the Chroma ID Lab Kits to Xinova at no cost and are 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 Lab Kits for 140 days except for certain select accounts. The Company continued its business development efforts during this period and have worked with Xinova and their global business development resources to secure potential customers and licensees for the ChromaID technology. The Company shipped 20 ChromaID Lab Kits to inventors in the Xinova network during December 2013 and January 2014.

The Company has received a worldwide, nontransferable, exclusive license to the intellectual property developed under the Xinova agreement 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 intellectual property held by Xinova 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.

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

The Company granted to Xinova a nonexclusive, worldwide, fully paid, nontransferable, sublicenseable, perpetual license to our intellectual property 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 Xinova a nonexclusive, worldwide, fully paid up, royalty-free, nontransferable, non-sublicenseable, perpetual license to access and use the Company's technology solely for the purpose of marketing the aforementioned sublicenses of our intellectual property to third parties outside the designated fields of use.

In connection with the original license agreement, the Company issued a warrant to purchase 97,169 shares of common stock to Xinova as consideration for the exclusive intellectual property license and application development services. The warrant has a current exercise price of \$0.70 per share and expires November 10, 2018. The per share price is subject to adjustment based on any issuances below \$0.70 per share except as described in the warrant.

The Company agreed to pay Xinova a percentage of license revenue for the global development business services and a percentage of revenue received from any company introduced to us by Xinova. The Company also have also agreed to pay Xinova a royalty when the Company receives royalty product revenue from an Xinova-introduced company. Xinova has agreed to pay the Company a license fee for the nonexclusive license of the Company's intellectual property.

The term of both the exclusive intellectual property license and the nonexclusive intellectual property 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.

In May 2012, the Company entered into a Joint Research and Product Development Agreement (the "Joint Development Agreement") with Sumitomo Precision Products Co., Ltd., a publicly-traded Japanese corporation, for the commercialization of our ChromaID technology. In March 2013, the Company entered into an amendment to this agreement, which extended the Joint Development Agreement from March 31, 2013 to December 31, 2013. The extension provided for continuing work between Sumitomo and Visualant focused on advancing the ChromaID technology and market research aimed at identifying the most significant markets for the ChromaID technology. This agreement expired December 31, 2013. This collaborative work supported the development of the ChromaID Lab Kit. The current version of the technology was introduced to the marketplace as a part of our ChromaID Lab Kit during the fourth quarter of 2013.

The Company also entered into a License Agreement with Sumitomo in May 2012 which provides for an exclusive license for the then-extant ChromaID technology. The territories covered by this license include Japan, China, Taiwan, Korea and the entirety of Southeast Asia (Burma, Indonesia, Thailand, Cambodia, Laos, Vietnam, Singapore and the Philippines). On May 21, 2015, the Company entered into an amendment to the License Agreement, which, effective as of June 18, 2014, which eliminated the Sumitomo exclusivity and provides that if the Company sells products in certain territories – Japan, China, Taiwan, Korea and the entirety of Southeast Asia (Burma, Indonesia, Thailand, Cambodia, Laos, Vietnam, Singapore and the Philippines) – the Company will pay Sumitomo a royalty rate of 2% of net sales (excluding non-recurring engineering revenues) over the remaining term of the five-year License Agreement (through May 2017).

6. ACCOUNTS RECEIVABLE/CUSTOMER CONCENTRATION

Accounts receivable were \$635,471 and \$808,955, net of allowance, as of December 31, 2016 and September 30, 2016, respectively. The Company had no customers in excess of 10% of the Company's consolidated revenues for the three months ended December 31, 2016. The Company had one customer (31.9%) with accounts receivable in excess of 10% as of December 31, 2016. The customer has not made a payment on the account since December 31, 2016 and the Company reserved \$120,000 during the three months ended December 31, 2016 as selling, general and administrative expenses. The Company intends to aggressively pursue collection of the balance.

7. INVENTORIES

Inventories were \$210,717 and \$295,218 as of December 31, 2016 and September 30, 2016, 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 \$25,000 reserve for impaired inventory as of December 31, 2016 and September 30, 2016, respectively.

8. NOTES RECEIVABLE

On November 1, 2016, the Company purchased an Original Issue Discount Convertible Promissory Note from BioMedx, Inc. The Company paid \$260,000 for the Note with a principal amount of \$286,000. The Note matures one year from issuance and bears interest at 5%. The principal and interest can be converted to Biologic common stock at the option of the Company. The Company received 150,000 shares of Pulse Biologics common stock as partial consideration for purchasing the Note. In addition, if BioMedx does not repay the Promissory Note, the Company will have the right to convert the Promissory Note into 51% of the ownership of BioMedx.

In addition, the Company and Pulse Biologics agreed to negotiate in good faith to enter into a joint development agreement and subsequent merger transaction prior to December 31, 2017.

BioMedx is an early stage company that owns a royalty bearing license, for medical applications, to certain technology developed by Pulse Evolution. The Company's management concluded BioMedx's ability to repay Promissory Note is contingent on BioMedx obtaining additional financing. In addition, BioMedx will require additional financing to commercialize the licensed technology. Due to the inherent uncertainty involved in these activities, the Company's management has determined the value of the Promissory Note and BioMedx common stock is zero at December 31, 2016 and recorded a reserve for the full value.

9. FIXED ASSETS

Fixed assets, net of accumulated depreciation, was \$276,213 and \$285,415 as of December 31, 2016 and September 30, 2016, respectively. Accumulated depreciation was \$805,251 and \$796,481 as of December 31, 2016 and September 30, 2016, respectively. Total depreciation expense, was \$9,700 and \$18,097 for the three months ended December 31, 2016 and 2015, 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, 2016 was comprised of the following:

	Estimated Useful Lives	December 31, 2016		
		Purchased	Capital Leases	Total
Machinery and equipment	2-10 years	\$ 252,204	\$ 69,581	\$ 321,785
Leasehold improvements	5-20 years	548,612	-	548,612
Furniture and fixtures	3-10 years	73,977	101,260	175,237
Software and websites	3- 7 years	35,830	-	35,830
Less: accumulated depreciation		(634,410)	(170,841)	(805,251)
		<u>\$ 276,213</u>	<u>\$ -</u>	<u>\$ 276,213</u>

10. INTANGIBLE ASSETS

Intangible assets as of December 31, 2016 and September 30, 2016 consisted of the following:

	Estimated Useful Lives	December 31, 2016	September 30, 2016
Customer contracts	5 years	\$ 983,645	\$ 983,645
Technology	5 years	712,500	712,500
Less: accumulated amortization		(1,665,520)	(1,652,395)
Intangible assets, net		<u>\$ 30,625</u>	<u>\$ 43,750</u>

Total amortization expense was \$13,125 and \$35,625 for the three months ended December 31, 2016 and 2015, 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 TransTech intellectual property was fully amortized as of December 31, 2016.

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 RATLab intellectual property was fully amortized as of December 31, 2016.

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. GOODWILL

The Company's TransTech business is very capital intensive. The Company reviewed TransTech's operations based on its overall financial constraints and determined the value has been impaired. The company recorded an impairment of goodwill associated with TransTech of \$483,645 during the three months December 31, 2016.

12. ACCOUNTS PAYABLE

Accounts payable were \$2,098,895 and \$1,984,326 as of December 31, 2016 and 2015, 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 one vendor (11.1%) with accounts payable in excess of 10% of its accounts payable as of December 31, 2016. The Company does expect to have vendors with accounts payable balances of 10% of total accounts payable in the foreseeable future.

13. DERIVATIVE INSTRUMENTS

In April 2008, the FASB issued a pronouncement that provides guidance on determining what types of instruments or embedded features in an instrument held by a reporting entity can be considered indexed to its own stock for the purpose of evaluating the first criteria of the scope exception in the pronouncement on accounting for derivatives. This pronouncement was effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of these requirements can affect the accounting for warrants and many convertible instruments with provisions that protect holders from a decline in the stock price (or "down-round" provisions). For example, warrants or conversion features with such provisions are no longer recorded in equity. Down-round provisions reduce the exercise price of a warrant or convertible instrument if a company either issues equity shares for a price that is lower than the exercise price of those instruments or issues new warrants or convertible instruments that have a lower exercise price.

Derivative liability as of December 31, 2016 is as follows:

Financial Instruments	Fair Value Measurements Using Inputs			Carrying Amount at December 31, 2016
	Level 1	Level 2	Level 3	
Liabilities:				
Derivative Instruments	\$ -	\$ 562,714	\$ -	\$ 562,714
Total	\$ -	\$ 562,714	\$ -	\$ 562,714

Derivative liability as of September 30, 2016 is as follows:

Financial Instruments	Fair Value Measurements Using Inputs			Carrying Amount at September 30, 2016
	Level 1	Level 2	Level 3	
Liabilities:				
Derivative Instruments	\$ -	\$ 145,282	\$ -	\$ 145,282
Total	\$ -	\$ 145,282	\$ -	\$ 145,282

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, historical volatility was 130% and the stock price was \$0.70 at December 31, 2016.

Derivative Instruments – Warrants with the June 2013 Private Placement

The Company issued warrants to purchase 697,370 shares of common stock in connection with our June 2013 private placement of 348,685 shares of common stock. The per share price is subject to adjustment. In August 2016 the exercise price was reset to \$0.70 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 our 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 shares of common stock 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 allocated to stockholders' equity and \$2,735,290 allocated 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 September 30, 2014. During the year ended September 30, 2015, the Company recognized \$104,716 of other expense resulting from the decrease in the fair value of the warrant liability at September 30, 2015. During the year ended September 30, 2016, the Company recognized \$2,085,536 of other income resulting from the decrease in the fair value of the warrant liability at September 30, 2016. During the three months December 31, 2016, the Company recognized \$67,170 of other expense resulting from the increase in the fair value of the warrant liability at December 31, 2016.

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

The Company issued a warrant to purchase 97,169 shares of common stock in connection with the November 2013 Xinova Services and License Agreement. The warrant price of \$30.00 per share expires November 10, 2018 and the per share price is subject to adjustment. In August 2016 the exercise price was reset to \$0.70 per share. 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 our common stock or securities exercisable, convertible or exchangeable for our common stock were issued at a price less than the exercise price. Therefore, the fair value of these warrants was 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 Xinova warrant. During the year ended September 30, 2015, the Company recognized \$14,574 of other income related to the Xinova warrant. During the year ended September 30, 2016, the Company recognized \$286,260 of other income from the increase in the fair value of the warrant liability at September 30, 2016. During the quarter ended December 31, 2016, the Company recognized \$13,118 of other expense resulting from the increase in the fair value of the warrant liability at December 31, 2016.

Derivative Instrument – Series A Convertible Preferred Stock

The Company issued 11,667 shares of Series A Convertible Preferred Stock with attached warrants during the year ended September 30, 2015. The Company allocated \$233,322 to stockholder's equity and \$116,678 to the derivative warrant liability. The warrants were issued with a down round provision. The warrants have a term of five years, 23,334 are exercisable at \$30 per common share and 23,334 are exercisable at \$45 per common share. On August 4, 2016 the exercise price was adjusted to \$0.70 per share. During the year ended September 30, 2015, the Company recognized \$30,338 of other expense related to the warrant liability. During the year ended September 30, 2016, the Company recognized \$132,724 of other income resulting from the increase in the fair value of the warrant liability at September 30, 2016. During the three months December 31, 2016, the Company recognized \$9,520 of other expense resulting from the increase in the fair value of the warrant liability at December 31, 2016.

14. CONVERTIBLE NOTES PAYABLE

Convertible notes payable as of December 31, 2016 and September 30, 2016 consisted of the following:

The Company entered into Convertible Promissory Notes totaling \$710,000 with accredited investors during September 2015 to February 2016 to fund short-term working capital. The Notes accrue interest at a rate of 8% per annum and become due September 2016 to February 2017 and are convertible into common stock at the same price of our next financing. On November 31, 2016 holders of \$695,000 of the Convertible Promissory Notes converted to 944,948 shares of common stock and five year warrants to purchase common stock at a price of \$1.00 per share. The Company recorded accrued interest of \$14,687 during the three months ended December 31, 2016.

On September 30, 2016, the Company entered into a \$175,000 Convertible Promissory Note with Clayton A. Struve, an accredited investor and affiliate of the Company, to fund short-term working capital. The Convertible Promissory Note accrues interest at a rate of 10% per annum and becomes due on March 30, 2017. The Note holder can convert to common stock at \$0.70 per share. During the three months ended December 31, 2016 the Company recorded interest of \$5,367 related to the convertible note.

The Company entered into two Convertible Promissory Notes totaling \$330,000 with accredited investors during on November 1, 2016. The Notes accrue interest at a rate of 10% per annum and become due May 1, 2017 and are convertible into Preferred stock at a conversion price of \$0.80 per share and a five-year warrant to purchase a share of common stock at \$1.00 per share. The company first allocated the value received the warrants based on the Black Scholes value assuming a 1 year life, 130% volatility and .7% risk free interest rate. The remaining value was below the fair market value on the date of issuance and as a result the company recorded and beneficial conversion dividend of \$326,687 at the time issuance. The Company recorded accrued interest of \$5,683 as of December 31, 2016.

15. NOTES PAYABLE, CAPITALIZED LEASES AND LONG TERM DEBT

Notes payable, capitalized leases and long term debt as of December 31, 2016 and September 30, 2016 consisted of the following:

	December 31, 2016	September 30, 2016
Capital Source Business Finance Group	\$ 300,136	\$ 370,404
Note payable to Umpqua Bank	199,935	199,935
Secured note payable to J3E2A2Z LP - related party	600,000	600,000
Total debt	1,100,071	1,170,339
Less current portion of long term debt	(1,100,071)	(1,170,339)
Long term debt	\$ -	\$ -

Capital Source Business Finance Group

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, 2016, 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 a security interest in all assets of Visualant. Availability under this Secured Credit ranges from \$0 to \$175,000 (\$10,000 as of September 30, 2016) on a daily basis. The remaining balance on the accounts receivable line of \$300,136 as of September 30, 2016 must be repaid by the time the secured credit facility expires on June 12, 2017, or we renew by automatic extension for the next successive six-month term.

Note Payable to Umpqua Bank

The Company has a \$199,935 Business Loan Agreement with Umpqua Bank (the "Umpqua Loan"), which matures on December 31, 2017 and provides for interest at 3.25% per year. Related to this Umpqua Loan, the Company entered into a demand promissory note for \$200,000 on January 10, 2014 with an entity affiliated with Ronald P. Erickson, our Chief Executive Officer. This demand promissory note will be effective in case of a default by the Company under the Umpqua Loan. The Company recorded accrued interest of \$17,852 as of December 31, 2016.

Note Payables to Ronald P. Erickson or J3E2A2Z LP

The Company also has two other demand promissory notes payable to entities affiliated with Mr. Erickson, totaling \$600,000. Each of these notes were issued between January and July 2014, provide for interest of 3% per year and now mature on March 31, 2017. The notes payable also provide for a second lien on our assets if not repaid by March 31, 2017 or converted into convertible debentures or equity on terms acceptable to the Mr. Erickson. The Company recorded accrued interest of \$44,704 as of December 31, 2016.

16. EQUITY

Authorized Capital Stock

The Company has authorized 105,000,000 shares of capital stock, of which 100,000,000 are shares of voting common stock, par value \$0.001 per share, and 5,000,000 are shares of voting preferred stock, par value \$0.001 per share.

Voting Preferred Stock

The Company is authorized to issue up to 5,000,000 shares of preferred stock with a par value of \$0.001.

Series A Convertible Preferred Stock

On July 21, 2015, the Company filed with the Nevada Secretary of State an Amended and Restated Certificate of Designations, Preferences and Rights for its Series A Convertible Preferred Stock. Among other things, the Amended and Restated Certificate changed the conversion price and the stated value from \$0.10 (pre-reverse stock split) to \$30.00 (post-reverse stock split), and added a provision adjusting the conversion price upon the occurrence of certain events. As a result of the foregoing, the Company currently have 23,334 Series A Preferred Stock issued and outstanding, with a conversion price of \$0.70 per share.

Under the Amended and Restated Certificate, the Company has 23,334 shares of Series A Preferred authorized, all of which are outstanding. Each holder of outstanding shares of Series A Preferred is entitled to the number of votes equal to the number of whole shares of common stock into which the shares of Series A Preferred held by such holder are then convertible as of the applicable record date. The Company cannot 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 66% of the then outstanding shares of Series A Preferred, voting as a separate voting group.

During the year ended September 30, 2015, the Company sold 11,667 Series A Preferred Stock to two investors for total consideration of \$350,000. These shares are were convertible into 11,667 shares of common stock at \$30.00 per share, subject to adjustment, for a period of five years. The Series A Preferred Stock has voting rights and may not be redeemed without the consent of the holder.

The Company also issued to these investors (i) a Series C five-year Warrant for 23,334 shares of common stock at an exercise price of \$30.00 per share, which is callable at \$60.00 per share; and (ii) a Series D five-year Warrant for 23,334 shares of common stock at an exercise price of \$45.00 per share, which is callable at \$90.00 per share. The Series A Preferred Stock and Series C and D Warrants had registration rights.

On July 20, 2015, the two investors entered into an Amendment to Series A Preferred Stock Terms whereby they agreed to the terms of the Amended and Restated Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock and waived all registration rights.

On August 4, 2016, the conversion price of the Series A Preferred Stock was adjusted to \$0.70 per share due to the Company's issuance of common stock at that price.

On March 8, 2016, the Company received approval from the State of Nevada for a Correction to the Company's Amended and Restated Certificate of Designations, Preferences and Rights of its Series A Convertible Preferred Stock. The Amended and Restated Certificate filed July 21, 2015 changed the conversion price and the stated value from \$0.10 (pre-reverse stock split) to \$30.00 (post-reverse stock split), and added a provision adjusting the conversion price upon the occurrence of certain events. On February 19, 2016, the holders of Series A Convertible Preferred Stock entered into Amendment 2 of Series A Preferred Stock Terms and increased the number of Preferred Stock Shares to properly account for the reverse stock split. As a result of the foregoing, we currently have 23,334 Series A Preferred Stock issued and outstanding, with a conversion price of \$0.70 per share.

Series C Convertible Preferred Stock

On August 5, 2016, the Company closed a Series C Preferred Stock and Warrant Purchase Agreement with an accredited investor for the purchase of \$1,250,000 of preferred stock with a conversion price of \$0.70 per share. The Series C Convertible Preferred Stock has a yield of 8% and an ownership blocker of 4.99%. In addition, the investor received 100% warrant coverage with five-year warrants with an exercise price of \$0.70. Shares issuable upon the conversion of the Series C Convertible Preferred Stock and the shares issuable upon exercise of the warrants were included in a registration statement filed by the Company.

On August 11, 2016, the Company applied with the State of Nevada for the approval of the Certificate of Designations, Preferences, and Rights of Series C Convertible Preferred Stock. The Certificate designated 1,785,715 shares as Series C Convertible Preferred Stock with a par value of \$0.001 per share. The Series C Convertible Preferred Stock is convertible into common stock at \$0.70 per share, with certain adjustments as set forth in the Certificate. On August 31, 2016, the Company filed with the State of Nevada a Certificate of Correction to the Certificate of Designations of Preferences, Powers, Rights and Limitations for the Series C Convertible Preferred Stock to correct the number of authorized shares. The Certificate authorized 1,785,715 shares of Series C Preferred Stock with a par value of \$0.001 per share. The Series C Convertible Preferred Stock is convertible into common stock at \$0.70 per share, with certain adjustments as set forth in the Certificate. As a result of the foregoing, the Company currently has 1,785,715 shares of Series C Preferred Stock issued and outstanding, with a conversion price of \$0.70 per share.

To determine the effective conversion price, a portion of the proceeds received by the Company upon issuance of the Series C Preferred Stock was first allocated to the freestanding warrants issued as part of this transaction. Given that the warrants will not subsequently be measured at fair value, the Company determined that the warrants should receive an allocation of the proceeds based on their relative fair value. This is based on the understanding that the FASB staff and the SEC staff believe that a freestanding instrument issued in a basket transaction should be initially measured at fair value if it is required to be subsequently measured at fair value pursuant to US generally accepted accounting principles (“GAAP”), with the residual proceeds from the transaction allocated to any remaining instruments based on their relative fair values. As such, the warrants were allocated a fair value of approximately \$514,706 upon issuance, with the remaining \$735,294 of proceeds allocated to the Series C Preferred Stock.

Proportionately, this allocation resulted in approximately 59% of the face amount of the Series C Preferred Stock issuance remaining, which applied to the stated conversion price of \$0.70 resulted in an effective conversion price of approximately \$0.41.

Having determined the effective conversion price, the Company then compared this to the fair value of the underlying Common Stock as of the commitment date, which was approximately \$1.06 per share, and concluded that the conversion feature did have an intrinsic value of \$0.65 per share. As such, the Company concluded that the Series C Preferred Stock did contain a beneficial conversion feature and an accounting entry and additional financial statement disclosure was required.

Because the Company’s preferred stock is perpetual, with no stated maturity date, and the conversions may occur any time from inception, the dividend is recognized immediately when a beneficial conversion exists at issuance. During the year ending September 30, 2016, the Company recognized preferred stock dividends of \$1.16 million on Series C preferred stock related to the beneficial conversion feature arising from a common stock effective conversion rate of \$0.41 versus a current market price of \$1.06 per common share.

Series D Convertible Preferred Stock

On November 14, 2016, the Company issued 187,500 shares of Series D Convertible Preferred Stock and a warrant to purchase 187,500 shares of common stock in a private placement to certain accredited investors for gross proceeds of \$150,000 pursuant to a Series D Preferred Stock and Warrant Purchase Agreement dated November 10, 2016.

On December 19, 2016, the Company issued 187,500 shares of Series D Convertible Preferred Stock and a warrant to purchase 187,500 shares of common stock in a private placement to an accredited investor for gross proceeds of \$150,000 pursuant to a Series D Preferred Stock and Warrant Purchase Agreement dated December 14, 2016.

The initial conversion price of the Series D Shares is \$0.80 per share, subject to certain adjustments. The initial exercise price of the warrant is \$1.00 per share, also subject to certain adjustments.

As part of the Purchase Agreement, the Company has agreed to register the shares of common stock sold in the private placement and the shares of common stock issuable upon exercise of the warrant for resale or other disposition.

On November 8, 2016, the Company applied with the State of Nevada for the approval of the Certificate of Designations, Preferences, and Rights of Series D Convertible Preferred Stock. The Certificate designated up to 3,906,250 shares with a par value of \$.001 per share. The Series D Convertible Preferred Stock is convertible into common stock at \$0.80 per share, with certain adjustments as set forth in the Certificate. The Company has issued 375,000 shares of Series D Convertible Preferred Stock through February 21, 2017, and intends to issue up to 3,125,000 Series D Shares (and an equal number of warrants) for gross proceeds of \$2,500,000 pursuant on a “best efforts” basis.

To determine the effective conversion price, a portion of the proceeds received by the Company upon issuance of the Series D Preferred Stock was first allocated to the freestanding warrants issued as part of this transaction. Given that the warrants are subject to repricing in the event of a future financing below \$0.80 per share, the Company determined that the warrants should receive an allocation of the proceeds based on their relative fair value.

As such, the warrants associated with the November 14, 2016 issuance were allocated a fair value of approximately \$56,539 upon issuance, with the remaining \$63,539 of net proceeds allocated to the Series D Preferred Stock. Proportionately, this allocation resulted in approximately 53% of the amount of the Series D Preferred Stock issuance remaining, which applied to the stated conversion price of \$0.80 resulted in an effective conversion price of approximately \$0.34. Having determined the effective conversion price, the Company then compared this to the fair value of the underlying Common Stock as of the commitment date, which was approximately \$1.14 per share, and concluded that the conversion feature did have an intrinsic value of \$0.80 per share. As such, the Company concluded that the Series D Preferred Stock did contain a beneficial conversion feature of \$150,211 which was recorded as a beneficial conversion in stockholders’ equity.

The warrants associated with the December 19, 2016 issuance were allocated a fair value of approximately \$60,357 upon issuance, with the remaining \$69,643 of net proceeds allocated to the Series D Preferred Stock. Proportionately, this allocation resulted in approximately 54% of the amount of the Series D Preferred Stock issuance remaining, which applied to the stated conversion price of \$0.80 resulted in an effective conversion price of approximately \$0.37. Having determined the effective conversion price, the Company then compared this to the fair value of the underlying Common Stock as of the commitment date, which was approximately \$0.81 per share, and concluded that the conversion feature did have an intrinsic value of \$0.44 per share. As such, the Company concluded that the Series C Preferred Stock did contain a beneficial conversion feature of 82,232 which was recorded as a beneficial conversion in stockholders' equity.

Common Stock

All of the offerings and sales described below were deemed to be exempt under Rule 506 of Regulation D and/or Section 4(a)(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities, the offerings and sales were made to a limited number of persons, all of whom were accredited investors and transfer was restricted by the company in accordance with the requirements of Regulation D and the Securities Act. All issuances to accredited and non-accredited investors were structured to comply with the requirements of the safe harbor afforded by Rule 506 of Regulation D, including limiting the number of non-accredited investors to no more than 35 investors who have sufficient knowledge and experience in financial and business matters to make them capable of evaluating the merits and risks of an investment in our securities.

The following equity issuances occurred during the three months ended December 31, 2016:

On October 21, 2015, the Company entered into a Public Relations Agreement with Financial Genetics LLC for public relation services. On October 18, 2016, the Company entered into an Amendment to Public Relations Agreement with Financial Genetics LLC. Under the Agreements, Financial Genetics was issued 168,910 shares of our common stock during the three months ended December 31, 2016. The Company expensed \$136,833 during the three months ended December 31, 2016.

On October 6, 2016, the Company entered into a Services Agreement with Redwood Investment Group LLC for financial services. Under the Agreement, Redwood was issued 100,000 shares of our common stock. The Company expensed \$70,000 during the three months ended December 31, 2016.

The Company entered into Convertible Promissory Notes totaling \$710,000 with accredited investors during September 2015 to February 2016 to fund short-term working capital. The Notes accrued interest at a rate of 8% per annum and became due September 2016 to February 2017 and were convertible into common stock as part of our next financing. On November 30, 2016, the Company converted \$695,000 of the /Convertible Promissory Notes and interest of \$54,078 into 936,348 shares of common stock at \$0.80 per share. The Company also issued warrants to purchase 936,348 shares of the Company's common stock. The five year warrants are exercisable at \$1.00 per share, subject to adjustment.

On December 22, 2016, a supplier converted accounts payable totaling \$6,880 into 8,600 shares of common stock valued at \$0.80 per share.

On May 6, 2015, the Company's stockholders approved a reverse split of our common stock, in a ratio to be determined by the Company's Board of Directors, of not less than 1-for-50 nor more than 1-for-150. On June 9, 2015, the Company's Board of Directors determined that the ratio of the reverse split would be 1-for-150. All warrant, option, share and per share information in this Form 10-Q gives retroactive effect for a 1-for-150 split with all numbers rounded up to the nearest whole share.

Warrants to Purchase Common Stock

The following warrants were issued during the three months ended December 31, 2016:

The Company entered into Convertible Promissory Notes totaling \$710,000 with accredited investors during September 2015 to February 2016 to fund short-term working capital. The Notes accrued interest at a rate of 8% per annum and became due September 2016 to February 2017 and were convertible into common stock as part of our next financing. On November 30, 2016, the Company converted \$695,000 of the /Convertible Promissory Notes and interest of \$54,078 into 936,348 shares of common stock at \$0.80 per share. The Company also issued warrants to purchase 936,348 shares of the Company's common stock. The five year warrants are exercisable at \$1.00 per share, subject to adjustment.

On November 14, 2016, the Company issued 187,500 shares of Series D Convertible Preferred Stock and a warrant to purchase 187,500 shares of common stock in a private placement to certain accredited investors for gross proceeds of \$150,000 pursuant to a Series D Preferred Stock and Warrant Purchase Agreement dated November 10, 2016.

On December 19, 2016, the Company issued 187,500 shares of Series D Convertible Preferred Stock and a warrant to purchase 187,500 shares of common stock in a private placement to an accredited investor for gross proceeds of \$150,000 pursuant to a Series D Preferred Stock and Warrant Purchase Agreement dated December 14, 2016.

The initial conversion price of the Series D Shares is \$0.80 per share, subject to certain adjustments. The initial exercise price of the warrant is \$1.00 per share, also subject to certain adjustments.

During the three months ended December 31, 2016, the Company revised five year placement agent warrants to purchase 312,500 shares of common stock. The price was reduced from \$1.00 to \$0.70 per share and the exercise price is now subject to adjustment. The Company recorded 250,000 shares during the year ended September 30, 2016 the fair value of these warrants is \$104,125 at December 31, 2016.

A summary of the warrants outstanding as of December 31, 2016 were as follows:

	December 31, 2016	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	3,453,171	\$ 0.84
Issued	1,373,849	0.93
Exercised	-	-
Forfeited	-	-
Expired	-	-
Outstanding at end of period	4,827,020	\$ 0.87
Exercisable at end of period	4,827,020	

A summary of the status of the warrants outstanding as of December 31, 2016 is presented below:

Number of Warrants	December 31, 2016			
	Weighted Average Remaining Life (In Years)	Weighted Average Exercise Price	Shares Exercisable	Weighted Average Exercise Price
3,501,336	3.94	\$ 0.70	3,501,336	\$ 0.70
1,311,348	4.92	1.00	1,311,348	1.00
14,336	1.12	30.00	14,336	30.00
4,827,020	3.96	\$ 0.87	4,827,020	\$ 0.87

The significant weighted average assumptions relating to the valuation of the Company's warrants for the period ended December 31, 2016 were as follows:

Dividend yield	0%
Expected life	.25-3
Expected volatility	130%
Risk free interest rate	.01-.07%

There were vested warrants of 4,827,020 as of December 31, 2016 with an aggregate intrinsic value of \$0.

17. STOCK OPTIONS

Description of Stock Option Plan

On April 29, 2011, the Company's 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 46,667 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 93,333 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 no stock option transactions during the three months ended December 31, 2016:

There are currently 50,908 options to purchase common stock at an average exercise price of \$18.05 per share outstanding as of December 31, 2016 under the 2011 Stock Incentive Plan. The Company recorded \$10,887 and \$11,837 of compensation expense, net of related tax effects, relative to stock options for the three months ended December 31, 2016 and 2015 in accordance with ASC 505. Net loss per share (basic and diluted) associated with this expense was approximately (\$0.00) and (\$0.01) per share, respectively. As of December 31, 2016, there is approximately \$102,276 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 2.78 years.

Stock option activity for the three months ended December 31, 2016 and the years ended September 30, 2016 and 2015 was as follows:

	Weighted Average		
	Options	Exercise Price	\$
Outstanding as of September 30, 2014	87,333	18.80	1,642,200
Granted	11,335	15.00	170,025
Exercised	-	-	-
Forfeitures	(41,261)	(18.29)	(754,500)
Outstanding as of September 30, 2015	57,407	18.43	1,057,725
Granted	-	-	-
Exercised	-	-	-
Forfeitures	(6,499)	(21.40)	(139,098)
Outstanding as of September 30, 2016	50,908	18.04	918,627
Granted	-	-	-
Exercised	-	-	-
Forfeitures	-	-	-
Outstanding as of December 31, 2016	50,908	\$ 18.045	\$ 918,627

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2016:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life In Years	Weighted Average Exercise Price Exercisable	Number Exercisable	Weighted Average Exercise Price Exercisable
13.500	3,334	1.75	\$ 13.50	3,334	\$ 13.50
15.000	20,906	2.58	15.00	9,514	15.00
19.500	13,334	2.67	19.50	13,334	19.50
22.500	13,334	3.38	22.50	13,334	22.50
	50,908	2.87	\$ 18.04	39,516	\$ 18.92

There were exercisable options of 50,908 as of December 31, 2016 with an aggregate intrinsic value of \$0.

18. 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 Chief and/or entities in which Mr. Erickson has a beneficial interest.

Note Payable to Umpqua Bank

The Company has a \$199,935 Business Loan Agreement with Umpqua Bank (the "Umpqua Loan"), which matures on December 31, 2017 and provides for interest at 3.25% per year. Related to this Umpqua Loan, the Company entered into a demand promissory note for \$200,000 on January 10, 2014 with an entity affiliated with Ronald P. Erickson, our Chief Executive Officer. This demand promissory note will be effective in case of a default by the Company under the Umpqua Loan. The Company recorded accrued interest of \$17,852 as of December 31, 2016.

Note Payables to Ronald P. Erickson or J3E2A2Z LP

The Company also has two other demand promissory notes payable to entities affiliated with Mr. Erickson, totaling \$600,000. Each of these notes were issued between January and July 2014, provide for interest of 3% per year and now mature on March 31, 2017. The notes payable also provide for a second lien on our assets if not repaid by March 31, 2017 or converted into convertible debentures or equity on terms acceptable to the Mr. Erickson. The Company recorded accrued interest of \$44,704 as of December 31, 2016.

Other Amounts Due to Mr. Erickson

Mr. Erickson and/or entities with which he is affiliated also have advanced \$529,833 and have unreimbursed expenses and compensation of approximately \$430,056. The Company owes Mr. Erickson, or entities with which he is affiliated, \$1,559,889 as of December 31, 2016.

19. COMMITMENTS, CONTINGENCIES AND LEGAL PROCEEDINGS

Legal Proceedings

The Company may from time to time become a party to various legal proceedings arising in the ordinary course of our business. The Company is currently not a party to any pending legal proceeding that is not ordinary routine litigation incidental to our business.

Properties and Operating Leases

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

Corporate Offices

The Company's executive office is located at 500 Union Street, Suite 420, Seattle, Washington, USA, 98101. The Company leases 1,014 square feet and its net monthly payment is \$2,535. The Company leases this office on a month to month basis.

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. The Company leases this office on a month to month basis at \$6,942 per month.

The aggregate future minimum lease payments under operating leases as of December 31, 2016 were \$10,030.

20. 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, 2016, there were the following material transactions that require disclosure:

Extension of Related Party Notes

On January 9, 2017, the Company entered into amendments to two demand promissory notes, totaling \$600,000, and a note payable for \$200,000 related to the Umpqua Bank Business Loan Agreement with Mr. Erickson, our Chief Executive Officer and/or entities in which Mr. Erickson has a beneficial interest. The amendments extend the due date from December 31, 2016 to March 31, 2017 and continue to provide for interest of 3% per annum and a second lien on company assets if not repaid by March 31, 2017 or converted into convertible debentures or equity on terms acceptable to the Holder.

Issuance of Equity

On October 21, 2015, the Company entered into a Public Relations Agreement with Financial Genetics LLC for public relation services. On October 18, 2016, the Company entered into an Amendment to Public Relations Agreement with Financial Genetics LLC. Under the Agreements, Financial Genetics was issued 80,952 shares of our common stock and expensed \$66,666 subsequent to the three months ended December 31, 2016.

On October 6, 2015, the Company entered into a Services Agreement with Redwood Investment Group LLC for financial services. Under the Agreement, Redwood was issued 100,000 shares of our common stock and expensed \$70,000 subsequent to the three months ended December 31, 2016.

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.

BACKGROUND AND CAPITAL STRUCTURE

Visualant, Incorporated (the "Company," "Visualant, Inc." or "Visualant") was incorporated under the laws of the State of Nevada in 1998. We have authorized 105,000,000 shares of capital stock, of which 100,000,000 are shares of voting common stock, par value \$0.001 per share, and 5,000,000 are shares preferred stock, par value \$0.001 per share.

As of December 31, 2016, we had 3,570,010 shares of common stock issued and outstanding, held by 54 stockholders of record. The number of stockholders, including beneficial owners holding shares through nominee names, is approximately 2,300. Each share of common stock entitles its holder to one vote on each matter submitted to the stockholders for a vote, and no cumulative voting for directors is permitted. Stockholders do not have any preemptive rights to acquire additional securities issued by us. As of December 31, 2016, there were options outstanding for the purchase of 50,908 common shares, warrants for the purchase of 4,494,080 common shares, 2,184,048 shares of our common stock issuable upon the conversion of Series A, Series C and Series D Convertible Preferred Stock and up to 332,940 shares of our common stock issuable upon the exercise of placement agent warrants.

In June 2015, we effected a 1-for-150 reverse stock split of our common stock. All warrant, option, share and per share information in this Form 10-Q gives retroactive effect to the 1-for-150 reverse split with all numbers rounded up to the nearest whole share.

BUSINESS

We are focused primarily on the development of a proprietary technology which is capable of uniquely identifying and authenticating almost any substance using light to create, record and detect the unique digital "signature" of the substance. We call this our "ChromaID™" technology.

Our ChromaID™ Technology

We have developed a proprietary technology to uniquely identify and authenticate almost any substance. This patented technology utilizes light at the photon (elementary particle of light) level through a series of emitters and detectors to generate a unique signature or "fingerprint" from a scan of almost any solid, liquid or gaseous material. This signature of reflected or transmitted light is digitized, creating a unique ChromaID signature. Each ChromaID signature is comprised of from hundreds to thousands of specific data points.

The ChromaID technology looks beyond visible light frequencies to areas of near infra-red and ultraviolet light that are outside the humanly visible light spectrum. The data obtained allows us to create a very specific and unique ChromaID signature of the substance for a myriad of authentication and verification applications.

Traditional light-based identification technology, called spectrophotometry, has relied upon a complex system of prisms, mirrors and visible light. Spectrophotometers typically have a higher cost and utilize a form factor more suited to a laboratory setting and require trained laboratory personnel to interpret the information. The ChromaID technology uses lower cost LEDs and photodiodes and specific frequencies of light resulting in a more accurate, portable and easy-to-use solution for a wide variety of applications. The ChromaID technology not only has significant cost advantages as compared to spectrophotometry, it is also completely flexible in size, shape and configuration. The ChromaID scan head can range in size from endoscopic to a scale that could be the size of a large ceiling-mounted florescent light fixture.

In normal operation, a ChromaID master or reference scan is generated and stored in a database. The Visualant scan head can then scan similar materials to identify, authenticate or diagnose them by comparing the new ChromaID digital signature scan to that of the original or reference ChromaID signature or scan result.

ChromaID was invented by scientists from the University of Washington under contract with Visualant. We have pursued an intellectual property strategy and have been granted ten patents. We also have 20 patents pending. We possess all right, title and interest to the issued patents. Ten of the pending patents are licensed exclusively to us in perpetuity by Xinova.

In 2010, we acquired TransTech Systems, Inc. ("TransTech") as an adjunct to our business. TransTech is a distributor of products for employee and personnel identification. TransTech currently provides substantially all of our revenues. We intend, however, to further develop and market our ChromaID technology.

The following summarizes our plans for our proprietary ChromaID technology. Based on our anticipated expenditures on this technology, the expected efforts of our management and our relationship with Xinova, and our other strategic partner, Sumitomo Precision Products, Ltd., we expect our ChromaID technology to provide an increasing portion of our revenues in future years from product sales, licenses, royalties and other revenue streams., as discussed further below.

ChromaID: A Foundational Platform Technology

Our ChromaID technology provides a platform upon which a myriad of applications can be developed. As a platform technology, it is analogous to a smartphone, upon which an enormous number of previously unforeseen applications have been developed. The ChromaID technology is an enabling technology that brings the science of light and photonics to low cost, real world commercialization opportunities across multiple industries. The technology is foundational and as such, the basis upon which we believe a significant business can be built.

As with other foundational technologies, a single application may reach across multiple industries. The ChromaID technology can, for example effectively differentiate and identify different brands of clear vodkas that appear identical to the human eye. By extension this same technology can identify pure water from water with contaminants present. It can provide real time detection of liquid medicines such as morphine that have been adulterated or compromised. It can detect if jet fuel has water contamination present. It could determine when it is time to change oil in a deep fat fryer. These are but a few of the potential applications of the ChromaID technology based upon extensions of its ability to identify different clear liquids.

The cornerstone of a company with a foundational platform technology is its intellectual property. ChromaID was invented by scientists from the University of Washington under contract with Visualant. We have pursued an intellectual property strategy and have been granted ten patents. We currently have 20 patents pending. We possess all right, title and interest to the issued patents. Ten of the pending patents are licensed exclusively to us in perpetuity by our strategic partner Xinova.

At the Photonics West trade show held in San Francisco in February 2013, we were honored to receive a PRISM award from the Society of Photo-Optical Instrumentation Engineers International, better known as SPIE. The PRISM awards recognizes photonic products that break with conventional ideas, solve problems, and improve life through the application of light-based technologies.

Xinova Relationship

In November 2013, we entered into a strategic relationship with Xinova, formerly Invention Development Management Company, a subsidiary of Intellectual Ventures, a private intellectual property fund with over \$5 billion under management. Xinova owns over 40,000 IP assets and has broad global relationships for the invention of technology, the filing of patents and the licensing of intellectual property. Xinova has worked to expand the reach and the potential application of the ChromaID technology and has filed ten patents base on the ChromaID technology, which it has licensed to us.

Initial testing in our laboratories and the work of the Xinova inventors have shown that the ChromaID technology has a number of broad and useful applications a few of which include:

- Milk identification for quality, protein and fat content and impurities
- Identification of liquids for counterfeits or contaminants
- Detecting adulterants in food and food products compromising its quality
- Color grading of diamonds
- Identifying real cosmetics versus counterfeit cosmetics
- Identifying counterfeit medications versus real medications
- Identifying regular flour versus gluten free flour
- Authenticating secure identification cards

Products

Our first delivered 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 cards, cosmetic companies, scanner manufactures and food processing companies.

Our second product, the ChromaID Liquid Lab Kit, scans and identifies liquids. This product is currently in prototype form. Similar to our first product, it will be marketed to customers who are considering licensing the technology. Rather than use an LED emitter to reflect light off of a surface that is captured by a photodiode to generate a ChromaID signature the liquid analysis product shines light through the liquid (transmissive) with the LEDs positioned on one side of the liquid sample and the photo detectors on the opposite side. This device is in a functional state in our laboratory and we anticipate having a Liquid ChromaID Lab Kit available for customers by the Company during the fall of 2015. Target markets include, but are not limited to, water companies, petrochemical companies, pharmaceutical companies, and numerous consumer applications.

The ChromaID Lab Kits allows potential licensors of our technology to work with our technology and develop solutions for their particular application. Our contractual arrangements with Xinova are described in greater detail below.

Our next planned product should be an exemplar product is a prototype that will be produced to address several markets. The primary purpose of this prototype will be to demonstrate the technology to prospective business partners, and will consist of a small, hand held, battery powered, Bluetooth enabled scanning device. The scanner should wirelessly connect to a smart phone or tablet to transfer the scanned data. The smart phone application will include two or three industry specific but generic applications that allow for the demonstration of the scanning and matching of the ChromaID signatures. The applications will focus on drug identification, food safety and liquid detection. The prototype device will lend itself to consumer applications and can be a consumer product as well.

Our Commercialization Plans for the ChromaID Technology

We shipped our first ChromaID product, the ChromaID Lab Kits, to our strategic partner Xinova during the last calendar quarter of 2013 and first calendar quarter of 2014, after we completed final assembly and testing. Some ChromaID Lab Kits are provided free of charge to potential customers. Others are sold for a modest price. To date, we have achieved limited revenue from the sale of our ChromaID Lab Kits.

The Lab Kit includes the following:

ChromaID Scanner. A small device made with electronic and optical components and firmware which pulses light onto a flat material and records and digitizes the light that is reflected back from that material. The device is the size of a typical flashlight (5.5" long and 1.25" diameter). However, the technology can be incorporated into almost any size, shape and configuration.

ChromaID Lab Software. A software application that runs on a Windows PC. The software allows for configuration of the scanner, controls the behavior of the ChromaID Scanner, displays a graph of the captured ChromaID signature profile, stores the ChromaID signature in a database and uses algorithms to compare the accuracy of the match of the unknown scan to the known ChromaID signature profile. This software is intended for lab and experimental use only and is not required for commercialized product applications.

Software Development Toolkit. A collection of software applications, API (an abbreviation of application program interface – a set of routines, protocols, and tools for building software applications) definitions and file descriptions that allow a customer to extract the raw data from the ChromaID signatures and run their own software routines against that raw data.

The ChromaID Lab Kit allows customers to experiment with and evaluate the ChromaID technology and determine if it is appropriate for their specific applications. The primary electronic and optical parts of the ChromaID scanner, called the "scan head," could be supplied to customers to integrate into their own products. A set of ChromaID Developer Tools are also available. These allow customers to develop their own applications and products based on the ChromaID technology.

ChromaID signatures must be stored, managed, and readily accessible for comparison, matching and authentication purposes. The database can be owned and operated by the end customer, but in the case of thousands of ChromaID signatures, database management may be outsourced to us or a third party provider. These database services could 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, on a stand-alone scanning device or on a mobile device via a Bluetooth connection 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 using either local storage or cloud based storage.

Based on the commercialization plans outlined above, our business model anticipates deriving revenue from several sources:

- Sales of the ChromaID Lab Kit and ChromaID Liquid Lab Kit
- Non Recurring Engineering (NRE) fees to assist customers with scan integration into their products
- Licensing of the ChromaID technology
- Royalties per unit generated from the sales of scan heads
- Multi-unit sales of the above referenced exemplar product for as yet to be determined consumer product applications
- Per click transaction revenue from accessing the unique ChromaID signatures
- Developing custom product applications for customers
- ChromaID database administration and management services

Our Acceleration of Business Development in the United States and Around the World

We are coordinating our internal business development, sales and marketing efforts with those of our strategic partners Xinova, and Sumitomo Precision Products 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. It also allows customers to experiment with developing unique applications for their particular use. Our Business Development team is pursuing license opportunities with customers in our target markets. As an example, in March 2016 we entered into a Collaboration Agreement and License with Intellicheck Mobilisa. The agreement provides Intellicheck with exclusive rights to our ChromaID technology in the areas of homeland security, law enforcement and crime prevention.

There is no requirement for FDA or other government approval for the current applications of our ChromaID technology. Over time, as we explore the application of our ChromaID technology for medical diagnostics and other applications, we expect 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.

Research and Development

Our research and development efforts are primarily focused improving the core foundational ChromaID technology and developing new and unique applications for the technology. As part of this effort, we typically conduct testing to ensure that ChromaID application methods are compatible with the customer's requirements, and that they can be implemented in a cost effective manner. We are also actively involved in identifying new application methods. Our team has considerable experience working with the application of light-based technologies and their application to various industries. We believe that its continued development of new and enhanced technologies relating to our core business is essential to our future success. We spent \$325,803 and \$362,661 during the years ended September 30, 2016 and 2015, respectively, on development activities.

Our Patents

We believe that our ten patents, 20 patent applications, and two registered trademarks, and our trade secrets, copyrights and other intellectual property rights are important assets for us. Our patents will expire at various times between 2027 and 2033. The duration of our trademark registrations varies from country to country. However, trademarks are generally valid and may be renewed indefinitely as long as they are in use and/or their registrations are properly maintained.

The patents that have been granted to Visualant include:

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 B2 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.

On March 23, 2015, we were issued US Patent No. 8,988,666 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 May 26, 2015, we were issued US Patent No. 9,041,920 B2 entitled “Device for Evaluation of Fluids using Electromagnetic Energy” by the United States Office of Patents and Trademarks. The patent expires March 12, 2033.

On April 19, 2016, we were issued US Patent No. 9,316,581 B2 entitled “Method, Apparatus, and Article to Facilitate Evaluation of Substances Using Electromagnetic Energy” by the United States Office of Patents and Trademarks. The patent expires March 12, 2033.

We pursue a 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.

In November 2013, we entered into a strategic relationship with Xinova, formerly Invention Development Management Company, a subsidiary of Intellectual Ventures, a private intellectual property fund with over \$5 billion under management. Xinova owns over 40,000 IP assets and has broad global relationships for the invention of technology, the filing of patents and the licensing of intellectual property. Xinova has worked to expand the reach and the potential application of the ChromaID technology and has filed ten patents based on the ChromaID technology, which it has licensed to us.

The agreement requires Xinova to identify and engage inventors to develop new applications of our ChromaID™ technology, present the developments to us for approval, and file at least 10 patent applications to protect the developments. Xinova is responsible for the development and patent costs. We provided the Chroma ID Lab Kits to Xinova at no cost and are providing ongoing technical support. In addition, to provide time for this accelerated expansion of its intellectual property we delayed the selling of the ChromaID Lab Kits for 140 days except for certain select accounts. We have continued our business development efforts during this period and have worked with Xinova and their global business development resources to secure potential customers and licensees for the ChromaID technology. We shipped 20 ChromaID Lab Kits to inventors in the Xinova network during December 2013 and January 2014. As part of our agreement with Xinova, we curtailed our ChromaID marketing efforts through the fourth calendar quarter of 2014 while Xinova worked to expand our intellectual property portfolio. Thereafter, we began to actively market the ChromaID Lab Kits to interested and qualified customers.

We have received a worldwide, nontransferable, exclusive license to the intellectual property developed under the Xinova agreement 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 intellectual property held by Xinova 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.

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

We granted to Xinova a nonexclusive, worldwide, fully paid, nontransferable, sublicenseable, perpetual license to our intellectual property 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 Xinova a nonexclusive, worldwide, fully paid up, royalty-free, nontransferable, non-sublicenseable, perpetual license to access and use our technology solely for the purpose of marketing the aforementioned sublicenses of our intellectual property to third parties outside the designated fields of use.

In connection with the original license agreement, we issued a warrant to purchase 97,169 shares of common stock to Xinova as consideration for the exclusive intellectual property license and application development services. The warrant has a current exercise price of \$0.70 per share and expires November 10, 2018. The per share price is subject to adjustment based on any issuances below \$0.70 per share except as described in the warrant.

We agreed to pay Xinova a percentage of license revenue for the global development business services and a percentage of revenue received from any company introduced to us by Xinova. We also have also agreed to pay Xinova a royalty when we receive royalty product revenue from an Xinova-introduced company. Xinova has agreed to pay us a license fee for the nonexclusive license of our intellectual property.

The term of both the exclusive intellectual property license and the nonexclusive intellectual property 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.

TransTech Systems, Inc.

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

We expect our ownership of TransTech to accelerate our market entry and penetration through well-operated and positioned dealers of security and authentication systems, thus creating a natural distribution channel for products featuring our proprietary ChromaID technology. TransTech currently provides substantially all of our revenues. Its management team functions independently from Visualant's and its operations require a minimal commitment of our management time and other resources. Our acquisition of TransTech in June 2010 and its operations are described in greater detail below.

Agreements with Sumitomo Precision Products Co., Ltd.

In May 2012, we entered into a Joint Research and Product Development Agreement with Sumitomo Precision Products Co., Ltd., a publicly-traded Japanese corporation, for the commercialization of our ChromaID technology. In March 2013, we entered into an amendment to this agreement, which extended the Joint Development Agreement from March 31, 2013 to 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. This collaborative work supported the development of the ChromaID Lab Kit. This agreement expired December 31, 2013. The current version of the technology was introduced to the marketplace as a part of our ChromaID Lab Kit during the fourth quarter of 2013. Sumitomo invested \$2,250,000 in exchange for 115,385 shares of restricted shares of common stock priced at \$19.50 per share that was funded on June 21, 2012.

We also entered into a License Agreement with Sumitomo in May 2012, under which Sumitomo paid the Company an initial payment of \$1 million. The License Agreement granted Sumitomo an exclusive license for the then extant ChromaID technology. The territories covered by this license include 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 Research and Product Development Agreement and was fully recorded as of May 31, 2013. On May 21, 2015, we entered into an amendment to the License Agreement, which, effective as of June 18, 2014, eliminated the Sumitomo exclusivity and provides that if we sell products in certain territories – Japan, China, Taiwan, Korea and the entirety of Southeast Asia (Burma, Indonesia, Thailand, Cambodia, Laos, Vietnam, Singapore and the Philippines) – the Company will pay Sumitomo a royalty rate of 2% of net sales (excluding non-recurring engineering revenues) over the remaining term of the five-year License Agreement (through May 2017).

Potential Markets and Customers

Our plan is to develop markets and customers who have a need to authenticate, detect, identify, verify or diagnose materials or substances which may include, but are not limited to, commercial paint manufacturers, pharmaceutical equipment manufacturers, process control companies, water purification and quality companies, currency paper and ink manufacturers, security card manufacturers, cosmetic companies and food processing companies.

Market opportunities include identification, detection, or diagnosis of:

- Pharmaceuticals – pill counting and verification
- Food safety – testing for contaminants and quality
- Gemstones – diamond color grading
- Liquid analysis – water purity
- Law enforcement - illicit drug identification for law enforcement applications
- Paint – color matching
- ID badges – counterfeit ID detection
- Secure packaging - Container seals and packaging materials with invisible markings
- Cosmetics – matching skin tones to correct products
- Documents and Currency– detect counterfeit paper and inks
- Medical - Noninvasive skin analysis for discovery of diseases or medical conditions

Our Strategy

To date, the substantial portion of our non-TransTech revenue has been generated from the development license with Sumitomo Precision Products and sales of our ChromaID Lab Kits. We expect to continue to grow revenues from sales of our Lab Kits, non-recurring engineering fees, licenses, per unit royalties and subscriptions, as well as “per click” revenues. Key aspects of our strategy include:

Customize and Refine our Solutions to Meet Potential Customers’ Needs

We are continuously improving and expanding our potential product offerings by testing the incorporation of our technologies into different media, such as the new ChromaID Liquid Lab Kit that is in the prototype stage. Each vertical market has specific requirements for their potential product application that will involve determining the range of LEDs and photodiodes that will provide optimum performance and the associated form factor required for their product. Our goal is to develop a cost-effective scanning system for each potential industry and customer that can be incorporated into that potential customer’s products that they will then take to market.

Continue to Expand Applications for ChromaID Technology

While we have basic proof of concepts for applications in several large markets to date, we plan to continue our ongoing effort to expand proof-of-concept testing in other vertical markets that have yet to be tested. We have also identified and are further examining opportunities to collaborate with companies and universities to develop new applications for the ChromaID technology. We believe the strength of our solutions is based on the unique and proprietary ChromaID signature that is created from every scan.

Target Potential High-Volume Markets

We will continue to focus our efforts on target vertical markets that are characterized by a high level of vulnerability to counterfeiting, product tampering, piracy, fraud, identity theft, contamination and adulteration. We believe the ChromaID technology can be a lower cost, real time, flexible form factor solution in the following areas: access control, quality and process control, food safety, water quality, law enforcement support, standardization and medical diagnostics. Our current target markets include pharmaceuticals, food quality and safety, gemstone grading, water purity, law enforcement, paint color matching, identity cards, chemical identification, cosmetics, currency, process control and healthcare. If and when we have significantly penetrated these markets, we intend to expand into additional related high volume markets.

Pursue Strategic Acquisitions and Alliances

We intend to pursue strategic acquisitions of companies and technologies that strengthen and complement our core technologies, improve our competitive positioning, allow us to penetrate new markets, and grow our customer base. We also intend to work in collaboration with potential strategic partners in order to continue to market and sell new product lines derived from, but not limited to, ChromaID technology.

Target Additional Markets

In fourth fiscal quarter of 2014, we began introducing our technology and services in Europe, the United States and Asia. Several potential customers are currently analyzing our technology. At the present time, we are focusing our efforts on the pharmaceutical industry, the food safety industry, law enforcement and homeland security. In the future, we plan to expand our focus to include identification cards and other secure documents, industrial materials, agrochemicals, pharmaceuticals, consumer products, cosmetics, currency and medical diagnostics.

Industry Background

Visualant's ChromaID is a part of the broad industry built upon photonics or light-based technology. Photonics science includes the generation, emission, transmission, modulation, signal processing, switching, amplification, and detection/sensing of light. Though covering all light's technical applications over the whole spectrum, most photonic applications are in the range of visible and near-infrared light. The term photonics developed as an outgrowth of the first practical semiconductor light emitters invented in the early 1960s and optical fibers developed in the 1970s.

Photonics came into common use in the 1980s as fiber-optic data transmission was adopted by telecommunications network operators. At that time, the term was used widely at Bell Laboratories. Its use was confirmed when the IEEE Lasers and Electro-Optics Society established an archival journal named Photonics Technology Letters at the end of the 1980s.

Photonics covers a huge range of science and technology applications, including laser manufacturing, biological and chemical sensing, medical diagnostics and therapy, display technology, and optical computing.

Applications of photonics includes all areas from everyday life to the most advanced science, e.g. light detection, telecommunications, information processing, lighting, metrology, spectroscopy, holography, medicine (surgery, vision correction, endoscopy, health monitoring), military technology, laser material processing, visual art, biophotonics, agriculture and robotics.

The world photonics market, according to the *World Photonics Report of 2013* was a \$350 billion market and will grow to a \$650 billion market by 2020.

Our business model is focused on the use of structured light - a disruptive conceptual breakthrough in photonics. Light-emitting diodes (LEDs) shine a single wavelength of pulsed light in increasing steps of intensity onto a subject. Photodiodes capture the light that is returned via reflection or re emission of that light. The photodiode produces an analog signal that is then converted into a 24 bit digital data point for each pulse of light. A typical scan is comprised of hundreds of pulses of light across a number of specific frequency LED's creating a unique ChromaID signature for the subject being scanned. In a typical application, a "reference" or "master" ChromaID signature is captured and stored in a database for that specific subject. When an unknown substance is scanned to produce its own ChromaID signature, (the "discovery scan"), the unknown substance's ChromaID signature is compared to that of the known (or "reference") ChromaID signature. Algorithms are used to compare the two sets of data and determine if the "discovery" signature is the same as the "reference" ChromaID signature. This accuracy threshold can be adjusted from 51 % to 99.995 % accuracy based on the requirements for each specific application of the ChromaID technology. Historically, a number of the applications for ChromaID technology were performed by spectrophotometers. The sales of spectrophotometers by companies such as Ocean Optics, Perkin Elmer, Fisher Thermo Scientific and Agilent are multibillion dollar businesses. Spectrophotometers combine broad-spectrum light; a diffraction grating to split it; and a linear array for graphical presentation in software. They tend to be bulky, fragile, and expensive; scanning and analysis are complex. We believe our ChromaID technology uses lower cost components, provides more accurate data, has a very flexible form factor and the information it provides can be easily understood. The use of structured light by our ChromaID technology provides a platform for the development of a myriad of applications in the categories of identification, authentication and diagnostics.

We believe that the ChromaID technology is analogous to a smartphone, upon which an enormous number of previously unforeseen applications have been developed. The ChromaID technology may be considered an enabling technology that brings the science of light and photonics to low cost, real world commercialization opportunities across multiple industries. ChromaID is a sensor technology which, with its low cost, small form factor, and ease of connectivity can be an enabling technology for the broad Internet of Things and integrated into many aspects of everyday life providing useful information relating health, life and safety. The technology is foundational and as such, the basis upon which we believe a significant business can be built.

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,			
	2016	2015	\$ Variance	% Variance
Revenue	\$ 1,149	\$ 1,285	\$ (136)	-10.6%
Cost of sales	959	1,087	(128)	11.8%
Gross profit	190	198	(8)	-4.0%
Research and development expenses	41	92	(51)	55.4%
Selling, general and administrative expenses	1,791	736	1,055	-143.3%
Operating loss	(1,642)	(630)	(1,012)	-160.6%
Other income (expense):				
Interest expense	(52)	(39)	(13)	-33.3%
Other income	4	2	2	100.0%
(Loss) on change- derivative liability warrants	(418)	(1,345)	927	68.9%
Total other income	(466)	(1,382)	916	66.3%
Net (loss)	\$ (2,108)	\$ (2,012)	\$ (96)	-4.8%

THREE MONTHS ENDED DECEMBER 31, 2016 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2015

Sales

Net revenue for the three months ended December 31, 2016 decreased \$136,000 to 1,149,000 as compared to \$1,285,000 for the three months ended December 31, 2015. The decrease was due to lower sales at TransTech resulting from a reduction in product sales.

Cost of Sales

Cost of sales for the for the three months ended December 31, 2016 decreased \$128,000 to \$959,000 as compared to \$1,087,000 for the year ended September 30, 2015. The decrease was due to lower sales TransTech resulting from a reduction in product sales.

Gross profit was \$190,000 for the three months ended December 31, 2016 as compared to \$198,000 for the three months ended December 31, 2015. Gross profit was 16.6% for the three months ended December 31, 2016 as compared to 15.4% for the three months ended December 31, 2015.

Research and Development Expenses

Research and development expenses for the three months ended December 31, 2016 decreased \$51,000 to \$41,000 as compared to \$92,000 for the three months ended December 31, 2015. The decrease was due to reduced expenditures for the RATLab and suppliers related to the commercialization of our ChromaID technology. The RATLab is no longer providing us with services.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended December 31, 2016 increased \$1,055,000 to \$1,791,000 as compared to \$736,000 for the three months ended December 31, 2015.

The increase primarily was due to (i) increased business development, investor relation expenses and consulting expenses of \$125,000; (ii) a reserve for accounts receivable at TransTech of \$120,000; (iii) an impairment of goodwill of \$484,000; (iv) increased legal expenses of \$27,000; (v) the impairment of an investment in a note receivable from BioMedx of \$250,000 and an increase in other expenses of \$22,000. As part of the selling, general and administrative expenses for the three months ended December 31, 2016, we incurred investor relation expenses and business development expenses of \$282,000.

We are in dispute with a TransTech customer and reserved \$120,000 during the three months ended December 31, 2016 as selling, general and administrative expenses. We determined that our goodwill related to the 2010 acquisition of TransTech Systems was impaired and recorded an impairment of \$483,645 as selling, general and administrative expenses during the three months ended December 31, 2016. On November 2, 2016, Pulse Biologics, Inc. (BioMedx) issued an Original Issue Discount Convertible Promissory Note to us. Pursuant to the Note, we loaned \$260,000 with a principal amount of \$286,000 to Pulse Biologics, Inc. The Note matures one year from issuance and bears interest at 5%. The principal and interest can be converted to Biologic common stock at our option. We impaired the investment in a note receivable from BioMedx of \$250,000 during the three months ended December 31, 2016 until the note is repaid".

Other Income (Expense)

Other expense for the three months ended December 31, 2016 was \$466,000 as compared to other expense of \$1,382,000 for the three months ended December 31, 2015. The other expense for the three months ended December 31, 2016 included change in the value of derivatives of \$418,000, interest expenses of \$52,000. Offset by other income of \$4,000. The loss on the value of the derivative instruments is a result of the decline of the derivative liability as our underlying stock price has declined.

The other expense for the three months ended December 31, 2015 included other income of \$2,000, offset by loss on change - derivative liability of \$1,345,000, and interest expense of \$39,000. The loss on change derivative liability warrants related to derivative instruments included in the June 2013 private placement, the November 2013 Xinova Services and License Agreement, our convertible notes payable and the issuance of Series A Convertible Preferred Stock.

Net Loss

Net loss for the three months ended December 31, 2016 was \$2,108,000 as compared to \$2,012,000 for the three months ended December 31, 2015.

The net loss for the three months ended December 31, 2016, included non-cash expense of \$1,328,000, including (i) loss on change- derivative liability warrants of \$417,000;(ii) other of \$10,000, (iii) depreciation and amortization of \$22,000;(iv) stock based compensation of \$11,000;(v) issuance of capital stock for services and expenses of \$207,000; (vi) conversion of interest of \$56,000; (vii) provision for losses on accounts receivable of \$121,000; and (viii) impairment of goodwill of \$484,000. TransTech's net loss from operations was \$101,000 for the three months ended December 31, 2016 as compared to a net loss of \$86,000 for the three months ended December 31, 2015. The loss from operations excluded the provision for losses on accounts receivable of \$121,000 and the impairment of goodwill of \$484,000.

Net loss for the three months ended December 31, 2015 included non-cash other expense of \$1,516,000 including (i) depreciation and amortization of \$54,000; (ii) issuance of capital stock for services and expenses of \$104,000; (iii) stock based compensation of \$12,000; and (iv) loss on change – derivative liability warrants of \$1,346,000.

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

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations, and otherwise operate on an ongoing basis. Significant factors in the management of liquidity are funds generated by operations, levels of accounts receivable and accounts payable and capital expenditures.

We had cash of \$181,000 and net working capital deficit of approximately \$3,893,000 (excluding the derivative liability- warrants of \$563,000 as of December 31, 2016). We expect losses to continue as we commercialize our ChromaID™ technology. Our cash used in operations for years ended September 30, 2016 and 2015 was \$3,373,000 and \$240,000, respectively. We believe that our cash on hand will be sufficient to fund our operations through February 28, 2017.

The opinion of our independent registered public accounting firm on our audited financial statements as of and for the year ended September 30, 2016 contains an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon raising capital from financing transactions.

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. We may seek additional capital through a combination of private and public equity offerings, debt financings and strategic collaborations. Debt financing, if obtained, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, and could increase our expenses and require that our assets secure such debt. Equity financing, if obtained, could result in dilution to our then-existing stockholders and/or require such stockholders to waive certain rights and preferences. If such financing is not available on satisfactory terms, or is not available at all, we may be required to delay, scale back, eliminate the development of business opportunities or file for bankruptcy and our operations and financial condition may be materially adversely affected.

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

We intend to issue up to 3,125,000 Series D Shares (and an equal number of warrants) for gross proceeds of \$2,500,000 pursuant on a “best efforts” basis, but there can be no assurance that we will be able to sell that number of shares, if any.

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, 2016, 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 a security interest in all assets of Visualant. Availability under this Secured Credit ranges from \$0 to \$175,000 (\$10,000 as of September 30, 2016) on a daily basis. The remaining balance on the accounts receivable line of \$300,136 as of September 30, 2016 must be repaid by the time the secured credit facility expires on June 12, 2017, or we renew 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, 2016 was \$573,000. This amount was primarily related to a net loss of \$2,108,000, offset by a decrease in accounts receivable of \$52,000, a decrease in inventory of \$85,000, an increase in accounts payable and accrued expenses of \$67,000, other items of \$3,000 and non-cash items of \$1,328,000. The non-cash items of \$1,328,000 includes (i) loss on change- derivative liability warrants of \$417,000; (ii) other of \$10,000, (iii) depreciation and amortization of \$22,000; (iv) stock based compensation of \$11,000; (v) issuance of capital stock for services and expenses of \$207,000; (vi) conversion of interest of \$56,000; (vii) provision for losses on accounts receivable of \$121,000; and (viii) impairment of goodwill of \$484,000.

On November 1, 2016, we purchased an Original Issue Discount Convertible Promissory Note from BioMedx, Inc. We paid \$260,000 for the Note with a principal amount of \$286,000. The Note matures one year from issuance and bears interest at 5%. The principal and interest can be converted to Biologic common stock at the option of the Company. We received 150,000 shares of Pulse Biologics common stock as partial consideration for purchasing the Note. In addition, if BioMedx does not repay the Promissory Note, we will have the right to convert the Promissory Note into 51% of the ownership of BioMedx.

BioMedx is an early stage company that owns a royalty bearing license, for medical applications, to certain technology developed by Pulse Evolution. Our management concluded BioMedx's ability to repay Promissory Note is contingent on BioMedx obtaining additional financing. In addition, BioMedx will require additional financing to commercialize the licensed technology. Due to the inherent uncertainty involved in these activities, our management has determined the value of the Promissory Note and BioMedx common stock is zero at December 31, 2016 and recorded a reserve for the full value.

Financing Activities

Net cash provided by financing activities for the three months ended December 31, 2016 was \$565,000. This amount was primarily related to (i) proceeds from convertible notes of \$300,000; (ii) proceeds from the sale of common and preferred stock of \$300,000, offset by (iii) repayment from line of credit of \$35,000.

Our contractual cash obligations as of December 31, 2016 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	\$ 10,030	\$ 10,030	\$ -	\$ -	\$ -
Convertible notes payable	555,000	555,000	-	-	-
Notes payable	1,100,071	1,100,071	-	-	-
Capital expenditures	100,000	20,000	40,000	40,000	-
	<u>\$ 1,765,101</u>	<u>\$ 1,685,101</u>	<u>\$ 40,000</u>	<u>\$ 40,000</u>	<u>\$ -</u>

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements (as that term is defined in Item 303 of Regulation S-K) that are reasonably likely to have a current or future material effect on our financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

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, 2016 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 2017, 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.

Financial Reporting: There were several delinquent SEC filings from October 1, 2016 to February 9, 2017. In addition, we believe there is a lack of segregation of duties over financial reporting and issues with the proper recording of certain equity transactions. The Company is working to resolve these issues and is using consultants to ensure accurate financial reporting.

b) Changes in Internal Control over Financial Reporting

During the three months ended December 31, 2016, there were no changes in our internal controls over financial reporting during this fiscal quarter that materially affected, or is reasonably likely to have a materially affect, on our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

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

We need additional financing to support our technology development and ongoing operations, pay our debts and maintain ownership of our intellectual properties.

We are currently operating at a loss. We believe that our cash on hand will be sufficient to fund our operations through February 28, 2017. We need additional financing to implement our business plan and to service our ongoing operations, pay our current debts (described below) 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/or divest all or a portion of our business. We may seek additional capital through a combination of private and public equity offerings, debt financings and strategic collaborations. Debt financing, if obtained, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, and could increase our expenses and require that our assets secure such debt. Equity financing, if obtained, could result in dilution to our then-existing stockholders and/or require such stockholders to waive certain rights and preferences. If such financing is not available on satisfactory terms, or is not available at all, we may be required to delay, scale back, eliminate the development of business opportunities or file for bankruptcy and our operations and financial condition may be materially adversely affected. We are currently attempting to raise up to \$2,500,000 in gross proceeds through the sale of up to 3,125,000 shares of Series D Preferred Stock (and an equal number of warrants) on a “best efforts” basis. There can be no assurance that we will be able to sell that number of shares, if any. Furthermore, we do not currently have a sufficient number of shares of Preferred Stock authorized under our Articles of Incorporation to cover this sale and we will be required to amend the Articles of Incorporation in order to complete the full offering.

We need to continue as a going concern if our business is to succeed.

Because of our recurring losses and negative cash flows from operations, the audit report of our independent registered public accountants on our consolidated financial statements for the year ended September 30, 2016 contains an explanatory paragraph stating that there is substantial doubt about our ability to continue as a going concern. Factors identified in the report include our historical 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 attain profitability in the near future our financial condition could deteriorate further, which would have a material adverse impact on our business and prospects and result in a significant or complete loss of your investment. Further, we may be unable to pay our debt obligations as they become due, which include obligations to secured creditors. If we are unable to continue as a going concern, we might have to liquidate our assets and the values we receive for our assets in liquidation or dissolution could be significantly lower than the values reflected in our financial statements. Additionally, we are subject to customary operational covenants, including limitations on our ability to incur liens or additional debt, pay dividends, redeem stock, make specified investments and engage in merger, consolidation or asset sale transactions, among other restrictions. In addition, the inclusion of an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern and our lack of cash resources may materially adversely affect our share price and our ability to raise new capital or to enter into critical contractual relations with third parties.

As of December 31, 2016, we have obligations to repay approximately \$2,314,824 in various loans in the near future, and if we do not satisfy these obligations, the lenders may have the right to demand payment in full or exercise other remedies.

We have a \$199,935 Business Loan Agreement with Umpqua Bank (the “Umpqua Loan”), which matures on December 31, 2017 and provides for interest at 3.25% per year. Related to this Umpqua Loan, we entered into a demand promissory note for \$200,000 on January 10, 2014 with an entity affiliated with Ronald P. Erickson, our Chief Executive Officer. This demand promissory note will be effective in case of a default by us under the Umpqua Loan. We recorded accrued interest of \$17,852 as of December 31, 2016.

We also have two other demand promissory notes payable to entities affiliated with Mr. Erickson, totaling \$600,000. Each of these notes were issued between January and July 2014, provide for interest of 3% per year and now mature on March 31, 2017. The notes payable also provide for a second lien on our assets if not repaid by March 31, 2017 or converted into convertible debentures or equity on terms acceptable to the Mr. Erickson. We recorded accrued interest of \$44,704 as of December 31, 2016.

Mr. Erickson and/or entities with which he is affiliated also have advanced \$529,833 and have unreimbursed expenses and compensation of approximately \$430,056. We owe Mr. Erickson, or entities with which he is affiliated, \$1,559,889 as of December 31, 2016.

We have \$555,000 in convertible notes payable.

We require additional financing, to service and/or repay these debt obligations. If we raise additional capital through borrowing or other debt financing, we may incur substantial interest expense. If and when we raise more equity capital in the future, it will result in substantial dilution to our current stockholders.

We have a history of operating losses and there can be no assurance that we can achieve or maintain profitability.

We have experienced net losses since inception. As of September 30, 2016, we had an accumulated deficit of \$27.1 million and net losses in the amount of \$1,746,000 and \$2,631,000 for the years ended September 30, 2016 and 2015, respectively. There can be no assurance that we will achieve or maintain profitability. If we achieve profitability in the future, we may not be able to sustain profitability in subsequent periods. Failure to become and remain profitable would impair our ability to sustain operations and adversely affect the price of our common stock and our ability to raise capital. Our operating expenses may increase as we spend resources on growing our business, and if our revenue does not correspondingly increase, our operating results and financial condition will suffer. Our ChromaID business has produced minimal revenues, and may not produce significant revenues in the near term, or at all, which would harm our ability to continue our operations or obtain additional financing and require us to reduce or discontinue our operations. You must consider our business and prospects in light of the risks and difficulties we will encounter as business with an early-stage technology in a new and rapidly evolving industry. We may not be able to successfully address these risks and difficulties, which could significantly harm our business, operating results and financial condition.

If the company were to dissolve or wind-up operations, holders of our common stock would not receive a liquidation preference.

If we were to wind-up or dissolve our company and liquidate and distribute our assets, our common stockholders would share in our assets only after we satisfy any amounts we owe to our creditors and preferred equity holders. 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, it is very unlikely that sufficient assets will remain available after the payment of our creditors and preferred equity holders to enable common stockholders to receive any liquidation distribution with respect to any common stock.

We may not be able to generate sufficient revenue from the commercialization of our ChromaID technology and related products to achieve or sustain profitability.

We are in the early stages of commercializing our ChromaID™ technology. To date, we have entered into one License Agreement with Sumitomo Precision Products Co., Ltd. and have a strategic relationship with Xinova. More recently, we have entered into a Collaboration Agreement and License with Intellicheck Mobilisa, Inc. None of these relationships have generated any significant revenue. 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.

To date, we have generated minimal revenue from sales of our ChromaID products. We believe that our commercialization success is dependent upon our ability to significantly increase the number of customers that are using our products. In addition, demand for our ChromaID products may not materialize, or increase as quickly as planned, and we may therefore be unable to increase our revenue levels as expected. We are currently not profitable. Even if we succeed in introducing the ChromaID technology and related products to our target markets, we may not be able to generate sufficient revenue to achieve or sustain profitability.

We currently rely upon external resources for engineering and product development services. If we are unable to secure an engineering or product development partner or establish satisfactory engineering and product development capabilities, we may not be able to successfully commercialize our ChromaID technology.

Our success depends upon our ability to develop products that are accurate and provide solutions for our customers. Achieving the desired results for our customers requires solving engineering issues in concert with them. Any failure of our ChromaID technology or related products to meet customer expectations could result in customers choosing to retain their existing testing methods or to adopt systems other than ours.

We do not currently have internal resources which can work on engineering and product development matters. We have used third parties in the past and will continue to do so. Historically, our primary third-party research, partner was RATLab LLC, a Seattle based private research organization. As we move toward commercialization of our ChromaID technology, the RATLab is no longer providing us with these services. We are in the process of identifying a engineering and product development partner to work with us on engineering and product development issues. These resources are not always readily available and the absence of their availability could inhibit our research and development efforts and our responsiveness to our customers. We have had internal engineering and product development resources in the Company and plan to re-establish those resources in the future. Our inability to secure those resources could impact our ability to provide engineering and product development services and could have an impact on our customers' willingness to use our ChromaID technology.

We are in the early stages of commercialization and our ChromaID technology and related products may never achieve significant commercial market acceptance.

Our success depends on our ability to develop and market products that are recognized as accurate and cost-effective. Many of our potential customers may be reluctant to use our new technology. Market acceptance will depend on many factors, including our ability to convince potential customers that our ChromaID technology and related products are an attractive alternative to existing light-based technologies. We will need to demonstrate that our products provide accurate and cost-effective alternatives to existing light-based authentication technologies. Compared to most competing technologies, our technology is relatively new, and most potential customers have limited knowledge of, or experience with, our products. Prior to implementing our ChromaID technology and related products, potential customers are required to devote significant time and effort to testing and validating our products. In addition, during the implementation phase, customers may be required to devote significant time and effort to training their personnel on appropriate practices to ensure accurate results from our technology and products. Any failure of our ChromaID technology or related products to meet customer expectations could result in customers choosing to retain their existing testing methods or to adopt systems other than ours.

Many factors influence the perception of a system including its use by leaders in the industry. If we are unable to induce industry leaders in our target markets to implement and use our ChromaID technology and related products, acceptance and adoption of our products could be slowed. In addition, if our products fail to gain significant acceptance in the marketplace and we are unable to expand our customer base, we may never generate sufficient revenue to achieve or sustain profitability.

Our management has concluded that we have material weaknesses in our internal controls over financial reporting and that our disclosure controls and procedures are not effective.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis. During the audit of our financial statements for the year ended September 30, 2016, our management identified material weaknesses in our internal control over financial reporting. If these weaknesses continue, investors could lose confidence in the accuracy and completeness of our financial reports and other disclosures.

In addition, our management has concluded that our disclosure controls and procedures were not effective due to the lack of an audit committee "financial expert." These material weaknesses, if not remediated, create an increased risk of misstatement of the Company's financial results, which, if material, may require future restatement thereof. A failure to implement improved internal controls, or difficulties encountered in their implementation or execution, could cause future delays in our reporting obligations and could have a negative effect on us and the trading price of our common stock.

If our development and license agreement with Intellicheck is terminated for any reason it may have a material adverse effect on our business strategy and our results of operations may suffer.

In March 2016, we entered into a Collaboration Agreement and License with Intellicheck Mobilisa, Inc. that provides Intellicheck exclusive rights to our ChromaID technology for threat assessment and document verification in the areas of homeland security, law enforcement and crime prevention.

We are working with Intellicheck to develop solutions for threat assessment and document verification solutions for markets in the United States and abroad. Documents that can potentially be verified include driver's licenses, access control cards, commercial instruments, currency, birth certificates and other so-called "breeder" documents which can allow the holder to obtain a passport and various other documents.

Failure to operate in accordance with the Intellicheck agreement, or an early termination or cancellation of this agreement for any reason, would have a material adverse effect on our ability to execute our business strategy and our results of operations and financial condition may be materially adversely affected

Our services and license agreement with Xinova is important to our business strategy and operations.

In November 2013, we entered into a strategic relationship with Xinova, formerly Invention Development Management Company, a subsidiary of Intellectual Ventures, a private intellectual property fund with over \$5 billion under management. Xinova owns over 40,000 IP assets and has broad global relationships for the invention of technology, the filing of patents and the licensing of intellectual property. Xinova has worked to expand the reach and the potential application of the ChromaID technology and has filed ten patents base on the ChromaID technology, which it has licensed to us.

The amended agreement with Xinova covers a number of areas that are important to our operations, including the following:

- The agreement requires Xinova to identify and engage inventors to develop new applications of our ChromaID technology, present the developments to us for approval, and file at least ten patent applications to protect the developments;
- We received a worldwide, nontransferable, exclusive license to the licensed intellectual property developed under this agreement within the identification, authentication and diagnostics field of use;
- We received a nonexclusive and nontransferable option to acquire a worldwide, nontransferable, nonexclusive license to intellectual property held by Xinova within that same field of use; and
- We granted to Xinova certain licenses to our intellectual property outside the identification, authentication and diagnostics field of use.

Failure to operate in accordance with the Xinova agreement, or an early termination or cancellation of this agreement for any reason, would have a material adverse effect on ability to execute our business strategy and on our results of operations and business.

If components used in our finished products become unavailable, or third-party manufacturers otherwise experience delays, we may incur delays in shipment to our customers, which would damage our business.

We depend on third-party suppliers for substantially all of our components and products. We purchase these products and components from third-party suppliers that serve the advanced lighting systems market and we believe that alternative sources of supply are readily available for most products and components. However, consolidation could result in one or more current suppliers being acquired by a competitor, rendering us unable to continue purchasing necessary amounts of key components at competitive prices. In addition, for certain of our customized components, arrangements for additional or replacement suppliers will take time and result in delays. We purchase products and components pursuant to purchase orders placed from time to time in the ordinary course of business. This means we are vulnerable to unanticipated price increases and product shortages. Any interruption or delay in the supply of components and products, or our inability to obtain components and products from alternate sources at acceptable prices in a timely manner, could harm our business, financial condition and results of operations.

While we believe alternative manufacturers for these products are available, we have selected these particular manufacturers based on their ability to consistently produce these products per our specifications ensuring the best quality product at the most cost effective price. We depend on our third-party manufacturers to satisfy performance and quality specifications and to dedicate sufficient production capacity within scheduled delivery times. Accordingly, the loss of all or one of these manufacturers or delays in obtaining shipments could have a material adverse effect on our operations until such time as an alternative manufacturer could be found.

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, including Ronald P. Erickson, our Chief Executive Officer. We do not maintain key person life insurance covering any 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 currently 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. Our success also depends on our continued ability to identify, attract, hire, train, retain and motivate highly skilled technical, managerial, manufacturing, administrative and sales and marketing personnel. Competition for these individuals is intense, and we may not be able to successfully recruit, assimilate or retain sufficiently qualified personnel. In particular, we may encounter difficulties in recruiting and retaining a sufficient number of qualified technical personnel, which could harm our ability to develop new products and adversely impact our relationships with existing and future customers. The inability to attract and retain necessary technical, managerial, manufacturing, administrative and sales and marketing personnel could harm our ability to obtain new customers and develop new products and could adversely affect our business and operating results.

We have limited insurance which may not cover claims by third parties against us or our officers and directors.

We have limited directors' and officers' liability insurance and commercial liability insurance policies. Claims by third parties against us may exceed policy amounts and we may not have amounts to cover these claims. Any significant claims would have a material adverse effect on our business, financial condition and results of operations. In addition, our limited directors' and officers' liability insurance may affect our ability to attract and retain directors and officers.

Our inability to effectively protect our intellectual property would adversely affect our ability to compete effectively, our revenue, our financial condition and our results of operations.

We rely on a combination of patent, trademark, and trade secret laws, confidentiality procedures and licensing arrangements to protect our intellectual property rights. Obtaining and maintaining a strong patent position is important to our business. Patent law relating to the scope of claims in the technology fields in which we operate is complex and uncertain, so we cannot be assured that we will be able to obtain or maintain patent rights, or that the patent rights we may obtain will be valuable, provide an effective barrier to competitors or otherwise provide competitive advantages. Others have filed, and in the future are likely to file, patent applications that are similar or identical to ours or those of our licensors. To determine the priority of inventions, or demonstrate that we did not derive our invention from another, we may have to participate in interference or derivation proceedings in the USPTO or in court that could result in substantial costs in legal fees and could substantially affect the scope of our patent protection. We cannot be assured our patent applications will prevail over those filed by others. Also, our intellectual property rights may be subject to other challenges by third parties. Patents we obtain could be challenged in litigation or in administrative proceedings such as *ex parte* reexam, *inter partes* review, or post grant review in the United States or opposition proceedings in Europe or other jurisdictions.

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.

Obtaining and maintaining a patent portfolio entails significant expense and resources. Part of the expense includes periodic maintenance fees, renewal fees, annuity fees, various other governmental fees on patents and/or applications due in several stages over the lifetime of patents and/or applications, as well as the cost associated with complying with numerous procedural provisions during the patent application process. We may or may not choose to pursue or maintain protection for particular inventions. In addition, there are situations in which failure to make certain payments or noncompliance with certain requirements in the patent process can result in abandonment or lapse of a patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. If we choose to forgo patent protection or allow a patent application or patent to lapse purposefully or inadvertently, our competitive position could suffer.

Legal actions to enforce our patent rights can be expensive and may involve the diversion of significant management time. In addition, these legal actions could be unsuccessful and could also result in the invalidation of our patents or a finding that they are unenforceable. We may or may not choose to pursue litigation or interferences against those that have infringed on our patents, or used them without authorization, due to the associated expense and time commitment of monitoring these activities. If we fail to protect or to enforce our intellectual property rights successfully, our competitive position could suffer, which could have a material adverse effect on our results of operations and business.

Claims by others that our products infringe their patents or other intellectual property rights could prevent us from manufacturing and selling some of our products or require us to pay royalties or incur substantial costs from litigation or development of non-infringing technology.

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights. We may receive notices that claim we have infringed upon the intellectual property of others. Even if these claims are not valid, they could subject us to significant costs. Any such claims, with or without merit, could be time-consuming to defend, result in costly litigation, divert our attention and resources, cause product shipment delays or require us to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us or at all. We have engaged in litigation and litigation may be necessary in the future to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Litigation may also be necessary to defend against claims of infringement or invalidity by others. A successful claim of intellectual property infringement against us and our failure or inability to license the infringed technology or develop or license technology with comparable functionality could have a material adverse effect on our business, financial condition and operating results.

Our TransTech vendor base is concentrated.

Evolis, Fargo, Ultra Electronics - Magicard Division and NiSCA, are major vendors of TransTech whose products account for approximately 61% of TransTech's revenue. TransTech buys, packages and distributes products from these vendors after issuing purchase orders. Any loss of any of these vendors would have a material adverse effect on our business, financial condition and results of operations.

We currently have a very small sales and marketing organization. If we are unable to secure a sales and marketing partner or establish satisfactory sales and marketing capabilities, we may not be able to successfully commercialize our ChromaID technology.

We currently have one full-time sales and business development manager for the ChromaID technology. This individual oversees sales of our products and IP licensing and manages critical customer and partner relationships. In addition, he manages and coordinates the business development resources at our strategic partners Xinova and Sumitomo Precision Products as they relate to our ChromaID technology. We also work with third party entities that are focused in specific market verticals where they have business relationships that can be leveraged. Our subsidiary, TransTech Systems, has six sales and marketing employees on staff to support the ongoing sales efforts of that business. In order to commercialize products that are approved for commercial sales, we sell directly to our customers, collaborate with third parties that have such commercial infrastructure and work with our strategic business partners to generate sales. If we are not successful entering into appropriate collaboration arrangements, or recruiting sales and marketing personnel or in building a sales and marketing infrastructure, we will have difficulty successfully commercializing our ChromaID technology, which would adversely affect our business, operating results and financial condition.

We may not be able to enter into collaboration agreements on terms acceptable to us or at all. In addition, even if we enter into such relationships, we may have limited or no control over the sales, marketing and distribution activities of these third parties. Our future revenues may depend heavily on the success of the efforts of these third parties. If we elect to establish a sales and marketing infrastructure we may not realize a positive return on this investment. In addition, we must compete with established and well-funded pharmaceutical and biotechnology companies to recruit, hire, train and retain sales and marketing personnel. Factors that may inhibit our efforts to commercialize ChromaID without strategic partners or licensees include:

- our inability to recruit and retain adequate numbers of effective sales and marketing personnel;
- the lack of complementary products to be offered by sales personnel, which may put us at a competitive disadvantage relative to companies with more extensive product lines; and
- unforeseen costs and expenses associated with creating an independent sales and marketing organization.

Government regulatory approval may be necessary before some of our products can be sold and there is no assurance such approval will be granted.

Although we do not need regulatory approval for our current applications, our ChromaID technology may have a number of potential applications in fields of use which will require prior governmental regulatory approval before the technology can be introduced to the marketplace. For example, we are exploring the use of our ChromaID technology for certain medical diagnostic applications. There is no assurance that we will be successful in developing medical applications for our ChromaID technology. If we were to be successful in developing medical applications of our 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.

We may engage in acquisitions, mergers, strategic alliances, joint ventures and divestitures that could result in final 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 the use of significant amounts of cash, potentially dilutive issuances of equity securities, incurrence of debt on potentially unfavorable terms as well as impairment expenses related to goodwill and amortization expenses related to other intangible assets, 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, and various potential difficulties involved in integrating acquired businesses into our operations.

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.

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

Our growth strategy depends in part on our ability to execute successful strategic acquisitions. We have made strategic acquisitions in the past and may do so in the future, and if the acquired companies do not perform as expected, this could adversely affect our operating results, financial condition and existing business.

We may continue to expand our business through strategic acquisitions. The success of any acquisition will depend on, among other things:

- the availability of suitable candidates;
- higher than anticipated acquisition costs and expenses;
- competition from other companies for the purchase of available candidates;
- our ability to value those candidates accurately and negotiate favorable terms for those acquisitions;
- the availability of funds to finance acquisitions and obtaining any consents necessary under our credit facility;
- the ability to establish new informational, operational and financial systems to meet the needs of our business;
- the ability to achieve anticipated synergies, including with respect to complementary products or services; and
- the availability of management resources to oversee the integration and operation of the acquired businesses.

We may not be successful in effectively integrating acquired businesses and completing acquisitions in the future. We also may incur substantial expenses and devote significant management time and resources in seeking to complete acquisitions. Acquired businesses may fail to meet our performance expectations. If we do not achieve the anticipated benefits of an acquisition as rapidly as expected, or at all, investors or analysts may not perceive the same benefits of the acquisition as we do. If these risks materialize, our stock price could be materially adversely affected.

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. 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 lack of an audit committee “financial expert.” We expect to appoint an additional independent director to serve as Audit Committee Chairman. This director will be an “audit committee financial expert” as defined by the SEC. However, 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 in the future. Failure to comply with these laws, rules and regulations could materially adversely affect our reputation, financial condition, and the value of our securities.

The Capital Source credit facility contains covenants that may limit our flexibility in operating our business and failure to comply with any of these covenants could have a material adverse effect on our business.

In December 8, 2009, we entered into the Capital Source credit facility. These Capital Source credit facility contains covenants that limit our ability to engage in specified types of transactions. These covenants limit our ability to, among other things:

- sell, transfer, lease or dispose of certain assets;
- engage in certain mergers and consolidations;
- incur debt or encumber or permit liens on certain assets, except in the limited circumstances permitted under the loan and security agreements;
- make certain restricted payments, including paying dividends on, or repurchasing or making distributions with respect to, our common stock; and
- enter into certain transactions with affiliates.

A breach of any of the covenants under the Capital Source credit facility could result in a default under the Capital Source credit facility. Upon the occurrence of an event of default under the Capital Source credit facility, the lenders could elect to declare all amounts outstanding to be immediately due and payable and terminate all commitments to extend further credit. If we are unable to repay those amounts, the lenders could proceed against the collateral granted to them to secure such indebtedness.

The exercise prices of certain warrants and the Series A and C Preferred Shares may require further adjustment.

In the future, if we sell our common stock at a price below \$0.70 per share, the exercise prices of certain warrants and Series A, Series C and Series D Preferred Shares may require further adjustment from \$0.70 per share.

Risks Relating to Our Stock

The price of our common stock is volatile, which may cause investment losses for our stockholders

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 stockholders;
- 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.

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.

Two individual investors could have significant influence over matters submitted to stockholders for approval

As of December 31, 2016, two individuals in the aggregate, assuming the exercise of all warrants to purchase common stock, hold shares representing approximately 80% of our common stock on a fully-converted basis and could be considered a control group for purposes of SEC rules. However, the agreement with one of these individuals limits his ownership to 4.99% individually. Beneficial ownership includes shares over which an individual or entity has investment or voting power and includes shares that could be issued upon the exercise of options and warrants within 60 days after the date of determination. If these persons were to choose to act together, they would be able to significantly influence all matters submitted to our stockholders for approval, as well as our officers, directors, management and affairs. For example, these persons, if they choose to act together, could significantly influence the election of directors and approval of any merger, consolidation or sale of all or substantially all of our assets. This concentration of voting power could delay or prevent an acquisition of us on terms that other stockholders may desire.

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, 2016, we had 3,570,010 shares of common stock issued and outstanding, held by 54 stockholders of record. The number of stockholders, including beneficial owners holding shares through nominee names, is approximately 2,300. Each share of common stock entitles its holder to one vote on each matter submitted to the stockholders for a vote, and no cumulative voting for directors is permitted. Stockholders do not have any preemptive rights to acquire additional securities issued by us. As of December 31, 2016, there were options outstanding for the purchase of 50,908 common shares, warrants for the purchase of 4,494,080 common shares, 2,184,048 shares of our common stock issuable upon the conversion of Series A, Series C and Series D Convertible Preferred Stock and up to 332,940 shares of our common stock issuable upon the exercise of placement agent warrants, all of which could potentially dilute future earnings per share.

Significant shares of common stock are held by our principal stockholders, other company insiders and other large stockholders. As “affiliates” of Visualant, as defined under Securities and Exchange Commission Rule 144 under the Securities Act of 1933, our principal stockholders, other of our insiders and other large stockholders may only sell their shares of common stock in the public market pursuant to an effective registration statement or in compliance with Rule 144.

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

Future issuance of additional shares of common stock and/or preferred stock could dilute existing stockholders. We have and 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 stockholders.

Pursuant to our certificate of incorporation, we currently have authorized 100,000,000 shares of common stock and 5,000,000 shares of preferred stock. To the extent that common shares are available for issuance, subject to compliance with applicable stock exchange listing rules, our board of directors has the ability to issue additional shares of common stock in the future for such consideration as the board of directors may consider sufficient. The issuance of any additional securities could, among other things, result in substantial dilution of the percentage ownership of our stockholders at the time of issuance, result in substantial dilution of our earnings per share and adversely affect the prevailing market price for our common stock.

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.

Future capital raises may dilute our existing stockholders' ownership and/or have other adverse effects on our operations.

If we raise additional capital by issuing equity securities, our existing stockholders' percentage ownership will be reduced and these stockholders may experience substantial dilution. We may also issue equity securities that provide for rights, preferences and privileges senior to those of our common stock. If we raise additional funds by issuing debt securities, these debt securities would have rights senior to those of our common stock and the terms of the debt securities issued could impose significant restrictions on our operations, including liens on our assets. If we raise additional funds through collaborations and licensing arrangements, we may be required to relinquish some rights to our technologies or candidate products, or to grant licenses on terms that are not favorable to us.

We do not anticipate paying any cash dividends on our capital stock in the foreseeable future.

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all of our future earnings, if any, to finance the growth and development of our business, and we do not anticipate paying any cash dividends on our capital stock in the foreseeable future. In addition, the terms of any future debt agreements may preclude us from paying dividends. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

Anti-takeover provisions may limit the ability of another party to acquire our company, which could cause our stock price to decline.

Our certificate of incorporation, as amended, our bylaws and Nevada law contain provisions that could discourage, delay or prevent a third party from acquiring our company, even if doing so may be beneficial to our stockholders. In addition, these provisions could limit the price investors would be willing to pay in the future for shares of our common stock.

Our articles of incorporation allow for our board to create new series of preferred stock without further approval by our stockholders, which could adversely affect the rights of the holders of our common stock; our Series A Preferred Stock contains provisions that restrict our ability to take certain actions without the consent of at least 66% of the Series A Preferred Stock then outstanding.

Our Board of Directors has the authority to fix and determine the relative rights and preferences of preferred stock. Our Board of Directors also has the authority to issue preferred stock without further stockholder approval. As a result, our Board of Directors could authorize the issuance of a series of preferred stock that would grant to holders the preferred right to our assets upon liquidation, the right to receive dividend payments before dividends are distributed to the holders of common stock and the right to the redemption of the shares, together with a premium, prior to the redemption of our common stock. In addition, our Board of Directors could authorize the issuance of a series of preferred stock that has greater voting power than our common stock or that is convertible into our common stock, which could decrease the relative voting power of our common stock or result in dilution to our existing stockholders.

In addition, our articles of incorporation restrict our ability to take certain actions without the approval of at least 66% of the Series A Preferred Stock then outstanding. These actions include, among other things;

- authorizing, creating, designating, establishing or issuing an increased number of shares of Series A Preferred Stock or any other class or series of capital stock ranking senior to or on a parity with the Series A Preferred Stock;
- adopting a plan for the liquidation, dissolution or winding up the affairs of our company or any recapitalization plan (whether by merger, consolidation or otherwise);
- amending, altering or repealing, whether by merger, consolidation or otherwise, our articles of incorporation or bylaws in a manner that would adversely affect any right, preference, privilege or voting power of the Series A Preferred Stock; and
- declaring or paying any dividend (with certain exceptions) or directly or indirectly purchase, redeem, repurchase or otherwise acquire any shares of our capital stock, stock options or convertible securities (with certain exceptions).

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

During the three months ended December 31, 2016, we had the following issuances of unregistered sales of equity securities:

On October 21, 2015, we entered into a Public Relations Agreement with Financial Genetics LLC for public relation services. On October 18, 2016, we entered into an Amendment to Public Relations Agreement with Financial Genetics LLC. Under the Agreements, Financial Genetics was issued 168,910 shares of our common stock during the three months ended December 31, 2016.

On October 6, 2016, we entered into a Services Agreement with Redwood Investment Group LLC for financial services. Under the Agreement, Redwood was issued 100,000 shares of our common stock during the three months ended December 31, 2016.

We entered into Convertible Promissory Notes totaling \$710,000 with accredited investors during September 2015 to February 2016 to fund short-term working capital. The Notes accrued interest at a rate of 8% per annum and became due September 2016 to February 2017 and were convertible into common stock as part of our next financing. On November 30, 2016, we converted \$695,000 of the Convertible Promissory Notes and interest of \$54,078 into 936,348 shares of common stock at \$0.80 per share. We also issued warrants to purchase 936,348 shares of the Company's common stock. The five year warrants are exercisable at \$1.00 per share, subject to adjustment.

On December 22, 2016, a supplier converted accounts payable totaling \$6,880 into 8,600 shares of common stock valued at \$0.80 per share.

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

- | | |
|------|--|
| 3.1 | Certificate of Designations, Preferences and Rights of Series D Convertible Preferred Stock (incorporated by reference to the Company's Current Report on Form 8-K, filed on February 10, 2017) |
| 10.1 | Form of 10% Convertible Redeemable Note due May 1, 2017 (incorporated by reference to the Company's Current Report on Form 8-K, filed November 7, 2016) |
| 10.2 | Form of Securities Purchase Agreement by and between Visualant, Incorporated and an accredited investor and an affiliate (incorporated by reference to the Company's Current Report on Form 8-K, filed November 7, 2016) |

- 10.3 Form of Original Issue Discount Convertible Promissory Note issued by Pulse Biologics due October 31, 2017(incorporated by reference to the Company's Current Report on Form 8-K, filed November 7, 2016)
- 10.4 Amendment 8 to Demand Promissory Note dated June 30, 2016 by and between Visualant, Incorporated and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed November 14, 2016)
- 10.5 Amendment 9 to Demand Promissory Note dated June 30, 2016 by and between Visualant, Incorporated and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed November 14, 2016)
- 10.6 Amendment 11 to Demand Promissory Note dated June 30, 2016 by and between Visualant, Incorporated and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed November 14, 2016)
- 10.7 Preferred Stock and Warrant Purchase Agreement by and between Visualant, Incorporated and Clayton Struve (incorporated by reference to the Company's Current Report on Form 8-K, filed November 18, 2016)
- 10.8 Registration Rights Agreement by and between Visualant, Inc and Clayton Struve (incorporated by reference to the Company's Current Report on Form 8-K, filed on November 18, 2016)
- 10.9 Series F Warrant to Purchase Common Stock (incorporated by reference to the Company's Current Report on Form 8- K, filed on November 18, 2016)
- 10.10 Preferred Stock and Warrant Purchase Agreement by and between Visualant, Incorporated and Clayton Struve (incorporated by reference to the Company's Current Report on Form 8-K, filed on December 23, 2016)
- 10.11 Registration Rights Agreement by and between Visualant, Inc and Clayton Struve (incorporated by reference to the Company's Current Report on Form 8-K, filed on December 23, 2016)
- 10.12 Series F Warrant to Purchase Common Stock (incorporated by reference to the Company's Current Report on Form 8-K, filed on December 23, 2016)
- [10.13 Amendment to Public Relations Agreement dated October 18, 2016 by and between Visualant, Incorporated and Financial Genetics LLC. Attached herewith.](#)
- [10.14 Services Agreement dated September 15, 2016 by and between Visualant, Incorporated and Redwood Investment Group LLC. Attached herewith.](#)
- [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 21, 2017

By: /s/ Ronald P. Erickson

Ronald P. Erickson
Chief Executive Officer, President, and Director
(Principal Executive Officer)

Date: February 21, 2017

By: /s/ Jeff T. Wilson

Jeff T. Wilson
Chief Financial Officer, Secretary and Treasurer
(Principal Financial and Accounting Officer)

AMENDMENT
TO
PUBLIC RELATIONS AGREEMENT

THE PUBLIC RELATIONS AGREEMENT, originally made effective as of the 21st day of October, 2015 by and between **VISUALANT CORPORATION**, a Nevada corporation having its principal place of business located at 500 Union Street, Suite 420, Seattle, Washington, 98101-4041 (hereinafter referred to as (“COMPANY”))

AND

FINANCIAL GENETICS LLC, a Delaware limited liability company having its principal office located at 205 Chestnut Drive, Roslyn, NY, 11576 (hereinafter referred to as the “CONSULTANT”) is hereby amended on this 18th day of October, 2016,

WITNESSETH THAT:

WHEREAS, the COMPANY, required financial public relations services and has employed CONSULTANT as an independent contractor consultant to provide such services, and the parties now desire a written document formalizing the expanded scope of the relationship and evidencing the terms of their amended agreement;

AND WHEREAS the scope of the work performed by CONSULTANT has expanded beyond the initial contemplation of the parties and now includes advice and counsel on capital raising, marketing advice, strategic counsel, shareholder relations and other services as requested by the COMPANY;

NOW, THEREFORE, intending to be legally bound and in consideration of the mutual promises and covenants, the parties have agreed to amend their agreement as follow:

1. COMPENSATION.

Upon the acceptance of this amendment agreement, and based upon the performance of CONSULTANT during the term of this agreement, an award of TWO HUNDRED THOUSAND SHARES (200,000) of the COMPANY’S commons stock will be issued to FINANCIAL GENETICS LLC which shares will be restricted shares subject to Rule 144. The shares shall be issued monthly (33,333 shares per month) over a period of six months beginning on the date of the execution of this agreement.

But for the modification set forth above, all other elements of the original agreement between the parties, dated October 21, 2015 remains in force and effect.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the 18th day of October, 2016.

The Company

Visualant Corporation

/s/ Ron Erickson

Ron Erickson, CEO

The Consultant

Financial Genetics, LLC

/s/ Barry Bendett

Barry Bendett, President

SERVICES AGREEMENT

THIS SERVICES AGREEMENT (this "Agreement") dated as of September 14, 2016 (the "Effective Date"), is entered into between VISUALANT, INC., (hereinafter the "Company") a Nevada corporation, with a place of business at 500 Union Street, Suite 420, Seattle, WA 98101 and, Redwood Investment Group, LLC ("hereinafter "REDWOOD") a California Corporation, with a place of business at 4570 Campus Drive, Newport Beach, California, 92660. The Company and REDWOOD are sometimes referred to collectively herein as the "Parties", and each individually as a "Party".

In consideration of the promises and the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, hereby agree as follows:

1. Engagement for Services. Company hereby engages REDWOOD to be a provider of those services described on Exhibit "A" (the "Services"), attached hereto and incorporated herein by reference, during and throughout the Term. The Services may be amended and revised at any time only by mutual written consent of the Parties. The engagement of REDWOOD hereunder is "non-exclusive" and the Company may hire any other person or entity to perform the same or similar Services.

2. Term and Termination.

2.1 Term. The Services shall commence as of and on the 14th day of September 2016 (the "Start Date") and will terminate twelve (12) months thereafter, unless terminated earlier ("Termination Date") as set forth below (the "Initial Term").

2.2 Renewal Term. This Agreement shall automatically renew for an additional twelve (12) months (the "Renewal Term") unless either Party provides written notice to the other at least sixty (60) days prior to the end of the Initial Term of its decision to not renew. The "Term" hereunder shall refer to the Initial Term and the Renewal Term, if any.

2.3 Early Termination by Company For Cause. Company may terminate this Agreement upon a material breach of this Agreement by REDWOOD and said breach is not cured by REDWOOD within thirty (30) days after receipt of written notice from Company detailing the nature of the material breach.

2.4 Early Termination by Company without Cause. Company may terminate this Agreement, without cause, upon thirty (30) days written notice of the Termination Date, after completing 120 days, from the Company to Redwood. Redwood will immediately cease performing Services. Notwithstanding anything to the contrary, the Company will pay Redwood all compensation due to the Termination Date but not less than all compensation that would be due through and including January 14, 2016 pursuant to Section 3 (a) hereof and shall reimburse Redwood for all reasonable expenses incurred by Redwood in connection with the Services hereunder pursuant to Section 3(b). All such fees and reimbursements due to Redwood shall be paid to Redwood on or before the Termination Date.

2.5 Early Termination by Redwood For Cause. REDWOOD may terminate this Agreement immediately for a material breach by Company if Company's material breach of any provision of this Agreement is not cured within thirty (30) days after the date of REDWOOD's written notice of breach.

2.6 Early Termination by Redwood without Cause. Redwood may terminate this Agreement, without cause, upon thirty (30) days written notice of the Termination Date, after completing 120 days, from Redwood to the Company. Redwood will immediately cease performing Services. Notwithstanding anything to the contrary, the Company will pay Redwood all compensation due to the Termination Date but not less than all compensation that would be due through and including October 15, 2016 pursuant to Section 3 (a) hereof and shall reimburse Redwood for all reasonable expenses incurred by Redwood in connection with the Services hereunder pursuant to Section 3(b). All such fees and reimbursements due to Redwood shall be paid to Redwood on or before the Termination Date.

2.7 Survival of Certain Provisions. Sections 3, 7, 8, 9, and 11, inclusive, shall remain operative and in full force and effect regardless of the expiration or termination of this Agreement.

3. Compensation. In payment for Services rendered and to be rendered hereunder, Company agrees to compensate REDWOOD as follows:

(a) Beginning September 14th 2016 and on the 14th of each successive month during the Term, the Company shall pay Redwood a nonrefundable engagement fee ("Engagement Fee") Twelve Thousand Dollars (\$12,000), which amount will increase to Fifteen Thousand Dollars (\$15,000) after the Company has raised \$1.5 million of equity capital.

Company shall grant REDWOOD or its designee(s) shares (the "SHARES") of the Company's restricted common stock, which SHARES shall be non-forfeitable and earned in full and is subject to the provisions of Sections 2.3, 2.4, 2.5 and 2.6, and issued under and pursuant to the terms of Regulation D under the Securities Act of 1933 (the "Securities Act"), fully vesting, fully earned and issued as follows; 100,000 shares upon execution of this Agreement, 50,000 shares on January 14th, 2017, and 150,000 shares on June 12th, 2017. The issuance of the SHARES will have received approval from the Company's Board of Directors.

- The SHARES granted under this Agreement shall be registered in the name of REDWOOD or its designee(s), as defined in the Letter of Instructions supplied by REDWOOD at the time of issuance and shall be made part of this Agreement.
- Immediately upon the start of a Renewal Term under Section 2.2, above, the monthly Engagement Fee shall continue at fifteen Thousand Dollars (\$15,000.00), assuming the \$1.5 million of capital referenced above has been raised. Company shall grant REDWOOD SHARES of the Company's restricted common stock, which SHARES shall be non-forfeitable and earned in full by REDWOOD, up to Termination Date and is subject to the provisions of Sections 2.3, 2.4, 2.5 and 2.6, and issued under and pursuant to the terms of Regulation D under the Securities Act of 1933 (the "Securities Act"), fully vesting, fully earned and issued as follows; 100,000 SHARES upon Renewal of this Agreement, 100,000 SHARES on January 14th, 2018, and 100,000 SHARES on June 14th, 2018. The issuance of the SHARES has received approval from the Company's Board of Directors.

(b) In addition to all other fees paid hereunder, Company shall also pay to, or on behalf of, REDWOOD, promptly as billed, all reasonable fees, disbursements and out-of-pocket expenses incurred by REDWOOD in connection the Services, including, without limitation, the fees and disbursements of REDWOOD's counsel, travel and lodging expenses, messenger and duplicating services, and other customary expenditures.

(c) The SHARES may not be sold or transferred unless (i) such SHARES are sold pursuant to an effective registration statement under the Act or (ii) the COMPANY or its Transfer Agent shall have been furnished with an opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that the SHARES to be sold or transferred may be sold or transferred pursuant to an exemption from such registration or (iii) such SHARES are sold or transferred pursuant to Rule 144 under the Act (or a successor rule) ("Rule 144") Subject to the removal provisions set forth below, until such time as the SHARES issuable to REDWOOD have been registered under the Act or otherwise may be sold pursuant to Rule 144 without any restriction as to the number of securities as of a particular date that can then be immediately sold, each certificate for SHARES issuable under this Agreement that have not been so included in an effective registration statement or that has not been sold pursuant to an effective registration statement or an exemption that permits removal of the legend, shall bear a legend substantially in the following form, as appropriate:

- **THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY OTHER SECURITIES LAWS AND MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED, ASSIGNED HYPOTHECATED OR OTHERWISE DISPOSED EXCEPT (I) UPON EFFECTIVE REGISTRATION OF THE SECURITIES UNDER THE ACT AND OTHER APPLICABLE SECURITIES LAWS COVERING SUCH SECURITIES OR (II) UPON ACCEPTANCE BY THE COMPANY OF AN OPINION OF COUNSEL IN SUCH FORM AND BY SUCH COUNSEL, OR OTHER DOCUMENTATION, AS IS SATISFACTORY TO COUNSEL FOR THE COMPANY TO THE EFFECT THAT SUCH REGISTRATION IS NOT REQUIRED.**
- The legend set forth above shall be removed and the Company shall issue to REDWOOD a new certificate therefore free of any transfer legend if (i) the Company or its transfer agent shall have received an opinion of counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, to the effect that a public sale or transfer of such SHARES may be made without registration under the Act, which opinion shall be accepted by the Company so that the sale or transfer is effected may be sold pursuant to Rule 144 without any restriction.

(d) All cash fees payable to REDWOOD pursuant to this Section 3 shall be payable via wire transfer to an account designated by REDWOOD.

(e) If at any time or from time-to-time Company shall determine to register any of its equity securities, either for its own account or for the account of a security holder or holders, other than (i) a registration relating solely to employee benefit plans; or, (ii) a registration relating solely to a Rule 145 transaction, Company will promptly give REDWOOD written notice thereof, and, include in such registration (and any related qualification under blue sky laws or other compliance), and in any underwriting involved therein, that number of shares of common stock issued to REDWOOD under this Agreement.

4. Independent Contractor Relationship. REDWOOD's relationship with Company is that of an independent contractor, and nothing in this Agreement is intended to, or shall be construed to, create a partnership, agency, joint venture, employment, or similar relationship. REDWOOD will not be entitled to any of the benefits that Company may make available to its employees, including, but not limited to, group health or life insurance, profit-sharing or retirement benefits. REDWOOD is not authorized to make any representation, contract, or commitment on behalf of Company unless specifically requested or authorized in writing to do so by a Company manager. REDWOOD is solely responsible for, and will file, on a timely basis, all tax returns and payments required to be filed with, or made to, any federal, state, or local tax authority with respect to the performance of services and receipt of fees under this Agreement. REDWOOD is solely responsible for, and must maintain adequate records of, expenses incurred in the course of performing services under this Agreement. No part of REDWOOD's compensation will be subject to withholding by Company for the payment of any social security, federal, state or any other employee payroll taxes.

5. Information. In connection with the Services, Company will furnish REDWOOD and its designated agents with all materials and information regarding the business and financial condition of Company and any company identified as a potential acquisition target which Company believes are relevant to the Services or which REDWOOD requests (all such information is collectively referred to herein as the "Information"). Company recognizes and confirms that REDWOOD: (a) will use and rely solely on the Information and on information available from generally recognized public sources in performing the Services without having independently verified the same; (b) is authorized, as Company's exclusive provider of the Services, to transmit to any prospective participant in a proposed transaction envisioned under the Services (a "Transaction") copy or copies of the Information and all other legal documentation necessary or advisable in connection with the Services or a Transaction; and, (c) does not assume responsibility for the accuracy or completeness of the Information.

6. **Accuracy of the Information.** Company agrees that the Information will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Company shall advise REDWOOD promptly of the occurrence of any event or any other change prior to the closing of a Transaction which could reasonably be expected to result in the Information containing any untrue statement of a material fact or omitting to state any material fact necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

7. **Confidentiality.**

7.5 **Nondisclosure and Nonuse Obligations.** Except as otherwise permitted in this Agreement, REDWOOD shall not use, disseminate, or in any way disclose the Confidential Information (as defined below). REDWOOD may use the Confidential Information solely to perform the Services. REDWOOD shall treat all Confidential Information with the same degree of care as REDWOOD accords to REDWOOD's own confidential information, but in no case shall REDWOOD use less than reasonable care. REDWOOD shall disclose Confidential Information only to those persons who have a need to know such Confidential Information. REDWOOD certifies that each such recipient will have agreed to be bound by terms and conditions at least as protective as those terms and conditions applicable to REDWOOD under this Agreement. REDWOOD shall immediately give notice to Company of any unauthorized use or disclosure of the Confidential Information. REDWOOD shall reasonably assist Company in remedying any such unauthorized use or disclosure of the Confidential Information. For purposes of this Agreement "Confidential Information" means (a) any technical and non-technical information related to Company's business and current, future, and proposed products and services of Company, and Company's information concerning research, development, design details and specifications, financial information, procurement requirements, engineering and manufacturing information, customer lists, business forecasts, sales information, and marketing plans; and, (b) any information that may be made known to REDWOOD and that Company has received from others that Company is obligated to treat as confidential or proprietary.

7.6 **Exclusions from Nondisclosure and Nonuse Obligations** REDWOOD's obligations under Section 7.1 shall not apply to any Confidential Information that REDWOOD can demonstrate (a) was in the public domain at or subsequent to the time such Confidential Information was communicated to REDWOOD by Company through no fault of REDWOOD; (b) was rightfully in REDWOOD's possession free of any obligation of confidence at or subsequent to the time such Confidential Information was communicated to REDWOOD by Company; or (c) was developed by employees or agents of REDWOOD independently of and without reference to any Confidential Information communicated to REDWOOD by Company. A disclosure of any Confidential Information by REDWOOD (i) in response to a valid order by a court or other governmental body; or, (ii) as otherwise required by law shall not be considered to be a breach of this Agreement or a waiver of confidentiality for other purposes; provided, however, that REDWOOD shall provide prompt prior written notice thereof to Company to enable Company to seek a protective order or otherwise prevent such disclosure.

7.7 **Ownership and Return of Confidential Information and Company Property.** All Confidential Information and any materials (including, without limitation, documents, drawings, papers, diskettes, tapes, models, apparatus, sketches, designs and lists) furnished to REDWOOD by Company, whether delivered to REDWOOD by Company or made by REDWOOD in the performance of services under this Agreement and whether or not they contain or disclose Confidential Information (collectively, the "Company Property"), are the sole and exclusive property of Company or Company's suppliers or customers. Within ten (10) business days after any request by Company, REDWOOD shall destroy or deliver to Company, at Company's option, (a) all Company Property; and, (b) all materials in REDWOOD's possession or control that contain or disclose any Confidential Information. REDWOOD will provide Company a written certification of REDWOOD's compliance with REDWOOD's obligations under this Section 7.3.

8. **Non-Circumvention.** At no time shall Company directly or indirectly call on, engage, contract with, bargain with, agree to agree, solicit, or attempt to do any of the foregoing, in any manner, for any reason, any person or their respective principals introduced to Company by REDWOOD. Specifically, Company shall not, under any circumstance, without the prior, express written agreement of REDWOOD, directly or indirectly circumvent, bypass, or otherwise deny, limit, evade, equivocate, or reduce the interest, profit, share, or participation of REDWOOD in any proposed transaction related to the Services.

9 . Indemnity; Limitation of Liability. Since REDWOOD will be acting on behalf of Company as set forth in this Agreement, and as an integral part of the consideration of the Services to be rendered hereunder, Company shall indemnify REDWOOD and its shareholder, directors, officers, attorneys, employees, and authorized agents (collectively, the “Indemnified Persons”) in accordance with Exhibit “B”, attached hereto and incorporated herein by reference. Company shall not and shall cause its affiliates and their respective directors, officers, managers, members, employees, shareholders and agents not to, initiate any action or proceeding against REDWOOD or any other Indemnified Person in connection with this Agreement or the Services unless such action or proceeding is based solely upon the gross negligence or willful misconduct of REDWOOD or any such Indemnified Person. REDWOOD and the Indemnified Persons shall not be deemed agents or fiduciaries of Company or its stockholders, and will not have the authority to legally bind Company. REDWOOD will not make an appraisal or valuation of any assets or liabilities of Company in connection with the Services hereunder.

10. Representations of Company. Company hereby represents and warrants as follows: (i) it has all requisite power and authority to enter into this Agreement; (ii) this Agreement has been duly and validly authorized by all necessary action on the part of Company; and, (iii) this Agreement has been duly executed and delivered by Company and constitutes a legal, valid, and binding agreement, enforceable in accordance with its terms.

11. General Provisions.

11.5 Press Announcements. At any time after the consummation or other public announcement of any transaction resulting from the Services, REDWOOD may place an announcement in such newspapers, publications, and on its website and marketing materials as it may choose, stating that REDWOOD has acted as set forth herein in connection with the transaction, and may use, from time-to-time, Company’s name and logo and a brief description of the transaction in publications and/or marketing materials prepared and/or distributed by REDWOOD.

11.6 Executed Counterparts. This Agreement may be executed in any number of counterparts, all of which when taken together shall be considered one and the same agreement, it being understood that all Parties need not sign the same counterpart. In the event that any signature is delivered by Fax or by E-Mail, such signature shall create a valid and binding obligation of that Party (or on whose behalf such signature is executed) with the same force and effect as an original thereof. Any photographic, photocopy, or similar reproduction copy of this Agreement, with all signatures reproduced on one or more sets of signature pages, shall be considered for all purposes as if it were an executed counterpart of this Agreement.

11.7 Successors and Assigns. Except as expressly provided in this Agreement, each and all of the covenants, terms, provisions, conditions, and agreements herein contained shall be binding upon and shall inure to the benefit of the successors and assigns of the Parties hereto.

11.8 Governing Law. This Agreement shall be governed by the laws of the State of California, without giving effect to any choice or conflict of law provision or rule (whether of the State of California or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than California. If any court action is necessary to enforce the terms and conditions of this Agreement, the Parties hereby agree that the Superior Court of California, County of Orange, shall be the sole jurisdiction and venue for the bringing of such action.

11.9 Enforcement. The Parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. Accordingly, it is agreed that the Parties shall be entitled to seek an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement, this being in addition to any other remedy to which they are entitled at law or in equity. The remedies of the Parties under this Agreement are cumulative and shall not exclude any other remedies to which any person may be lawfully entitled.

11.10 Recovery of Fees by Prevailing Party. In the event of any legal action (including arbitration) to enforce or interpret the provisions of this Agreement, the non-prevailing Party shall pay the reasonable attorneys' fees and other costs and expenses including expert witness fees of the prevailing Party in such amount as the court shall determine. In addition, such non-prevailing Party shall pay reasonable attorneys' fees incurred by the prevailing Party in enforcing, or on appeal from, a judgment in favor of the prevailing Party. The preceding sentence is intended by the Parties to be severable from the other provisions of this Agreement and to survive and not be merged into such judgment.

11.11 Entire Agreement. This Agreement, and all references, documents, or instruments referred to herein, contains the entire agreement and understanding of the Parties in respect to the subject matter contained herein. The Parties have expressly not relied upon any promises, representations, warranties, agreements, covenants, or undertakings, other than those expressly set forth or referred to herein. This Agreement supersedes (i) any and all prior written or oral agreements, understandings, and negotiations between the Parties with respect to the subject matter contained herein; and, (ii) any course of performance and/or usage of the trade inconsistent with any of the terms hereof.

11.12 Severability. Each and every provision of this Agreement is severable and independent of any other term or provision of this Agreement. If any term or provision hereof is held void or invalid for any reason by a court of competent jurisdiction, such invalidity shall not affect the remainder of this Agreement.

11.13 Amendment. This Agreement may be amended or modified only by a writing signed by all Parties.

11.14 Notices.

11.14.1 Method and Delivery. All notices, requests and demands hereunder shall be in writing and delivered by hand, by Electronic Transmission, by mail, by telegram, or by recognized commercial over-night delivery service (such as Federal Express, UPS, or DHL), and shall be deemed given (a) if by hand delivery, upon such delivery; (b) if by Electronic Transmission, upon telephone confirmation of receipt of same; (c) if by mail, forty-eight (48) hours after deposit in the United States mail, first class, registered or certified mail, postage prepaid; (d) if by telegram, upon telephone confirmation of receipt of same; or, (e) if by recognized commercial over-night delivery service, upon such delivery.

11.14.2 Consent to Electronic Transmissions. Each Party hereby expressly consents to the use of Electronic Transmissions for communications and notices under this Agreement. For purposes of this Agreement, "Electronic Transmissions" means a communication (i) delivered by facsimile telecommunication or electronic mail when directed to the facsimile number or electronic mail address, respectively, for that recipient on record with the sending Party; and, (ii) that creates a record that is capable of retention, retrieval, and review, and that may thereafter be rendered into clearly legible tangible form.

11.14.3 Address Changes. Any Party may alter the Fax number, E-Mail address, physical address, or postage address to which communications or copies are to be sent by giving notice of such change of address to the other Parties in accordance with the provisions of this Section 11.10.

11.15 Disputes. The Parties agree to cooperate and meet in order to resolve any disputes or controversies arising under this Agreement. Should they be unable to do so, then either may elect arbitration under the rules of the American Arbitration Association, and both Parties are obligated to proceed thereunder. Arbitration shall proceed in Orange County, and the Parties agree to be bound by the arbitrator's award, which may be filed in the Superior Court of California, County of Orange. The Parties consent to the jurisdiction of California Courts for enforcement of this determination by arbitration. The prevailing Party shall be entitled to reimbursement for his attorney's fees and all costs associated with arbitration. In any arbitration proceeding conducted pursuant to the provisions of this Section, both Parties shall have the right to conduct discovery, to call witnesses and to cross-examine the opposing Party's witnesses, either through legal counsel, expert witnesses or both, and the provisions of the California Code of Civil Procedure (Right to Discovery; Procedure and Enforcement) are hereby incorporated into this Agreement by this reference and made a part hereof. EACH PARTY HEREBY WAIVES TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTER CLAIM BROUGHT BY ANY OF THEM AGAINST THE OTHER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS AGREEMENT, OR ANY OTHER AGREEMENTS EXECUTED IN CONNECTION HERewith OR THE ADMINISTRATION THEREOF OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREIN.

11.16 Provision Not Construed Against Party Drafting Agreement. This Agreement is the result of negotiations by and between the Parties, and each Party has had the opportunity to be represented by independent legal counsel of its choice. This Agreement is the product of the work and efforts of all Parties, and shall be deemed to have been drafted by all Parties. In the event of a dispute, no Party hereto shall be entitled to claim that any provision should be construed against any other Party by reason of the fact that it was drafted by one particular Party.

11.17 Best Efforts. The Parties shall use and exercise their best efforts, taking all reasonable, ordinary and necessary measures to ensure an orderly and smooth relationship under this Agreement, and further agree to work together and negotiate in good faith to resolve any differences or problems which may arise in the future.

12. Execution. IN WITNESS WHEREOF, this SERVICES AGREEMENT has been duly executed by the Parties in Orange County, California, and shall be effective as of and on the Effective Date. Each of the undersigned Parties hereby represents and warrants that it (i) has the requisite power and authority to enter into and carry out the terms and conditions of this Agreement, as well as all transactions contemplated hereunder; and, (ii) it is duly authorized and empowered to execute and deliver this Agreement.

COMPANY:

VISUALANT, INC.
a Nevada Corporation

BY: /s/ Ron Erickson

NAME: Ron Erickson

TITLE: CEO

DATED: September 15, 2016

REDWOOD:

REDWOOD INVESTMENT GROUP, LLC
a California Corporation

BY: /s/ Thomas Hemingway

NAME: Thomas Hemingway

TITLE: CEO

DATED: September 15, 2016

EXHIBIT “A”

SERVICES

REDWOOD shall serve as the non exclusive advisor to Company with regard to corporate finance and capital raising activities, merger and acquisition transactions, and other related endeavors. The Services shall include, though not be limited to, the following:

Advisor to Company in connection with a potential purchase of any other company or assets through any structure or form of transaction including, but not limited to, a direct or indirect acquisition, purchase of assets, merger, consolidation, restructuring, transfer of securities or any similar or related transaction.

Advisor to Company in connection with the provision of any financing transaction. Advisor to Company in connection with Company’s management and positioning. In connection with the Services, provide from time-to-time and as appropriate:

- One-on-Ones with key banking and/or investment fund contacts
- Consult and advise on reverse split shares
- Deal and non-deal roadshows
- Advise on Financing, PO-Invoice and corporate financing
- Market recommendations and clean up
- New Shareholder introductions
- Corporate Governance
- Management and BOD recommendations
- Key business introductions.
- Identification of potential investors for any offering of securities
- Media Coverage
- Analyst Coverage
- Up listing assistance to either NASDAQ or NYSE.
- Assist in investor and public awareness
- Consulting with Company’s management regarding structuring of capital formation programs
- Review and advise on corporate capitalization table and company focus

EXHIBIT “B”

INDEMNIFICATION

Unless otherwise noted, all capitalized terms used herein shall have the same meanings as set forth in the Agreement. In furtherance of Section 9 of the Agreement, the Parties hereby agree as follows:

As part of the consideration for REDWOOD to furnish the Services Company agrees to indemnify and hold harmless REDWOOD and the Indemnified Persons to the fullest extent from and against all claims, liabilities, losses, damages and expenses (or actions in respect thereof), as incurred, related to or arising out of or in connection with (i) actions taken or omitted to be taken by Company, its affiliates, employees or agents; (ii) actions taken or omitted to be taken by any Indemnified Person (including acts or omissions constituting ordinary negligence) pursuant to the terms of, or in connection with the Services or any Indemnified Person's role in connection therewith, provided, however, that Company shall not be responsible for any losses, claims, damages, liabilities or expenses of any Indemnified Person to the extent, and only to the extent, that it is finally judicially determined that they are due solely to such Indemnified Person's gross negligence or willful misconduct; and/or, (iii) any untrue statement or alleged untrue statement of a material fact contained in any of the Information, or arising out of or based upon any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein not misleading.

Company shall not settle or compromise or consent to the entry of any judgment in or otherwise seek to terminate any pending or threatened action, claim, suit or proceeding in which any Indemnified Person is or could be a party and as to which indemnification or contribution could have been sought by such Indemnified Person hereunder (whether or not such Indemnified Person is a party thereto), unless such Indemnified Person has given its prior written consent or the settlement, compromise, consent or termination includes an express unconditional release of such Indemnified Person, satisfactory in form and substance to such Indemnified Person, from all losses, claims, damages or liabilities arising out of such action, claim, suit or proceeding.

If for any reason (other than the gross negligence or willful misconduct of an Indemnified Person as provided above) the foregoing indemnity is unavailable to an Indemnified Person or insufficient to hold an Indemnified Person harmless, then Company, to the fullest extent permitted by law, shall contribute to the amount paid or payable by such Indemnified Person as a result of such claims, liabilities, losses, damages or expenses in such proportion as is appropriate to reflect the relative benefits received by Company on the one hand and by REDWOOD on the other, from the proposed transaction under the Agreement or, if allocation on that basis is not permitted under applicable law, in such proportion as is appropriate to reflect not only the relative benefits received by Company on the one hand and REDWOOD on the other, but also the relative fault of Company and REDWOOD, as well as any relevant equitable considerations. Notwithstanding the provisions hereof, the aggregate contribution of all Indemnified Persons to all claims, liabilities, losses, damages, and expenses shall not exceed the amount of fees actually received by REDWOOD pursuant to the Agreement. It is hereby further agreed that the relative benefits to the Company on the one hand and REDWOOD on the other with respect to any proposed transaction contemplated by the Agreement shall be deemed to be in the same proportion as (i) the total value paid or contemplated to be paid or received or contemplated to be received by Company or the Company's shareholders, as the case may be, in the transaction or transactions that are within the scope of the Agreement, whether or not any such transaction is consummated, bears to (ii) the fees actually paid to REDWOOD with respect to such transaction. The relative fault of Company on the one hand and REDWOOD on the other with respect to the transaction shall be determined by reference to, among other things, whether any untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by Company or by REDWOOD and the Parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

No Indemnified Person shall have any liability to Company or any officer, director, employee or affiliate thereof in connection with the Services except for any liability for claims, liabilities, losses, or damages finally judicially determined to have resulted solely as a result of such Indemnified Person's gross negligence or willful misconduct. In no event shall any Indemnified Person be responsible for any special, indirect, punitive, or consequential damages. In addition, Company agrees to reimburse the Indemnified Persons for all expenses (including, without limitation, fees and expenses of counsel) as they are incurred in connection with investigating, preparing, defending or settling any action or claim for which indemnification or contribution may be sought by the Indemnified Person, whether or not in connection with litigation in which any Indemnified Person is a named party.

The indemnity, contribution, and expense reimbursement obligations set forth herein (i) shall be in addition to any liability Company may have to any Indemnified Person at common law or otherwise; (ii) shall survive the expiration of the Term; (iii) shall apply to any modification of REDWOOD's engagement and shall remain in full force and effect following the completion or termination of the Agreement; (iv) shall remain operative and in full force and effect regardless of any investigation made by or on behalf of REDWOOD or any other Indemnified Person; and, (v) shall be binding on any successor or assign of Company and successors or assigns to Company's business and assets.

SECTION 302 CERTIFICATIONS

I, Ronald P. Erickson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Visualant, Incorporated;
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 21, 2017

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

SECTION 302 CERTIFICATIONS

I, Jeff T. Wilson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Visualant, Incorporated;
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 21, 2017

/s/ Jeff T. Wilson
Chief Financial Officer
February 21, 2017

**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, Incorporated (the "Company") on Form 10-Q for the three months ended December 31, 2016 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 21, 2017

**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, Incorporated (the "Company") on Form 10-Q for the three months ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeff T. Wilson, 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/ Jeff T. Wilson
Chief Financial Officer
February 21, 2017
