

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

FORM 10-K/A
Amendment No. 1

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

For the fiscal year ended September 30, 2016

TRANSACTION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transaction period from _____ to _____

Commission File number 0-25541



VISUALANT

VISUALANT, INC.

(Exact name of registrant as specified in its 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**

(Address of principal executive offices)

98101

(Zip Code)

Issuer's telephone number, including area code

206-903-1351

Securities registered pursuant to Section 12 (b) of the Exchange Act:

Common

(Title of each class)

OTCQB

(Name of each exchange on which registered)

Securities registered pursuant to Section 12 (g) of the Exchange Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 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 check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

As of March 31, 2016 (the last business day of our most recently completed second fiscal quarter), based upon the last reported trade on that date, the aggregate market value of the voting and non-voting common equity held by non-affiliates (for this purpose, all outstanding and issued common stock minus stock held by the officers, directors and known holders of 10% or more of the Company's common stock) was \$6,469,953.

As of January 13, 2017, the Company had 3,570,010 shares of common stock outstanding.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A amends the Company's Annual Report on Form 10-K for the year ended September 30, 2016, as filed with the Securities and Exchange Commission (the "SEC") on January 13, 2017 (the "Original Filing").

The purpose of this Amendment No. 1 on Form 10-K/A is to respond to certain comments received from the Staff of the SEC. For convenience and ease of reference, the Company is filing this Form 10-K/A in its entirety with all applicable changes and unless otherwise stated, all information contained in this amendment is as of the filing date of the Original Filing. Except as stated herein, this Form 10-K/A does not reflect events or transactions occurring after such filing date or modify or update those disclosures in the original Form 10-K that may have been affected by events or transactions occurring subsequent to such filing date.

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PART I

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

The following discussion, in addition to the other information contained in this report, should be considered carefully in evaluating us and our prospects. This report (including without limitation the following factors that may affect operating results) contains forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act") regarding us and our business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this report. Additionally, statements concerning future matters such as revenue projections, projected profitability, growth strategies, development of new products, enhancements or technologies, possible changes in legislation and other statements regarding matters that are not historical are forward-looking statements.

Forward-looking statements in this report reflect the good faith judgment of our management and these statements are based on facts and factors as we currently understand 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 in "Risk Factors" and in "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as those discussed elsewhere in this report. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this report.

ITEM 1. DESCRIPTION OF BUSINESS

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 January 13, 2017, we had 3,570,010 shares of common stock issued and outstanding, held by 54 shareholders of record. The number of shareholders, 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 shareholders for a vote, and no cumulative voting for directors is permitted. Shareholders do not have any preemptive rights to acquire additional securities issued by us. As of January 13, 2017, there were options outstanding for the purchase of 50,908 shares of common stock and warrants for the purchase of 4,494,080 shares of common stock. In addition, 2,184,048 shares of our common stock are issuable upon the conversion of Preferred Stock, up to 270,439 shares of our common stock are issuable upon the exercise of placement agent warrants and an unknown number of shares are issuable upon conversion of \$490,000 in convertible promissory notes, all of which could potentially dilute future earnings per share.

On May 6, 2015, our stockholders approved a reverse stock split of our common stock, in a ratio to be determined by our board of directors, of not less than 1-for-50 nor more than 1-for-150. On June 9, 2015, our Board of Directors determined that the ratio of the reverse split would be 1-for-150, and the reverse split became effective on June 17, 2015. All warrant, option, share and per share information in this prospectus 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 fluorescent 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 aggressive 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 our strategic partner, Intellectual Ventures through its subsidiary IDMC.

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 Intellectual Ventures and its subsidiary, IDMC, 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 aggressive 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, the IDMC subsidiary of Intellectual Ventures.

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.

IDMC Relationship

In November 2013, we entered into a strategic relationship with Invention Development Management Company, a subsidiary of Intellectual Ventures, a private intellectual property fund with over \$5 billion under management. In May of 2016, Intellectual Ventures was spun out IDMC into an independent company called Xnova. The relationship remains intact. Intellectual Ventures 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. IDMC 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. In connection with IDMC's work to expand our intellectual property portfolio, we agreed to curtail outbound marketing activities of our technology through the fourth calendar quarter of 2014.

Initial testing in our laboratories and the work of the IDMC 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 manufacturers 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 IDMC 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 IDMC during the last calendar quarter of 2013 and first calendar quarter of 2014, after we completed final assembly and testing. As part of our agreement with IDMC, we curtailed our ChromaID marketing efforts through the fourth calendar quarter of 2014 while IDMC worked to expand our intellectual property portfolio. Thereafter, we began to actively market the ChromaID Lab Kits to interested and qualified customers. 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 IDMC, 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 research and development efforts are supported internally, through its relationship with IDMC and through contractors led by Dr. Tom Furness and his team at RATLab LLC.

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 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, we were 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.

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

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

In November 2013, we entered into a Services and License Agreement with Invention Development Management Company. IDMC is a subsidiary of Intellectual Ventures, which collaborates with inventors and partners with pioneering companies and invests both expertise and capital in the process of invention. On November 19, 2014, we amended the Services and License Agreement with IDMC. This amendment exclusively licenses 10 filed patents to us. In May of 2016, Intellectual Ventures was spun out IDMC into an independent company called Xinova. The relationship remains intact.

The agreement requires IDMC 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. IDMC is responsible for the development and patent costs. We provided the Chroma ID Lab Kits to IDMC 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 IDMC 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 IDMC network during December 2013 and January 2014. As part of our agreement with IDMC, we curtailed our ChromaID marketing efforts through the fourth calendar quarter of 2014 while IDMC 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 IDMC 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 IDMC within the identification, authentication and diagnostics field of use to (a) make, have made, use, import, sell and offer to sell products and services and (b) grant sublicenses to any and all of the foregoing rights. The option to acquire this license may be exercised for up to two years from the effective date of the Agreement.

IDMC is providing global business development services to us for geographies not being pursued by Visualant. Also, IDMC 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 IDMC 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 IDMC 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 IDMC 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 IDMC a percentage of license revenue for the global development business services and a percentage of revenue received from any company introduced to us by IDMC. We also have also agreed to pay IDMC a royalty when we receive royalty product revenue from an IDMC-introduced company. IDMC 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 of 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 I, Item 1A.

CORPORATE INFORMATION

We were incorporated under the laws of the State of Nevada on October 8, 1998. Our executive offices are located at 500 Union Street, Suite 420, Seattle, WA 98101. Our telephone number is (206) 903-1351 and its principal website address is located at www.visualant.net. The information on our website is not incorporated as a part of this Form 10-K.

EMPLOYEES

As of January 13, 2017, we had twenty full-time employees. Our senior management is located in the Seattle, Washington office.

WEBSITE ACCESS TO UNITED STATES SECURITIES AND EXCHANGE COMMISSION REPORTS

We file annual and quarterly reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). You may read and copy any document we file at the SEC's Public Reference Room at 100 F Street, N.E., Washington D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains a website at <http://www.sec.gov> that contains reports, proxy and information statements and other information concerning filers. We also maintain a web site at <http://www.visualant.net> that provides additional information about our Company and links to documents we file with the SEC. The Company's charters for the Audit Committee, the Compensation Committee, and the Nominating Committee; and the Code of Conduct & Ethics are also available on our website. The information on our website is not part of this Form 10-K.

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 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 process 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 IDMC. 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.

We believe that our commercialization success is dependent upon our ability to significantly increase the number of customers that are using our products. To date, we have generated minimal revenue from sales of our ChromaID products. In addition, demand for our ChromaID products may not increase as quickly as planned and we may 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 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.

We may be unable to manage our future growth effectively, which could make it difficult to execute our business strategy.

We commenced our formal commercial launch in the fourth fiscal quarter of 2014 and anticipate growth in our business operations. Since our inception in 1998, we have increased our number of employees to 20 as of January 13, 2017 and we expect to increase our number of employees further as our business grows. This future growth could create strain on our organizational, administrative and operational infrastructure, including quality control, customer service and sales and marketing. Our ability to manage our growth properly will require us to continue to improve our operational, financial, and management controls, as well as our reporting systems and procedures. If our current infrastructure is unable to handle our growth, we may need to expand our infrastructure and staff and implement new reporting systems. The time and resources required to implement such expansion and systems could adversely affect our operations. Our expected future growth will impose significant added responsibilities on members of management, including the need to identify, recruit, maintain, and integrate additional employees. Our future financial performance and our ability to commercialize our products and to compete effectively will depend, in part, on our ability to manage this potential future growth effectively, without compromising quality.

Risks Relating to our Business and Financial Condition

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 limited 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.

We need additional financing to support our technology development and ongoing operations, pay our debts and maintain ownership of our intellectual properties; we will not receive any of the proceeds from the sale of the common stock by the selling stockholder.

We are currently operating at a loss. We believe that our cash on hand will be sufficient to fund our operations through January 31, 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 or eliminate the development of business opportunities and our operations and financial condition may be materially adversely affected.

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 Invention Development Management Company, LLC is important to our business strategy and operations.

In November 2013, we entered into a Services and License Agreement with Invention Development Management Company. IDMC is a subsidiary of Intellectual Ventures, which collaborates with inventors, partners with companies and invests both expertise and capital in the process of invention. This agreement was amended in November 2014 to license ten patents filed by IDMC related to the ChromaID technology to us. In May of 2016, Intellectual Ventures was spun out IDMC into an independent company called Xinova. The relationship remains intact.

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

- The agreement requires IDMC 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 IDMC within that same field of use; and
- We granted to IDMC certain licenses to our intellectual property outside the identification, authentication and diagnostics field of use.

Failure to operate in accordance with the IDMC 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.

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 September 30, 2016, we have obligations to repay approximately \$2,631,640 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 the Company under the Umpqua Loan. We recorded accrued interest of \$16,340 as of September 30, 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 \$40,167 as of September 30, 2016.

Mr. Erickson and/or entities with which he is affiliated also have advanced \$521,833 and have unreimbursed expenses and compensation of approximately \$424,872. We owe Mr. Erickson, or entities with which he is affiliated, \$1,546,705 as of September 30, 2016.

On September 30, 2016, we 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. We recorded a beneficial conversion feature of \$10,500 and expensed an additional \$24,500 related to the convertible note.

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.

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 the company were to dissolve or wind-up, 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 you to receive any liquidation distribution with respect to any common stock you hold.

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 73% 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 IDMC 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 will have to 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 and Series C 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 September 30, 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 January 13, 2017, we had 3,570,010 shares of common stock issued and outstanding, held by 54 shareholders of record. The number of shareholders, 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 shareholders for a vote, and no cumulative voting for directors is permitted. Shareholders do not have any preemptive rights to acquire additional securities issued by us. As of January 13, 2017, there were options outstanding for the purchase of 50,908 shares of common stock and warrants for the purchase of 4,494,080 shares of common stock. In addition, 2,184,048 shares of our common stock are issuable upon the conversion of Preferred Stock, up to 270,439 shares of our common stock are issuable upon the exercise of placement agent warrants and an unknown number of shares are issuable upon conversion of \$490,000 in convertible promissory notes, 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 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Corporate Offices

Our executive office is located at 500 Union Street, Suite 420, Seattle, Washington, USA, 98101. We lease 1,014 square feet and our net monthly payment is \$2,535. We also lease 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. We lease this office on a month to month basis at \$6,942 per month.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Authorized Capital Stock

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 of voting preferred stock, par value \$0.001 per share.

Voting Preferred Stock

We are authorized to issue up to 5,000,000 shares of preferred stock with a par value of \$0.001.

On July 21, 2015, we filed with the Nevada Secretary of State an Amended and Restated Certificate of Designations, Preferences and Rights for our Series A Convertible Preferred Stock. Among other things, the Amended and Restated Certificate changed the conversion price and the stated value of the Series A Preferred 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.

Under the Amended and Restated Certificate, we had 11,667 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. We 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, given by written consent or by vote at a meeting called for such purpose for which notice shall have been duly given to the holders of the Series A Preferred.

During the year ended September 30, 2015, we sold 11,667 Series A Preferred Stock to two investors totaling \$350,000. These shares are expected to be 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.

We also issued (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 price of the Series A Preferred Stock was adjusted to \$0.70 per share due to the issuance of common stock at that price.

On March 8, 2016, we received approval from the State of Nevada for the 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 adding 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. We have 23,334 Series A Preferred Stock issued and outstanding.

Series C Convertible Preferred Stock

On August 5, 2016, we 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 preferred has a yield of 8% and an ownership blocker of 4.99%. In addition, the investor received 100% warrant coverage with five year warrants having a strike price of \$0.70. Both the Series C and warrants were included in a registration statement filed by us.

On August 11, 2016, we 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 at a par value of \$.001 per share that is convertible into common stock at \$0.70 per share, with certain adjustments as set forth in the Certificate. On August 31, 2016, we 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 Redeemable Convertible Preferred Stock. The Certificate authorized 5,000 shares of Series C Preferred Stock at a par value of \$.001 per share that is convertible into common stock at \$0.70 per share, with certain adjustments as set forth in the Certificate.

Common Stock

We are authorized to issue up to 100,000,000 shares of common stock with a par value of \$0.001. As of January 13, 2017, we had 3,570,010 shares of common stock issued and outstanding, held by 54 shareholders of record. The number of shareholders, 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 shareholders for a vote, and no cumulative voting for directors is permitted. Shareholders do not have any preemptive rights to acquire additional securities issued by us. As of January 13, 2017, there were options outstanding for the purchase of 50,908 shares of common stock and warrants for the purchase of 4,494,080 shares of common stock. In addition, 2,184,048 shares of our common stock are issuable upon the conversion of Preferred Stock, up to 270,439 shares of our common stock are issuable upon the exercise of placement agent warrants and an unknown number of shares are issuable upon conversion of \$490,000 in convertible promissory notes, all of which could potentially dilute future earnings per share.

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

Stock Incentive Plan

On April 29, 2011, our 2011 Stock Incentive Plan was approved at the Annual Stockholder Meeting. We were 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.

Anti-Takeover Provisions

Nevada Revised Statutes

Acquisition of Controlling Interest Statutes. Nevada's "acquisition of controlling interest" statutes contain provisions governing the acquisition of a controlling interest in certain Nevada corporations. These "control share" laws provide generally that any person who acquires a "controlling interest" in certain Nevada corporations may be denied certain voting rights, unless a majority of the disinterested stockholders of the corporation elects to restore such voting rights. These statutes provide that a person acquires a "controlling interest" whenever a person acquires shares of a subject corporation that, but for the application of these provisions of the Nevada Revised Statutes, would enable that person to exercise (1) one-fifth or more, but less than one-third, (2) one-third or more, but less than a majority or (3) a majority or more, of all of the voting power of the corporation in the election of directors. Once an acquirer crosses one of these thresholds, shares which it acquired in the transaction taking it over the threshold and within the 90 days immediately preceding the date when the acquiring person acquired or offered to acquire a controlling interest become "control shares" to which the voting restrictions described above apply. Our articles of incorporation and bylaws currently contain no provisions relating to these statutes, and unless our articles of incorporation or bylaws in effect on the tenth day after the acquisition of a controlling interest were to provide otherwise, these laws would apply to us if we were to (i) have 200 or more stockholders of record (at least 100 of which have addresses in the State of Nevada appearing on our stock ledger) and (ii) do business in the State of Nevada directly or through an affiliated corporation. As of July 17, 2014 we have less than 200 record stockholders. If these laws were to apply to us, they might discourage companies or persons interested in acquiring a significant interest in or control of the company, regardless of whether such acquisition may be in the interest of our stockholders.

Combinations with Interested Stockholders Statutes. Nevada's "combinations with interested stockholders" statutes prohibit certain business "combinations" between certain Nevada corporations and any person deemed to be an "interested stockholder" for two years after the such person first becomes an "interested stockholder" unless (i) the corporation's board of directors approves the combination (or the transaction by which such person becomes an "interested stockholder") in advance, or (ii) the combination is approved by the board of directors and sixty percent of the corporation's voting power not beneficially owned by the interested stockholder, its affiliates and associates. Furthermore, in the absence of prior approval certain restrictions may apply even after such two-year period. For purposes of these statutes, an "interested stockholder" is any person who is (x) the beneficial owner, directly or indirectly, of ten percent or more of the voting power of the outstanding voting shares of the corporation, or (y) an affiliate or associate of the corporation and at any time within the two previous years was the beneficial owner, directly or indirectly, of ten percent or more of the voting power of the then outstanding shares of the corporation. The definition of the term "combination" is sufficiently broad to cover most significant transactions between the corporation and an "interested stockholder". Subject to certain timing requirements set forth in the statutes, a corporation may elect not to be governed by these statutes. We have not included any such provision in our articles of incorporation.

The effect of these statutes may be to potentially discourage parties interested in taking control of us from doing so if it cannot obtain the approval of our Board of Directors.

Articles of Incorporation and Bylaws Provisions

Our articles of incorporation, as amended and restated, and our bylaws, as amended and restated, contain provisions that could have the effect of discouraging potential acquisition proposals or tender offers or delaying or preventing a change in control, including changes a stockholder might consider favorable. In particular, our articles of incorporation and bylaws, among other things:

- permit our Board of Directors to alter our bylaws without stockholder approval;
- provide that vacancies on our Board of Directors may be filled by a majority of directors in office, although less than a quorum;
- authorize the issuance of preferred stock, which can be created and issued by our Board of Directors without prior stockholder approval, with rights senior to our common stock, which may render more difficult or discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or otherwise; and
- establish advance notice procedures with respect to stockholder proposals relating to the nomination of candidates for election as directors and other business to be brought before stockholder meetings, which notice must contain information specified in our bylaws.

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).

Such provisions may have the effect of discouraging a third-party from acquiring us, even if doing so would be beneficial to our stockholders. These provisions are intended to enhance the likelihood of continuity and stability in the composition of our Board of Directors and in the policies formulated by them, and to discourage some types of transactions that may involve an actual or threatened change in control of our company. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal and to discourage some tactics that may be used in proxy fights. We believe that the benefits of increased protection of our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure our company outweigh the disadvantages of discouraging such proposals because, among other things, negotiation of such proposals could result in an improvement of their terms.

However, these provisions could have the effect of discouraging others from making tender offers for our shares that could result from actual or rumored takeover attempts. These provisions also may have the effect of preventing changes in our management.

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

Our common stock is currently quoted on the OTCQB under the symbol "VSUL". The following table sets forth the range of the high and low sale prices of the common stock for the periods indicated. The quotations reflect inter-dealer prices, without retail markup, markdown or commission, and may not represent actual transactions. Consequently, the information provided below may not be indicative of our common stock price under different conditions.

Trades in our common stock may be subject to Rule 15c-9 of the Exchange Act, which imposes requirements on broker/dealers who sell securities subject to the rule to persons other than established customers and accredited investors. For transactions covered by the rule, broker/dealers must make a special suitability determination for purchasers of the securities and receive the purchaser's written agreement to the transaction before the sale.

Period Ended	High	Low
Year Ending September 30, 2016		
July 1, 2016 to September 30, 2016	\$ 3.50	\$ 0.60
June 30, 2016	\$ 9.35	\$ 2.25
March 31, 2016	\$ 8.04	\$ 5.00
December 31, 2015	\$ 9.00	\$ 4.30
Year Ending September 30, 2015		
September 30, 2015	\$ 8.00	\$ 2.80
June 30, 2015	\$ 13.50	\$ 6.00
March 31, 2015	\$ 13.50	\$ 7.50
December 31, 2014	\$ 18.00	\$ 7.50

As of January 9, 2017, the high and low sales price of our common stock was \$0.75 per share and \$0.65 per share, respectively. As of January 13, 2016, there were 3,570,010 shares of common stock outstanding held by approximately 54 stockholders of record. This number does not include approximately 2,300 beneficial owners whose shares are held in the names of various security brokers, dealers and registered clearing agencies.

Transfer Agent

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

Dividend Policy

We have not previously declared or paid any cash dividends on our common stock and do not anticipate or contemplate paying dividends on our common stock in the foreseeable future. We currently intend to use all of our available funds to finance the growth and development of our business. We can give no assurances that we will ever have excess funds available to pay dividends. In addition, our articles of incorporation restrict our ability to pay any dividends on our common stock without the approval of 66% of our then outstanding Series A Preferred Stock.

Recent Sales of Unregistered Securities

During the three months ended September 30, 2016, we had the following sales of unregistered sales of equity securities:

Two investors exercised warrants at \$2.50 per share and were issued 68,001 shares of common stock, for a total of \$170,003 in proceeds to us

On October 21, 2015, we entered into a Public Relations Agreement with Financial Genetics LLC for public relation services. Under the Agreement, Financial Genetics was issued 8,572 shares of our common stock during the three months ended September 30, 2016.

On July 12, 2016, a supplier converted accounts payable totaling \$232,966 into 77,665 shares of common stock valued at \$3.00 per share.

On August 1, 2016, we entered an Agreement with Axiom Financial, Inc. for business development services. Under the Agreement, we issued 25,000 shares of our common stock.

On August 10, 2016, we closed a Stock Purchase Agreement with Dale Broadrick, an accredited investor and affiliate of the Company for the purchase of \$500,000 of our common stock at \$0.70 per share or 714,286 shares of common stock. In addition, the investor received 100% warrant coverage with a five year warrant having a strike price of \$0.70. These common shares and warrants are not subject to a registration statement.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of September 30, 2016 related to the equity compensation plan in effect at that time.

Plan Category	(a)	(b)	(c)
	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a))
Equity compensation plan approved by shareholders	50,908	18.045	27,425
Equity compensation plans not approved by shareholders	-	-	-
Total	50,908	18.045	27,425

ITEM 6. SELECTED FINANCIAL DATA

Summary Financial Information

In the following table, we provide you with our selected consolidated historical financial and other data. We have prepared the consolidated selected financial information using our consolidated financial statements for the years ended September 30, 2016 and 2015. When you read this selected consolidated historical financial and other data, it is important that you read along with it the historical financial statements and related notes in our consolidated financial statements included in this report, as well as Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

(dollars in thousands)

	Years Ended September 30,				
	2016	2015	2014	2013	2012
STATEMENT OF OPERATIONS DATA:					
Net revenue	\$ 6,024	\$ 6,291	\$ 7,983	\$ 8,573	\$ 7,924
Cost of goods sold	5,036	5,274	6,694	6,717	6,344
Gross profit	988	1,017	1,289	1,856	1,580
Research and development expenses	326	363	670	1,169	177
General and administrative expenses	3,355	2,984	3,180	4,581	3,625
Operating (loss)	(2,693)	(2,330)	(2,561)	(3,894)	(2,222)
Other expense	947	(271)	1,538	(2,741)	(533)
Net profit (loss)	(1,746)	(2,601)	(1,023)	\$ (6,635)	\$ (2,755)
Income taxes current benefit	-	30	(6)	\$ (30)	\$ (29)
Net profit (loss)	(1,746)	(2,631)	(1,017)	(6,605)	(2,726)
Noncontrolling interest	-	-	-	\$ 17	\$ 6
Net profit (loss) attributable to Visualant, Inc. and Subsidiaries common shareholders	\$ (1,746)	\$ (2,631)	\$ (1,017)	\$ (6,622)	\$ (2,732)
Net (loss) per share	\$ (1.22)	\$ (2.33)	\$ (1.24)	\$ (15.11)	\$ (9.58)
Weighted average number of shares	1,428,763	1,131,622	819,563	437,049	284,552

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and related notes appearing at the end of this prospectus. Some of the information contained in this discussion and analysis or set forth elsewhere in this prospectus, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. You should read the "Risk Factors" section of this prospectus for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

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 aggressive 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 our strategic partner, Intellectual Ventures through its subsidiary IDMC.

In 2010, we acquired TransTech Systems 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.

Based on our anticipated expenditures on this technology, the expected efforts of our management and our relationship with Intellectual Ventures and its subsidiary, IDMC, 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.

RESULTS OF OPERATIONS

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

(dollars in thousands)

	Years Ended September 30,			
	2016	2015	\$ Variance	% Variance
Revenue	\$ 6,024	\$ 6,291	\$ (267)	-4.2%
Cost of sales	5,036	5,274	(238)	4.5%
Gross profit	988	1,017	(29)	-2.9%
Research and development expenses	326	363	(37)	10.2%
Selling, general and administrative expenses	3,355	2,984	371	-12.4%
Operating loss	(2,693)	(2,330)	(363)	-15.6%
Other income (expense):				
Interest expense	(324)	(170)	(154)	-90.6%
Other (expense) income	(11)	41	(52)	-126.8%
Gain (loss) on change- derivative liability warrants	2,560	(108)	2,668	2470.4%
(Loss) on conversion of debt	(1,278)	(34)	(1,244)	-3658.8%
Total other income	947	(271)	1,218	449.4%
Income before income taxes	(1,746)	(2,601)	855	32.9%
Income taxes - current (benefit)	-	30	(30)	-100.0%
Net income	(1,746)	(2,631)	885	33.6%

Sales

Net revenue for the year ended September 30, 2016 decreased \$267,000 to \$6,024,000 as compared to \$6,291,000 for the year ended September 30, 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 year ended September 30, 2016 decreased \$238,000 to \$5,036,000 as compared to \$5,274,000 for the year ended September 30, 2015. The decrease was due to lower sales.

Gross profit was \$988,000 for the year ended September 30, 2016 as compared to \$1,017,000 for the year ended September 30, 2015. Gross profit was 16.4% for the year ended September 30, 2016 as compared to 16.2% for the year ended September 30, 2015.

Research and Development Expenses

Research and development expenses for the year ended September 30, 2016 decreased \$37,000 to \$326,000 as compared to \$363,000 for the year ended September 30, 2015. The decrease was due to reduced expenditures for suppliers related to the commercialization of our ChromaID technology.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the year ended September 30, 2016 increased \$371,000 to \$3,355,000 as compared to \$2,984,000 for the year ended September 30, 2015.

The increase primarily was due to increased business development expenses of \$466,000, investor relation expenses of \$69,000, consulting expenses of \$82,000 and other expenses of \$63,000, offset by reduced amortization expenses of \$154,000 and stock based compensation of \$155,000. As part of the selling, general and administrative expenses for the year ended September 30, 2016, we incurred investor relation expenses of \$107,000 and business development expenses of \$571,000.

Other Income (Expense)

Other income for the year ended September 30, 2016 was \$947,000 as compared to other expense of \$271,000 for the year ended September 30, 2015. The other income for the year ended September 30, 2016 included change in the value of derivatives of \$2,560,000, offset by the loss on the retirement of debt of \$1,278,000, interest expenses of \$324,000 and other expenses of \$11,000. The gain 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 year ended September 30, 2015 included other income of \$41,000, offset by loss on change - derivative liability of \$108,000, interest expense of \$170,000 and loss on conversion of debt of \$34,000. The loss on change derivative liability warrants related to derivative instruments included in the June 2013 private placement, the November 2013 IDMC Services and License Agreement, our convertible notes payable and the issuance of Series A Convertible Preferred Stock.

Net Loss

Net loss for the year ended September 30, 2016 was \$1,746,000 as compared to \$2,631,000 for the year ended September 30, 2015. The decrease was primarily due to a gain on change - derivative liability of \$2,560,000.

The net loss for the year ended September 30, 2016, included non-cash income of \$956,000, including (i) gain on change- derivative liability warrants of \$2,560,000, offset by (ii) other of \$34,000, (iii) depreciation and amortization of \$179,000; (iv) stock based compensation of \$46,000; (v) share and warrant issuances of \$395,000; (vi) non-cash convertible debentures expenses of \$177,000; and (vii) loss on conversion of debt of \$773,000. TransTech's net loss from operations was \$192,000 for the year ended September 30, 2016 as compared to a net loss of \$194,000 for the year ended September 30, 2015.

The net loss for the year ended September 30, 2015, included non-cash expenses of \$706,000, including (i) loss on change- derivative liability warrants of \$108,000, (ii) other of \$42,000, offset by (iii) depreciation and amortization of \$353,000; (iv) stock based compensation of \$65,000; and (v) share and warrant issuances of \$138,000. TransTech's net loss from operations was \$194,000 for the year ended September 30, 2015 as compared to a net loss of \$64,000 for the year ended September 30, 2014.

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 \$188,000 and net working capital deficit of approximately \$3,982,000 (excluding the derivative liability- warrants of \$145,000 as of September 30, 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 January 31, 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 or eliminate the development of business opportunities 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.

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 (\$33,000 as of September 30, 2016) on a daily basis. The remaining balance on the accounts receivable line of \$370,404 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 year ended September 30, 2016 was \$3,374,000. This amount was primarily related to a net loss of \$1,746,000, an increase in accounts receivable of \$189,000, an increase in inventory of \$77,000, a decrease in accounts payable of \$406,000, and non-cash other income of \$956,000. The non-cash other income of \$956,000 includes (i) gain on change- derivative liability warrants of \$2,560,000, offset by (ii) other of \$34,000, (iii) depreciation and amortization of \$179,000; (iv) stock based compensation of \$46,000; (v) share and warrant issuances of \$395,000; (vi) non-cash convertible debentures expenses of \$177,000; and (vii) loss on conversion of debt of \$773,000.

Financing Activities

Net cash provided by financing activities for the year ended September 30, 2016 was \$3,497,000. This amount was primarily related to (i) proceeds from the exercise of warrants of \$519,000; (ii) proceeds from convertible notes of \$1,175,000; (iii) proceeds from line of credit of \$6,000; and (iv) proceeds from the sale of common and preferred stock of \$2,883,000, offset by the repayment of convertible notes of \$580,000 and redemption of preferred stock of \$505,000.

Our contractual cash obligations as of September 30, 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	909,500	909,500	-	-	-
Notes payable	1,170,339	1,170,339	-	-	-
Capital expenditures	100,000	20,000	40,000	40,000	-
	<u>\$ 2,189,869</u>	<u>\$ 2,109,869</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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The application of GAAP involves the exercise of varying degrees of judgment. On an ongoing basis, we evaluate our estimates and judgments based on historical experience and various other factors that are believed to be reasonable under the circumstances.

Actual results may differ from these estimates under different assumptions or conditions. We believe that of our significant accounting policies (see summary of significant accounting policies more fully described in Note 2 to the financial statements set forth in this report), the following policies involve a higher degree of judgment and/or complexity:

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. We record a provision for excess and obsolete inventory whenever an impairment has been identified. There is a \$25,000 and \$20,000 reserve for impaired inventory as of September 30, 2016 and 2015, respectively.

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).

Revenue Recognition – Visualant and TransTech revenue are derived from other products and services. Revenue is considered realized when the services have been provided to the customer, the work has been accepted by the customer and collectability is reasonably assured. Furthermore, if an actual measurement of revenue cannot be determined, we defer all revenue recognition until such time that an actual measurement can be determined. If during the course of a contract management determines that losses are expected to be incurred, such costs are charged to operations in the period such losses are determined. Revenues are deferred when cash has been received from the customer but the revenue has not been earned.

Stock Based Compensation – We have share-based compensation plans under which employees, consultants, suppliers and directors may be granted restricted stock, as well as options to purchase shares of our common stock at the fair market value at the time of grant. Stock-based compensation cost is measured by us at the grant date, based on the fair value of the award, over the requisite service period. For options issued to employees, we recognize 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have no investments in any market risk sensitive instruments either held for trading purposes or entered into for other than trading purposes.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to our consolidated financial statements beginning on page F-1 of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

(a) *Evaluation of disclosure controls and procedures.*

Our Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") evaluated our 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 (the "Exchange Act"), prior to the filing of this Form 10-K. Based on that evaluation, our CEO and CFO concluded that, as of September 30, 2016, our disclosure controls and procedures were not effective. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our CEO and our CFO, to allow timely decisions regarding required disclosure. 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.

During the year ended September 30, 2016, management identified the following weaknesses, which were deemed to be material weaknesses in 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. In addition, this Director is expected to strengthen our governance processes. We are using external service providers to ensure compliance with the Securities and Exchange Commission requirements until we appoint the Audit Committee Chairman.

(b) Management's Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed by, or under the supervision of, our CEO and CFO, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America (GAAP). Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 2013 *Internal Control-Integrated Framework*. Based on its evaluation, management has concluded that the Company's internal control over financial reporting was not effective as of September 30, 2016.

Pursuant to Regulation S-K Item 308(b), this Annual Report on Form 10-K does not include an attestation report of our company's registered public accounting firm regarding internal control over financial reporting.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate. A control system, no matter how well designed and operated can provide only reasonable, but not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their cost.

(c) Changes in internal controls over financial reporting.

There have been no changes in our internal control over financial reporting in the fiscal year ended September 30, 2016, which were identified in connection with our management's evaluation required by paragraph (d) of rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

There were no disclosures of any information required to be filed on Form 8-K during the three months ended September 30, 2016 that were not filed.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth certain information about our current directors and executive officers:

Name	Age	Director/ Executive Officer
Directors-		
Ronald P. Erickson	72	Chairman of the Board, Chief Executive Officer and President (1)
Jon Pepper	65	Director (2)
Ichiro Takesako	57	Director
Executive Officers-		
Jeff Wilson	55	Chief Financial Officer and Secretary
Todd Martin Sames	62	Executive Vice President of Business Development

(1) Chairman of the Nomination and Governance Committee.

(2) Chairman of the Audit and Compensation Committees.

All directors hold office until their successors are duly appointed or until their earlier resignation or removal.

Ronald P. Erickson has been a director and officer of Visualant since April 2003. He was appointed as our CEO and President in November 2009 and as Chairman of the Board in February 2015. Previously, Mr. Erickson was our President and Chief Executive Officer from September 2003 through August 2004, and was Chairman of the Board from August 2004 until May 2011.

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

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

Ichiro Takesako has served as a director since December 28, 2012.

Mr. Takesako has recently held a number of executive position at Sumitomo and its affiliates. Since January, 2013 he has been CEO of M2M Technologies, Inc., a portfolio company of Sumitomo Precision Products. During a portion of his time as CEO of M2M he has also served as General Manager of the Business Development Department of Sumitomo Precision Products. From August, 2011 to January, 2013 he served as General Manager, Corporate Strategic Planning Group, of Sumitomo Precision Products. From July, 2010 to August, 2011 he served as Executive Director of SPP Process Technology Systems, a wholly- owned subsidiary of Sumitomo Precision Products located in Newport, Wales in the United Kingdom. From April, 2009 to July, 2010 he served as General Manager of the Overseas Business Department of Micro Technology Division, where he was in charge of M&A activity of certain business segments and assets of Aviza Technology, Inc. From June, 2008 until April, 2009, he was General Manager of Sales and Marketing Department of Sumitomo's Micro Technology Division.

Mr. Takesako's career at Sumitomo Precision Products, Ltd and Sumitomo began in 1983.

Mr. Takesako graduated from Waseda University, Tokyo, Japan where he majored in Social Science and graduated with a Degree of Bachelor of Social Science.

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

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

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

Other Executive Officers

Jeff T. Wilson has been our Chief Financial Officer since September 2016. Mr. Wilson has significant financial, capital markets and operations experience in public technology companies. Most recently, Mr. Wilson was the Chief Financial Officer for Command Center, a publicly traded staffing company. From 2010 to 2015 Mr. Wilson also served on the Board of Directors for Command Center and was Chairman of the Audit Committee.

During the previous 25 years, Mr. Wilson held senior finance roles in a number of companies bringing new technologies to market. From 2013 to 2014 Mr. Wilson was the Chief Financial Officer for Acuamtica Inc., a developer of cloud-based ERP systems. From 1999 to 2013, Mr. Wilson was the Controller and later Chief Financial Officer of Microvision Inc., a developer of miniature display technologies. Earlier in his career, Mr. Wilson held several finance positions at Siemens Medical Systems and was an audit manager at Price Waterhouse Coopers. Mr. Wilson is a CPA and holds a Bachelor of Science degree in Accounting from Oklahoma State University.

Todd Martin Sames joined the Company as Vice President, Business Development in September 2012. Mr. Sames was appointed Executive Vice President, Business Development in March 2015. Mr. Sames is responsible for global business development and sales of the ChromaID technology, customer relations and creating new licensing agreements resulting in the commercialization of Visualant's technology across a wide range of applications with device and equipment manufacturers in several business verticals.

Mr. Sames brings over 25 years of successful emerging technology sales and sales management experience in the areas of enterprise software, audio and video conferencing and networking solutions to corporate clients. From 2010 to 2012, Mr. Sames held a Business Unit Director position at INX, focused on unified communications and collaboration solutions for Fortune 1000 clients. From 2007 to 2010, Mr. Sames held a Regional Management position at BT Conferencing, Video. Prior to that, Mr. Sames was the original corporate sales resource for then start-up Portable Software, now Concur Technologies,

During his tenure at Egghead Software, Mr. Sames was the Midwest Regional Manager for Corporate Sales based in Chicago and ultimately Director of Corporate Relationships overseeing corporate purchasing contracts, special projects and innovative new corporate service programs. Mr. Sames has a Bachelor of Arts Degree from the University of Puget Sound and additional certifications in communications technology from Cisco Systems, Polycom, TANDBERG and other technology systems providers.

Family Relationships

There are no family relationships among our directors and executive officers.

Involvement in Certain Legal Proceedings

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

- Had any petition under the federal bankruptcy laws or any state insolvency law filed by or against, or had a receiver, fiscal agent, or similar officer appointed by a court for the business or property of such person, or any partnership in which he was a general partner at or within two years before the time of such filing, or any corporation or business association of which he was an executive officer at or within two years before the time of such filing;
- Been convicted in a criminal proceeding or a named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses);
- Been the subject of any order, judgment, or decree, not subsequently reversed, suspended, or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining him from, or otherwise limiting, the following activities:

- Acting as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, any other person regulated by the Commodity Futures Trading Commission, or an associated person of any of the foregoing, or as an investment adviser, underwriter, broker or dealer in securities, or as an affiliated person, director or employee of any investment company, bank, savings and loan association or insurance company, or engaging in or continuing any conduct or practice in connection with such activity;
- Engaging in any type of business practice; or
- Engaging in any activity in connection with the purchase or sale of any security or commodity or in connection with any violation of federal or state securities laws or federal commodities laws;
- Been the subject of any order, judgment, or decree, not subsequently reversed, suspended, or vacated, of any federal or state authority barring, suspending, or otherwise limiting for more than 60 days the right of such person to engage in any activity described in (i) above, or to be associated with persons engaged in any such activity;
- Been found by a court of competent jurisdiction in a civil action or by the SEC to have violated any federal or state securities law, where the judgment in such civil action or finding by the SEC has not been subsequently reversed, suspended, or vacated; or
- Been found by a court of competent jurisdiction in a civil action or by the Commodity Futures Trading Commission to have violated any federal commodities law, where the judgment in such civil action or finding by the Commodity Futures Trading Commission has not been subsequently reversed, suspended, or vacated.

Board Committees

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

Audit	Compensation	Nominations and Governance
Jon Pepper (Chairman)	Jon Pepper (Chairman)	Ron Erickson (Chairman) Jon Pepper

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee during the fiscal year ended September 30, 2016 served as an officer, former officer, or employee of the Company or participated in a related party transaction that would be required to be disclosed in this prospectus. Further, during this period, no executive officer of the Company served as:

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

Code of Ethics

We have adopted conduct and ethics standards titled the code of ethics, which is available at www.visualant.net. These standards were adopted by our Board of Directors to promote transparency and integrity. The standards apply to our Board of Directors, executives and employees. Waivers of the requirements of our code of ethics or associated policies with respect to members of our Board of Directors or executive officers are subject to approval of the full board.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of Compensation Program

This Compensation Discussion and Analysis describes the material elements of compensation awarded to, earned by or paid to each of our executive officers named in the Compensation Table on page 37 under “Remuneration of Executive Officers” (the “Named Executive Officers”) who served during the year ended September 30, 2015. This compensation discussion primarily focuses on the information contained in the following tables and related footnotes and narrative for the last completed fiscal year. We also describe compensation actions taken after the last completed fiscal year to the extent that it enhances the understanding of our executive compensation disclosure. The principles and guidelines discussed herein would also apply to any additional executive officers that the Company may hire in the future.

The Compensation Committee of the Board has responsibility for overseeing, reviewing and approving executive compensation and benefit programs in accordance with the Compensation Committee’s charter. The members of the Compensation Committee are Jon Pepper. We expect to appoint an additional independent Director to serve on the Compensation Committee by early 2017.

Compensation Philosophy and Objectives

The major compensation objectives for the Company’s executive officers are as follows:

- to attract and retain highly qualified individuals capable of making significant contributions to our long-term success;
- to motivate and reward named executive officers whose knowledge, skills, and performance are critical to our success;
- to closely align the interests of our named executive officers and other key employees with those of its shareholders; and
- to utilize incentive based compensation to reinforce performance objectives and reward superior performance.

Role of Chief Executive Officer in Compensation Decisions

The Board approves all compensation for the chief executive officer. The Compensation Committee makes recommendations on the compensation for the chief executive officer and approves all compensation decisions, including equity awards, for our executive officers. Our chief executive officer makes recommendations regarding the base salary and non-equity compensation of other executive officers that are approved by the Compensation Committee in its discretion.

Setting Executive Compensation

The Compensation Committee believes that compensation for the Company’s executive officers must be managed to what we can afford and in a way that allows for us to meet our goals for overall performance. During 2016 and 2015, the Compensation Committee and the Board compensated its Chief Executive Officer with an annual salary of \$180,000 effective June 1, 2012. During 2016 and 2015, the Committee compensated its Chief Financial Officer with an annual salary of \$120,000 effective June 1, 2012. This compensation reflected the financial condition of the Company. Other Named Executive Officers were paid by us during 2016. The Compensation Committee does not use a peer group of publicly-traded and privately-held companies in structuring the compensation packages.

Executive Compensation Components for the Year Ended September 30, 2016

The Compensation Committee did not use a formula for allocating compensation among the elements of total compensation during the year that ended on September 30, 2016. The Compensation Committee believes that in order to attract and retain highly effective people it must maintain a flexible compensation structure. For the year that ended on September 30, 2016, the principal components of compensation for named executive officers were base salary.

Base Salary

Base salary is intended to ensure that our employees are fairly and equitably compensated. Generally, base salary is used to appropriately recognize and reward the experience and skills that employees bring to the Company and provides motivation for career development and enhancement. Base salary ensures that all employees continue to receive a basic level of compensation that reflects any acquired skills which are competently demonstrated and are consistently used at work.

Base salaries for the Company’s named executive officers are initially established based on their prior experience, the scope of their responsibilities and the applicable competitive market compensation paid by other companies for similar positions. Mr. Erickson, Mr. Scott and Mr. Wilson were compensated as described above based on the financial condition of the Company.

Performance-Based Incentive Compensation

The Compensation Committee believes incentive compensation reinforces performance objectives, rewards superior performance and is consistent with the enhancement of stockholder value. All of the Company’s Named Executive Officers are eligible to receive performance-based incentive compensation. The Compensation Committee did not recommend or approve payment of any performance-based incentive compensation to the Named Executive Officers during the year ended September 30, 2016 based on our financial condition.

Ownership Guidelines

The Compensation Committee does not require our executive officers to hold a minimum number of our shares. However, to directly align the interests of executive officers with the interests of the stockholders, the Compensation Committee encourages each executive officer to maintain an ownership interest in the Company.

Stock Option Program

Stock options are an integral part of our executive compensation program. They are intended to encourage ownership and retention of the Company's common stock by named executive officers and employees, as well as non-employee members of the Board. Through stock options, the objective of aligning employees' long-term interest with those of stockholders may be met by providing employees with the opportunity to build a meaningful stake in the Company.

The Stock Option Program assists us by:

- enhancing the link between the creation of stockholder value and long-term executive incentive compensation;
- providing an opportunity for increased equity ownership by executive officers; and
- maintaining competitive levels of total compensation.

Stock option award levels are determined by the Compensation Committee and vary among participants' positions within the Company. Newly hired executive officers or promoted executive officers are generally awarded stock options, at the discretion of the Compensation Committee, at the next regularly scheduled Compensation Committee meeting on or following their hire or promotion date. In addition, such executives are eligible to receive additional stock options on a discretionary basis after performance criteria are achieved.

Options are awarded at the closing price of our common stock on the date of the grant or last trading day prior to the date of the grant. The Compensation Committee's policy is not to grant options with an exercise price that is less than the closing price of our common stock on the grant date.

Generally, the majority of the options granted by the Compensation Committee vest quarterly over two to three years or annually over five years of the 5-10-year option term. Vesting and exercise rights cease upon termination of employment and/or service, except in the case of death (subject to a one year limitation), disability or retirement. Stock options vest immediately upon termination of employment without cause or an involuntary termination following a change of control. Prior to the exercise of an option, the holder has no rights as a stockholder with respect to the shares subject to such option, including voting rights and the right to receive dividends or dividend equivalents.

The Named Executive Officers did not receive stock grants and option awards during the year ended September 30, 2016.

Retirement and Other Benefits

We have no other retirement, savings, long-term stock award or other type of plans for the Named Executive Officers.

Perquisites and Other Personal Benefits

During the year ended September 30, 2016, we provided the Named Executive Officers with medical insurance. No other personal benefits were provided to these individuals. The committee expects to review the levels of perquisites and other personal benefits provided to Named Executive Officers annually.

There are no employment agreements.

Tax and Accounting Implications

Deductibility of Executive Compensation

Subject to certain exceptions, Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code") generally denies a deduction to any publicly held corporation for compensation paid to its chief executive officer and its three other highest paid executive officers (other than the principal financial officer) to the extent that any such individual's compensation exceeds \$1 million. "Performance-based compensation" (as defined for purposes of Section 162(m)) is not taken into account for purposes of calculating the \$1 million compensation limit, provided certain disclosure, shareholder approval and other requirements are met. We periodically review the potential consequences of Section 162(m) and may structure the performance-based portion of our executive compensation to comply with certain exceptions to Section 162(m). However, we may authorize compensation payments that do not comply with the exceptions to Section 162(m) when we believe that such payments are appropriate and in the best interests of the stockholders, after taking into consideration changing business conditions or the officer's performance.

Beginning on January 1, 2006, we began accounting for stock-based payments including its Stock Option Program in accordance with the requirements of ASC 718, "Compensation-Stock Compensation."

COMPENSATION COMMITTEE REPORT

The Compensation Committee, composed entirely of independent directors in accordance with the applicable laws and regulations, sets and administers policies that govern the Company's executive compensation programs, and incentive and stock programs. The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

THE COMPENSATION COMMITTEE

Jon Pepper, Chairman

EXECUTIVE COMPENSATION

REMUNERATION OF EXECUTIVE OFFICERS

The following table provides information concerning remuneration of the chief executive officer, the chief financial officer and another named executive officer for the fiscal years ended September, 2016 and 2015:

Summary Compensation Table

Name	Principal Position		Salary (\$)	Bonus (\$)	Stock Awards (\$)(5)	Option Awards (\$)	All Other Compensation (\$)	Total (\$)
Salary-								
Ronald P. Erickson (1)	Chief Executive Officer	9/30/2016	\$ 180,000	\$ -	\$ -	\$ -	\$ -	\$ 180,000
		9/30/2015	\$ 180,000	\$ -	\$ -	\$ -	\$ -	\$ 180,000
Jeff T Wilson (2)	Chief Financial Officer	9/30/2016	\$ 8,300	\$ -	\$ -	\$ -	\$ -	\$ 8,300
		9/30/2015	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mark E. Scott (3)	Former Chief Financial Officer and Secretary	9/30/2016	\$ 110,000	\$ -	\$ -	\$ -	\$ -	\$ 110,000
		9/30/2015	\$ 120,000	\$ -	\$ 20,010	\$ -	\$ -	\$ 140,010
Todd Martin Sames (4)	Vice President of Business Development	9/30/2016	\$ 120,000	\$ -	\$ -	\$ -	\$ -	\$ 120,000
		9/30/2015	\$ 120,000	\$ -	\$ 15,000	\$ -	\$ -	\$ 135,000

(1) During the years ended September 30, 2016 and 2015, Mr. Erickson was compensated at a monthly salary of \$15,000. As of September 30, 2016 and 2015, Mr. Erickson had accrued but unpaid salary of \$105,000 and \$180,000, respectively. This accrual was based on the tight cash flow of the Company and agreed to by Mr. Erickson, but there was no formal deferral agreement. There was no accrued interest paid on the unpaid salary.

(2) During the period from September 6, 2016 to September 30, 2016, Mr. Wilson was paid \$8,300. Mr. Wilson was appointed Chief Financial Officer on September 6, 2016.

(3) During the year ended September 30, 2016 and 2015, Mr. Scott was compensated at a monthly salary of \$10,000. As of September 30, 2016 and 2015, Mr. Scott had accrued but unpaid salary of \$0 and \$40,000, respectively. The 2015 stock award amount for Mr. Scott reflects 1,334 shares of restricted common stock issued by us on January 23, 2015. The restricted common stock was issued at the grant date market value of \$15.00 per share. Mr. Scott resigned as Chief Financial Officer on August 12, 2016, effective August 31, 2016.

(4) During the year ended September 30, 2016 and 2015, Mr. Sames was compensated at a monthly salary of \$10,000. As of September 30, 2016 and 2015, Mr. Sames had accrued but unpaid salary of \$25,000 and \$40,000, respectively. This accrual was based on the tight cash flow of the Company and agreed to by Mr. Sames, but there was no formal deferral agreement. There was no accrued interest paid on the unpaid salary. The 2015 stock award amount for Mr. Sames reflects 1,000 shares of restricted common stock issued by us on January 23, 2015. The restricted common stock was issued at the grant date market value of \$15.00 per share.

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

Grants of Stock Based Awards in Fiscal Year Then Ended September 30, 2016

The Compensation Committee did not approve any performance-based incentive compensation to the Named Executive Officers during 2016.

Outstanding Equity Awards as of Fiscal Year Then Ended September 30, 2016

Name	Option Awards			
	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Option Exercise Price (\$)(4)	Option Expiration Date
Ronald P. Erickson (1)	13,334	-	\$ 22.50	5/9/2020
	6,667	-	\$ 19.50	6/5/2022
Jeff T Wilson	-	-	\$ -	-
Mark E.Scott (2)	-	-	\$ -	-
Todd Martin Sames (3)	6,667	-	\$ 19.50	9/4/2017
	1,778	222	\$ 15.00	4/1/2019
	-	6,668	\$ 15.00	1/22/2020

- (1) Mr. Erickson's stock option grants consist of (i) 13,334 shares which vested quarterly over two years from May 10, 2010; and (ii) 6,667 shares which vested quarterly over one year from June 5, 2012.
- (2) Mr. Scott resigned as Chief Financial Officer on August 12, 2016, effective August 31, 2016. Mr. Scott forfeited stock option grants of 5,668 shares at \$19.50 per share.
- (3) Mr. Sames' stock options grants consist of (i) 6,667 shares which vest quarterly over three years from September 5, 2012; and (ii) 2,000 shares which vest quarterly over three years from April 1, 2014. The 2015 stock option grant for Mr. Sames reflects 6,668 shares at an exercise price of \$15.00 per share. The grant vests quarterly over three years after being earned and expires January 22, 2020. As of September 30, 2016, the stock option grant was not earned.
- (4) These amounts reflect the grant date market value as required by Regulation S-K Item 402(n)(2), computed in accordance with FASB ASC Topic 718.

Option Exercises and Stock Vested

Our Named Executive Officers did not exercise any stock options during the year ended September, 2016 and 2015.

Pension Benefits

We do not provide any pension benefits.

Nonqualified Deferred Compensation

We do not have a nonqualified deferral program.

Employment Agreements

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

Potential Payments upon Termination or Change in Control

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

DIRECTOR COMPENSATION

We primarily use stock options grants to incentive compensation to attract and retain qualified candidates to serve on the Board. This compensation reflected the financial condition of the Company. In setting director compensation, we consider the significant amount of time that Directors expend in fulfilling their duties to the Company as well as the skill-level required by our members of the Board. During year then ended September 30, 2016, Ronald Erickson did not receive any compensation for his service as a director. The compensation disclosed in the Summary Compensation Table on page 37 represents the total compensation for Mr. Erickson.

Compensation Paid to Board Members

No compensation was paid by us to non-employee directors during the year ended September 30, 2016. Our independent non-employee directors are not compensated in cash. The only compensation generally has been in the form of stock awards. There is no formal stock compensation plan for independent non-employee directors.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information regarding the ownership of our common stock as of September 30, 2016 by:

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

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

Unless otherwise indicated below, each beneficial owner named in the table has sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable. The address for each person shown in the table is c/o Visualant, Inc. 500 Union Street, Suite 420, Seattle Washington, unless otherwise indicated.

	Shares Beneficially Owned	
	Amount	Percentage
Directors and Officers-		
Ronald P. Erickson (1)	175,087	7.4%
Jeff Wilson (2)	-	*
Mark E. Scott (3)	11,791	*
Jon Pepper (4)	13,000	*
Todd Martin Sames (5)	10,112	*
Sumitomo Precision Products Co., Ltd./ Ichiro Takesako (6)	115,385	4.9%
Total Directors and Officers (6 in total)	<u>325,375</u>	<u>13.8%</u>

* Less than 1%.

(1) Includes 155,086 shares of shares of common stock beneficially owned and stock option grants to purchase 20,001 shares of our common stock that are exercisable within 60 days.

(2) Mr. Wilson was appointed Chief Finncia Officer and he does not have any beneficial ownership.

(3) Includes 11,791 shares of shares of common stock beneficially owned. Mr. Scott resigned as Chief Financial Officer on August 12, 2016, effective August 31, 2016.

(4) Includes 13,000 shares of shares of common stock beneficially owned by Mr. Pepper.

(5) Includes 1,667 shares of shares of common stock beneficially owned and stock option grants totaling 8,445 shares that Mr. Sames has the right to acquire in 60 days.

(6) Includes 115,385 shares of shares of common stock beneficially owned by Sumitomo Precision Products, Co. Ltd.

Greater Than 5% Ownership	Shares Beneficially Owned	
	Amount	Percentage
Special Situations Technology Funds, L.P./ Adam Stettner (1)	318,000 Blocker at 9.99%	12.4%
Clayton A. Struve (2)	3,821,428 Blocker at 4.99%	61.9%
Dale Broadrick (3)	1,768,087	57.6%

(1) Reflects the shares beneficially owned by Special Situations Technology Funds, L.P. This total includes 106,000 shares and a total of 212,000 Series A and B Warrants to purchase shares of our common stock. The address of Special Situations Technology Funds, L.P. is 527 Madison Avenue, Suite 2600, New York City, New York.

(2) Reflects the shares beneficially owned by Clayton A. Struve. This total includes Series C Preferred Stock that converts into 1,785,714 shares of common stock, a warrant to purchase 1,785,714 shares of common stock and a Convertible note that converts into 250,000 shares of common stock. The address of Clayton A. Struve is 175 West Jackson Blvd, Suite 440, Chicago, Illinois.

(3) Reflects the shares beneficially owned by Dale Broadrick. This total includes 1,053,801 shares and a total of 714,286 Warrants to purchase shares of our common stock. The address of Dale Broadrick is 3003 Brick Church Pike, Nashville, Tennessee.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Related Party Transactions

Related party transactions for the year ended September 30, 2016 are detailed below and in the Footnotes to Form 10K.

Review and Approval of Related Person Transactions

We have operated under a Code of Conduct for many years. Our Code of Conduct requires all employees, officers and directors, without exception, to avoid the engagement in activities or relationships that conflict, or would be perceived to conflict, with the Company's interests or adversely affect its reputation. It is understood, however, that certain relationships or transactions may arise that would be deemed acceptable and appropriate upon full disclosure of the transaction, following review and approval to ensure there is a legitimate business reason for the transaction and that the terms of the transaction are no less favorable to the Company than could be obtained from an unrelated person.

The Audit Committee is responsible for reviewing and approving all transactions with related persons. The Company has not adopted a written policy for reviewing related person transactions. The Company reviews all relationships and transactions in which the Company and our directors and executive officers or their immediate family members are participants to determine whether such persons have a direct or indirect material interest. As required under SEC rules, transactions that are determined to be directly or indirectly material to the Company or a related person are disclosed.

Director Independence

The Board has affirmatively determined that Mr. Pepper is an independent director. For purposes of making that determination, the Board used NASDAQ's Listing Rules even though the Company is not currently listed on NASDAQ.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Since October 1, 2013, we have engaged in the following reportable transactions with our directors, executive officers, holders of more than 5% of our voting securities and affiliates, or immediately family members of our directors, executive officers and holders of more than 5% of our voting securities.

Policies and Procedures for Related Person Transactions

We have operated under a Code of Conduct and Ethics since December 28, 2012. Our Code of Conduct and Ethics requires all employees, officers and directors, without exception, to avoid the engagement in activities or relationships that conflict, or would be perceived to conflict, with our interests.

Prior to the adoption of our related person transaction policy, there was a legitimate business reason for all the related person transactions described above and we believe that, where applicable, the terms of the transactions are no less favorable to us than could be obtained from an unrelated person.

Our Audit Committee reviews all relationships and transactions in which we and our directors and executive officers or their immediate family members are participants to determine whether such persons have a direct or indirect material interest.

As required under SEC rules, transactions that are determined to be directly or indirectly material to us or a related person are disclosed.

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

In November 2013, we entered into a Services and License Agreement with Invention Development Management Company. IDMC is a subsidiary of Intellectual Ventures, which collaborates with inventors and partners with pioneering companies and invests both expertise and capital in the process of invention. On November 19, 2014, we amended the Services and License Agreement with IDMC. This amendment exclusively licenses 10 filed patents to us. In May of 2016, Intellectual Ventures was spun out IDMC into an independent company called Xnova. The relationship remains intact.

The agreement requires IDMC 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. IDMC is responsible for the development and patent costs. We provided the Chroma ID Lab Kits to IDMC 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 IDMC 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 IDMC network during December 2013 and January 2014. As part of our agreement with IDMC, we curtailed our ChromaID marketing efforts through the fourth calendar quarter of 2014 while IDMC 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 IDMC 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 IDMC within the identification, authentication and diagnostics field of use to (a) make, have made, use, import, sell and offer to sell products and services and (b) grant sublicenses to any and all of the foregoing rights. The option to acquire this license may be exercised for up to two years from the effective date of the Agreement.

IDMC is providing global business development services to us for geographies not being pursued by Visualant. Also, IDMC 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 IDMC 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 IDMC 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 IDMC 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 IDMC a percentage of license revenue for the global development business services and a percentage of revenue received from any company introduced to us by IDMC. We also have also agreed to pay IDMC a royalty when we receive royalty product revenue from an IDMC-introduced company. IDMC 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.

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

On June 14, 2013, we entered into a Purchase Agreement, Warrants, and Registration Rights Agreement with Special Situations Technology Funds and forty other accredited investors, pursuant to which we issued 348,685 shares of common stock at \$15.00 per share for a total of \$5,230,000, which amount includes the conversion of \$500,000 in outstanding debt of the Company owed to one of its officers. As part of the transaction, which closed on June 14, 2013, we issued to the investors (i) five year Series A Warrants to purchase a total of 348,685 shares of common stock at \$22.50 per share; and (ii) five year Series B Warrants to purchase a total of 348,685 shares of common stock at \$30.00 per share. We also issued 34,871 placement agent warrants exercisable at \$15.00 per share to GVC Capital, with an obligation to issue up to 34,871 additional placement agent warrants exercisable at \$22.50 per share. The placement agent warrants shall issue only upon the exercise of the Series A Warrants by the investors, and are issuable ratably based upon the number of Warrants exercised by the investors. The placement agent warrants have a term of five years from the date of closing of the transaction. The transaction was entered into to strengthen our balance sheet, complete the purchase of our TransTech subsidiary, and provide working capital to support the rapid movement of our ChromaID technology into the marketplace. On August 4, 2016, the warrant exercise price was adjusted to \$0.70 per share due the issuance of common stock at this price.

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).

Related Party Transactions with Ronald P. Erickson

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 the Company under the Umpqua Loan. We recorded accrued interest of \$16,340 as of September 30, 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 \$40,167 as of September 30, 2016.

Mr. Erickson and/or entities with which he is affiliated also have advanced \$521,833 and have unreimbursed expenses and compensation of approximately \$424,872. We owe Mr. Erickson, or entities with which he is affiliated, \$1,546,705 as of September 30, 2016.

On July 12, 2016, Mr. Erickson and/or entities with which he is affiliated exercised a warrant for 66,667 shares of our common stock at \$2.50 per share or \$166,668.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Audit Committee Pre-Approval Policy

The Audit Committee has established a pre-approval policy and procedures for audit, audit-related and tax services that can be performed by the independent auditors without specific authorization from the Audit Committee subject to certain restrictions. The policy sets out the specific services pre-approved by the Audit Committee and the applicable limitations, while ensuring the independence of the independent auditors to audit the Company's financial statements is not impaired. The pre-approval policy does not include a delegation to management of the Audit Committee's responsibilities under the Exchange Act. During the year ended September 30, 2016, the Audit Committee pre-approved all audit and permissible non-audit services provided by our independent auditors.

Service Fees Paid to the Independent Registered Public Accounting Firm

The Audit Committee engaged SD Mayer and Associates, LLP to perform an annual audit of the Company's financial statements for the fiscal years ended September 30, 2016 and 2015. Prior to June 2016, the Company had engaged PMB Helin Donovan LLP to audit the Company's financial statements. The following is the breakdown of aggregate fees paid to auditors for the Company for the last two fiscal years:

	Year Ended September 30, 2016	Year Ended September 30, 2015
Audit fees	\$ 37,920	\$ 33,388
Audit related fees	22,000	22,500
Tax fees	16,450	-
All other fees	26,200	7,220
	<u>\$ 102,570</u>	<u>\$ 63,108</u>

- "Audit Fees" are fees paid for professional services for the audit of our financial statements.

- "Audit-Related fees" are fees paid for professional services not included in the first two categories, specifically, SAS 100 reviews, SEC filings and consents, and accounting consultations on matters addressed during the audit or interim reviews, and review work related to quarterly filings.

- "Tax Fees" are fees primarily for tax compliance in connection with filing US income tax returns.

- "All other fees for 2015 related to the review of registration statements on Form S-1.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Our executive officers, directors and 10% stockholders are required under Section 16(a) of the Exchange Act to file reports of ownership and changes in ownership with the SEC. Copies of these reports must also be furnished to us.

Based solely on a review of copies of reports furnished to us, as of September 30, 2016 our executive officers, directors and 10% holders complied with all filing requirements.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) FINANCIAL STATEMENTS:

The company's financial statements, as indicated by the Index to Consolidated Financial Statements set forth below, begin on page F-1 of this Form 10-K, and are hereby incorporated by reference. Financial statement schedules have been omitted because they are not applicable or the required information is included in the financial statements or notes thereto.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

<u>Title of Document</u>	<u>Page</u>
Report of SD Mayer and Associates, LLP.	F-1
Consolidated Balance Sheets as of September 30, 2016 and 2015	F-2
Consolidated Statements of Operations for the years ended September 30, 2016 and 2015	F-3
Consolidated Statements of Changes in Stockholders' (Deficit) for the years ended September 30, 2016 and 2015	F-4
Consolidated Statements of Cash Flows for the years ended September 30, 2016 and 2015	F-5
Notes to the Financial Statements	F-6

(b) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
3.1	Restatement of the Articles of Incorporation dated September 13, 2013 (incorporated by reference to the Company's Current Report on Form 8-K/A2, filed September 17, 2013)
3.2	Certificate of Designation, Preferences and Rights for the Company's Series A Convertible Preferred Stock(incorporated by reference to the Company's Current Report on Form 8-K, filed February 27, 2015)
3.3	Amended and Restated Bylaws (incorporated by reference to the Company's Form 8-K, filed August 17, 2012)
3.4	Certificate of Amendment to the Restatement of the Articles of Incorporation dated June 11, 2015 (incorporated by reference to the Company's Current Report on Form 8-K, filed June 17, 2015)
3.5	Amended and Restated Certificate of Designations, Preferences and Rights of the Company's Series A Convertible Preferred Stock dated July 21, 2015 (incorporated by reference to the Company's Current Report on Form 8-K, filed July 29, 2015)
3.6	Correction to Amended and Restated Certificate of Designations, Preferences and Rights of its Series A Convertible Preferred Stock dated March 8, 2016 (incorporated by reference to the Company's Current Report on Form 8-K, filed March 15, 2016)
3.7	Amendment 2 of Series A Preferred Stock Terms dated February 19, 2016 (incorporated by reference to the Company's Current Report on Form 8-K, filed March 15, 2016)
3.8	Certificate of Designations of Preferences, Powers, Rights and Limitations of Series B Redeemable Convertible Preferred Stock dated March 8, 2016 (incorporated by reference to the Company's Current Report on Form 8-K, filed March 15, 2016)
3.9	Certificate of Designations, Preferences and Rights of Series C Convertible Preferred Stock (incorporated by reference to the Company's Current Report on Form 8-K, filed August 11, 2016)
3.10	Cancellation of Certificate of Designations of Preferences, Powers, Rights and Limitations of Series B Redeemable Convertible Preferred Stock dated March 8, 2016 (incorporated by reference to the Company's Registration Statement on Form S-1, filed September 1, 2016)
3.11	Form of Series C Convertible Preferred Stock 2016 (incorporated by reference to the Company's Registration Statement on Form S-1, filed September 1, 2016)

- 3.12 Certificate of Correction and Certificate of Designations, Preferences and Rights of Series C Convertible Preferred Stock (incorporated by reference to the Company's Amended Current Report on Form 8-K/A, filed January 9, 2017)
- 4.1 2011 Stock Incentive Plan (incorporated by reference to the Company's Definitive Proxy Statement on Schedule 14A, filed January 11, 2013)
- 10.1 Financial Consulting Agreement effective October 5, 2011 by and between Visualant, Incorporated and D. Weckstein & Co. Inc. (incorporated by reference to the Company's Registration Statement on Form S-1/A, filed August 16, 2013)
- 10.2 License Agreement dated May 31, 2012 by and between Visualant, Incorporated and Sumitomo Precision Products Co., Ltd. (incorporated by reference to the Company's Current Report on Form 8-K, filed June 4, 2012)
- 10.3 Joint Research and Product Development Agreement dated May 31, 2012 by and between Visualant, Incorporated and Sumitomo Precision Products Co. (incorporated by reference to the Company's Registration Statement on Form S-1/A, filed October 7, 2013)
- 10.4 Lease dated July 11, 2012 by and between Visualant, Inc. and Harbor Properties Inc. (incorporated by reference to the Company's Registration Statement on Form S-1/A, filed September 16, 2013)
- 10.5 Job Offer Letter dated August 9, 2012 by and between Visualant, Inc. and Todd Sames (incorporated by reference to the Company's Registration Statement on Form S-1, filed April 24, 2015)
- 10.6 Settlement and Release Agreement dated September 6, 2012 by and between Visualant, Incorporated and Bradley E. Sparks (incorporated by reference to the Company's Current Report on Form 8-K, filed September 11, 2012)
- 10.7 Amendment to Joint Research and Product Development Agreement dated March 29, 2013 by and between Visualant, Incorporated and Sumitomo Precision Products Co. (incorporated by reference to the Company's Registration Statement on Form S1/A, filed September 16, 2013)
- 10.8 Stock Purchase Agreement dated May 31, 2012 by and between Visualant, Incorporated and Sumitomo Precision Products Co., Ltd. (incorporated by reference to the Company's Current Report on Form 8-K, filed June 4, 2012)
- 10.9 Form of Purchase Agreement by and between Visualant, Incorporated and investors (incorporated by reference to the Company's Current Report on Form 8-K, filed June 18, 2013)
- 10.10 Form of Series A and Series B Warrant by and between Visualant, Incorporated and investors (incorporated by reference to the Company's Current Report on Form 8-K, filed June 18, 2013)
- 10.11 Form of Stock Purchase Agreement by and between Visualant, Incorporated and investors (incorporated by reference to the Company's Current Report on Form 8-K, filed June 18, 2013)
- 10.12 Security Agreement dated June 12, 2013 by and between Visualant, Incorporated and BFI Business Finance (incorporated by reference to the Company's Quarterly Report on Form 10-Q, filed August 15, 2013)
- 10.13 General Continuing Guaranty dated June 12, 2013 by and between TransTech Systems Inc., Visualant, Incorporated and BFI Business Finance (incorporated by reference to the Company's Registration Statement on Form S-1/A, filed October 7, 2013)
- 10.14 Third Modification to Loan and Security Agreement dated June 12, 2013 by and between TransTech Systems Inc. and BFI Business Finance (incorporated by reference to the Company's Registration Statement on Form S-1/A, filed October 7, 2013)
- 10.15 [Intentionally Omitted]
- 10.16 Amendment No. 1 to Lease dated June 14, 2013 by and between Visualant, Inc. and Logan Building (incorporated by reference to the Company's Registration Statement on Form S-1/A, filed August 16, 2013)
- 10.17 Form of Placement Agent Warrant by and between Visualant, Incorporated and placement agents (incorporated by reference to the Company's Registration Statement on Form S-1/A, filed October 7, 2013)
- 10.18 Warrant to Purchase Common Stock dated November 11, 2013 by and between Visualant, Incorporated and Invention Development Management Company, L.L.C. (incorporated by reference to the Company's Current Report on Form 8-K, filed November 21, 2013)

- 10.19 Services and License Agreement dated November 11, 2013 by and between Visualant, Incorporated and Invention Development Management Company, L.L.C (incorporated by reference to the Company's Registration Statement on Form S-1/A, filed January 24, 2014)
- 10.20 Demand Promissory Note dated January 10, 2014 by and between Visualant, Incorporated and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed January 15, 2014)
- 10.21 Secured Promissory Note dated March 19, 2014 by and between TransTech System, Inc. and BFI Finance (incorporated by reference to the Company's Quarterly Report Form 10-Q, filed May 14, 2014)
- 10.22 Letter Agreement dated March 19, 2014 by and between TransTech System, Inc. and BFI Finance (incorporated by reference to the Company's Quarterly Report Form 10-Q, filed May 14, 2014)
- 10.23 Demand Promissory Note dated March 31, 2014 by and between Visualant, Incorporated and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed April 3, 2014)
- 10.24 Amendment to Demand Promissory Note dated March 31, 2014 by and between Visualant, Incorporated and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed April 3, 2014)
- 10.25 Financial Public Relations Agreement dated June 9, 2014 by and between Visualant, Incorporated and Dynasty Wealth, Inc. (incorporated by reference to the Company's Quarterly Report on Form 10-Q, filed August 14, 2014)
- 10.26 Second Amendment to Office Lease dated June 18, 2014 by and between Visualant, Incorporated and Logan Building LLC (incorporated by reference to the Company's Annual Report on Form 10-K, filed January 13, 2015)
- 10.27 Demand Promissory Note dated July 17, 2014 by and between Visualant, Incorporated and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed July 18, 2014, and incorporated by reference.
- 10.28 Amendment to Demand Promissory Note dated July 17, 2014 by and between Visualant, Incorporated and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed July 18, 2014)
- 10.29 Amendment 2 to Demand Promissory Note dated July 17, 2014 by and between Visualant, Incorporated and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed July 18, 2014)
- 10.30 Addendum to Letter dated August 27, 2014 by and between Visualant, Incorporated and D. Weckstein Co., Inc. (incorporated by reference to the Company's Annual Report on Form 10-K, filed January 13, 2015)
- 10.31 Amendment to Services and License Agreement dated November 18, 2014 by and between Visualant, Inc. and Invention Development Management Company, LLC (incorporated by reference to the Company's Current Report on Form 8-K, filed November 25, 2014)
- 10.32 Third Amendment to Office Lease dated December 18, 2014 by and between Visualant, Incorporated and Logan Building LLC (incorporated by reference to the Company's Annual Report on Form 10-K, filed January 13, 2015)
- 10.33 Amendment to Demand Promissory Note dated December 31, 2014 by and between Visualant, Incorporated and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed January 2, 2015)
- 10.34 Amendment 2 to Demand Promissory Note dated December 31, 2014 by and between Visualant, Incorporated and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed January 2, 2015)
- 10.35 Amendment 3 to Demand Promissory Note dated December 31, 2014 by and between Visualant, Incorporated and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed January 2, 2015)
- 10.36 Form of Purchase Agreement related to Series A Preferred Stock offering by and between Visualant, Incorporated and investors (incorporated by reference to the Company's Registration Statement on Form S-1, filed April 24, 2015)
- 10.37 Form of Series C Warrant between Visualant, Incorporated and investors (incorporated by reference to the Company's Registration Statement on Form S-1, filed April 24, 2015)
- 10.38 Form of Series D Warrant between Visualant, Incorporated and investors (incorporated by reference to the Company's Registration Statement on Form S-1, filed April 24, 2015)

- 10.39 Form of Stock Purchase Agreement related to preferred stock by and between Visualant, Incorporated and investors (incorporated by reference to the Company's Registration Statement on Form S-1, filed April 24, 2015)
- 10.40 Amendment 2 to Demand Promissory Note dated March 31, 2015 by and between Visualant, Inc. and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed April 3, 2015)
- 10.41 Amendment 3 to Demand Promissory Note dated March 31, 2015 by and between Visualant, Inc. and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed April 3, 2015)
- 10.42 Amendment 4 to Demand Promissory Note dated March 31, 2015 by and between Visualant, Inc. and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed April 3, 2015)
- 10.43 Amendment to License Agreement received May 21, 2015, effective June 18, 2014 by and between Visualant, Incorporated and Sumitomo Precision Products Co., Ltd. (incorporated by reference to the Company's Current Report on Form 8-K, filed May 27, 2015)
- 10.44 Amendment 3 to Demand Promissory Note dated July 15, 2015 by and between Visualant, Inc. and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed July 17, 2015)
- 10.45 Amendment 4 to Demand Promissory Note dated July 15, 2015 by and between Visualant, Inc. and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed July 17, 2015)
- 10.46 Amendment 5 to Demand Promissory Note dated July 15, 2015 by and between Visualant, Inc. and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed July 17, 2015)
- 10.47 Form of Amendment to Series A Preferred Stock Terms (incorporated by reference to the Company's Current Report on Form 8-K, filed July 29, 2015)
- 10.48 Amendment 5 to Demand Promissory Note dated September 30, 2015 by and between Visualant, Inc. and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed October 2, 2015)
- 10.49 Amendment 5 to Demand Promissory Note dated September 30, 2015 by and between Visualant, Inc. and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed October 2, 2015)
- 10.50 Amendment 6 to Demand Promissory Note dated September 30, 2015 by and between Visualant, Inc. and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed October 2, 2015)
- 10.51 Amendment 5 to Demand Promissory Note dated December 31, 2015 by and between Visualant, Incorporated and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed January 4, 2016)
- 10.52 Amendment 6 to Demand Promissory Note dated December 31, 2015 by and between Visualant, Incorporated and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed January 4, 2016)
- 10.53 Amendment 7 to Demand Promissory Note dated December 31, 2015 by and between Visualant, Incorporated and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed January 4, 2016)
- 10.54 Form of Note and Warrant Purchase Agreement (incorporated by reference to the Company's Quarterly Report on Form 10-Q, filed February 16, 2016)
- 10.55 Form of Subordinated Convertible Promissory Note Agreement (incorporated by reference to the Company's Quarterly Report on Form 10-Q, filed February 16, 2016)
- 10.56 Form of Warrant to Purchase Shares Agreement (incorporated by reference to the Company's Quarterly Report on Form 10-Q, filed February 16, 2016)
- 10.57 Stock Purchase Agreement dated March 8, 2016 by and between Visualant, Incorporated and institutional investor (incorporated by reference to the Company's Current Report on Form 8-K, filed March 10, 2016)
- 10.58 Amendment 6 to Demand Promissory Note dated April 29, 2016 by and between Visualant, Inc. and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed May 2, 2016)
- 10.59 Amendment 7 to Demand Promissory Note dated April 29, 2016 by and between Visualant, Inc. and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed May 2, 2016)

- 10.60 Amendment 8 to Demand Promissory Note dated April 29, 2016 by and between Visualant, Inc. and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed May 2, 2016)
- 10.61 Amendment 7 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 July 6, 2016).
- 10.62 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 July 6, 2016).
- 10.63 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 July 6, 2016).
- 10.64 Form of Preferred Stock and Warrant Purchase Agreement by and between Visualant, Incorporated and Clayton A. Struve (incorporated by reference to the Company's Current Report on Form 8-K, filed August 11, 2016)
- 10.65 Form of Warrant to Purchase Shares by and between Visualant, Incorporated and Clayton A. Struve (incorporated by reference to the Company's Current Report on Form 8-K, filed August 11, 2016)
- 10.66 Form of Registration Rights Agreement by and between Visualant, Incorporated and Clayton A. Struve (incorporated by reference to the Company's Current Report on Form 8-K, filed August 11, 2016)
- 10.67 Form of Stock Purchase Agreement by and between Visualant, Incorporated and Dale Broadrick (incorporated by reference to the Company's Current Report on Form 8-K, filed August 11, 2016)
- 10.68 Form of Warrant for the Purchase of Common Stock by and between Visualant, Incorporated and Dale Broadrick (incorporated by reference to the Company's Current Report on Form 8-K, filed August 11, 2016)
- 10.69 First Amendment to Stock Purchase Agreement by and between Visualant, Incorporated and institutional investor (incorporated by reference to the Company's Current Report on Form 8-K, filed August 11, 2016)
- 10.70 Notice, Consent, Amendment and Waiver Agreement by and between Visualant, Incorporated and Clayton A. Stuve (incorporated by reference to the Company's Registration Statement on Form S-1, filed September 1, 2016)
- 10.71 Job Offer Letter dated September 6, 2016 by and between Visualant, Inc. and Jeff T. Wilson (incorporated by reference to the Company's Annual Report on Form 10-K, filed January 13, 2017)
- 14.1 Code of Conduct and Ethics dated November 30, 2012 (incorporated by reference to the Company's Current Report on Form 8-K, filed January 3, 2013)
- 16.1 Letter dated July 14, 2016 from PMB Helin Donovan LLP. (incorporated by reference to the Company's Current Report on Form 8-K, filed July 14, 2016)
- [21.1](#) [Subsidiaries of the Registrant \(incorporated by reference to the Company's Annual Report on Form 10-K, filed November 4, 2015\)](#)
- [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.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Visualant, Incorporated.:

We have audited the accompanying consolidated balance sheets of Visualant, Incorporated (the "Company") as of September 30, 2016 and 2015 and the related consolidated statements of operations, stockholders' (deficit), and cash flows for the years ended September 30, 2016 and 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Visualant, Incorporated as of September 30, 2016 and 2015, and the results of its operations and its cash flows for the years ended September 30, 2016 and 2015 in conformity with generally accepted accounting principles in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has sustained a net loss from operations and has an accumulated deficit since inception. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in this regard are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

SD Mayer and Associates, LLP

/s/ SD Mayer and Associates, LLP

January 13, 2017
Seattle, Washington

VISUALANT, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2016	September 30, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 188,309	\$ 82,266
Accounts receivable, net of allowance of \$55,000 and \$40,000, respectively	808,955	619,849
Prepaid expenses	20,483	27,774
Inventories, net	295,218	217,824
Total current assets	<u>1,312,965</u>	<u>947,713</u>
EQUIPMENT, NET	285,415	366,250
OTHER ASSETS		
Intangible assets, net	43,750	158,000
Goodwill	983,645	983,645
Other assets	5,070	5,070
TOTAL ASSETS	<u>\$ 2,630,845</u>	<u>\$ 2,460,678</u>
LIABILITIES AND STOCKHOLDERS' (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable - trade	\$ 1,984,326	\$ 2,520,223
Accounts payable - related parties	41,365	73,455
Accrued expenses	80,481	4,068
Accrued expenses - related parties	1,109,046	1,256,861
Derivative liability	145,282	2,704,840
Convertible notes payable	909,500	109,000
Notes payable - current portion of long term debt	1,170,339	1,164,692
Deferred revenue	-	5,833
Total current liabilities	<u>5,440,339</u>	<u>7,838,972</u>
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' DEFICIT		
Preferred stock - \$0.001 par value, 5,000,000 shares authorized, 0 shares issued and outstanding at 9/30/2016 and 9/30/2015, respectively	-	-
Series A Convertible Preferred stock - \$0.001 par value, 23,334 shares authorized, 23,334 and 11,667 issued and outstanding at 9/30/2016 and 9/30/2015, respectively	23	12
Series C Convertible Preferred stock - \$0.001 par value, 1,785,715 shares authorized, 1,785,715 and 0 shares issued and outstanding at 9/30/2016 and 9/30/2015, respectively	1,790	-
Common stock - \$0.001 par value, 100,000,000 shares authorized, 2,356,152 and 1,155,991 shares issued and outstanding at 6/30/2016 and 9/30/2015, respectively	2,356	1,156
Additional paid in capital	24,259,702	18,786,694
Accumulated deficit	(27,073,365)	(24,166,156)
Total stockholders' deficit	<u>(2,809,494)</u>	<u>(5,378,294)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	<u>\$ 2,630,845</u>	<u>\$ 2,460,678</u>

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

VISUALANT, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended,	
	<u>September 30, 2016</u>	<u>September 30, 2015</u>
REVENUE	\$ 6,023,600	\$ 6,290,794
COST OF SALES	<u>5,035,699</u>	<u>5,274,334</u>
GROSS PROFIT	987,901	1,016,460
RESEARCH AND DEVELOPMENT EXPENSES	325,803	362,661
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>3,355,263</u>	<u>2,983,751</u>
OPERATING LOSS	<u>(2,693,165)</u>	<u>(2,329,952)</u>
OTHER INCOME (EXPENSE):		
Interest expense	(323,928)	(170,176)
Other (expense) income	(11,228)	40,672
Gain on change - derivative liability	2,559,558	(107,956)
(Loss) on conversion of debt	<u>(1,277,732)</u>	<u>(34,035)</u>
Total other income	<u>946,670</u>	<u>(271,495)</u>
(LOSS) BEFORE INCOME TAXES	(1,746,495)	(2,601,447)
Income taxes - current provision	<u>-</u>	<u>29,590</u>
NET (LOSS)	<u>\$ (1,746,495)</u>	<u>\$ (2,631,037)</u>
Basic and diluted loss per common share attributable to Visualant, Inc. and subsidiaries common shareholders-		
Basic and diluted loss per share	<u>\$ (1.22)</u>	<u>\$ (2.33)</u>
Weighted average shares of common stock outstanding- basic and diluted	1,428,763	1,131,622

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

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

	Series A Convertible Preferred Stock		Series B Redeemable Convertible Preferred Stock		Series C Convertible Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated Deficit	Total Stockholders' (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance as of September 30, 2014	-	\$ -	-	\$ -	-	\$ -	1,121,151	\$ 1,121	\$18,125,411	\$21,535,119	\$3,408,587
Stock compensation expense - employee options	-	-	-	-	-	-	-	-	65,463	-	65,463
Issuance of Series A Convertible Preferred Stock	11,667	12	-	-	-	-	-	-	233,310	-	233,322
Issuance of common stock for services	-	-	-	-	-	-	9,169	9	137,491	-	137,500
Issuance of common stock for debt conversion	-	-	-	-	-	-	24,710	25	91,781	-	91,806
Reversal of derivative liability for debt repayment	-	-	-	-	-	-	-	-	98,940	-	98,940
Effect of reverse stock split	-	-	-	-	-	-	962	1	263	-	264
Loss on conversion of debt	-	-	-	-	-	-	-	-	34,035	-	34,035
Net loss	-	-	-	-	-	-	-	-	-	(2,631,037)	(2,631,037)
Balance as of September 30, 2015	11,667	12	-	-	-	-	1,155,992	1,156	18,786,694	(24,166,156)	(5,378,294)
Stock compensation expense - employee options	-	-	-	-	-	-	-	-	46,398	-	46,398
Issuance of common stock for services	-	-	-	-	-	-	63,979	63	273,948	-	274,011
Issuance of warrant for services	-	-	-	-	-	-	-	-	120,751	-	120,751
Issuance of common stock for warrant exercise	-	-	-	-	-	-	207,666	207	518,955	-	519,162
Issuance of common stock	-	-	-	-	-	-	724,786	726	570,152	-	570,878
Issuance of convertible notes payable	-	-	-	-	-	-	-	-	120,501	-	120,501
Issuance of Series A Convertible Preferred Stock	11,667	11	-	-	-	-	-	-	(11)	-	-
Issuance of Series B Redeemable Convertible Preferred Stock	-	-	51	-	-	-	-	-	504,995	-	505,000
Issuance of Common Stock for Conversion of Series B Convertible Stock	-	-	(51)	-	-	-	126,064	126	675,474	-	675,695
Issuance of Series C Convertible Preferred Stock	-	-	-	-	-	1,790	-	-	1,248,214	-	1,250,004
Beneficial conversion feature of Preferred Stock/dividend	-	-	-	-	-	-	-	-	1,160,714	(1,160,714)	-
Issuance of common stock for conversion of liabilities	-	-	-	-	-	-	77,665	78	232,917	-	232,995
Net loss	-	-	-	-	-	-	-	-	-	(1,746,495)	(1,746,495)
Balance as of September 30, 2016	<u>23,334</u>	<u>\$ 23</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 1,790</u>	<u>2,356,152</u>	<u>\$ 2,356</u>	<u>\$24,259,702</u>	<u>\$27,073,365</u>	<u>\$2,809,494</u>

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

VISUALANT, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended,	
	September 30, 2016	September 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,746,495)	\$ (2,631,037)
Adjustments to reconcile net loss to net cash (used in) operating activities		
Depreciation and amortization	178,762	353,229
Issuance of capital stock for services and expenses	394,825	137,500
Stock based compensation	46,398	65,463
Loss (gain) on sale of assets	34,027	(20,042)
(Gain) loss on change - derivative liability	(2,559,558)	107,956
Provision for losses on accounts receivable	-	28,266
Non-cash related to issuance of convertible notes payable	177,011	-
Loss on conversion of debt	772,732	34,035
Changes in operating assets and liabilities:		
Accounts receivable	(189,106)	167,345
Prepaid expenses	7,291	(2,707)
Inventory	(77,394)	195,007
Accounts payable - trade and accrued expenses	(406,394)	1,289,685
Income tax receivable	-	29,590
Deferred revenue	(5,833)	5,833
NET CASH (USED IN) OPERATING ACTIVITIES	<u>(3,373,734)</u>	<u>(239,877)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(23,437)	-
Proceeds from sale of equipment	6,585	21,452
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES:	<u>(16,852)</u>	<u>21,452</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds (repayments) from line of credit	5,647	(123,633)
Proceeds from sale of common and preferred stock, net	2,882,405	350,000
Proceeds from warrant exercises	519,162	-
Proceeds from convertible notes payable	1,174,500	173,000
Redemption of Preferred Stock	(505,000)	-
Repayments of convertible notes	(580,085)	(166,500)
Repayments of capital leases	-	(2,562)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>3,496,629</u>	<u>230,305</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	106,043	11,880
CASH AND CASH EQUIVALENTS, beginning of period	<u>82,266</u>	<u>70,386</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 188,309</u>	<u>\$ 82,266</u>
Supplemental disclosures of cash flow information:		
Interest paid	\$ 50,327	\$ 114,907
Taxes paid	\$ -	\$ -
Gain on change - derivative liability warrants	\$ -	\$ 17,727
Issuance of common stock for debt conversion	\$ -	\$ 91,806

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

VISUALANT, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. 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 March 8, 2016, the Company received approval from the State of Nevada for the 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 adding a provision adjusting the conversion price upon the occurrence of certain events.

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 at a par value of \$.001 per share that 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 Redeemable Convertible Preferred Stock. The Certificate authorized 5,000 shares of Series C Preferred Stock at a par value of \$.001 per share that is convertible into common stock at \$0.70 per share, with certain adjustments as set forth in the Certificate.

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 Invention Development Management Company, L.L.C. (“IDMC”).

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 aggressive 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, Intellectual Ventures through its subsidiary IDMC.

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.

2. GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company incurred net losses of \$1,746,495 and \$2,631,037 for the years ended September 30, 2016 and 2015, respectively. Net cash used in operating activities was \$(3,373,734) and \$(239,877) for 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 September 30, 2016, the Company’s accumulated deficit was \$27,073,365. 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES: ADOPTION OF ACCOUNTING STANDARDS

Basis of Presentation – The accompanying unaudited consolidated financial statements include the accounts of the Company. Intercompany accounts and transactions have been eliminated. The preparation of these unaudited condensed consolidated financial statements 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 and \$20,000 reserve for impaired inventory as of September 30, 2016 and 2015, respectively.

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

Intangible Assets/ Intellectual Property – The Company amortizes the intangible assets and intellectual property acquired in connection with the acquisition of TransTech, over sixty months on a straight - line basis, which was the time frame that the management of the Company was able to project forward for future revenue, either under agreement or through expected continued business activities. Intangible assets and intellectual property acquired from RATLab LLC and Javelin are recorded likewise. The Company performs annual assessments and has determined that no impairment is necessary. On June 7, 2011, the Company closed the acquisition of all Visualant related assets of the RATLab LLC, namely the rights to the medical field of use of the Chroma ID technology. On July 31, 2012, the Company closed the acquisition of all rights to the ChromaID technology in the environmental field of use from Javelin LLC.

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

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

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

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

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

Level 3 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 September 30, 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 weighted average 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.

Income Taxes – Income taxes are calculated based upon the asset and liability method of accounting. Deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. A valuation allowance is recorded against deferred tax assets if management does not believe the Company has met the “more likely than not” standard to allow for recognition of such an asset. In addition, realization of an uncertain income tax position must be estimated as “more likely than not” (i.e., greater than 50% likelihood of receiving a benefit) before it can be recognized in the financial statements. Further, the recognition of tax benefits recorded in the financial statements, if any, is based on the amount most likely to be realized assuming a review by tax authorities having all relevant information.

Net Loss per Share – Under the provisions of ASC 260, “Earnings Per Share,” basic loss per common share is computed by dividing net loss available to common shareholders by the weighted average number of shares of common stock outstanding for the periods presented. Diluted net loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the income of the Company, subject to anti-dilution limitations. The common stock equivalents have not been included as they are anti-dilutive. As of September 30, 2016, there were options outstanding for the purchase of 50,908 common shares, warrants for the purchase of 3,182,732 common shares, 1,809,048 shares of our common stock issuable upon the conversion of Series A and Series C Convertible Preferred Stock, up to 270,439 shares of our common stock issuable upon the exercise of placement agent warrants and an unknown number of shares related to the conversion of \$885,000 in convertible promissory notes. As of September 30, 2015, there were options outstanding for the purchase of 57,407 common shares, warrants for the purchase of 899,750 common shares, 11,667 shares of our common stock issuable upon the conversion of Series A Convertible Preferred Stock, up to 34,871 shares of our common stock issuable upon the exercise of placement agent warrants and an unknown number of shares related to the conversion of \$109,000 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.

In May 2014, as part of its ongoing efforts to assist in the convergence of GAAP and International Financial Reporting Standards, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, which is a new standard related to revenue recognition. Under the new standard, recognition of revenue occurs when a customer obtains control of promised services or goods in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts. The standard must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. In July 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers - Deferral of the Effective Date, which defers the implementation of this new standard to be effective for fiscal years beginning after December 15, 2017. Early adoption is permitted effective January 1, 2017. In March 2016, the FASB issued ASU 2016-08, Principal versus Agent Considerations, which clarifies the implementation guidance on principal versus agent considerations in the new revenue recognition standard pursuant to ASU 2014-09. In April 2016, the FASB issued ASU 2016-10, Identifying Performance Obligations and Licensing, and in May 2016, the FASB issued ASU 2016-12, Narrow-Scope Improvements and Practical Expedients, which amend certain aspects of the new revenue recognition standard pursuant to ASU 2014-09. The Company currently evaluating which transition approach we will utilize and the impact of adopting this accounting standard on the Company's financial statements.

In August 2014, the FASB issued ASU 2014-15, Disclosures of Uncertainties About an Entity's Ability to Continue as a Going Concern. The new standard provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The Company does not expect that this guidance will have a material impact on its financial position, results of operations or cash flows.

In January 2015, the FASB issued ASU 2015-01, Income Statement—Extraordinary and Unusual Items. The objective of this Update is to simplify the income statement presentation requirements in Subtopic 225-20 by eliminating the concept of extraordinary items. Extraordinary items are events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence. Eliminating the extraordinary classification simplifies income statement presentation by altogether removing the concept of extraordinary items from consideration. This Accounting Standards Update is the final version of Proposed Accounting Standards Update 2014-220—Income Statement—Extraordinary Items (Subtopic 225-20), which has been deleted. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. the Company's does not expect this update to have a material impact on financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"). The standard amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 will be effective beginning in the first quarter of 2019. Early adoption of ASU 2016-02 is permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company is currently evaluating the impact of adopting ASU 2016-02 on the Company's financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This ASU makes targeted amendments to the accounting for employee share-based payments. This guidance is to be applied using various transition methods such as full retrospective, modified retrospective, and prospective based on the criteria for the specific amendments as outlined in the guidance. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. Early adoption is permitted, as long as all of the amendments are adopted in the same period. The Company is currently evaluating the impact of adopting ASU 2016-09 on the Company's financial statements.

In June 2016, the FASB issued Accounting Standards Update ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The standard significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The standard will replace today's "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost. For available-for-sale debt securities, entities will be required to record allowances rather than reduce the carrying amount, as they do today under the other-than-temporary impairment model. It also simplifies the accounting model for purchased credit-impaired debt securities and loans. This ASU is effective for annual periods beginning after December 15, 2019, and interim periods therein. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods therein. This ASU is not expected to have a material impact on the Company's financial statements.

In August 2016, the FASB issued Accounting Standards Update ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. Stakeholders indicated that there is diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. This Accounting Standards Update addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The amendments in this Update apply to all entities, including both business entities and not-for-profit entities that are required to present a statement of cash flows under Topic 230. This Update is the final version of Proposed Accounting Standards Update EITF-15F—Statement of Cash Flows—Classification of Certain Cash Receipts and Cash Payments (Topic 230), which has been deleted. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted as all of the amendments are adopted in the same period. This ASU is not expected to have a material impact on the Company's 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 Intellectual Ventures and its subsidiary, IDMC, 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 aggressive 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, the IDMC subsidiary of Intellectual Ventures.

IDMC Relationship

In November 2013, the Company entered into a strategic relationship with IDMC, a subsidiary of Intellectual Ventures, a private intellectual property fund. In May of 2016, Intellectual Ventures was spun out IDMC into an independent company called Xinova. The relationship remains intact. IDMC 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 the Company. In connection with IDMC's work to expand the Company's intellectual property portfolio, the Company agreed to curtail outbound marketing activities of its technology through the fourth fiscal quarter of 2014.

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 IDMC 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 research and development efforts are supported internally, through its relationship with IDMC and through contractors led by Dr. Tom Furness and his team at RATLab LLC.

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

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

In November 2013, the Company entered into a Services and License Agreement with IDMC. IDMC is affiliated with Intellectual Ventures, which collaborates with inventors and partners with pioneering companies and invests both expertise and capital in the process of invention. On November 19, 2014, the Company amended the Services and License Agreement with IDMC. This amendment exclusively licenses 10 filed patents to us. In May of 2016, Intellectual Ventures was spun out IDMC into an independent company called Xinoa. The relationship remains intact.

The agreement requires IDMC 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. IDMC is responsible for the development and patent costs. The Company provided the Chroma ID Lab Kits to IDMC 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 IDMC 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 IDMC network during December 2013 and January 2014. As part of the agreement with IDMC, the Company curtailed its ChromaID marketing efforts through the fourth calendar quarter of 2014 while IDMC worked to expand our intellectual property portfolio. Thereafter, the Company began to actively market the ChromaID Lab Kits to interested and qualified customers.

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

IDMC is providing global business development services to us for geographies not being pursued by Visualant. Also, IDMC 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 IDMC 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 IDMC 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 IDMC 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 IDMC a percentage of license revenue for the global development business services and a percentage of revenue received from any company introduced to us by IDMC. The Company also have also agreed to pay IDMC a royalty when the Company receives royalty product revenue from an IDMC-introduced company. IDMC 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 \$808,955 and \$619,849, net of allowance, as of September 30, 2016 and 2015, respectively. The Company had one customer (13.3%) in excess of 10% of the Company's consolidated revenues for the year ended September 30, 2016. The Company had one customer (35.3%) with accounts receivable in excess of 10% as of September 30, 2016.

7. INVENTORIES

Inventories were \$295,218 and \$217,824 as of September 30, 2016 and 2015, 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 and \$20,000 reserve for impaired inventory as of September 30, 2016 and 2015, respectively.

8. FIXED ASSETS

Fixed assets, net of accumulated depreciation, was \$285,415 and \$366,250 as of September 30, 2016 and 2015, respectively. Accumulated depreciation was \$796,481 and \$803,705 as of September 30, 2016 and 2015, respectively. Total depreciation expense, was \$64,512 and \$79,576 for the years ended September 30, 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 September 30, 2016 was comprised of the following:

	Estimated Useful Lives	September 30, 2016		
		Purchased	Capital Leases	Total
Machinery and equipment	2-10 years	\$ 252,636	\$ 69,581	\$ 322,217
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		(625,640)	(170,841)	(796,481)
		<u>\$ 285,415</u>	<u>\$ -</u>	<u>\$ 285,415</u>

9. INTANGIBLE ASSETS

Intangible assets as of September 30, 2016 and 2015 consisted of the following:

	Estimated Useful Lives	September 30, 2016	September 30, 2015
Customer contracts	5 years	\$ 983,645	\$ 983,645
Technology	5 years	712,500	712,500
Less: accumulated amortization		(1,652,395)	(1,538,145)
Intangible assets, net		<u>\$ 43,750</u>	<u>\$ 158,000</u>

Total amortization expense was \$114,250 and \$273,653 for the years ended September 30, 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 September 30, 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 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.

10. ACCOUNTS PAYABLE

Accounts payable were \$1,984,326 and \$2,520,223 as of September 30, 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 (11.0%) with accounts payable in excess of 10% of its accounts payable as of September 30, 2016. The Company does expect to have vendors with accounts payable balances of 10% of total accounts payable in the foreseeable future.

11. 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 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

Derivative liability as of September 30, 2015 is as follows:

Financial Instruments	Fair Value Measurements Using Inputs			Carrying Amount at September 30, 2015
	Level 1	Level 2	Level 3	
Liabilities:				
Derivative Instruments	\$ -	\$ 2,704,840	\$ -	\$ 2,704,840
Total	\$ -	\$ 2,704,840	\$ -	\$ 2,704,840

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.

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 increase in the fair value of the warrant liability at September 30, 2016.

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

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

The Company issued a warrant to purchase 97,169 shares of common stock in connection with the November 2013 IDMC 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 IDMC warrant. During the year ended September 30, 2015, the Company recognized \$14,574 of other income related to the IDMC 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.

Derivative Instrument – Series A Convertible Preferred Stock

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 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.

Derivative Instrument – Convertible Note Payable Vis Vires Group, Inc.

The Company entered into a Convertible Note Payable with Vis Vires Group, Inc. on February 19, 2016 for \$100,000 to fund short-term working capital. The Vis Vires Note accrues interest at a rate of 8% per annum and became due on November 22, 2016 and was convertible into common stock on August 19, 2016. The Vis Vires Note was convertible at 65% of the average of the lowest three day trading price in the 10 days prior to conversion. On August 11, 2016, the Company paid \$136,770 to Vis Vires Group, Inc. to repay the Note Payable in full and recorded a loss on debt settlement of \$35,784. The Company recognized other income resulting from the decrease in the fair value of the warrant liability at September 30, 2016 of \$55,243.

Derivative Instrument – Convertible Note Payable Vis Vires Group, Inc.

The Company entered into a Convertible Note Payable with Vis Vires Group, Inc. on August 10, 2015 for \$84,000 to fund short-term working capital. The Vis Vires Note accrued interest at a rate of 8% per annum and was due on May 12, 2016 and was convertible into common stock on February 5, 2016. The Vis Vires Note was convertible at 65% of the average of the lowest three day trading price in the 10 days prior to conversion. The Company recorded accrued interest of \$405 as of September 30, 2015. During the year ended September 30, 2015, the Company recognized \$55,038 of other expense related to the Vis Vires Note. On February 6, 2016, the Company paid \$114,979 to Vis Vires to repay the Note Payable in full. The Company recognized other income of \$47,028 during the year ended September 30, 2016.

12. CONVERTIBLE NOTES PAYABLE

Convertible notes payable as of 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. The Company recorded accrued interest of \$45,436 as of September 30, 2016. The investors received \$710,000 in warrants that are exercisable into common stock at the price equal to the price of the common stock sold in our next public financing.

The Company entered into 8%-10% Convertible Promissory Notes and Securities Purchase Agreements with three accredited investors on February 4, 2016, totaling \$165,000 with an original issue discount of \$15,000. The Notes become due on February 3, 2017 and are convertible into common stock after six months from issuance. The Notes were convertible at 60% of the average of the lowest trading price in the 25 days prior to conversion but not less than \$0.001 per share. The Company issued a total of 10,500 shares of restricted common stock to the investors valued at \$70,875 and paid \$7,500 in legal fees. The Company received \$128,500 net of all fees. On February 5, 2016, the Company valued the beneficial conversion feature of this senior secured convertible redeemable debenture at \$110,000 and recorded additional paid in capital of \$110,000. During the year ended September 30, 2016, \$175,173 was amortized to interest expense related to debt discount associated with the Convertible Promissory Notes. On August 5, 2016, the Company paid \$217,366 to the three accredited investors to repay the Notes Payable in full and recorded a loss on debt settlement of \$52,336.

The Company entered into a Convertible Note Payable with Vis Vires Group, Inc. on February 19, 2016 for \$100,000 to fund short-term working capital. The Vis Vires Note accrues interest at a rate of 8% per annum and became due on November 22, 2016 and was convertible into common stock on August 19, 2016. The Vis Vires Note was convertible at 65% of the average of the lowest three day trading price in the 10 days prior to conversion. On August 11, 2016, the Company paid \$136,770 to Vis Vires Group, Inc. to repay the Note Payable in full and recorded a loss on debt settlement of \$35,784.

The Company entered into a Convertible Promissory Note with JSJ Investments, Inc. on August 2, 2016 for \$100,000 to fund short-term working capital. The Note accrues interest at a rate of 12% per annum and became due on May 1, 2017. On August 31, 2016, the Company paid \$110,000 to JSJ Investments, Inc. to repay the Note Payable in full and recorded a loss on debt settlement of \$9,014.

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. The Company recorded a beneficial conversion feature of \$10,500 and expensed an additional \$24,500 related to the convertible note.

13. NOTES PAYABLE, CAPITALIZED LEASES AND LONG TERM DEBT

Notes payable, capitalized leases and long term debt as of September 30, 2016 and 2015 consisted of the following:

	September 30, 2016	September 30, 2015
Capital Source Business Finance Group	\$ 370,404	\$ 364,757
Note payable to Umpqua Bank	199,935	199,935
Secured note payable to J3E2A2Z LP - related party	600,000	600,000
Total debt	1,170,339	1,164,692
Less current portion of long term debt	(1,170,339)	(1,164,692)
Long term debt	<u>\$ -</u>	<u>\$ -</u>

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 (\$33,000 as of September 30, 2016) on a daily basis. The remaining balance on the accounts receivable line of \$370,404 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 \$16,340 as of September 30, 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 \$40,167 as of September 30, 2016.

Aggregate maturities totaling \$1,170,339 are all due within twelve months.

14. 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.

On July 21, 2015, the Company filed with the Nevada Secretary of State an Amended and Restated Certificate of Designations, Preferences and Rights for our Series A Convertible Preferred Stock. Among other things, the Amended and Restated Certificate changed the conversion price and the stated value of the Series A Preferred 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.

Under the Amended and Restated Certificate, the Company had 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, given by written consent or by vote at a meeting called for such purpose for which notice shall have been duly given to the holders of the Series A Preferred.

During the year ended September 30, 2015, the Company sold 11,667 Series A Preferred Stock to two investors totaling \$350,000. These shares are expected to be 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 (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 price of the Series A Preferred Stock was adjusted to \$0.70 per share due to the issuance of common stock at that price.

On March 8, 2016, the Company received approval from the State of Nevada for the 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 adding 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. We have 23,334 Series A Preferred Stock issued and outstanding.

Series B Redeemable Convertible Preferred Stock

On March 8, 2016, the Company received approval from the State of Nevada for the Certificate of Designations of Preferences, Powers, Rights and Limitations of Series B Redeemable Convertible Preferred Stock. The Certificate authorized 5,000 shares of Series B Preferred Stock at a par value of \$.001 per share that is convertible into common stock at \$7.50 per share, subject to certain adjustments as set forth in the Certificate.

The Company entered into a Stock Purchase Agreement with an institutional investor pursuant to which the Company issued 255 Shares of Series B Redeemable Preferred Shares ("Series B Preferred Shares") of the Company at \$10,000 per share with a 5.0% original issue discount for the sum of \$2,500,000.

At closing, the Company sold 51 Series B Preferred Shares in exchange for payment to the Company of \$500,000 in cash and issued an additional 204 Series B Preferred Shares in exchange for delivery of a full recourse 1% Promissory Note ("Note") for \$1,995,000 and payment to the Company of \$5,000 in cash (paid). The Note is collateralized by the Series B Preferred Shares. Under the terms of the Note, the Company is to receive an additional \$500,000 for each \$5 million, or in certain cases a lower amount, in aggregate trading volume of the common stock, so long as it meets certain other requirements. Any remaining balance under the Note is payable at its maturity in seven years. Due to the uncertainty on the receipt of achieving future funding, the Company has not booked the full recourse 1% Promissory Note.

The Series B Preferred Shares are convertible into common stock at \$7.50 per share; provided that the institutional investor may not convert any Series B Preferred Shares into common stock until that portion of the Note underlying the purchase of the converted portion of Series B Preferred Shares is paid in cash to Company.

The Company may issue, at our sole discretion in lieu of cash, as a conversion premium or in payment of dividends on such shares of Series B Preferred Shares. The number of additional common shares that we may issue as a conversion premium or in payment of dividends, is dependent on the dividend rate which can vary depending on our underlying stock price at the time of conversion and assuming no triggering event has occurred.

The Company filed a Registration Statement on Form S-1, which was declared effective May 6, 2016, to register \$2,675,000 for the resale of all shares of common stock issuable upon conversion of the Series B Shares.

On August 5, 2016, the Company closed the First Amendment to Stock Purchase Agreement with the institutional investor. As a result of this amendment agreement the Company paid the sum of \$505,000 to the institutional investor, issued 52,000 restricted shares of common stock valued at \$169,000 for the conversion of the remaining preferred shares that the investor had purchased, cancelled the remaining 204 shares of Series B Preferred Stock that had not been purchased, and the parties terminated the relationship and all aspects of the Stock Purchase Agreement described above in its entirety. We recorded an expense of \$674,000 related to this Amendment Agreement during the three months ended September 30, 2016.

On September 1, 2016, the Company filed a Withdrawal of Certificate of Designations of Preferences, Powers, Rights and Limitations of Series B Redeemable Convertible Preferred Stock with the State of Nevada. In August 15, 2016, the SEC approved the withdrawal of the Registration Statement on Form S-1.

During the year ended September 30, 2016, the Company issued 74,084 shares of common stock to this institutional investor at \$5.591 and received \$339,998 and (i) issued 52,000 shares of common stock valued at \$169,000; (ii) paid \$505,000; and (iii) expensed \$506,599 or \$1,180,599 related to the conversion of 34 Series B Preferred Shares and cancellation of the agreement.

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 preferred has a yield of 8% and an ownership blocker of 4.99%. In addition, the investor received 100% warrant coverage with five year warrants having a strike price of \$0.70. Both the Series C and 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 at a par value of \$.001 per share that 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 Redeemable Convertible Preferred Stock. The Certificate authorized 5,000 shares of Series C Preferred Stock at a par value of \$.001 per share that is convertible into common stock at \$0.70 per share, with certain adjustments as set forth in the Certificate.

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 our 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.

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 year ended September 30, 2016:

Thirteen investors exercised warrants at \$2.50 per share and were issued 207,667 shares of common stock, for a total of \$519,162 in proceeds to the Company.

On October 21, 2015, the Company entered into a Public Relations Agreement with Financial Genetics LLC for public relation services. Under the Agreement, Financial Genetics was issued 35,268 shares of our common stock. The Company expensed \$218,653 during the year ended September 30, 2016.

On October 6, 2015, the Company entered into a Consulting Agreement with Joshua Conroy for business development services. Under the Agreement, Mr. Conroy was issued 1,711 shares of our common stock. The Company expensed \$11,977 during the year ended September 30, 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 accrue interest at a rate of 8% per annum and become due September 2016 to February 2017 and are convertible into common stock as part of our next financing. The investors received \$710,000 in warrants that are exercisable into common stock at the price equal to the price of the common stock sold in our next public financing.

The Company entered into 8%-10% Convertible Promissory Notes and Securities Purchase Agreements with three accredited investors on February 4, 2016, totaling \$165,000 with an original issue discount of \$15,000. The Company issued a total of 10,500 shares of restricted common stock to the investors valued at \$70,875 and paid \$7,500 in legal fees. The Company received \$128,500 net of all fees.

On February 23, 2016, the Company entered into a Consulting Agreement with David Markowski for business development services. On February 29, 2016, Mr. Markowski was issued 2,000 shares of our common stock. The Company expensed \$14,600 during the year ended September 30, 2016.

On July 12, 2016, a supplier converted accounts payable totaling \$232,966 into 77,665 shares of common stock valued at \$3.00 per share.

On August 1, 2016, the Company entered an Agreement with Axiom Financial, Inc. for business development services. Under the Agreement, the Company issued 25,000 shares of our common stock. The Company expensed \$29,000 during the year ended September 30, 2016.

On August 10, 2016, the Company closed a Stock Purchase Agreement with Dale Broadrick, an accredited investor and affiliate of the Company for the purchase of \$500,000 of the Company's common stock at \$0.70 per share or 714,286 shares of common stock. In addition, the investor received 100% warrant coverage with a five year warrant having a strike price of \$0.70. These common shares and warrants are not subject to a registration statement.

During the year ended September 30, 2016, the Company issued 74,084 shares of common stock to this institutional investor at \$5.591 and received \$339,998 and (i) issued 52,000 shares of common stock valued at \$169,000; (ii) paid \$505,000; and (iii) expensed \$506,599 or \$1,180,599 related to the conversion of 34 Series B Preferred Shares and cancellation of the agreement with the institutional investor.

The following equity issuances occurred during the year ended September 30, 2015:

On December 14, 2014, the Company entered into an Advisory Agreement with Lester Garfinkel for financial consulting services. Under the Advisory Agreement, Mr. Garfinkel was awarded 167 shares of our common stock. The Company expensed \$2,500 during the year ended September 30, 2015.

On January 23, 2015, the Company issued 9,002 shares of restricted common stock to seven employees and directors for services during 2014. The shares were issued in accordance with the 2011 Stock Incentive Plan and were valued at \$15.00 per share, the market price of our common stock. The Company expensed \$135,000 during the year ended September 30, 2015.

On February 23, 2015, the Company issued 1,700 shares of common stock to NVPR LLC related to a conversion of \$25,499 under a 7% Convertible Debenture.

On April 24, 2015, the Company filed a registration statement on Form S-1 to register \$10 million of Company securities in a proposed public offering. The Company has applied for listing of the Company's common stock and the warrants on The NASDAQ Capital Market.

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, and the reverse split became effective on June 17, 2015. 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. The Company issued 962 fractional shares related to the reverse split.

On August 3, 10, 13 and 14, 2015, the Company issued a total of 23,010 shares of common stock to KBM Worldwide, Inc. related to the conversion of \$64,000 of debt and interest of \$2,560 pursuant to a Securities Purchase Agreement dated January 27, 2015. The shares were issued at an average of \$2.785 per share, with a low price of \$2.50 per share. The Company recorded on a loss on conversion of \$34,035 and allocated \$34,035 to stockholder's equity.

Warrants to Purchase Common Stock

The following warrant issuances occurred during the year ended September 30, 2016:

The Company previously issued warrants to investors and partners which contained a provision that would require an adjustment in the exercise price if the Company issues common stock, warrants or equity below the price that is reflected in the warrants. These warrants included the following:

1. Series A Warrants to purchase a total of 252,060 shares of common stock at a current exercise price of \$2.50 per share.
2. Series B Warrants to purchase a total of 252,060 shares of common stock at a current exercise price of \$2.50 per share.
3. A warrant issued to IDMC to purchase 97,169 shares of common stock at a current exercise price of \$2.50 per share.
4. Series C Warrants to purchase 23,334 shares of common stock at a current exercise price of \$2.50 per share.
5. Series D Warrants to purchase 23,334 shares of common stock at a current exercise price of \$2.50 per share.
6. Placement Agent Warrants to purchase a total of 20,439 shares of common stock at a current exercise price of \$2.50 per share.
7. Series A Convertible Preferred Stock to purchase a total of 23,334 shares of common stock at a current exercise price of \$15.00.

On August 4, 2016, the Company adjusted the exercise price of the warrants and conversion price of the Series A Convertible Preferred Stock detailed above to \$0.70 per share.

On August 5, 2016, the Company closed a Series C Preferred Stock and Warrant Purchase Agreement with Clayton A. Struve, an accredited investor for the purchase of \$1,250,000 of preferred stock with a conversion price of \$0.70 per share. The preferred stock has a yield of 8% and an ownership blocker of 4.99%. In addition, Mr. Struve received a five year warrant to acquire 1,785,714 shares of common stock at \$0.70 per share. Both the Series C and warrants will be included in a registration statement to be filed by the Company.

On August 10, 2016, the Company closed a Stock Purchase Agreement with Dale Broadrick, an accredited investor and affiliate of the Company for the purchase of \$500,000 of the Company's common stock at \$0.70 per share. In addition, the investor received a five year warrant to acquire 714,286 shares of common stock at \$0.70 per share. These common shares and warrants are not subject to a registration statement.

The Company issued a five year warrant to Garden State Securities, Inc. to acquire 250,000 shares of common stock at \$1.00 per share. The warrants were valued at \$120,750.

The Company issued five year warrants to placement agents to acquire 20,439 shares of common stock at \$0.70 per share.

Thirteen investors exercised warrants at \$2.50 per share and were issued 207,670 shares of common stock, for a total of \$519,162 in proceeds to the Company.

Warrants to acquire 9,348 shares of common stock at \$26.22 per share expired.

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 investors received \$710,000 in warrants that are exercisable into common stock at the price equal to the price of the common stock sold in our next public financing. The number of warrants convertible into shares of common stock is not known at this time as the number of shares is determined by the price of the next up-lift offering by an investment banker.

The following warrant issuances occurred during the year ended September 30, 2015:

On June 14, 2013, the Company entered into a Purchase Agreement, Warrants, and Registration Rights Agreement with Special Situations Technology Funds and forty other accredited investors, pursuant to which the Company issued 348,685 shares of common stock at \$15.00 per share for a total of \$5,230,000, which amount includes the conversion of \$500,000 in outstanding debt of the Company owed to one of its officers. As part of the transaction, which closed on June 14, 2013, the Company issued to the investors (i) five year Series A Warrants to purchase a total of 348,685 shares of common stock at \$22.50 per share; and (ii) five year Series B Warrants to purchase a total of 348,685 shares of common stock at \$30.00 per share. The Company also issued 34,871 placement agent warrants exercisable at \$15.00 per share to GVC Capital, with an obligation to issue up to 34,871 additional placement agent warrants exercisable at \$22.50 per share. The placement agent warrants shall issue only upon the exercise of the Series A Warrants by the investors, and are issuable ratably based upon the number of Warrants exercised by the investors. The placement agent warrants have a term of five years from the date of closing of the transaction. On August 4, 2016, the warrant exercise price was adjusted to \$0.70 per share due the issuance of common stock at this price.

Warrants to purchase 4,000 shares of common stock at \$15.00 per share were forfeited.

A summary of the warrants issued as of September 30, 2016 were as follows:

	September 30, 2016	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	899,750	\$ 3.18
Issued	2,770,439	0.73
Exercised	(207,670)	(2.50)
Forfeited	-	-
Expired	(9,348)	(26.22)
Outstanding at end of period	<u>3,453,171</u>	<u>\$ 0.84</u>
Exercisable at end of period	<u>3,453,171</u>	

A summary of the status of the warrants outstanding as of September 30, 2016 is presented below:

	September 30, 2016			
Number of Warrants	Weighted Average Remaining Life (In Years)	Weighted Average Exercise Price	Shares Exercisable	Weighted Average Exercise Price
3,188,835	4.10	\$ 0.70	3,188,835	\$ 0.70
250,000	4.83	1.00	250,000	1.00
14,336	1.24	\$ 30.00	14,336	30.00
<u>3,453,171</u>	<u>3.74</u>	<u>\$ 0.84</u>	<u>3,453,171</u>	<u>\$ 0.84</u>

The significant weighted average assumptions relating to the valuation of the Company's warrants for the year ended September 30, 2016 were as follows:

Dividend yield	0%
Expected life	.25-3
Expected volatility	90%
Risk free interest rate	.01-.07%

At September 30, 2016, vested warrants totaling 3,188,835 shares had an aggregate intrinsic value of \$127,553.

15. 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 the following stock option transactions during the year ended December 31, 2016:

During the year ended September 30, 2016, employees forfeited stock option grants for 6,499 shares of common stock at \$21.40 per share.

The Company had the following stock option transactions during the year ended September 30, 2015:

During the year ended September 30, 2015, twelve employees and directors, forfeited stock option grants for 41,621 shares of common stock at \$18.29 per share.

On January 23, 2015, three employees were issued performance grants for 11,335 shares of common stock at \$15.00 per share. The grants were issued in accordance with the 2011 Stock Incentive Plan, vest quarterly over three years after being earned and expire January 22, 2020. As of September 30, 2015, none of the stock option grants were earned.

There are currently 50,908 options to purchase common stock at an average exercise price of \$18.05 per share outstanding as of September 30, 2016 under the 2011 Stock Incentive Plan. The Company recorded \$46,398 and \$65,463 of compensation expense, net of related tax effects, relative to stock options for the year ended September 30, 2016 and 2015 in accordance with ASC 505. Net loss per share (basic and diluted) associated with this expense was approximately (\$0.03) and (\$0.06) per share, respectively. As of September 30, 2016, there is approximately \$113,163 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 3.12 years.

Stock option activity for the year ended September 30, 2016 and 2015 was as follows:

	Weighted Average		
	Options	Exercise Price	\$
Outstanding as of September 30, 2014	87,333	18.804	1,642,200
Granted	11,335	15.000	170,025
Exercised	-	-	-
Forfeitures	(41,261)	(18.286)	(754,500)
Outstanding as of September 30, 2015	57,407	18.43	1,057,725
Granted	-	-	-
Exercised	-	-	-
Forfeitures	(6,499)	(21.403)	(139,098)
Outstanding as of September 30, 2016	50,908	\$ 18.045	\$ 918,627

The following table summarizes information about stock options outstanding and exercisable at September 30, 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	1.88	\$ 13.50	3,334	\$ 13.50
15.000	20,906	2.83	15.00	9,348	15.00
19.500	13,334	2.92	19.50	13,334	19.50
22.500	13,334	3.63	22.50	13,334	22.50
	50,908	3.12	\$ 18.04	39,350	\$ 18.94

There is no aggregate intrinsic value of the exercisable options as of September 30, 2016.

16. OTHER SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

Related Party Transactions with Ronald P. Erickson

See Note 13 for Notes Payable to Ronald P. Erickson, our Chief Executive Officer and/or entities in which Mr. Erickson has a beneficial interest.

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 \$16,340 as of September 30, 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 \$40,167 as of September 30, 2016.

Other Amounts Due to Mr. Erickson

Mr. Erickson and/or entities with which he is affiliated also have advanced \$521,833 and have unreimbursed expenses and compensation of approximately \$424,872. The Company owes Mr. Erickson, or entities with which he is affiliated, \$1,546,705 as of September 30, 2016.

Issuance of Common Stock to Mr. Erickson

On July 12, 2016, Mr. Erickson and/or entities with which he is affiliated exercised a warrant for 66,667 shares of the Company's common stock at \$2.50 per share or \$166,668.

17. 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 September 30, 2016 were \$10,030.

18. INCOME TAXES

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

Pretax losses arising from United States operations were approximately \$2,650,000 for the year ended September 30, 2016.

Pretax losses arising from United States operations were approximately \$773,000 for the year ended September 30, 2015.

The Company has net operating loss carryforwards of approximately \$22,721,000, which expire in 2021-2034. Because it is not more likely than not that sufficient tax earnings will be generated to utilize the net operating loss carryforwards, a corresponding valuation allowance of approximately \$7,725,000 was established as of September 30, 2016. Additionally, under the Tax Reform Act of 1986, the amounts of, and benefits from, net operating losses may be limited in certain circumstances, including a change in control.

Section 382 of the Internal Revenue Code generally imposes an annual limitation on the amount of net operating loss carryforwards that may be used to offset taxable income when a corporation has undergone significant changes in its stock ownership. There can be no assurance that the Company will be able to utilize any net operating loss carryforwards in the future. The Company is subject to possible tax examination for the years 2011 through 2016.

For the year ended September 30, 2016, the Company's effective tax rate differs from the federal statutory rate principally due to net operating losses and warrants issued for services.

The principal components of the Company's deferred tax assets at September 30, 2016 and 2015 are as follows:

	2016	2015
U.S. operations loss carry forward at statutory rate of 34%	\$ (7,724,974)	\$ (6,824,141)
Non-U.S. operations loss carry forward at statutory rate of 20.5%	0	0
Total	(7,724,974)	(6,824,141)
Less Valuation Allowance	7,724,974	6,824,141
Net Deferred Tax Assets	-	-
Change in Valuation allowance	<u>\$ 7,724,974</u>	<u>\$ 6,824,141</u>

A reconciliation of the United States Federal Statutory rate to the Company's effective tax rate for the years ended September 30, 2016 and 2015 are as follows:

	2016	2015
Federal Statutory Rate	-34.0%	-34.0%
Increase in Income Taxes Resulting from:		
Change in Valuation allowance	34.0%	34.0%
Effective Tax Rate	<u><u>0.0%</u></u>	<u><u>0.0%</u></u>

19. SUBSEQUENT EVENTS

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

Extension of Related Party Notes

On October 14, 2016, 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 September 30, 2016 to December 31, 2016 and continue to provide for interest of 3% per annum and a second lien on company assets if not repaid by December 31, 2016 or converted into convertible debentures or equity on terms acceptable to the Holder.

Extension of Services Agreement

On October 18, 2016, the Company agreed to a six month extension to our investor relations agreement with Financial Genetics. The Company agreed to issue Financial Genetics 33,333 shares of our common stock per month for their services.

Issuance of Convertible Notes

On November 2, 2016, the Company closed two 10% Convertible Redeemable Note Purchase Agreements with an accredited investor and an affiliate of the Company for aggregate gross proceeds to the Company of \$300,000. The notes are due on May 1, 2017 and may be paid in either \$330,000 in cash or converted into equity securities on the same terms as the Company's next financing transaction.

Garden State Securities, Inc., a FINRA member, acted as our exclusive placement agent. They received a 10% (\$30,000) cash fee on the transaction.

Purchase of Original Issue Discount Convertible Promissory Note from Pulse Biologics

On November 2, 2016, Pulse Biologics, Inc. issued an Original Issue Discount Convertible Promissory Note to the Company. Pursuant to the Note, the Company 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 the option of the Company. The Company will receive 150,000 shares of Pulse Biologics common stock as partial consideration for purchasing the Note.

In addition, the Company and Pulse Biologics agreed to negotiate in good faith to enter a joint development agreement and subsequent merger transaction prior to calendar year-end 2017.

Issuance of Series D Convertible Preferred Stock

On November 14, 2016, the Company issued 187,500 shares of Series D Convertible Preferred Stock (the "Series D Shares") 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 Shares 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.

The Series D Shares and warrant were issued in a transaction that was not registered under the Securities Act of 1933, as Amended (the "Act") in reliance upon applicable exemptions from registration under Section 4(2) of the Act and Rule 506(b) of SEC Regulation D under the Act.

The Company 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.

Conversion of Promissory Notes

On November 30, 2016, holders of \$695,000 of our Convertible Promissory Notes converted the principal and outstanding interest into 936,347 shares of common stock at a conversion rate of \$0.80 per share and warrants to purchase 936,347 shares of common stock at a price of \$1.00 per share.

Extension of Secured Credit Facility

On December 9, 2008, TransTech entered 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 (\$33,000 as of September 30, 2016,) on a daily basis. The remaining balance on the accounts receivable line of \$370,404 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.

Extension of Secured Credit Facility

The Company has a \$199,935 Business Loan Agreement with Umpqua Bank (the "Umpqua Loan"). On December 22, 2016, the Umpqua Loan maturity was extended to December 31, 2017 and provides for interest at 3.25% per year. Related to this Umpqua Loan, the Company entered 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.

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.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Visualant, Inc. (the "Registrant") has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VISUALANT, INC.

Date: April 13, 2017

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

By: /s/ Jeff T. Wilson
Jeff T. Wilson
Chief Financial Officer and Secretary
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

SIGNATURES	TITLE	DATE
<u>/s/ Ronald P. Erickson</u> Ronald P. Erickson	Chief Executive Officer, President and Director (Principal Executive Officer)	April 13, 2017
<u>/s/ Jeff T. Wilson</u> Jeff T. Wilson	Chief Financial Officer and Secretary (Principal Financial/Accounting Officer)	April 13, 2017
<u>/s/ Jon Pepper</u> Jon Pepper	Independent Director	April 13, 2017
<u>/s/ Ichiro Takesako</u> Ichiro Takesako	Management Director	April 13, 2017

SUBSIDIARIES

As of September 30, 2016, the following were the Registrant's significant operating Subsidiaries:

Name: TransTech Systems, Inc.

Country of Organization: U.S.

Percent Ownership by Registrant: 100.0% by Visualant, Inc.

SECTION 302 CERTIFICATIONS

I, Ronald P. Erickson, certify that:

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

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

Date: April 13, 2017

/s/ Jeff T. Wilson

Jeff T. Wilson
Chief Financial Officer

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

In connection with the Annual Report of Visualant, Inc. (the "Company") on Form 10-K/A for the fiscal year ended September 30, 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
Chief Executive Officer
April 13, 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 Annual Report of Visualant, Inc. (the "Company") on Form 10-K/A for the fiscal year ended September 30, 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
April 13, 2017



April 13, 2017

Mr. Kevin J. Kuhar, Accounting Branch Chief
Securities and Exchange Commission
Division of Corporation Finance
100 F Street N.E.
Washington, D.C. 20549

**Re: Visualant,
Inc.
Form 10-K for the Fiscal Year Ended September 30,
2016
Filed January 13,
2017
Form 10-Q for the Quarterly Period Ended December 31,
2016
Filed February 21,
2017
File No. 001-37479**

Dear Mr. Kuhar:

Visualant, Incorporated, a Nevada corporation (the "Company"), has received and reviewed your letter dated March 17, 2017 (the "Comment Letter"), pertaining to Company's Form 10-K for the year ended September 30, 2016 as filed with the Securities & Exchange Commission (the "Commission") on January 31, 2017 and Form 10-Q for the quarterly period ended December 31, 2016 as filed with the Commission on February 21, 2017, File No. 001-37479.

Specific to your comments, please find our responses below, our responses below are in addition to those filed via the Edgar system. The following numbered responses correspond to those numbered comments as set forth in the comment letter dated March 17, 2017.

Form 10-K for the Fiscal Year Ended September 30, 2016

Item 9A. Controls And Procedures, page 30

1. *We note that while you disclose that your management identified material weaknesses in your internal control over financial reporting as of September 30, 2016, you have not provided a Management Report on Internal Control over Financial Reporting that includes all of the disclosures required by Item 308(a) of Regulation S-K, including a definitive statement that internal control over financial reporting was not effective as of September 30, 2016. Please amend your filing to provide your management's report as of the end of the period covered by the report.*

Response: We have amended ITEM 9A of our Form 10-K in response to your comment as outlined below.

"ITEM 9A. CONTROLS AND PROCEDURES

(a) *Evaluation of disclosure controls and procedures.*

Our Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") evaluated our 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 (the "Exchange Act"), prior to the filing of this Form 10-K. Based on that evaluation, our CEO and CFO concluded that, as of September 30, 2016, our disclosure controls and procedures were not effective. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our CEO and our CFO, to allow timely decisions regarding required disclosure. 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.

During the year ended September 30, 2016, management identified the following weaknesses, which were deemed to be material weaknesses in 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. In addition, this Director is expected to strengthen our governance processes. We are using external service providers to ensure compliance with the Securities and Exchange Commission requirements until we appoint the Audit Committee Chairman.

(b) *Management's Report on Internal Control Over Financial Reporting.*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed by, or under the supervision of, our CEO and CFO, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America (GAAP). Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 2013 *Internal Control-Integrated Framework*. Based on its evaluation, management has concluded that the Company's internal control over financial reporting was not effective as of September 30, 2016.

Pursuant to Regulation S-K Item 308(b), this Annual Report on Form 10-K does not include an attestation report of our company's registered public accounting firm regarding internal control over financial reporting.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate. A control system, no matter how well designed and operated can provide only reasonable, but not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their cost.

(c) *Changes in internal controls over financial reporting.*

There have been no changes in our internal control over financial reporting in the fiscal year ended September 30, 2016, which were identified in connection with our management's evaluation required by paragraph (d) of rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting."

Report of Independent Registered Public Accounting Firm, page F-1

2. *We note that your auditor's report is dated January 13, 2016, a date prior to the end of your fiscal year. Please amend your filing to have your auditor provide a properly dated report in accordance with Rule 2-02(a) of Regulation S-X. Also refer to AS3110.01 of the PCAOB Standards.*

Response: The report of our Independent Registered Public Accounting Firm for the year ended September 30, 2016 and 2015 as filed on page F-1 of our Annual Report on Form 10-K was inadvertently dated "January 13, 2016". The auditor's report was issued on January 13, 2017. We have amended the filing accordingly.

Note 14 – Equity

Series B Redeemable Convertible Preferred Stock, page F-19

3. *In the consolidated statements of stockholders' deficit you present in separate captions the issuance and the cancellation of Series B Redeemable Convertible Preferred Stock. Tell us how you accounted for the termination of the Stock Purchase Agreement with the institutional investor, including where the related payment is reflected in your financial statements. Please cite the accounting guidance you followed.*

Response: We have amended our 10-K filing to include the following disclosure of the termination of the Series B Redeemable Convertible Preferred Stock:

"On August 5, 2016, the Company closed the First Amendment to Stock Purchase Agreement with the institutional investor. As a result of this amendment agreement the Company paid the sum of \$505,000 to the institutional investor, issued 52,000 restricted shares of common stock valued at \$169,000 for the conversion of the remaining preferred shares that the investor had purchased, cancelled the remaining 204 shares of Series B Preferred Stock that had not been purchased, and the parties terminated the relationship and all aspects of the Stock Purchase Agreement described above in its entirety. We recorded an expense of \$674,000 related to this Amendment Agreement during the three months ended September 30, 2016."

The Company issued the 204 shares of preferred shares to the institutional investor, however, we determined the events that would trigger payment under the share purchase agreement were remote. The shares were canceled as part of the First Amendment and thus no payment was reflected in our financial statements.

We have adjusted our Statements of Changes in Stockholders' (Deficit) and Statements of Changes in Cash flows to properly reflect the conversion and the Series B Redeemable Convertible Preferred Stock and the payment to the institutional investor to amend the Stock Purchase Agreement.

Form 10-Q for the Quarterly Period Ended December 31, 2016

Statements of Operations, page 4

4. *In future filings, please revise this statement to present your goodwill impairment charges separately from selling, general and administrative expenses, consistent with ASC 350-20-45-2.*

Response: In future filings we will revise our financial statements to present goodwill impairment charges separately from selling, general and administrative expenses, consistent with ASC 350-20-45-2.

Note 8 – Notes Receivable, page 13

5. *We note that you purchased a convertible promissory note from BioMedx, Inc. on November 1, 2016 for a payment of \$260,000 and that you received 150,000 shares of Pulse Biologics' common stock as partial consideration for purchasing the note. Further, on page 32 within management's discussion and analysis, we note the \$250,000 impairment of your investment in this note receivable. Please explain to us how you accounted for the purchase of the note, the receipt of Pulse Biologics' common stock and the subsequent impairment of the note in your financial statements, including the captions of your balance sheet, statements of operations and statements of cash flows where these transactions are presented.*

Response: We made an inadvertent error in our disclosure of the amount of the impairment charge we recorded relating to the BioMedX Note. The actual impairment charge was \$260,000 the full purchase price of the Note; we will revise our future filings to correct this mistake. In addition, we believe we incorrectly netted the purchase of the Note and the impairment on the Statement of Cash Flows instead of showing the purchase as a financing activity and the impairment as an operating activity. Due to the early stage operations of BioMedX and the lack of contributed capital we did not allocate any value to the common stock.

Due to the same factors discussed above we did not assign any value to the common shares of BioMedX. The 150,000 shares represent less than 2% of the outstanding equity with very little contributed capital. Our understanding is BioMedX is currently raising capital which will further reduce our ownership percentage.

You will also note that the Note was repaid in February 2017 after we filed our Form 10-Q for the period ended December 31, 2016. We did not have any indication payment was eminent at the time of our filing. We made inquiries about the payment status up until the time of our filing. We will revise our future filings accordingly.

6. We note that you recorded an impairment of goodwill associated with TransTech resulting from your review of its “operations based on its overall financial constraints” in the amount of \$483,645 and that you still have \$500,000 of goodwill related to this entity recorded within your financial statements. Please tell us how your goodwill impairment testing complied with the guidance in ASC 350-20-35-4 through 35-19 and describe the event or circumstances that triggered the testing in accordance with ASC 350-20-35-30.

Response: Per the guidance of ASC 350-20-35-65 we evaluate our goodwill valuation at each year end or when there has been change in the business that is likely to cause a change in the Goodwill valuation. In December 2016, we began discussions with TransTech management and a third party about a possible sale of the TransTech business. During December 2016 and January 2017 these discussions were in the early stages and the price negotiations were at a level that would support the \$983,645 goodwill valuation. In late January and early February 2017, due to the capital limitations at TransTech and the more information about the difficulty in raising capital for a management buyout of TransTech, we reduced the offering price for Transtech. This change in the value of the business triggered an evaluation of Goodwill per ASC 350-20-35-66. In February, 2017, we signed a non-binding letter of intent to sell 80% of Transtech to the Transtech management team for \$600,000. The \$600,000 can be reduced to \$400,000 if paid within a year and \$500,000 if repaid within two years. We valued the goodwill using the \$400,000 for 80% for a total value of \$500,000.

In connection with the Company’s responding to the comments set forth in the March 29, 2016 letter, the Company acknowledges that:

- The Company is responsible for the adequacy and accuracy of the disclosure in the Filing;
- Staff comments or changes to disclosure in response to staff comments do not foreclose the Commission from taking any action with respect to the Filing; and,
- The Company may not assert staff comments as a defense in any proceeding initiated by the Commission or any person under the federal securities laws of the United States.

A copy of this letter and any related documents have also been filed via the EDGAR system. Thank you for your courtesies.

Very truly yours,

/s/ Jeff T. Wilson

Jeff T. Wilson

Chief Financial Officer