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

**FORM 10-Q**

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

For the quarterly period ended March 31, 2017

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

For the transition period from _______ to ________

Commission File number 000-30262

# VISUALANT, INCORPORATED

(Exact name of registrant as specified in charter)

| | |
|---|---|
| **Nevada** | **90-0273142** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **500 Union Street, Suite 810, Seattle, Washington USA** | **98101** |
| (Address of principal executive offices) | (Zip Code) |

**206-903-1351**
(Registrant's telephone number, including area code)

**N/A**
(Former name, address, and fiscal year, if changed since last report)

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

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

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

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

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

The number of shares of common stock, $.001 par value, issued and outstanding as of May 18, 2017: 3,798,581 shares

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**ITEM 1. FINANCIAL STATEMENTS**

**VISUALANT, INCORPORATED AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**

| | March 31, 2017 | September 30, 2016 (Audited) |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 151,590 | $ 188,309 |
| Accounts receivable, net of allowance of $180,000 and $55,000, respectively | 740,488 | 808,955 |
| Prepaid expenses | 19,520 | 20,483 |
| Inventories, net | 236,549 | 295,218 |
| Total current assets | 1,148,147 | 1,312,965 |
| EQUIPMENT, NET | 268,016 | 285,415 |
| OTHER ASSETS | | |
| Intangible assets, net | 19,738 | 43,750 |
| Goodwill | - | 983,645 |
| Other assets | 5,070 | 5,070 |
| TOTAL ASSETS | $ 1,440,971 | $ 2,630,845 |
| **LIABILITIES AND STOCKHOLDERS' (DEFICIT)** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable - trade | $ 2,389,598 | $ 1,984,326 |
| Accounts payable - related parties | | 41,365 |
| Accrued expenses | 87,736 | 80,481 |
| Accrued expenses - related parties | 899,832 | 1,109,046 |
| Derivative liability | 1,367,837 | 145,282 |
| Convertible notes payable | 210,000 | 909,500 |
| Notes payable - current portion of long term debt | 1,165,493 | 1,170,339 |
| Total current liabilities | 6,120,497 | 5,440,339 |
| COMMITMENTS AND CONTINGENCIES | - | - |
| STOCKHOLDERS' DEFICIT | | |
| Preferred stock - $0.001 par value, 5,000,000 shares authorized, 0 shares issued and outstanding at 12/31/2016 and 9/30/2016, respectively | - | - |
| Series A Convertible Preferred stock - $0.001 par value, 23,334 shares authorized, 23,334 issued and outstanding at 12/31/2016 and 9/30/2016, respectively | 23 | 23 |
| Series C Convertible Preferred stock - $0.001 par value, 1,785,715 shares authorized, 1,785,715 shares issued and outstanding at 12/31/2016 and 9/30/2016, respectively | 1,790 | 1,790 |
| Series D Convertible Preferred stock - $0.001 par value, 3,906,250 shares authorized, 658,861 and 0 shares issued and outstanding at 12/31/2016 and 9/30/2016, respectively | 658 | - |
| Common stock - $0.001 par value, 100,000,000 shares authorized, 3,798,581 and 2,356,152 shares issued and outstanding at 12/31/2016 and 9/30/2016, respectively | 3,799 | 2,356 |
| Additional paid in capital | 26,548,796 | 24,259,702 |
| Accumulated deficit | (31,234,591) | (27,073,365) |
| Total stockholders' deficit | (4,679,525) | (2,809,494) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | $ 1,440,971 | $ 2,630,845 |

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

**VISUALANT, INCORPORATED AND SUBSIDIARIES**
**STATEMENTS OF OPERATIONS**

| | Three Months Ended, | | Six Months Ended, | |
|---|---|---|---|---|
| | March 31, 2017 | March 31, 2016 | March 31, 2017 | March 31, 2016 |
| REVENUE | $ 1,497,019 | $ 1,467,462 | 2,645,819 | $ 3,278,310 |
| COST OF SALES | 1,192,474 | 1,252,275 | 2,150,916 | 2,750,154 |
| GROSS PROFIT | 304,545 | 215,187 | 494,903 | 528,156 |
| RESEARCH AND DEVELOPMENT EXPENSES | 6,875 | 81,765 | 47,483 | 196,530 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 560,980 | 817,778 | 1,818,126 | 1,528,225 |
| IMPAIRMENT OF GOODWILL | | | 983,645 | |
| OPERATING LOSS | (263,310) | (684,356) | (2,354,351) | (1,196,599) |
| | | | | |
| OTHER INCOME (EXPENSE): | | | | |
| Interest expense | (16,058) | (87,737) | (68,330) | (121,019) |
| Other income | 39,533 | 945 | 43,140 | 18,448 |
| (Loss) on change - derivative liability | (805,123) | 476,454 | (1,222,555) | 381,023 |
| Total other expense | (781,648) | 389,662 | (1,247,745) | 278,452 |
| | | | | |
| (LOSS) BEFORE INCOME TAXES | (1,044,958) | (294,694) | (3,602,096) | (918,147) |
| | | | | |
| Income taxes - current provision | - | - | - | (3,089) |
| | | | | |
| NET (LOSS) | $ (1,044,958) | $ (294,694) | (3,602,096) | $ (915,058) |
| | | | | |
| Basic and diluted loss per common share attributable to Visualant, Inc. and subsidiaries common shareholders- | | | | |
| Basic and diluted loss per share | $ (0.28) | $ (0.24) | (1.04) | $ (0.81) |
| | | | | |
| Weighted average shares of common stock outstanding- basic and diluted | 3,713,078 | 1,210,141 | 3,479,895 | 1,124,897 |

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

**VISUALANT, INCORPORATED AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Six Months Ended, March 31, 2017 | Six Months Ended, March 31, 2016 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | $ (3,602,096) | $ (2,307,019) |
| Adjustments to reconcile net loss to net cash (used in) | | |
| operating activities | | |
| Depreciation and amortization | 41,411 | 94,546 |
| Issuance of capital stock for services and expenses | 376,989 | 184,827 |
| Conversion of interest | 87,694 | |
| Stock based compensation | 21,774 | 23,674 |
| (Gain) on sale of assets | (1,034) | (800) |
| Loss on change - derivative liability | 1,222,555 | 869,506 |
| Amortization of debt discount | 10,500 | 131,507 |
| Provision for losses on accounts receivable | 120,000 | 649 |
| Impairment of goodwill | 983,645 | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (51,533) | (191,284) |
| Prepaid expenses | 963 | (7,547) |
| Inventory | 58,669 | (36,139) |
| Accounts payable - trade and accrued expenses | 161,883 | 55,164 |
| Deferred revenue | - | (5,000) |
| NET CASH (USED IN) OPERATING ACTIVITIES | (568,580) | (1,187,916) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Investment in BioMedx, Inc. | (260,000) | - |
| Proceeds from investment in BioMedx, Inc. | 290,608 | - |
| Capital expenditures | | (1,290) |
| Proceeds from sale of equipment | 1,034 | 800 |
| NET CASH PROVIDED BY (USED) INVESTING ACTIVITIES: | 31,642 | (490) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| (Repayments) proceeds from line of credit | (4,781) | 142,940 |
| Proceeds from warrant exercises | | 169,360 |
| Proceeds from convertible notes payable | 330,000 | 924,500 |
| Repayments of convertible notes | (125,000) | (114,979) |
| Proceeds from issuance of common/preferred stock, net of costs | 300,000 | 505,000 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 500,219 | 1,626,821 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (36,719) | 438,415 |
| CASH AND CASH EQUIVALENTS, beginning of period | 188,309 | 82,266 |
| CASH AND CASH EQUIVALENTS, end of period | $ 151,590 | $ 520,681 |
| Supplemental disclosures of cash flow information: | | |
| Interest paid | $ 14,245 | $ 26,460 |
| Conversion of convertible debt | $ 695,000 | |
| Beneficial conversion feature | $ 559,130 | |
| Conversion of convertible debt to preferred shares | $ 220,000 | |

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

The accompanying unaudited consolidated condensed financial statements have been prepared by Visualant, Inc. ("the Company", "us," "we," or "our") in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting and rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. In the opinion of our management, all adjustments, consisting of only normal recurring accruals, necessary for a fair presentation of the financial position, results of operations, and cash flows for the fiscal periods presented have been included.

These financial statements should be read in conjunction with the audited financial statements and related notes included in our Annual Report filed on Form 10-K for the year ended September 30, 2016. The results of operations for the three and six months ended March 31, 2017 are not necessarily indicative of the results expected for the full fiscal year, or for any other fiscal period

## 1. GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company incurred net losses of $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 March 31, 2017, the Company's accumulated deficit was $31,234,591. The Company has limited capital resources, and operations to date have been funded with the proceeds from private equity and debt financings and loans from Ronald P. Erickson, our Chief Executive Officer, or entities with which he is affiliated. These conditions raise substantial doubt about our ability to continue as a going concern. The audit report prepared by the Company's independent registered public accounting firm relating to our financial statements for the year ended September 30, 2016 includes an explanatory paragraph expressing the substantial doubt about the Company's ability to continue as a going concern.

We believe that our cash on hand will be sufficient to fund our operations until May 31, 2017.We need additional financing to implement our business plan and to service our ongoing operations and pay our current debts. There can be no assurance that we will be able to secure any needed funding, or that if such funding is available, the terms or conditions would be acceptable to us. If we are unable to obtain additional financing when it is needed, we will need to restructure our operations, and divest all or a portion of our business. We may seek additional capital through a combination of private and public equity offerings, debt financings and strategic collaborations. Debt financing, if obtained, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, and could increase our expenses and require that our assets secure such debt. Equity financing, if obtained, could result in dilution to our then-existing stockholders and/or require such stockholders to waive certain rights and preferences. If such financing is not available on satisfactory terms, or is not available at all, we may be required to delay, scale back, eliminate the development of business opportunities or file for bankruptcy and our operations and financial condition may be materially adversely affected.

## 2. ORGANIZATION

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

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

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

On November 8, 2016, the Company applied with the State of Nevada for the approval of the Certificate of Designations, Preferences, and Rights of Series D Convertible Preferred Stock. The Certificate designated up to 3,906,250 shares with a par value of $.001 per share. The Series D Convertible Preferred Stock is convertible into common stock at $0.80 per share, with certain adjustments as set forth in the Certificate. The Company has issued 658,861 shares of Series D Convertible Preferred Stock through March 31,, 2017, and plans to issue up to 3,125,000 Series D Shares (and an equal number of warrants) for gross proceeds of $2,500,000 pursuant on a "best efforts" basis.

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

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

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

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

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

## 3. ACCOUNTS RECEIVABLE/CUSTOMER CONCENTRATION

Accounts receivable were $740,488 and $808,955, net of allowance, as of March 31, 2017 and September 30, 2016, respectively. The Company had no customers in excess of 10% of the Company's consolidated revenues for the three or six months ended March 31, 2017. The Company had one customer (31.9%) with accounts receivable in excess of 10% as of March 31, 2017. The customer has not made a payment on the account since March 31, 2016 and the Company reserved $120,000 during the six months ended March 31, 2017 as selling, general and administrative expenses. The Company intends to aggressively pursue collection of the balance. The Company has a total allowance for bad debt in the amount of $180,000 at March 31, 2017.

## 4. INVENTORIES

Inventories were $236,549 and $295,218 as of March 31, 2017 and September 30, 2016, respectively. Inventories consist primarily of printers and consumable supplies, including ribbons and cards, badge accessories, capture devices, and access control components held for resale. There is a $25,000 reserve for impaired inventory as of March 31, 2017 and September 30, 2016, respectively.

## 5. NOTES RECEIVABLE

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

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

Due to the inherent uncertainty involved with a start-up company, The Company's management has determined the value of the Promissory Note and BioMedx common stock is zero at December 31, 2016 and recorded a reserve for the full value. During the three months ended March 31, 2017 BiomedX paid the Company $290,608 in full satisfaction of the Note. The Company recorded the gain as a reduction in SG&A expense during the period.

**6. FIXED ASSETS**

Fixed assets, net of accumulated depreciation, was $268,016 and $285,415 as of March 31, 2017 and September 30, 2016, respectively. Accumulated depreciation was $805,251 and $796,481 as of March 31, 2017 and September 30, 2016, respectively. Total depreciation expense, was $17,399 and $36,278 for the six months ended March 31, 2017 and 2016, respectively. All equipment is used for selling, general and administrative purposes and accordingly all depreciation is classified in selling, general and administrative expenses.

**7. INTANGIBLE ASSETS**

Total amortization expense was $24,012 and $35,625 for the six months ended March 31, 2017 and 2016, respectively.

**8. GOODWILL**

The Company's TransTech business is very capital intensive. The Company reviewed TransTech's operations based on its overall financial constraints and determined the value has been impaired. The company recorded an impairment of goodwill associated with TransTech of $983,645 during the six months March 31, 2017.

**9. 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 March 31, 2017 is as follows:

| | Fair Value Measurements Using Inputs | | | Carrying Amount at |
|---|---|---|---|---|
| Financial Instruments | Level 1 | Level 2 | Level 3 | March 31, 2017 |
| Liabilities: | | | | |
| Derivative Instruments | $ - | $ 1,367,837 | $ - | $ 1,367,837 |
| Total | $ - | $ 1,367,837 | $ - | $ 1,367,837 |

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

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

The risk-free rate of return reflects the interest rate for the United States Treasury Note with similar time-to-maturity to that of the warrants, historical volatility was 130% and the stock price was $0.70 at March 31, 2017.

***Derivative Instruments – Warrants with the June 2013 Private Placement***

The Company issued warrants to purchase 697,370 shares of common stock in connection with our June 2013 private placement of 348,685 shares of common stock. The per share price is subject to adjustment. In August 2016, the exercise price was reset to $0.70 per share. These warrants were not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign operation. These warrants were issued with a down-round provision whereby the exercise price would be adjusted downward in the event that additional shares of our common stock or securities exercisable, convertible or exchangeable for the Company's common stock were issued at a price less than the exercise price. Therefore, the fair value of these warrants were recorded as a liability in the consolidated balance sheet and are marked to market each reporting period until they are exercised or expire or otherwise extinguished.

The proceeds from the private placement were allocated between the shares of common stock and the warrants issued in connection with the private placement based upon their estimated fair values as of the closing date at June 14, 2013, resulting in the aggregate amount of $2,494,710 allocated to stockholders' equity and $2,735,290 allocated to the warrant derivative. The Company recognized $1,448,710 of other expense resulting from the increase in the fair value of the warrant liability at September 30, 2013. During the year ended September 30, 2014, the Company recognized $2,092,000 of other income resulting from the decrease in the fair value of the warrant liability at September 30, 2014. During the year ended September 30, 2015, the Company recognized $104,716 of other expense resulting from the decrease in the fair value of the warrant liability at September 30, 2015. During the year ended September 30, 2016, the Company recognized $2,085,536 of other income resulting from the decrease in the fair value of the warrant liability at September 30, 2016. During the six months March 31, 2017, the Company recognized $7,370 of other expense resulting from the increase in the fair value of the warrant liability at March 31, 2017.

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

The Company issued a warrant to purchase 97,169 shares of common stock in connection with theNovember 2013 Xinova Services and License Agreement. The warrant price of $30.00 per share expires November 10, 2018 and the per share price is subject to adjustment. In August 2016, the exercise price was reset to $0.70 per share. This warrant was not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign operation. This warrant was issued with a down-round provision whereby the exercise price would be adjusted downward in the event that additional shares of our common stock or securities exercisable, convertible or exchangeable for our common stock were issued at a price less than the exercise price. Therefore, the fair value of these warrants was recorded as a liability in the consolidated balance sheet and are marked to market each reporting period until they are exercised or expire or otherwise extinguished. During the year ended September 30, 2014, the Company recognized $320,657 of other expense related to the Xinova warrant. During the year ended September 30, 2015, the Company recognized $14,574 of other income related to the Xinova warrant. During the year ended September 30, 2016, the Company recognized $286,260 of other income from the increase in the fair value of the warrant liability at September 30, 2016. During the six months ended March 31, 2017, the Company recognized $2,138 of other expense resulting from the increase in the fair value of the warrant liability at March 31, 2017.

***Derivative Instrument – Series A Convertible Preferred Stock***

The Company issued 11,667 shares of Series A Convertible Preferred Stock with attached warrants during the year ended September 30, 2015. The Company allocated $233,322 to stockholder's equity and $116,678 to the derivative warrant liability. The warrants were issued with a down round provision. The warrants have a term of five years, 23,334 are exercisable at $30 per common share and 23,334 are exercisable at $45 per common share. On August 4, 2016, the exercise price was adjusted to $0.70 per share. During the year ended September 30, 2015, the Company recognized $30,338 of other expense related to the warrant liability. During the year ended September 30, 2016, the Company recognized $132,724 of other income resulting from the increase in the fair value of the warrant liability at September 30, 2016. During the six months March 31, 2017, the Company recognized $1,450 of other expense resulting from the increase in the fair value of the warrant liability at March 31, 2017.

***Derivative Instrument – Series C Convertible Preferred Stock***

The Company issued shares of Series C Convertible Preferred Stock with attached warrants during the year ended September 30, 2016. In February 2017, the Company modified the term of the warrants to provide a down round provision. The Company recognized $769,643 of other expense resulting from the fair value of the warrant liability at March 31, 2017.

## 10. CONVERTIBLE NOTES PAYABLE

Convertible notes payable as of March 31, 2017 and September 30, 2016 consisted of the following:

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

On February 15, 2017 the Company repaid the remaining $15,000 Promissory Note and accrued interest in cash.

On September 30, 2016, the Company entered into a $175,000 Convertible Promissory Note with Clayton A. Struve, an accredited investor and affiliate of the Company, to fund short-term working capital. The Convertible Promissory Note accrues interest at a rate of 10% per annum and becomes due on March 30, 2017. The Note holder can convert to common stock at $0.70 per share. During the six months ended March 31, 2017, the Company recorded interest of $ 8,750 related to the convertible note.

The Company entered into two Convertible Promissory Notes totaling $330,000 with accredited investors during on November 1, 2016. The Notes accrue interest at a rate of 10% per annum and become due May 1, 2017 and are convertible into Preferred stock at a conversion price of $0.80 per share and a five-year warrant to purchase a share of common stock at $1.00 per share. The company first allocated the value received to the warrants based on the Black Scholes value assuming a 1 year life, 130% volatility and .7% risk free interest rate. The remaining value was below the fair market value on the date of issuance and as a result the company recorded and beneficial conversion dividend of $326,687 at the time issuance. The Company recorded interest of $10,633 as of February 24, 2017.On February 24, 2016, The Company paid $113,544 in full payment of an Original Issue Discount Convertible Promissory Note issued to an accredited investor on November 1, 2016. On February 24, 2017, the holder of an Original Issue Discount Convertible Promissory Note issued on November 1, 2016 converted the principal and outstanding interest of $227,088 into 283,861 shares of the Company's Series D Preferred Stock and a five-year warrant to purchase 283,861 shares of common stock.

The warrants were issued with a down round provision. The warrants have a term of five years, and are exercisable at $1.00 per common share. The Company recorded the fair value of the warrants as a derivative liability. During the six months March 31, 2017, the Company recognized $122,344 of other expense related to the value of the warrants.

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

Notes payable, capitalized leases and long-term debt as of March 31, 2017 and September 30, 2016 consisted of the following:

| | March 31, 2017 | September 30, 2016 |
|---|---|---|
| Capital Source Business Finance Group | $ 365,558 | $ 370,404 |
| Note Payable to Umpqua Bank | 199,935 | 199,935 |
| Secured note payable to J3E2A2Z LP - related party | 600,000 | 600,000 |
| Total debt | 1,165,493 | 1,170,339 |
| Less current portion of long term debt | (1,165,493) | (1,170,339) |
| Long term debt | $ - | $ - |

**Capital Source Business Finance Group**

The Company finances its TransTech operations from operations and a Secured Credit Facility with Capital Source Business Finance Group. On December 9, 2008, TransTech entered into a $1,000,000 secured credit facility with Capital Source to fund its operations. On December 12, 2016, the secured credit facility was renewed for an additional six months, with a floor for prime interest of 4.5% (currently 4.5%) plus 2.5%. The eligible borrowing is based on 80% of eligible trade accounts receivable, not to exceed $1,000,000. The secured credit facility is collateralized by the assets of TransTech, with a guarantee by Visualant, including a security interest in all assets of Visualant. Availability under this Secured Credit ranges from $0 to $175,000 ($10,000 as of September 30, 2016) on a daily basis. The remaining balance on the accounts receivable line of $365,588 as of March 31, 2017 must be repaid by the time the secured credit facility expires on June 12, 2017, or we renew by automatic extension for the next successive six-month term.

**Note Payable to Umpqua Bank**

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

**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 $49,204 as of March 31, 2017.

## 12. EQUITY

**Authorized Capital Stock**

**Series D Convertible Preferred Stock**

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

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

On February 28, 2017, the Company issued 283,861 shares of Series D Convertible Preferred Stock and a warrant to purchase 283,861 shares of common stock in a private placement to an accredited investor for conversion of a $220,000 Promissory Note and accrued interest of $7,089 pursuant to a Series D Preferred Stock and Warrant Purchase Agreement dated February 28, 2017.

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

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

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

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

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

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

**Common Stock**

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

The following equity issuances occurred during the six months ended March 31, 2017:

On October 21, 2015, the Company entered into a Public Relations Agreement with Financial Genetics LLC for public relation services. On October 18, 2016, the Company entered into an Amendment to Public Relations Agreement with Financial Genetics LLC. Under the Agreements, Financial Genetics was issued 297,481 shares of our common stock during the six months ended March 31, 2017. The Company expensed $238,261 during the six months ended March 31, 2017.

On October 6, 2016, the Company entered into a Services Agreement with Redwood Investment Group LLC for financial services. Under the Agreement, Redwood was issued 200,000 shares of our common stock. The Company expensed $140,000 during the six months ended March 31, 2017.

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

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

**Warrants to Purchase Common Stock**

The following warrants were issued during the six months ended March 31, 2017:

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

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

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

On February 28, 2017, the Company issued 283,861 shares of Series D Convertible Preferred Stock and a warrant to purchase 283,861 shares of common stock in a private placement to an accredited investor for conversion of a $220,000 Promissory Note and accrued interest of $7,089 pursuant to a Series D Preferred Stock and Warrant Purchase Agreement dated February 28, 2017

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

During the six months ended March 31, 2017, the Company revised five year placement agent warrants to purchase 312,500 shares of common stock. The price was reduced from $1.00 to $0.70 per share and the exercise price is now subject to adjustment. The Company recorded 250,000 shares during the year ended September 30, 2016 the fair value of these warrants is $137,812 at March 31, 2017.

A summary of the warrants outstanding as of March 31, 2017 were as follows:

| | March 31, 2017 | |
|---|---|---|
| | Shares | Weighted Average Exercise Price |
| Outstanding at beginning of period | 3,453,171 | $ 0.84 |
| Issued | 1,698,263 | 0.94 |
| Exercised | - | - |
| Forfeited | - | - |
| Expired | - | - |
| Outstanding at end of period | 5,151,434 | $ 0.88 |
| Exercisable at end of period | 5,151,434 | |
| | | |
| Intrinsic value | - | - |

A summary of the status of the warrants outstanding as of March 31, 2017 is presented below:

| | March 31,2017 | | | |
|---|---|---|---|---|
| Number of Warrants | Weighted Average Remaining Life ( In Years) | Weighted Average Exercise Price | Shares Exercisable | Weighted Average Exercise Price |
| 3,501,336 | 3.69 | $ 0.70 | 3,501,336 | $ 0.70 |
| 1,635,762 | 3.74 | 1.00 | 1,635,762 | 1.00 |
| 14,336 | 0.87 | 30.00 | 14,336 | 30.00 |
| 5,151,434 | 3.80 | $ 0.88 | 5,151,434 | $ 0.88 |

The significant weighted average assumptions relating to the valuation of the Company's warrants for the period ended March 31, 2017 were as follows:

| **Assumptions** | |
|---|---|
| Dividend yield | 0% |
| Expected life | ..25-5 |
| Expected volatility | 130% |
| Risk free interest rate | ..05-1.0% |

There were vested warrants of 5,151,434 as of March 31, 2017 with an aggregate intrinsic value of $0.

## 13. STOCK OPTIONS

### Description of Stock Option Plan

On March 21, 2013, an amendment to the Stock Option Plan was approved by the stockholders of the Company, increasing the number of shares reserved for issuance under the Plan to 93,333 shares.

**Determining Fair Value under ASC 505**

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

**Stock Option Activity**

The Company had no stock option transactions during the six months ended March 31, 2017:

There are currently 50,908 options to purchase common stock at an average exercise price of $18.05 per share outstanding as of March 31, 2017 under the 2011 Stock Incentive Plan. The Company recorded $21,774 and $23,674 of compensation expense, net of related tax effects, relative to stock options for the six months ended March 31, 2017 and 2016 in accordance with ASC 505. Net loss per share (basic and diluted) associated with this expense was approximately ($0.00) and ($0.01) per share, respectively. As of March 31, 2017, there is approximately $91,643 of total unrecognized costs related to employee granted stock options that are not vested. These costs are expected to be recognized over a period of approximately 2.78 years.

Stock option activity for the six months ended March 31, 2017 and the year ended September 30, 2016 was as follows:

| | Options | Weighted Average Exercise Price | $ |
|---|---|---|---|
| Outstanding as of September 30, 2016 | 50,908 | 18.04 | 918,627 |
| Granted | - | - | - |
| Exercised | - | - | - |
| Forfeitures | - | - | - |
| Outstanding as of December 31, 2016 | 50,908 | $ 18.045 | $ 918,627 |
| Granted | | | |
| Exercised | | | |
| Forfeitures | | | |
| Outstanding as of March 31, 2017 | 50,908 | $ 18.045 | $ 918,627 |

The following table summarizes information about stock options outstanding and exercisable as of March 31, 2017:

| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Life In Years | Weighted Average Exercise Price Exerciseable | Number Exerciseable | Weighted Average Exercise Price Exerciseable |
|---|---|---|---|---|---|
| 13.500 | 3,334 | 1.72 | $ 13.50 | 3,334 | $ 13.50 |
| 15.000 | 20,906 | 2.52 | 15.00 | 9,514 | 15.00 |
| 19.500 | 13,334 | 2.61 | 19.50 | 13,334 | 19.50 |
| 22.500 | 13,334 | 3.31 | 22.50 | 13,334 | 22.50 |
| | 50,908 | 2.81 | $ 18.04 | 39,516 | $ 18.92 |

There were exercisable options of 50,908 as of March 31, 2017 with an aggregate intrinsic value of $0.

## 14. OTHER SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

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

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

**Note Payable to Umpqua Bank**

The Company has a $199,935 Business Loan Agreement with Umpqua Bank (the "Umpqua Loan"), which matures on December 31, 2017 and provides for interest at 3.25% per year. Related to this Umpqua Loan, the Company entered into a demand promissory note for $200,000 on January 10, 2014 with an entity affiliated with Ronald P. Erickson, our Chief Executive Officer. This demand promissory note will be effective in case of a default by the Company under the Umpqua Loan. The Company recorded accrued interest of $19,476 as of March 31, 2017.

**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 $49,204 as of March 31, 2017.

**Other Amounts Due to Mr. Erickson**

Mr. Erickson and/or entities with which he is affiliated also have advanced $524,832 and have unreimbursed expenses and compensation of approximately $375,000. The Company owes Mr. Erickson, or entities with which he is affiliated, $1,499,832 as of March 31, 2017.

## 15. 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 810, 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.

## 16. SUBSEQUENT EVENTS

The Company evaluates subsequent events, for the purpose of adjustment or disclosure, up through the date the financial statements are available. Subsequent to March 31, 2017, there were the following material transactions that require disclosure:

On May 1, 2017, Visualant Inc., (the "Company") issued 357,143 shares of Series D Convertible Preferred Stock (the "Series D Shares") and a warrant to purchase 357,143 shares of common stock in a private placement to an accredited investor for gross proceeds of $250,000 pursuant to a Series D Preferred Stock and Warrant Purchase Agreement dated May 1, 2016.

The initial conversion price of the Series D Shares is $0.70 per share, subject to certain adjustments. The initial exercise price of the warrant is $0.70 per share, also subject to certain adjustments. The Company also amended and restated the Certificate of Designation for the Series D Shares, resulting in an adjustment to the conversion price of all currently outstanding Series D Shares to $0.70 per share

The transaction triggered a provision in the 500,000 outstanding shares of Series A Preferred Stock, 1,785,714 outstanding shares of Series C Preferred Stock and 752,984 outstanding shares Series D Preferred Stock to adjust the conversion price to $0.70 per share. In addition, the exercise price of 2,358,914 outstanding warrants was adjusted to $0.70 per share.

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

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

### BACKGROUND AND CAPITAL STRUCTURE

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

### 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 is size, shape and configuration. The ChromaID scan head can range in size from endoscopic to a scale that could be the size of a large ceiling-mounted florescent light fixture.

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

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

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

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

**Research and Development**

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

**Our Patents**

We believe that our eleven 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.

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.

**THE COMPANY'S COMMON STOCK**

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

**PRIMARY RISKS AND UNCERTAINTIES**

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

## RESULTS OF OPERATIONS

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

(dollars in thousands)

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2017 | 2016 | $ Variance | % Variance |
| Revenue | $ 1,497 | $ 1,467 | $ 30 | 2.0% |
| Cost of sales | 1,192 | 1,252 | (60) | 4.8% |
| Gross profit | 305 | 215 | 90 | 41.9% |
| Research and development expenses | 7 | 82 | (75) | 91.5% |
| Selling, general and administrative expenses | 561 | 817 | (256) | 31.3% |
| Operating loss | (263) | (684) | 421 | 61.5% |
| Other income (expense): | | | | |
| Interest expense | (16) | (88) | 72 | 81.8% |
| Other income | 39 | 1 | 38 | 3800.0% |
| (Loss) on change- derivative liability warrants | (805) | 476 | (1,281) | 269.1% |
| Total other income | (782) | 389 | (1,171) | 301.0% |
| Net (loss) | $ (1,045) | $ (295) | $ (750) | -254.2% |

## THREE MONTHS ENDED MARCH 31, 2017 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2016

### Sales

Net revenue for the three months ended March 31, 2017 increased $30,000 to 1,497,000 as compared to $1,467,000 for the three months ended March 31, 2016. The increase was due to higher sales at TransTech resulting from an increase in product sales.

### Cost of Sales

Cost of sales for the for the three months ended March 31, 2017 decreased $60,000 to $1,192,000 as compared to $1,252,000 for the three months ended March 31, 2016. The decrease was due to an increase in sales of higher margin products at lower sales TransTech.

Gross profit was $305,000 for the three months ended March 31, 2017 as compared to $215,00 for the three months ended March 31, 2016. Gross profit was 20.0% for the three months ended March 31, 2017 as compared to 15% for the three months ended March 31, 2016.

### Research and Development Expenses

Research and development expenses for the three months ended March 31, 2017 decreased $75,000 to $7,000 as compared to $82,000 for the three months ended March 31, 2016. The decrease was due to reduced expenditures for the RATLab and suppliers related to the commercialization of our ChromaID technology. The RATLab is no longer providing us with services.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended March 31, 2017 decrease $256,000 to $561,000 as compared to $817,000 for the three months ended March 31, 2016.

The reduction was primarily the result of recording a gain on the collection of a note previously written off. November 2, 2016, Pulse Biologics, Inc. (BioMedx) issued an Original Issue Discount Convertible Promissory Note to us. Pursuant to the Note, we loaned $260,000 with a principal amount of $286,000 to Pulse Biologics, Inc. The Note matures one year from issuance and bears interest at 5%. The principal and interest can be converted to Biologic common stock at our option. We impaired the investment in a note receivable from BioMedx of $250,000 during the three months ended December 31, 2016. The Note was paid in full during the second quarter of 2017 and the Company record a gain of 250,000 on the payment

**Other Income (Expense)**

Other expense for the three months ended March 31, 2017 was $782,000 as compared to other income of $389,000 for the three months ended March 31, 2016. The other expense for the three months ended March 31, 2017 included change in the value of derivatives of $805,000 interest expenses of $16,000. Offset by other income of $39,000. The increase on the value of the derivative instruments is primarily a result of the issuance of additional warrants during the quarter.

| | Six Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2017 | 2016 | $ Variance | % Variance |
| Revenue | $ 2,646 | $ 3,278 | $ (632) | -19.3% |
| Cost of sales | 2,151 | 2,750 | (599) | 21.8% |
| Gross profit | 495 | 528 | (33) | -6.3% |
| Research and development expenses | 48 | 197 | (149) | 75.6% |
| Selling, general and administrative expenses | 1,817 | 1,528 | 289 | -18.9% |
| Goodwill | 984 | | | |
| Operating loss | (2,354) | (1,197) | (173) | -14.5% |
| Other income (expense): | | | | |
| Interest expense | (68) | (121) | 53 | 43.8% |
| Other income | 43 | 18 | 25 | 138.9% |
| (Loss) on change- derivative liability warrants | (1,223) | 381 | (1,604) | 421.0% |
| Total other income | (1,248) | 278 | (1,526) | 548.9% |
| Net (loss) | $ (3,602) | $ (919) | $ (1,699) | -184.9% |

**SIX MONTHS ENDED MARCH 31, 2017 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2016**

**Sales**

Net revenue for the six months ended March 31, 2017 decrease $632,000 to 2,646,000 as compared to $3,278,000 for the six months ended March 31, 2016. The decrease was due to lower sales at TransTech resulting from an increase in product sales.

**Cost of Sales**

Cost of sales for the for the six months ended March 31, 2017 decreased $599,000 to $2,151,000 as compared to $2,750,000 for the six months ended March 31, 2016. The decrease was due to an increase in sales of higher margin products at lower sales TransTech.

Gross profit was $495,000 for the six months ended March 31, 2017 as compared to $528,000 for the six months ended March 31, 2016. Gross profit was 19% for the six months ended March 31, 2017 as compared to 16% for the six months ended March 31, 2016.

**Research and Development Expenses**

Research and development expenses for the six months ended March 31, 2017 decreased $149,000 to $48,000 as compared to $197,000 for the six months ended March 31, 2016. The decrease was due to reduced expenditures for the RATLab and suppliers related to the commercialization of our ChromaID technology. The RATLab is no longer providing us with services.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses for the six months ended March 31, 2017 increased $289,000 to $1,817,000 as compared to $1,528,000 for the six months ended March 31, 2016. The increase is primarily the result of additional cost of investor relations and increase in our allowance for bad debts.

**Impairment of Goodwill**

The Company's TransTech business is very capital intensive. The Company reviewed TransTech's operations based on its overall financial constraints and determined the value has been impaired. The company recorded an impairment of goodwill associated with TransTech of $983,645 during the six months March 31, 2017.

### Other Income (Expense)

Other expense for the six months ended March 31, 2017 was $1,248,000 as compared to other income of $381,000 for the six months ended March 31, 2016. The other expense for the six months ended March 31, 2017 included change in the value of derivatives of $1,222,000 interest expenses of $68,000. Offset by other income of $43,000. The increase on the value of the derivative instruments is primarily a result of the issuance of additional warrants during the six month period.

### LIQUIDITY AND CAPITAL RESOURCES

We had cash of approximately $152,000 and net working capital deficit of approximately $3,605,000 (excluding the derivative liability warrants of $1,367,837 as of March 31, 2017. 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 May 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, eliminate the development of business opportunities or file for bankruptcy and our operations and financial condition may be materially adversely affected.

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

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

We finance our TransTech operations from operations and a Secured Credit Facility with Capital Source Business Finance Group. On December 9, 2008, TransTech entered into a $1,000,000 secured credit facility with Capital Source to fund its operations. On December 12, 2016, the secured credit facility was renewed for an additional six months, with a floor for prime interest of 4.5% (currently 4.5%) plus 2.5%. The eligible borrowing is based on 80% of eligible trade accounts receivable, not to exceed $1,000,000. The secured credit facility is collateralized by the assets of TransTech, with a guarantee by Visualant, including a security interest in all assets of Visualant. The remaining balance on the accounts receivable line of $365,588 as of March 31, 2017 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 six months ended March 31, 2017 was $569,000. This amount was primarily related to a net loss of $3,602,096, offset by a decrease in accounts receivable of $52,000, an increase in accounts payable and accrued expenses of $162,000, and non-cash items of $2,863,000. The significant non-cash items include of $2,863,000 includes (i) loss on change- derivative liability warrants of $1,223,000; (ii) impairment of goodwill of 983,645 , (iii) issuance of capital stock for services and expenses of $377,000; and (iv)provision for losses on accounts receivable of $120,000.

**Financing Activities**

Net cash provided by financing activities for the six months ended March 31, 2017 was $500,219. This amount was primarily related to (i) proceeds from convertible notes of $330,000;(ii) proceeds from the sale of common and preferred stock of $300,000, offset by (iii) repayment from line of credit of $4,781 and repayment of convertible debt in the amount of $125,000.

**Off-Balance Sheet Arrangements**

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

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

This item is not applicable.

**ITEM 4. CONTROLS AND PROCEDURES**

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

We conducted an evaluation, under the supervision and with the participation of our management, of the effectiveness of the design and operation of our disclosure controls and procedures. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (“Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures also include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our principal executive and principal financial officers concluded as of March 31, 2017 that our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weaknesses in our internal controls over financial reporting discussed immediately below.

***Identified Material Weakness***

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

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

*Audit Committee*: While we have an audit committee, we lack a financial expert. During 2017, the Board expects to appoint an additional independent Director to serve as Audit Committee Chairman who is an “audit committee financial expert” as defined by the Securities and Exchange Commission (“SEC”) and as adopted under the Sarbanes-Oxley Act of 2002.

*Financial Reporting*: There were several delinquent SEC filings from October 1, 2016 to February 9, 2017. In addition, we believe there is a lack of segregation of duties over financial reporting.. The Company is working to resolve these issues to ensure accurate financial reporting.

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

During the three months ended March 31, 2017, there were no changes in our internal controls over financial reporting during this fiscal quarter that materially affected, or is reasonably likely to have a materially affect, on our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1A. RISK FACTORS

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

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

We are currently operating at a loss. We believe that our cash on hand will be sufficient to fund our operations through May 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, eliminate the development of business opportunities or file for bankruptcy and our operations and financial condition may be materially adversely affected. We are currently attempting to raise up to $2,500,000 in gross proceeds through the sale of up to 3,125,000 shares of Series D Preferred Stock (and an equal number of warrants) on a "best efforts" basis. There can there can be no assurance that we will be able to sell that number of shares, if any. Furthermore, we do not currently have a sufficient number of shares of Preferred Stock authorized under our Articles of Incorporation to cover this sale and we will be required to amend the Articles of Incorporation in order to complete the full offering

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

Because of our recurring losses and negative cash flows from operations, the audit report of our independent registered public accountants on our consolidated financial statements for the year ended September 30, 2016 contains an explanatory paragraph stating that there is substantial doubt about our ability to continue as a going concern. Factors identified in the report include our historical net losses, negative working capital, and the need for additional financing to implement our business plan and service our debt repayments. If we are not able to attain profitability in the near future our financial condition could deteriorate further, which would have a material adverse impact on our business and prospects and result in a significant or complete loss of your investment. Further, we may be unable to pay our debt obligations as they become due, which include obligations to secured creditors. If we are unable to continue as a going concern, we might have to liquidate our assets and the values we receive for our assets in liquidation or dissolution could be significantly lower than the values reflected in our financial statements. Additionally, we are subject to customary operational covenants, including limitations on our ability to incur liens or additional debt, pay dividends, redeem stock, make specified investments and engage in merger, consolidation or asset sale transactions, among other restrictions. In addition, the inclusion of an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern and our lack of cash resources may materially adversely affect our share price and our ability to raise new capital or to enter into critical contractual relations with third parties.

***As of March 31, 2017, we have a net working capital deficit of approximately $3,605,000 (excluding the derivative liability warrants of $1,367,837, and if we do not satisfy these obligations, the lenders may have the right to demand payment in full or exercise other remedies.***

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

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 $ 49,204 as of March 31, 2017.

Mr. Erickson and/or entities with which he is affiliated also have advanced $524,832 and have unreimbursed expenses and compensation of approximately $375,000. The Company owes Mr. Erickson, or entities with which he is affiliated, $1,499,832 as of March 31, 2017.

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

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

We have experienced net losses since inception. As of March 31, 2017, we had an accumulated deficit of $31.2 million and net losses in the amount of $1,746,000 and $2,631,000 for the years ended September 30, 2016 and 2015, respectively. There can be no assurance that we will achieve or maintain profitability. If we achieve profitability in the future, we may not be able to sustain profitability in subsequent periods. Failure to become and remain profitable would impair our ability to sustain operations and adversely affect the price of our common stock and our ability to raise capital. Our operating expenses may increase as we spend resources on growing our business, and if our revenue does not correspondingly increase, our operating results and financial condition will suffer. Our ChromaID business has produced minimal revenues, and may not produce significant revenues in the near term, or at all, which would harm our ability to continue our operations or obtain additional financing and require us to reduce or discontinue our operations. You must consider our business and prospects in light of the risks and difficulties we will encounter as business with an early-stage technology in a new and rapidly evolving industry. We may not be able to successfully address these risks and difficulties, which could significantly harm our business, operating results and financial condition.

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

If we were to wind-up or dissolve our company and liquidate and distribute our assets, our common stockholders would share in our assets only after we satisfy any amounts we owe to our creditors and preferred equity holders. If our liquidation or dissolution were attributable to our inability to profitably operate our business, then it is likely that we would have material liabilities at the time of liquidation or dissolution. Accordingly, it is very unlikely that sufficient assets will remain available after the payment of our creditors and preferred equity holders to enable common stockholders to receive any liquidation distribution with respect to any common stock.

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

We are in the early stages of commercializing our ChromaID™ technology. To date, we have entered into one License Agreement with Sumitomo Precision Products Co., Ltd. and have a strategic relationship with Xinova. More recently, we have entered into a Collaboration Agreement and License with Intellicheck Mobilisa, Inc. None of these relationships have generated any significant revenue. Failure to sell our ChromaID products, grant additional licenses and obtain royalties or develop other revenue streams will have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***We are dependent on key personnel.***

Our success depends to a significant degree upon the continued contributions of key management and other personnel, some of whom could be difficult to replace, including Ronald P. Erickson, our Chief Executive Officer. We do not maintain key person life insurance covering any of our officers. Our success will depend on the performance of our officers, our ability to retain and motivate our officers, our ability to integrate new officers into our operations, and the ability of all personnel to work together effectively as a team. Our officers do not currently have employment agreements. Our failure to retain and recruit officers and other key personnel could have a material adverse effect on our business, financial condition and results of operations. Our success also depends on our continued ability to identify, attract, hire, train, retain and motivate highly skilled technical, managerial, manufacturing, administrative and sales and marketing personnel. Competition for these individuals is intense, and we may not be able to successfully recruit, assimilate or retain sufficiently qualified personnel. In particular, we may encounter difficulties in recruiting and retaining a sufficient number of qualified technical personnel, which could harm our ability to develop new products and adversely impact our relationships with existing and future customers. The inability to attract and retain necessary technical, managerial, manufacturing, administrative and sales and marketing personnel could harm our ability to obtain new customers and develop new products and could adversely affect our business and operating results.

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

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

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

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

There can be no assurance that:

- any of our existing patents will continue to be held valid, if challenged;
- patents will be issued for any of our pending applications;
- any claims allowed from existing or pending patents will have sufficient scope or strength to protect us;
- our patents will be issued in the primary countries where our products are sold in order to protect our rights and potential commercial advantage; or
- any of our products or technologies will not infringe on the patents of other companies.

If we are enjoined from selling our products, or if we are required to develop new technologies or pay significant monetary damages or are required to make substantial royalty payments, our business and results of operations would be harmed.

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

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

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

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

***Our TransTech vendor base is concentrated.***

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

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

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

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

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

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

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

***We may engage in acquisitions, mergers, strategic alliances, joint ventures and divestures that could result in final results that are different than expected***

In the normal course of business, we engage in discussions relating to possible acquisitions, equity investments, mergers, strategic alliances, joint ventures and divestitures. Such transactions are accompanied by a number of risks, including the use of significant amounts of cash, potentially dilutive issuances of equity securities, incurrence of debt on potentially unfavorable terms as well as impairment expenses related to goodwill and amortization expenses related to other intangible assets, the possibility that we may pay too much cash or issue too many of our shares as the purchase price for an acquisition relative to the economic benefits that we ultimately derive from such acquisition, and various potential difficulties involved in integrating acquired businesses into our operations.

From time to time, we have also engaged in discussions with candidates regarding the potential acquisitions of our product lines, technologies and businesses. If a divestiture such as this does occur, we cannot be certain that our business, operating results and financial condition will not be materially and adversely affected. A successful divestiture depends on various factors, including our ability to effectively transfer liabilities, contracts, facilities and employees to any purchaser; identify and separate the intellectual property to be divested from the intellectual property that we wish to retain; reduce fixed costs previously associated with the divested assets or business; and collect the proceeds from any divestitures.

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

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

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

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

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

***We are subject to corporate governance and internal control requirements, and our costs related to compliance with, or our failure to comply with existing and future requirements could adversely affect our business.***

We must comply with corporate governance requirements under the Sarbanes-Oxley Act of 2002 and the Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010, as well as additional rules and regulations currently in place and that may be subsequently adopted by the SEC and the Public Company Accounting Oversight Board. These laws, rules, and regulations continue to evolve and may become increasingly stringent in the future. The financial cost of compliance with these laws, rules, and regulations is expected to remain substantial.

Our management has concluded that our disclosure controls and procedures were not effective due to the lack of an audit committee “financial expert.” We expect to appoint an additional independent director to serve as Audit Committee Chairman. This director will be an “audit committee financial expert” as defined by the SEC. However, we cannot assure you that we will be able to fully comply with these laws, rules, and regulations that address corporate governance, internal control reporting, and similar matters in the future. Failure to comply with these laws, rules and regulations could materially adversely affect our reputation, financial condition, and the value of our securities.

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

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

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

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

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

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

**Risks Relating to Our Stock**

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

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

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

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

***Transfers of our securities may be restricted by virtue of state securities "blue sky" laws, which prohibit trading absent compliance with individual state laws. These restrictions may make it difficult or impossible to sell shares in those states.***

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

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

As of March 31, 2017, 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 March 31, 2017, we had 3,570,010 shares of common stock issued and outstanding, held by 54 stockholders of record. The number of stockholders, including beneficial owners holding shares through nominee names, is approximately 2,300. Each share of common stock entitles its holder to one vote on each matter submitted to the stockholders for a vote, and no cumulative voting for directors is permitted. Stockholders do not have any preemptive rights to acquire additional securities issued by us. As of March 31, 2017, there were options outstanding for the purchase of 50,908 common shares, warrants for the purchase of 5,151,434 common shares, 2,467,909 shares of our common stock issuable upon the conversion of Series A, Series C and Series D Convertible Preferred Stock and up to 332,940 shares of our common stock issuable upon the exercise of placement agent warrants, all of which could potentially dilute future earnings per share.

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

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

***Future issuance of additional shares of common stock and/or preferred stock could dilute existing stockholders.We have and may issue preferred stock that could have rights that are preferential to the rights of common stock that could discourage potentially beneficially transactions to our common stockholders.***

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

An issuance of additional shares of preferred stock could result in a class of outstanding securities that would have preferences with respect to voting rights and dividends and in liquidation over our common stock and could, upon conversion or otherwise, have all of the rights of our common stock. Our Board of Directors' authority to issue preferred stock could discourage potential takeover attempts or could delay or prevent a change in control through merger, tender offer, proxy contest or otherwise by making these attempts more difficult or costly to achieve. The issuance of preferred stock could impair the voting, dividend and liquidation rights of common stockholders without their approval.

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

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

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

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

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

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

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

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

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

● authorizing, creating, designating, establishing or issuing an increased number of shares of Series A Preferred Stock or any other class or series of capital stock ranking senior to or on a parity with the Series A Preferred Stock;

● adopting a plan for the liquidation, dissolution or winding up the affairs of our company or any recapitalization plan (whether by merger, consolidation or otherwise);

● amending, altering or repealing, whether by merger, consolidation or otherwise, our articles of incorporation or bylaws in a manner that would adversely affect any right, preference, privilege or voting power of the Series A Preferred Stock; and

● declaring or paying any dividend (with certain exceptions) or directly or indirectly purchase, redeem, repurchase or otherwise acquire any shares of our capital stock, stock options or convertible securities (with certain exceptions).

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

During the three months ended March 31, 2017, we had the following issuances of unregistered sales of equity securities:

List
On October 6, 2016, we entered into a Services Agreement with Redwood Investment Group LLC for financial services. Under the Agreement, Redwood was issued 100,000 shares of our common stock. during the three months ended March 31, 2017.

Under a investor relations services agreement with Finaincal Genetics LLC the Company issued 168,910 shares of our common stock during the three month ended March 31,2017.

**ITEM 5. OTHER INFORMATIO**

This item is not applicable.

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

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

(a) Exhibits

| | |
|---|---|
| 3.1 | Certificate of Designations, Preferences and Rights of Series D Convertible Preferred Stock (incorporated by reference to the Company’s Current Report on Form 8-K, filed on February 10, 2017) |
| 10.1 | Form of 10% Convertible Redeemable Note due May 1, 2017 (incorporated by reference to the Company’s Current Report on Form 8-K, filed November 7, 2016) |
| 10.2 | Form of Securities Purchase Agreement by and between Visualant, Incorporated and an accredited investor and an affiliate (incorporated by reference to the Company’s Current Report on Form 8-K, filed November 7, 2016) |
| 10.3 | Form of Original Issue Discount Convertible Promissory Note issued by Pulse Biologics due October 31, 2017 (incorporated by reference to the Company’s Current Report on Form 8-K, filed November 7, 2016) |

| | |
|---|---|
| 10.4 | Amendment 8 to Demand Promissory Note dated June 30, 2016 by and between Visualant, Incorporated and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed November 14, 2016) |
| 10.5 | Amendment 9 to Demand Promissory Note dated June 30, 2016 by and between Visualant, Incorporated and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed November 14, 2016) |
| 10.6 | Amendment 11 to Demand Promissory Note dated June 30, 2016 by and between Visualant, Incorporated and J3E2A2Z LP (incorporated by reference to the Company's Current Report on Form 8-K, filed November 14, 2016) |
| 10.7 | Preferred Stock and Warrant Purchase Agreement by and between Visualant, Incorporated and Clayton Struve (incorporated by reference to the Company's Current Report on Form 8-K, filed November 18, 2016) |
| 10.8 | Registration Rights Agreement by and between Visualant, Inc and Clayton Struve (incorporated by reference to the Company's Current Report on Form 8-K, filed on November 18, 2016) |
| 10.9 | Series F Warrant to Purchase Common Stock (incorporated by reference to the Company's Current Report on Form 8-K, filed on November 18, 2016) |
| 10.10 | Preferred Stock and Warrant Purchase Agreement by and between Visualant, Incorporated and Clayton Struve (incorporated by reference to the Company's Current Report on Form 8-K, filed on December 23, 2016) |
| 10.11 | Registration Rights Agreement by and between Visualant, Inc and Clayton Struve (incorporated by reference to the Company's Current Report on Form 8-K, filed on December 23, 2016) |
| 10.12 | Series F Warrant to Purchase Common Stock (incorporated by reference to the Company's Current Report on Form 8-K, filed on December 23, 2016) |
| 10.13 | Amendment to Public Relations Agreement dated October 18, 2016 by and between Visualant, Incorporated and Financial Genetics LLC. (incorporated by reference to the Company's Current Report on Form 10-Q, filed on February 21, 2017) |
| 10.14 | Services Agreement dated September 15, 2016 by and between Visualant, Incorporated and Redwood Investment Group LLC. (incorporated by reference to the Company's Current Report on Form 10-Q, filed on February 21, 2017) |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer. Attached herewith. |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer. Attached herewith. |
| 32.1 | Section 906 Certifications. Attached herewith. |
| 32.2 | Section 906 Certifications. Attached herewith. |
| 101 | Interactive data files pursuant to Rule 405 of Regulation S-T. (1) |

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

## SIGNATURES

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

**VISUALANT, INCORPORATED**

(Registrant)

| | | |
|---|---|---|
| Date: May 22, 2017 | By: | /s/ Ronald P. Erickson<br>Ronald P. Erickson<br>Chief Executive Officer, President, and Director<br>(Principal Executive Officer) |
| Date: May 22, 2017 | By: | /s/ Jeff T. Wilson<br>Jeff T. Wilson<br>Chief Financial Officer, Secretary and Treasurer<br>(Principal Financial and Accounting Officer) |

**EXHIBIT 31.1**

**SECTION 302 CERTIFICATIONS**

I, Ronald P. Erickson, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(a) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 22, 2017

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

**EXHIBIT 31.2**

**SECTION 302 CERTIFICATIONS**

I, Jeff T. Wilson, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(a) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 22, 2017

/s/ Jeff T. Wilson
Chief Financial Officer
May 22, 2017

**EXHIBIT 32.1**

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

In connection with the Quarterly Report of Visualant, Incorporated (the "Company") on Form 10-Q for the three months ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald P. Erickson, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

1.The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2.The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the dates and periods covered by the Report.

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

/s/ Ronald P. Erickson
Ronald P. Erickson
Chief Executive Officer
May 22, 2017

**EXHIBIT 32.2**

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

In connection with the Quarterly Report of Visualant, Incorporated (the "Company") on Form 10-Q for the three months ended March 31, 2017 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
May 22, 2017